Saatchi and Saatchi Plc

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This case was written by Alice Avis, MBA, INSEAD, under the supervision of Sumantra Ghoshal, Professor at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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June 18, 1988 was not a day that Maurice and Charles Saatchi would care to remember. Since the start of Saatchi and Saatchi in 1970 as a small advertising agency with just nine employees, the brothers had never received such a rebuff from either the City - the quaint British term for the London stock market - or the press. It was obvious that their latest plans had not been well received. The convertible preference share issue launched the previous day was seen as having a dilutive effect on future earnings, and the share price had fallen 12% in a single day, continuing the downward trend that had seen Saatchi shares plummet from 697p in 1986 to 372p. The press had raised questions on all the three pillars on which the magic success of the world's largest advertising agency had been built:

Globalization:

"Saatchi's strategy of Globalization is simplistic and self-serving - they don't believe that global advertising is the way of the future. The theory was invented for the City's sake", announced one daily, paraphrasizing the comments of the CEO of a rival agency. To support these views, the analyst pointed out that of Saatchi's business, less than 20% was "global", and it was unlikely to grow substantially because of the differences in market characteristics, marketing infrastructure, and competitive environment. "Mayonnaise is used as an upmarket salad cream in Britain and as a butter substitute in the United States. Although the U.K. is moving towards the U.S., differences in the product's life cycle and use patterns will continue to require different campaigns in the two markets".

Diversification:

"The concept of an integrated marketing services company may be attractive to smaller firms, but the big multinational clients see little benefit in buying a full package from one company since there is limited cost saving, and probably some inconsistency in quality within the integrated group". This comment in a major business weekly contrasted sharply with Saatchi's strategy of becoming the world-wide leader in the business of providing "know-how" - a broad term used by the company to refer to advertising, marketing services, management consulting, litigation services and information technology - and their continued acquisition blitz to implement this strategy. Sceptics questioned not just the concept but also its implementation: some of the company's recent acquisition moves "smacked of a firm that had run out of ideas", declared the Financial Times.

Decentralization:

Also under challenge was Saatchi's system of decentralized management that led to each affiliated company operating as autonomous units with local management having full responsibility for profit and growth. As described by an ex-employee of the company, "Because of decentralization, they haven't developed any system for information sharing, or cross-referrals... their organizational approach prevents them from leveraging their positions in different markets and activities".

As the brothers met in Maurice's office, it was clear to both that each of these issues had to be addressed urgently so as to restore clients' and investors' confidence in the company they had built up from scratch and in which they now owned less than 3% of the equity. This required immediate attention to three crucial questions.

First, the company's vision of a global agency was premised on the promise of superior efficiency and service. Yet, trading margins in the communications division were falling as costs grew faster than revenues. Ways had, therefore, to be found to leverage the company's global reach in this business into specific sources of extra margins or customer benefits, and necessary changes had to be made in the division's strategy and systems to ensure that these potential benefits actually passed through to the bottom line.

Second, some urgent decisions had to be taken for the consulting business too. Vic Miller, head of the company's consulting division, firmly believed that the business had the potential for contributing significant profits, but it needed considerable up-front investments in acquisitions and for hiring and training of new personnel. Because of a combination of falling trading margins, a heavy debt burden accumulated to finance earlier acquisitions, and a miserable price-earnings ratio that had fallen from 26 to 7 and was now less than half of many lesser rivals, these investments had become increasingly difficult to finance. A clear vision and a credible strategy were necessary to prevent further erosion in the competitive position of this business which both brothers felt was central to their ambition of building the "world's greatest service supermarket".

And finally, the company's organization and its management systems also needed a close scrutiny. Was the overall structure appropriate for the strategy it had adopted? Were the right administrative processes in place to manage the company's diverse, dispersed and complex businesses? Was the corporate

organization playing the right roles and managing the right tasks? One analyst had recently described the organization as Saatchi's achilles heels. It was up to the brothers to make the changes necessary to make it the engine of the company's recovery and renewal.

The Advertising Industry

> "When I attempt to tell others of the current state of the advertising agency business, it reminds me of nothing so much as Alice attempting to explain her presence in wonderland: 'I can't explain myself, I'm afraid, sir,' said Alice, 'because I'm not myself, you see'. Certainly, the agency business is having difficulties explaining itself, because it is not itself, at least not in a way anyone in the business for more than a couple of years would recognize...We have altered not only the nature of the agency business so that for the first time we are perceived, unhappily, as just another business.. but the fundamental structure of the business as well".
>
> C. Peebler, CEO
> Bozell, Jacobs, Kenyon, & Eckhardt

The factor that most strongly influenced the dramatic transformation of the advertising agency business in the 1980's was what the press often described as the "tidal wave from Britain". Up to the late 1970's, the industry was dominated by a few large American companies both in terms of market share and creative talent, and Madison Avenue in New York was the undisputed advertising capital of the world. Saatchi and Saatchi changed this traditional structure of the industry, not only by its own explosive growth through acquisitions and its creative excellence, but also by the U.K. imitators it spawned. Whereas in 1978 there was not a single U.K. holding company among the top 20 agency groups world-wide, by 1988 there were four. Saatchi and Saatchi were the first of these British "new wave" agencies: new wave referring to the formula of maintaining continuous earnings growth so as to maintain a high P/E ratio, using the resulting financial muscle to buy market share through aggressive acquisitions, and leveraging these acquisitions to boost earnings by imposing strong financial controls, introducing new creative products, and motivating management through extremely generous performance related incentive systems.

The Agency Business

Traditionally, advertising agencies had four functional areas: planning and research, account handling, creative design, and media planning and purchasing. It was a world-wide custom for agencies to be remunerated with a 15% commission on the media placed. A client move toward negotiated commission rates had recently led to an average rate below 15%. With the exception of the very small companies, agencies rarely competed on price though this was changing under growing competitive pressures. Historically, creative reputation, individual personalities, planning facilities, and resources in terms of an international network and marketing services were the main selection criteria for the clients.

The planning and research function had the responsibility for providing information on which the agency would develop an advertising strategy for the client. Quality of the planning department was, therefore, often a key basis for differentiation among the different agencies. While planning expenses were part of the standard fee for regular campaigns, they were paid for separately on a fee basis for new product development projects or consumer behaviour analysis. For many agencies, such fee based remuneration accounted for about a quarter of total income.

The main task of the media department was to plan and buy media. A company's effectiveness at media purchase was often measured by independent research houses commissioned by the clients. A good media department could save clients as much as 20% on their media spends. Effective media buying was partly a function of an agency's clout as large agencies enjoyed some advantages in negotiating with media owners. But it was also a function of the negotiating skills of the buyer, and relatively smaller agencies such as Dorland in the U.K. often outperformed larger agencies such as Saatchi in media buying.

An agency's costs were mostly related to its personnel. For U.K. based agencies, for example, salaries accounted for about 60% of costs, while office and general administration contributed 36%, and depreciation only 4%. In the U.S., salaries tended to be higher, and accounted for between 65 and 70% of total costs for agencies of comparable size. As a result, the average profit margins of agencies were lower in the U.S. - about 8% of revenues compared to about 13% in the U.K. Among the different functional areas, the creative design department typically accounted for between 30 to 40% of total personnel costs, while planning and account handling contributed between 20 and 30%, and media planning and buying contributed between 10 and 15%.

Market Trends

The American multinational agencies who traditionally dominated the market were not known for their creative brilliance. Despite this, they had maintained their market positions by appealing to the large advertisers - the multinational packaged goods companies - who, being risk averse, preferred to deal with the established agencies. Although the work of the "hot shop" agencies was admired, their more limited resources in terms of marketing services and media buying leverage, and the controversial nature of some of their advertising confined them to a niche or, at most, a ranking below the top ten in most national markets.

The success of the "new wave" agencies in the 80's could be partly attributed to the high growth of the industry. During 1980-1987, advertising expenditures grew at a real rate of 5.2% per annum. This strong growth was due to a number of reasons. The rise in import penetration in North America and Europe in major industries such as consumer durables and cars had a positive effect on advertising since imported products typically required higher advertising spends to obtain distribution and to build customer franchise. General increase in consumer spending, rapid concentration in retail power, and the subsequent rise of private label products were some of the other contributory factors.

In 1988, the prospects for future growth looked promising, even though the situation varied a great deal from country to country (see Exhibit 1). The United States, which accounted for about 55% of the market, was expected to be the slowest growth sector with an estimated real growth of only 1.3% in 1988, slowing further in 1989. This was in part a reflection of the increasing shift of advertising expenditures in the U.S. into below the line and local promotions.

Europe was expected to remain buoyant, benefiting from the increase in competition in preparation for the single market of 1992. Besides, the European market was also much less mature. As Exhibit 1 shows, advertising as a percentage of GNP was much lower in Europe than in the U.S., and the trend had been upwards in recent years as companies realized the increasing importance of investing in branding in a tougher competitive arena.

The easing of restrictions on television advertising and the development of new media opportunities, as European cable and satellite channels started up, were also expected to boost advertising spends. In 1987, Europe accounted for 24% of the world-wide advertising market, with U.K. alone accounting for about 5%. Growth in real terms was forecast at 6-8% for 1988 and 4-6% in 1989.

The Asia Pacific market was dominated by Japan, the second largest national market after the United States. In 1987, Japan accounted for 13% of world-wide advertising expenditure with a nominal increase of 12.7% predicted for 1988 and 6% for 1989. Western agencies, however, had found this market to be almost unpenetrable. Unlike any other major market, the Japanese advertising industry was completely dominated by a handful of large and powerful domestic agencies: the two largest accounting for 42% of billings, and the top 10 controlling 64%. Not a single Western agency was included in the top ten. However, Young and Rubicam, the largest agency in the world, and some others such as McCann Erickson and DMB&B had set up joint venture agreements with some of the top ranking Japanese agencies. Saatchi operated independently in Japan, but ranked 30th with less than 1% of the total market.

In the Pacific region, the growth forecast for some of the emerging economies such as Malaysia and India looked promising. Little could be predicted with any level of accuracy with regard to the Latin American region because of fluctuations in the dollar to which the national economies were highly sensitive, and because of hyperinflation.

Key Competitors

As described earlier, in the late 1980's, the advertising industry was in the midst of a major transformation. Its boundaries were being redefined and its overall structure was changing rapidly. This transformation was in part a result of the broader trend of consolidation and rationalization among some of the most advertising-intensive businesses in the world. The wave of international acquisitions and mergers in beverages, food, pharmaceuticals, and other consumer product industries and the tendency of the merged companies to retain a single agency on a world-wide basis had led to the demise of many medium-sized advertising companies and to a polarization of the industry into a few mega-agencies and a large number of specialized boutiques.

The restructuring was being driven by the British pack with both Saatchi and WPP at the foreground. But the Americans were also launching a counter-attack as evidenced by the mega-merger of BBDO and DDB Needham in 1986 to form the Omnicom group and D'Arcy McManus and Masius with Benton and Bowles in 1985. Exhibit 2 lists the major advertising groups and provides some data on their revenues and profitability in 1987. Exhibit 3 shows their ranking in each of the world's ten largest advertising markets.

Saatchi and Saatchi derived 80% of its profits from advertising and marketing services, and the balance from consultancy. Its aim was to boost the consulting business so as to contribute 50% of profits within 5 years. The company had two world-wide advertising networks and ten independent agencies. The two networks, Saatchi and Saatchi and Backer Spielvogel Bates ranked numbers 2 and 3 respectively on a world-wide basis, behind Young and Rubicam. The company had developed strong presence in each of the world's top ten advertising markets with a top five ranking in each with the notable exception of Japan. The main problem the group faced in the advertising arm was inconsistency in quality and reputation among the subsidiary companies. The flagship agency in the U.K. still enjoyed an excellent reputation for its creative talent but its subsidiaries in the U.S. and in some of the European countries had recently faced some criticism for mediocre quality.

The group had diversified strongly into management services. It had a number 6 ranking among public relations firms in the U.S. and was among the top 5 in the U.K. with a good world-wide coverage. In sales promotion and direct marketing, it was one of the five largest companies, with strong presence in the U.S. and U.K., but with patchy coverage in the rest of the world. It had made one significant acquisition in the U.S. to develop a presence in the field of market research, but was not represented in this activity in any other country. In

1984, the company had declared its intention to build a major presence in the management consultancy field and to become one of the five leading players in each segment of this business. Since then it had made a number of acquisitions to meet this goal, but most of them were relatively small and significant gaps remained in terms of both geographic and functional coverage.

Dentsu was the largest of the Japanese agencies and enjoyed an unprecedented 29% share of its home market. Despite its size, it had no presence outside Japan except for its share in HDM, a relatively small international agency ranked 15th on a world-wide basis that was jointly owned by Havas Publicis Conseil, a French company, Young and Rubicam, and Dentsu. Unlike the other top ranking agencies, Dentsu had grown organically, fuelled by the strong growth of its clients. With many Japanese manufacturers eager to enter Europe before 1992, there was speculation that Dentsu might soon set up an European base.

The Interpublic Group consisted of three agency networks: Lintas, McCann-Ericsson Worldwide, which were the 6th and 8th largest agencies respectively, and Lowe Marschalk. The agency had excellent international coverage, particularly in the developing countries. It had won a number of prized accounts because of this strength. For example, McCann won the business of Coca-Cola on a world-wide basis on the strength of the quality of the work it initially did for Coke in Brazil. Foreign billing represented 60% of its total revenues, up from 55% in 1986. The group had strong client links and a record of excellent financial performance, but suffered from a reputation of having only mediocre creative talent.

The Omnicom Group was formed in the spring of 1986 through the merger of two U.S. based agencies - DDB needham and BBDO - that ranked 4th and 12th respectively on a world-wide basis. The merger was largely a response to the British invasion of the U.S. market. Initial performance of the group, however, was unsatisfactory. In contrast to the 14.3% growth of Saatchi, or to that of 20.7% registered by Interpublic, Omnicom grew by only 9.2% in 1987. DDB Nedham dropped 12.9% in gross income, while BBDO registered only a slight increase of 1.4%.

The group was diversified both geographically and functionally. However, it was weak in some important sectors, particularly in the U.K., Canada, France and Japan. Although it offered over 43 types of marketing communications, the companies were small and mainly U.S. based. The group's objectives were to fill out its areas of regional weaknesses, and to offer the client a full range of integrated marketing services.

WPP was run by Martin Sorrell, the finance director of Saatchi and Saatchi between 1977 and 1986. The group emerged as a major force in 1987 after its hostile takeover of JWT group - the fourth largest advertising agency at the time. Prior to the takeover, WPP was a marketing services company consisting of 18 small firms that had been acquired in the previous 18 months.

WPP had major presence in all the areas of advertising, marketing services and public relations. In the JWT takeover, it also acquired Hill and Knowlton, the world's largest PR firm. The company, then a loss maker, had since been turned around to make a reasonable profit in 1988. WPP was also perhaps the strongest of the major groups in marketing services and one of its strategic priorities was to consolidate further this strength by building an extensive international network to support this activity.

In its management orientation, WPP was highly focused on financial performance. As described by the Economist, "Neither group (Saatchi and Saatchi and WPP) has any nostalgia for the tradition of indisciplined accounting in the advertising business. Mr. Sorrell is proud to call WPP a financial brand ... Financial professionals find Mr. Sorrell's strategy easier to follow. He is doing what they like most - turning around wayward companies ... Before its takeover by WPP, (JWT's) operating margins were running at 4%. The agency's target now was the industry average of 10% by 1991". By 1988, Sorrell had already achieved a margin of 8.1%, and industry analysts confidently predicted that he would achieve at least 9% by the end of 1989.

The factor which could hinder WPP's progress was its high level of debt. In the year ending 1987, it had a net debt of LST 107.3 million, with an estimated deferred payment of LST 194.7 million. As a result, its cashflows were mortgaged out for 5 years into the future and the company had very limited borrowing capacity left for any further acquisitions.

The Growth of Saatchi and Saatchi:

Strategic Foundation

In 1970 Maurice Saatchi quit his job to join his brother Charles in setting up an advertising agency. Until then the two brothers had pursued very different careers. Charles left school at 18 and became one of the top copywriters in a leading London agency before leaving to set up his own creative consultancy. Maurice, meanwhile, went to the London School of Economics and then joined the Haymarket publishing group as promotions manager for Campaign, the advertising industry's trade paper.

The agency, a metamorphosis of Charles' creative consultancy, started with £1 million of billings, £25 thousand in financial backing, and 9 employees, all under 27 and entirely creative except for Maurice Saatchi and Tim Bell, an old friend and associate of the two brothers. From this modest beginning, by 1986, it had grown to be one of the world's largest advertising groups, with billing of £2 billion spread over 57 countries and 10 thousand employees (see Exhibit 4). Behind this almost incredible achievement lay a set of beliefs that the two brothers shared and which they pursued with both courage and vigour throughout the period. First, they believed that size mattered and that big could be beautiful. Second, they believed that careful attention to financial strategy was key to developing and implementing a growth-oriented business strategy. Third, they were fully committed to the concept of globalization of markets and, therefore, to the vision of a global agency. Finally, they saw advertising as one element of a broader management services business and believed that clients would reward a company that offered them the facility of one stop shopping for their diverse needs.

Big could be beautiful

The structure of the advertising industry had been stable over decades as a result of both client inertia and the norms and customs of the business. Traditionally, client turnover had been low and only about 2% of accounts moved from one agency to another during any particular year. This was partly due to risk aversion among the major advertisers, but switching costs were also believed to be high because of the investments both the agency and the client had to make in establishing close working relationships that were necessary for building shared understanding of the role of advertising in supporting the client's business. These long term agency-client relationships were also supported by a set of well established industry norms. Like accountants, doctors and laywers, advertising agencies were not expected to solicit business unless invited by the client, nor to promote themselves obtrusively. IPA, the industry association, was the protector of these norms which were seen as integral to the creative mystique of advertising that made it different from a "mere business".

The Saatchi brothers were convinced from the start that size was an extremely important source of competitive advantage in the business. Economies of scale or cost sharing were part of the benefits: the primary advantages lying in centralized research and information departments, in production, and in sharing of corporate overhead and research expenses. But perhaps the most important advantage of size was not scale, per se, or cost sharing but market power. Volume gave visibility and, thereby, the ability to attract good personnel and clients - it got an agency on the pitch list. It also ensured clout in media buying. Besides, size also gave an agency the flexibility to invest in developing new products, to take risks, and to build highly specialized capabilities.

The brothers realized that the existing rules of the game were stacked against fast growth of a new agency. Therefore, they decided not to play to those rules. Charles set aside one day a week to promote the agency. He announced new business wins, controversial campaigns, and pitches they had been involved in. This ensured that the name Saatchi and Saatchi was on the front page of Campaign every week. Maurice broke the rule of no solicitation: he began each working day by making 25 cold calls to leading clients of competing agencies. The company also refused to join the IPA.

Ultimately, however, the business did not offer a potential of organic growth that would satisfy the ambitious and impatient Saatchi's. Acquisitions were the only route to the express lane and it was primarily in this arena that Saatchi and Saatchi created a new legacy in the advertising industry.

Besides making his 25 cold calls a day, Maurice had also developed a habit of corresponding regularly if in somewhat of an unusual manner with the heads of the other agencies. The letters tended to be short, courteous, and to the point. "I am sure this will be the last thing on your mind but I wondered if you felt it would make sense to dispose of your company", so they began. These letters were mailed to most of the agencies of the day both large and small.

By 1974, the company had made several acquisitions, moving into France, Belgium, and Holland, and buying three regional agencies in the U.K. With the exception of Notley Advertising and E.G. Dawes, these acquisitions were relatively unsuccessful. However, they boosted the agency's growth and taught them a great deal about what to do and not do in future takeovers.

The first headline winning acquisition of Saatchi's came in 1975 with the reverse takeover of Garland-Compton, the 11th largest U.K. agency with billings of £17.4 million. A subsidiary of Compton Advertising in the U.S., Garland-Compton was twice the size of Saatchi, with blue chip clients but lacking in creativity and strong financial management. It was just what the Saatchi's needed to gain first division status so as to be able to attract the risk averse large consumer product companies that had so far been beyond their reach. It also gave the company a public quotation which later proved to be the principal tool for future growth. Furthermore, the brothers were paid to receive the benefits: they gained a 35% stake in the merged company and were paid £400 thousand by Compton Advertising who thought they were taking over Saatchi and Saatchi and merely retaining the brothers as local managers of the merged business. Charles and Maurice thought differently. Campaign were briefed and the headline that Friday read "Saatchi swallows up the Compton Group". The two agencies were merged in Garland-Compton's offices, creating the 4th largest U.K. agency with billings of £30 million. Tim Bell was installed as managing director with the brothers planning the business strategy. Advising the Saatchi brothers on the Compton deal was a 31 year old Harvard MBA, Martin Sorrell, who then worked for James Gulliver, head of the food conglomerate Argyll. Shortly after the deal he was signed up to join the company and remained with the Saatchi's till 1986, playing a vital role in the success of their acquisitions and in developing investor relations.

From 1975 to 1979, the company focused on leveraging the Compton client base to achieve an astounding organic growth rate of 26% per annum (nominal) and become the number one agency in the U.K. A string of outstanding creative successes fuelled this growth. First, the "pregnant man" advertisement for the British Health Education Council and then the "Labour isn't working" advertisement for the election campaign of the British Conservative party made them a household name. Although new business came more easily than at the beginning, the Saatchi's were not prepared to relax their efforts. The agency now had a team of 5 to 6 people devoted to chasing new accounts and, as a result, managed to get major advertisers such as IBM, British Petroleum, Nestle, and Sainsbury on their client list. As a former employee described, "Whenever Maurice read in the press that a client was reviewing his account, the first reaction was 'Right, who knows him? Get on the phone, now. The second response was to kick the new business director in the ... for not getting us on the shortlist beforehand".

Between 1979 and 1985, the company grew by another 20 fold through both strong organic growth and also a string of acquisitions that ran up to a rate of about one per month during 1985. The most significant of these acquisitions were those of Garrott Dorland Crawford in 1981 and of Compton Advertising in the U.S. in 1982. The first gave Saatchi a second strong agency in the U.K. and the second provided direct access to the corporate advertising budgets of the large American multinational companies.

There were many, however, who contested Saatchi's faith in the advantages of size. Large advertisers saw the trend of increasing concentration in the agency business as a threat, and some of them were prepared to counteract by either buying an agency and converting to in-house production of advertising services or switching to smaller agencies. They believed that large institutions were not conducive to carrying out an essentially creative task. They also believed that, by definition, senior management involvement in client service had to decline as an agency grew in size and, as the Chairman of Procter and Gamble pointed out, there was "no such thing as an agency business other than its service to clients". Some analysts even argued that in professional services businesses, diseconomies of scale soon exceeded economies of scale and local operations with more than 100 to 150 employees incurred more costs than benefits. Fears of conflict of interest were also raised since large agencies often dealt with more than one competitor in a particular industry. These criticisms were increasingly gathering force and 66% of companies surveyed by Advertising Age in 1986 were negative about the trend toward mega-agencies.

Focus on Financial Strategy

Few agencies before Saatchi and Saatchi had tried the acquisition route to growth. The main problem was getting access to capital. The large multinational agencies, mainly American, were on low price earnings ratios (P/E) of 4 to 5. This was a reflection of the stock markets' opinion of the poor quality of their earnings because of weak financial management and because of the fact that most of their assets were intangibles - key employees and clients - who could walk out of the door at any time. On such low P/E's, it was difficult to raise sufficient cash. On the other hand, the new start-up agencies were typically partnerships and had only very limited access to the capital markets.

Saatchi's got access to the capital market when they acquired Garland-Compton, then the only listed agency in the U.K. At the time of acquisition, Garland-Compton had a P/E of 4. By maintaining effective communication and otherwise ensuring good investor relations and by showing consistently high profitability, Saatchi's drove this ratio up to 20. At the core of their outstanding growth lay the strategy of acquiring low P/E companies on the strength of their own high P/E, which in turn boosted their earnings per share (EPS) growth and increased the city's confidence in their stock.

To make this strategy work, they developed a particular approach to structuring the financial arrangements of their acquisitions. Payment for acquisitions were made contingent to the owners meeting profit targets over a period of five years after the acquisition. For example, in the Garrott Dorland Crawford acquisition, Saatchi's payed only £1.4 million up-front and the balance of about £5.6 million was contracted to be paid over the next five years from internally generated cash flows, subject to profit targets being met by the local managers. Exactly the same formula was followed for the Compton acquisition with $30 million paid immediately and payment of the balance $24.8 million made contingent on profit performance over the next 5 years. In each case, the initial payment was raised by a matching share issue. This financing method allowed Saatchis' to boost earnings quickly, as the earnings of the acquired agency were included immediately in the company's financial reports while only a part of the purchase price was actually paid.

A significant portion of any agency acquisition is goodwill. In the U.S., goodwill has to be amortised over a 40 year period which results in dilution of EPS. The treatment of goodwill in the U.K., however, allows a company to write it off against reserves rather than amortising it. This helped Saatchis' since, unlike their American competitors, they could maintain high earnings growth despite successive acquisitions. This financial strategy also motivated managers of acquired companies to cut costs with an iron hand to earn their profit-related bonuses. However, it might also have affected essential investments: as described by Victor Miller, the Arthur Anderson executive Saatchi hired to run its consulting division, "investments after the earn-out period typically had some catching up to do".

Vision of a Global Agency

By the mid-1980's, the theme of globalization of markets was being hotly debated around the world. Much of this debate focused on an article written by Professor Theodore Levitt of the Harvard Business School in which he claimed that the days of the traditional multinational corporation, which adjusts its products and practices to suit national or regional preferences, were nearing an end. According to Professor Levitt, a new "Republic of Technology" was relentlessly homogenizing the world's preference structures and the result was the emergence of global markets for highly standardized products which the modern global corporation exploited by selling "the same thing in the same way everywhere". By so doing, they created enormous economies of scale in production, distribution, marketing, and management.

> "By translating these benefits into reduced world prices, they could decimate competitors who still lived in the disabling grip of the old assumptions of how the world worked".

Saatchi and Saatchi embraced this concept of globalization fully, and positioned themselves as the champion of the global advertising agency. Such an agency, they claimed, could enjoy a number of clear advantages. First, because of their global information systems, they could help their clients market their products globally by identifying similar customer segments across national boundaries. Second, they could exploit economies of scale in their own operations such as media buying and production, and pass those savings on to the clients. Third, they could have the organizational structure and systems in place to service a global account effectively. In essence, Saatchi's belief in the future of the global agency rested on their belief that international companies would increasingly coordinate their marketing activities on a global basis so as to help standardize their brand image and marketing messages. The use of a global agency would then become mandatory, both to achieve this rationalization and standardization in their marketing approach, and also to realize savings in executive time and facilitate the transfer of information and knowledge about a brand across countries.

As an evidence of their commitment to this philosophy, Saatchi's put Professor Levitt on their board and also took out large advertisements in leading newspapers such as the Wall Street Journal and the Financial Times extolling the benefits of global advertising. As a proof, they referred to their enormously successful "Manhattan Landing" commercial for British Airways. Produced at a cost of about half a million dollars, this 90 second television commercial was shown in 45 countries with no change except for identical voiceovers in seven languages. On the negative side, they also pointed out their own earlier loss of the Black and Decker account when the company moved to a standard commercial in a number of countries for their small power tools. For the want of an integrated global network, Saatchi's could not service such a requirement at that time. Since then, many other major advertisers such as Procter and Gamble, Coca-Cola and Remington had begun to demand such a global network as a precondition for considering to work with an agency.

While acknowledging the differences in tastes or media regulations among different national markets, Saatchi's highlighted that those differences were, on the one hand, declining over time and, on the other, being bypassed by developments such as the emergence of pan-European satellite TV that were not subject to national rules and regulations. Besides, they also asserted many other advantages from being a global firm such as access to multiple national capital markets (Saatchi shares were listed in five) and the ability to attract the best talents around the world, irrespective of where they lived or preferred to live.

This philosophy of globalization was not without its detractors, however. In the first instance, many rivals questioned Saatchis' commitment to this philosophy and saw it as a fashionable garb used for ex-post justification of the company's opportunistic actions. As described by the CEO of a major rival new wave agency in the U.K., "to play the EPS game, Saatchi's had to begin acquiring American companies both because there were no more large U.K. agencies to acquire and also because there were a number of agencies in the U.S. with good client lists and low share prices. All the talk about globalization was a good rationalization for actions taken merely in response to client losses and to maintain growth in earnings per share". Others discounted Saatchi's talk about global information systems or global media discounts. "It's garbage, and they haven't invested in developing any system for information sharing or superior research facilities. They conduct worldwide studies but that's not an advantage since all multinational agencies do that", claimed an ex-employee of the company. "It's in their interest to promote the idea of a global media discount, but its such a small part of media spend that they never give out a figure".

Others raised more fundamental questions about the appropriateness or even feasibility of global advertising. They believed that Saatchis' underemphasized the continued importance of national differences: "You can't sell Levi's jeans with the same campaign in the U.S. and in Europe. In the U.S., jeans are seen much less as a fashion garment geared at the younger generation", said a senior marketing manager in a large British consumer products company. Even within Europe, he pointed out, local campaigns were necessary in most markets to maximize effectiveness of media spend because of differences in media availability and legal restrictions (see Exhibit 5). "Advertising is about as close as you can get to a cultural thing in business, and country differences in cultural preferences are not about to go away just on the say so of some starry-eyed Harvard professor". To support this claim, he referred to the differences in national advertising for even such celebrated global brands as Coca-Cola and Marlboro: "You want to show girls playing volleyball in bikinis in Saudi Arabia? Actually, the trend is in the other direction. As I read in a Harvard case, Campbell Soup is going away from even national advertising in the U.S., and is moving toward regional advertising in the different areas of the country to respond to the specific composition of local ethnic groups, their tastes, and to seasonal fluctions".

One-Stop Shopping for Management Services

The fourth pillar of the strategic foundation of Saatchi and Saatchi was their vision of providing one-stop shopping for all the management services a company required. They believed that clients would be increasingly interested in integrated offers where a number of services such as advertising, public relations, and promotional activities were all coordinated as a package. They claimed that by providing such diversified services within one umbrella, they could provide the benefits of greater consistency and lower costs. Following this belief, Saatchi's expanded their portfolio of activities in two stages. First, between 1980 and 1984, they diversified, through both organic development and acquisitions, from advertising to marketing services, including sales promotion, direct marketing, public relations, and sponsorship. Next, following their 1984 acquisition of Hay consultants, they further expanded into the areas of strategy and management information systems consulting and executive recruitment and compensation. As described by Maurice Saatchi, the company's ultimate ambition was "to put together a global service-supermarket that would combine Saatchi's advertising skills, McKinsey's consulting capabilities, the accounting expertise of Arthur Andersen, and the financial clout of Goldman Sachs."

The company justified its diversification into marketing services on both strategic and financial grounds. More and more purchase decisions were being made by customers at the point of sale in less and less time. Marketeers were therefore trying to maximise the effectiveness of all elements of the promotional mix including packaging design, sales promotion, and so on. While previously these marketing services were performed inhouse, the need to become more sophisticated about their usage had caused a shift to specialist consultants. With only 2% and 8% respectively of sales promotion budget of U.K. and U.S. companies being handled by outside consultancies in 1987, this was seen as a potentially profitable and high growth business in its own right.

Furthermore, inflation in media costs far outstripped retail price inflation, thereby leading to a shift from advertising to promotional spend which had become more cost effective. For example, in 1977, promotional expenditures accounted for 47% and 58% of total spend in the U.K. and U.S. respectively. By 1987, the shares had gone up to 55% and 68% in the two countries. Expansion into these areas was therefore seen as necessary to compensate for the ultimate slowdown or, possibly, actual decline in advertising billings.

Saatchi's also claimed the benefit of considerable synergy between marketing services and advertising activities. There was the obvious potential for cross-referrals of clients, but there was also the possibility of attracting top professionals in one field on the strength of the company's reputation in the other. As a tangible evidence in support of their various justifications for diversification, the company often pointed out that between 1986 and 1987, the number of clients they served in three or more functions had increased from 30 to 128.

While many external analysts basically accepted these arguments for diversifying into marketing services, some of them remained unconvinced about the justification for entering into management consulting. The brothers justified this diversification on a number of grounds. Consulting was a high-growth high-profit sector which had many similarities and potential synergies with the advertising business. Effective management of creative and highly skilled professionals was the main challenge in both businesses. It was also a fragmented, nationally- focused industry with global customers that the brothers believed was ripe for the same magic of globalization that they had applied so successfully to transform the advertising business. Besides, the major accounting firms were rapidly building up consulting practices of their own and if they could do so, why couldn't an advertising agency?

Detractors, however, marshalled an equally powerful array of contrary arguments. Although the client company might be the same, the actual client within the company was often different for marketing and management consulting. Furthermore, while the reputation of Saatchi and Saatchi could attract clients and personnel for the related marketing services areas, they believed it would be of limited value in consulting. This would make cross-selling difficult, particularly in the absence of any strong client benefits. They also feared that strong differences in the professional cultures of advertising and consulting would impede organizational integration and thereby prevent the company from exploiting any potential synergies even if they were theoretically available.

Implementing the Strategy: The Saatchi Organization

The Saatchi and Saatchi organization was structured into two main divisions: consulting and communications (see Exhibit 6). There were two parallel worldwide agencies within the communications division: the flagship agency of Saatchi and Saatchi which included Compton and DFS, Backer Spielvogel Bates, and Dorland. The smaller agencies and service companies were also kept separate and the company had deliberately avoided any moves toward rationalization and merger among the different acquired companies despite, for example, owning 11 different advertising agencies in New York alone.

The group headquarters was exceptionally small for the size of operations that reported to it. There were only about 50 people in the headquarters responsible, at the corporate level, for accounting, financing, public relations, and business development. Through luck, good judgement and persuasiveness, the brothers had assembled an outstanding team of senior managers in the headquarters organization all of whom played important roles in shaping the agency, both financially and strategically. With his charm and ease with clients, Tim Bell was instrumental in getting the company access to mega-clients, and also in maintaining the group's public relations and image within the U.K. He, for example, was responsible for bagging the Tory election account. Martin Sorrell was a brilliant financier who gained the confidence of the City, masterminded the acquisition deals, and developed the financing tools and corporate control systems. Jeremy Sinclair was one of the few to have stayed with the company for over 17 years. He was an exceptionally creative copywriter and was responsible for many of the agency's award winning campaigns. Anthony Simmonds Gooding was the architect of the company's organizational system which, in its own way, was as distinct as its strategic vision and financial approach and, in the opinion of some analysts, almost as important a factor behind the company's outstanding performance.

Fundamentally, the organizational systems and management processes in Saatchis' were structured with some clear delineation of the roles and tasks of local management in each of the affiliated companies and central management at the headquarters. Further, efforts were also underway to superimpose a new set of administrative mechanisms on top of these local and central management processes so as to develop a truly worldwide coordination capability.

Local Entrepreneurship: Decentralized Responsibilities

The company believed that autonomy was essential for promoting creativity and entrepreneurship in an agency. Further, in an industry infested with strong personalities, eccentric artists, and prima-donnas, autonomy was essential for keeping key personnel. Therefore, Saatchi's had developed a strong organizational philisophy of decentralizing both strategic and operational responsibilities fully to each affiliated agency. Local management had full responsibility for profit and growth of their unit, and had complete freedom to pursue those objectives in any manner they chose. Such a management system sat very well with the company's acquisition policy of making payment on a part of the acquisition price contingent on future performance of an acquired company and, in fact, was essential to make such a payment system credible to managers (many of whom were also partners) of those companies.

The principle of decentralization was not limited to the relationship between the group headquarters and the different companies, but was extended further down to the relationships among and even within each company. For example, there were no systems for cross-referrals among the different companies, nor any incentives for any one company to refer a client to another company within the family. Each company was, in turn, divided into a number of groups, each of which was treated as an independent profit center and had its own P&L accounts. These groups enjoyed relatively complete operating freedom, and there were no systems in place for information sharing among them. As one manager described, "One can always find some sources of synergy between almost any two groups, and there is an urge to exploit them. But managing those synergies also carry certain costs, much of which are not visible. How do you value the loss of commitment of a key manager, or dilution of the sense of personal responsibility and achievement?"

From 1987, however, the company was trying to adopt the idea of lead countries. The plan was to nominate a country that had developed some specialization in a certain field because of its client portfolio as an expert in that field, with their expertise available to be drawn upon by other agencies worldwide. For example, France was designated as the lead country for the financial services industry, Germany for electricals, and the U.K. for retailing. It was made clear, however, that sharing of such expertise was entirely voluntary and no formal incentives were provided to either the supplying or the receiving agency.

Central Value-Added: Financial Planning and Control

In sharp contrast to this strategic and operational decentralization, the financial planning and control systems of the company were highly centralized. These systems were rigidly defined, uniform throughout the group, and each company had to adopt them with almost no discretion for any change at the local level. In fact, the financial control function was separated from all other operations, and was run directly from the headquarters on a worldwide basis.

For example, the Communications division had two finance officers in the corporate headquarters to whom the finance directors of each company reported directly. The finance managers of each group within each company, similarly, reported to the company finance director and not to local managements. The main task of this finance group was to help each company prepare very detailed annual revenues, costs, and profit budgets, and to maintain extremely rigorous monitoring of the performance of each company against those budgets.

Each agency had to forecast its billings three and twelve months ahead, and actual billings were reviewed against these forecasts on a monthly basis. In the event of any negative variances due to unforseeable circumstances, the agency was expected to make up for the loss by exploiting some other opportunity. Costs were monitored on more than 50 different categories, and all variances from budget in either billings or costs were reported to the corporate headquarters as soon as they could be reasonably predicted or, at the latest, by the end of the month. Profitability of each client account was similarly monitored through a system that accounted for all time spent on the client and full costs rather than on the basis of contribution margin. Cash balances of each company were monitored daily and were consolidated on a worldwide basis each day into a single corporate account.

Traditionally, in most agencies, corporate responsibilities were handled by executives who had made their careers in advertising. They were effectively the line managers. Despite creative excellence, not all these managers were equally trained or motivated to manage the business for profit and growth. By separating the finance function from the rest of the business, Saatchi and Saatchi were able to design and implement a strong planning and financial control system which was administered by accountants and finance specialists. Some industry observers believed that this financial control system was among the most important benefits that Saatchi brought to an acquired company. For example, in one year after its acquisition by Saatchi, the Hay group improved its operating margins from 11.5% to 14%. In part, this system was also the main source of the company's credibility in the financial markets. As described by an analyst in Goldman Sachs, "One of the problems in covering the agencies as an analyst is that they are run by agency people. They don't run these businesses as businesses should be run. The Saatchis were unique in that".

Global Coordination: Worldwide Account Management

Saatchi and Saatchi's philosophy of a global agency rested on the claim that such an agency could link and leverage its own resources in different markets and thereby provide a worldwide coordination capability as an unique service to its global clients. In pursuit of this capability, the company had begun to install a system for worldwide account management. A single manager in the agency that served the headquarters of a multinational client was often designated as the worldwide account director and carried the responsibility of developing and supporting the client's business for all the services that the agency could provide in any country.

The main tasks of the account director were two-fold: to attract the client's business in those countries where they used a different agency, and to coordinate multi-country campaigns. Given the philosophy of decentralization within the Saatchi organization (which was often mirrored in the client organization also), the role of the account director was that of a consultant and coordinator rather than that of a line manager. The effectiveness of this role therefore depended on the incumbent's expertise on the client's businesses and products, and on his or her ability to establish personal credibility among managers in different countries in both Saatchi and the client organizations by transferring information and acting as a catalyst for cross-fertilization of ideas. It was hoped that, over time, the Saatchi account director would often stay longer on the job than many of the relevant brand managers in the headquarters and national subsidiaries of the client company and could therefore serve as a lynchpin in consolidating the client's own knowledge of the brand and in developing the appropriate global advertising strategy. Besides, the account director was also expected to act as the client's champion within Saatchi and to ensure that the agency developed the required capabilities and resources to provide the best possible services to meet the client's present and future needs.

As of 1988, the global account management system was in a very early stage of implementation, and the jury was out on its effectiveness. There were some clear tensions between the agency's emphasis on decentralized profit responsibility and its desire to maintain worldwide coordination in client servicing. It was not yet clear how the inevitable tradeoffs between local interests of a particular unit and the global interests of the company could be handled and no formal systems were yet in place to either measure the profitability of a client on a worldwide basis or to compensate any particular unit for services it might render or sacrifices it might make to support the business of another.

New Challenges: The Situation in 1988

> "We have pushed our luck too hard in the City and Wall Street. Finally, our luck turned against us".
>
> A Saatchi employee who preferred to remain unnamed.

As the Saatchi brothers were among the first to admit, the Saatchi phenomenon was a product of a right set of ideas, applied in the right industry, at the right time, implemented with the right dose of daring and the right quota of luck. Of this success cocktail, by 1988, the last element had perhaps begun to run out.

Loss of Key Personnel

The most visible symbol of the changing fortunes of the company was the departure of Tim Bell and Martin Sorrell. Highly ambitious and entrepreneurial, both wanted to have their own businesses and were frustrated at the brothers' unwillingness to give them their own operations - with significant equity stakes - within the Saatchi umbrella. Bell left to join Lowe Howard-Spink, one of the new wave agencies that Saatchi had spawned in the U.K. Sorrell started WPP which, after the dramatic and highly visible hostile takeover of J. Walter Thompson, had already become the fourth largest advertising group in the world and was close on the heels of Saatchi for the mantle of global leadership. The City viewed Sorrell's departure with particular concern: as an investment banker pointed out, "Sorrell and the brothers were a good combination. He knew what was a good deal and what was a good price - he tempered the brothers' ambition so that their actions made commercial sense."

While these changes at the top affected the group's external credibility and internal morale, the problems were compounded by two major moves the company made subsequently. The first was the acquisition of Ted Bates. The second was the abortive bid for the Midland Bank and then Hill Samuel, the merchant bank.

New Mega-Moves

Ted Bates was the third largest agency worldwide and one of the most profitable with pre-tax profit to income ratio of 16.8% compared with an average of under 10% for major quoted U.S. agencies. Acquisition of Ted Bates was an irresistable deal for the brothers: in one fell swoop it would make them the largest agency group in the world. In May 1986 they bought the agency for $450 million of which they paid $400 million in cash up-front. As against a book value per share of $390, they paid $893.5. As a Bates executive described, "We picked the largest figure we could think of and they accepted".

The financial market's reaction was highly negative. Most analysts criticised the brothers for paying too much and also for giving up the use of contingent earn-outs. There was also a big client backlash and Bates lost $450 million worth of billings due to conflicting accounts with other Saatchi agencies. Internal power struggles further weakened the agency and 8 of the 10 directors resigned. Most significant of these losses was that of Brian Jacoby, the Chairman who had been a strong cementing force within the agency and also an important link with many blue chip clients.

To stem the losses and to help the agency pick up new business, Saatchis merged it with Backer and Spielvogel. Carl Spielvogel was given the mandate for instilling a new strategic direction in the agency and for injecting new creative talent. But, while this move helped recoup the billing losses through new business development, the company never quite regained the confidence of the financial market (see Exhibit 7).

The second move caused a much more serious dent to the company's reputation. In 1988, the brothers tried to bid for the Midland Bank, the third largest banking company in Britain. If successful, this would have been their most ambitious deal yet. At the time of the attempt, Saatchi and Saatchi was capitalized at around $1 billion while Midland Bank was capitalized at $2 billion. Like the advertising industry, the banking industry too was highly fragmented and was moving toward rationalization and globalization helped by technology and deregulation of the financial markets. Maurice saw the parallel and believed that since they had "successfully globalized the advertising industry", they could do the same in another service business.

Investors thought very differently. "The concept of globalization, howsoever neatly packaged, would not solve Midland's immediate problem - that of Latin American debt", declared one analyst. "This is something that Maurice hadn't thought of....When Sorrell left Saatchi's strategy went out of the window. The brothers did not want to bother themselves with small businesses such as PR agencies and sales promotion - they wanted the mega-deals, whether they made any sense or not". As a result of almost universal disapproval of the move, the glamour stock fell sharply, and took Hill Samuel, another declared acquisition target, out of the brothers' reach.

The Challenge Ahead

Since these abortive bids, Maurice no longer talked of financial services. As declared in the shareholder's meeting in April 1988, the goal was scaled back to becoming the leading management services company in the world, with 50 percent of revenues each from consulting and communications. The consulting wing was to be developed by Vic Miller, who had been hired away from his previous position as the managing director of Arthur Anderson's international division. The new issue of 6.75% convertible preference shares on June 17, 1988 was an pursuance of this revised strategy. Resorting to what was essentially a debt instrument eschewing the traditional equity financing route was itself an acknowledgement on Maurice's part of the cooling of the company's realtionship with the City. The lukewarm reaction to even such a conservative financial approach suggested that the company had to find some way to regain investors' confidence so as to be able to fund the next phase of their strategic evolution.

Exhibit 1

Saatchi and Saatchi PLC

The Advertising Industry: Market Size and Growth

Market	Expenditures in 1987 ($M)	Real Growth 1980 -'87 (%)	Share of GDP (%)	Growth Forecast 1988 (%)	Growth Forecast 1989 (%)
Top Ten Countries					
U.S.	90 539	4.0	1.6	7.5	6.1
Japan	21 961	3.5	0.8	12.7	6.0
U.K.	9 457	5.8	1.4	15.7	11.0
W. Germany	8 836	2.5	0.9	4.6	4.5
France	5 926	6.9	0.7	13.8	12.2
Canada	4 562	3.2		7.0	7.8
Italy	4 171	11.0	0.6	19.1	14.0
Spain	3 346	13.4	1.4	23.9	25.9
Australia	2 720	3.9		8.4	10.3
Holland	2 358	2.0	1.1	0.2	0.7
Total:top ten	153 876	5.2			
Rest of the World					
Rest of Europe	8 140				
Rest of South East Asia	4 398				
Latin America	4 799			10.4	8.3
Africa	1 473			10.4	8.3
Worldwide total	172 685			10.0	7.6

Exhibit 2

Saatchi and Saatchi PLC

Top Agency Holding Groups Worldwide 1987

Ranking 1983	1987	Billings $m	Income $m	Ros %	Nationality
8	1 Saatchi & saatchi	11 360	1 685	14.8	U.K.
2	2 Dentsu	6 780	N/A	N/A	Japan
1	3 Interpublic	6 620	993	15.0	U.S.
N/A	4 Omnicom	6 270	896	14.3	U.S.
N/A	5 WPP	5 950	893	15.0	U.K.
6	6 Ogilvy	5 040	724	14.4	U.S
4	7 Young & Rubicam	4 910	736	15.0	U.S.
11	8 Hakuhodo	2 900	N/A	N/A	Japan
N/A	9 Eurocom	2 760	N/A	N/A	France
13	10 D'Arcy Masius B&B	2 494	371	14.0	U.S.
12	11 Grey	2 462	369	15.0	U.S.
10	12 Leo Burnett	2 462	369	15.0	U.S.
9	13 FCB	2 300	344	15.0	U.S.
N/A	14 WCRS /Belier	1 630	230	14.1	UK/FRA
N/A	15 HDM	1 380	204	14.8	U.S./Japan
N/A	16 Bozell, Jacobs, K&E	1 330	185	13.9	U.S.
N/A	17 LoweHSpink & Bell	1 270	N/A	N/A	U.K.

Source: Advertising Age

N/A : because did not exist in 1983

Exhibit 3

Saatchi and Saatchi PLC
Advertising Industry Rankings Worldwide 1987

Agency	U.S.	Japan	U.K.	W.G.	France	Canada	Italy	Spain	Australia	Holland
Dentsu	-	1	-	22 *	4 *	-	21 *	8 *	-	19 *
Young & Rubicam	1	17 *	5	6	8	3	4	15	5	2
Saatchi & Saatchi	2	30	1	9	11	11	8	10	17	7
B&B	5	-	2	7	20	13	20	1	1	17
BBDO	3	-	27	1	21	27	7	5	2	1
Ogilvy & Mather	4	39	6	4	13	1	10	13	6	3
McCann Erickson	13	9 *	11	3	14	-	1	2	8	8
JWT	7	14	3	8	17	2	5	3	12	18
Hakuhodo	-	2	-	37	-	-	-	-	-	-
Lintas	12	-	15	2	7	2	9	4	14	4
Holding group										
Saatchi & Saatchi	1	N/A	1	3	8	N/A	6	1	3	3
Interpublic	3	-	2	1	5	1	3	2	2	
Omnicom	2	-	13	2	7	-	2	1	1	

* HDM: Dentsu owns 33 1/3%, Y&R owns 33 1/3% + joint venture

Exhibit 4

Saatchi and Saatchi PLC
(£ million)

	1971	1972	1973	1974	1975	1976	1977	1978	1979
Turnover (c)	13.7	17.1	21.1	22.2	28.9	35.2	42.6	59.1	71.5
Revenue									
Pretax Profit	0.1	0.4	0.6	0.6	0.8	1.0	1.3	1.9	2.5
Post-tax Profit (d)						0.4	0.5	0.6	0.8
Goodwill (e)							0.1	0.1	0.1
U.S. GAAP Post-tax Profit						0.4	0.5	0.5	0.6
EPS adj. for impact of rights issue (87)							2.1	3.2	4.1
Current Assets						7.1	9.0	13.2	14.8
Including Cash and Investments						1.7	2.7	3.6	5.2
Current Liabilities						7.0	8.2	11.9	13.6
Fixed Assets						0.8	0.9	1.1	2.1
Goodwill						1.8	1.7	1.2	1.3
Long-term Liabilities					0.2	0.1	-	-	-
Capital (e)	0.1					2.2	2.5	2.6	2.6
Acquisition Cost						0.0	0.0	0.3	0.5
Contingent Liabilities (f)						N/A	N/A	2.0	N/A
Capital Raised (g)	0.03					0.0	0.0	0.0	0.0
Average Employees	11					507	521	644	744
Offices	1	1	2	4	6	6	6	7	8
Countries	1	1	2	3	4	1	1	1	2
Market Rank in Advertising Industry									
U.K.	N/A	N/A	26	13	4	4	4	4	2
Europe (incl. U.K.)									
U.S.	-	-	-	-	-	-	-	-	-
World	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

	1980	1981	1982	1983	1984	1985	1986	1987
Turnover (c)	84.7	102.1	258.3	603.2	855.4	1,307.4	2,087.0	3,954.2
Revenue	13.2	17.1	39.6	101.8	147.0	301.6	443.9	773.8
Pretax Profit	-3.0	3.6	5.5	11.2	18.3	40.5	70.1	124.1
Post-tax Profit (d)	1.0	1.5	2.6	6.0	11.4	21.7	37.4	69.6
Goodwill (e)	0.1	0.3	0.5	0.6	1.0	3.7	14.9	
U.S. GAAP Post-tax Profit	0.9	1.1	2.1	5.2	9.0	15.0	22.5	33.1
EPS adj. for impact of rights issue (87)	5.2	6.7	9.4	13.1	22.2	31.6	38.2	43.9
Current Assets	18.8	32.8	92.9	123.7	193.9	336.8	739.8	763.9
Including Cash and Investments	6.2	9.7	31.4	26.9	59.7	132.3	189.0	215.9
Current Liabilities	17.3	30.7	86.3	120.1	174.4	266.3	692.3	744.6
Fixed Assets	2.5	3.6	12.0	15.8	21.6	32.0	119.4	133.5
Goodwill	1.4	6.0	20.4	25.4	39.2	177.2	402.1	151.5
Long-term Liabilities	0.2	-	-	17.8	38.4	100.3	124.0	
Capital (e)	3.1	7.2	34.1	38.2	66.3	249.8	598.1	
Acquisition Cost	0.3	1.7	16.4	11.8	16.1	152.3	443.2	78.6
Contingent Liabilities (f)	N/A	6.0	16.0	21.0	N/A	80.0	164.0	154.0
Capital Raised (g)	0.0	3.0	25.2	0.0	19.5	174.3	392.0	61.5
Average Employees	730	777	1,486	3,049	3,748	6,226	9,774	15.630
Offices	8	9	66	71		91	150	-
Countries	2	2	37	40		54	57	58
Market Rank in Advertising Industry								
U.K.	1	1	1	1	1	1	1	
Europe (incl. U.K.)	2	1	1	1	1	1	1	
U.S.	-	-	13	7	6	5	1	
World	N/A	N/A	9	8	7	5	1	

(a) Includes Ted Bates and other acquisitions for part of the year only.
(b) Estimate
(c) Billings and nonadvertising fees
(d) U.K. accounting, after-tax, minority, exceptional and preference items, but before goodwill
(e) In 1986 Saatchi & Saatchi wrote off £507.1 million of goodwill against reserves. Includes here for comparative purposes only
(f) Estimate of maximum future liability
(g) Includes ú100 million of 6.3% convertible preferred stock in 1986

Exhibit 5

Saatchi and Saatchi PLC

Current Regulations on TV Advertising in Europe

Country	TV Households (million)	N°. of channels accepting advertising	Total ad. mins. p/week	Specific Features/Comments	Restrictions
Austria	2.78	2	280	Limits on no. of spots for a brand p/month. Bookings taken in Oct. for the following year.	Tobacco, spirits banned. Beer, wines, pharmaceuticals restricted.
Belgium	3.50	3	926	Channels broadcast in Flemish and French in the the 2 regions. general spots.	Tobacco, alcohol banned. State TV only carries non-commercial
Denmark	2.20	-	-	New advertising financed channel being launched with 70 minutes per week	-
Finland	1.80	3	310	Booking period 6 months ahead	Political parties, religious groups, alcohol, undertakers, slimming drugs, tobacco are banned.
France	20.50	6	1194	All channels accept advertising.	Alcohol, tobacco, press, cinema, shows and retailers are banned on TV.
Greece	3.00	2	399	Two state-owned stations providing national commercial coverage.	Pharmaceutical products and cigarettes are banned.
Ireland	0.92	2	882	National TV broadcast on two channels. 59% of homes receive BBC/ITV from the U.K.	Cigarettes and spirits banned.
Italy	18.53	350 +	7189	Three state-owned channels. Over 350 commercial channels	Tobacco is the only ban for independent TV stations.
Netherlands	5.32	2	246	Advertising is managed by an	Tobacco is banned.

Exhibit 5 (cont'd)

Saatchi and Saatchi PLC

Current Regulations on TV Advertising in Aroused

Country	TV Households (million)	N°. of channels accepting advertising	Total ad. mins. p/week	Specific Features/Comments	Restrictions
Norway	1.55	-	-	Commercials not allowed	All TV advertising
Portugal	2.42	2	608	Both state run channels funded by advertising.	Tobacco banned. Alcohol allowed after 22.00 hours.
Spain	10.33	2	704	Only two state run channels offer national coverage although 3 regionals accepts advertising.	Tobacco, alcohol banned.
Sweden	3.33	-	-	Commercials not allowed on TV.	All TV advertising.
Switzerland	2.49	1	150	One state owned station consisting of 3 regionals serving the major language groups.	Alcohol, medicine, tobacco, religion, politics.
Turkey	6.00	2	224	Supply still inadequate, bookings made at beginning of the year.	Alcohol, medicine, tobacco, religion, politics are banned.
U.K.	20.60	3	1354	Three majors of ITV, Channel 4 and TV-AM.	Tobacco, spirits are banned.
W. Germany	25.34	4	451	Demand high, bookings made in Sept. for following year.	Tobacco, prescription drugs are banned.

Source: Advertising Age/James Capel

Exhibit 6
Saatchi and Saatchi PLC
Organization Structure

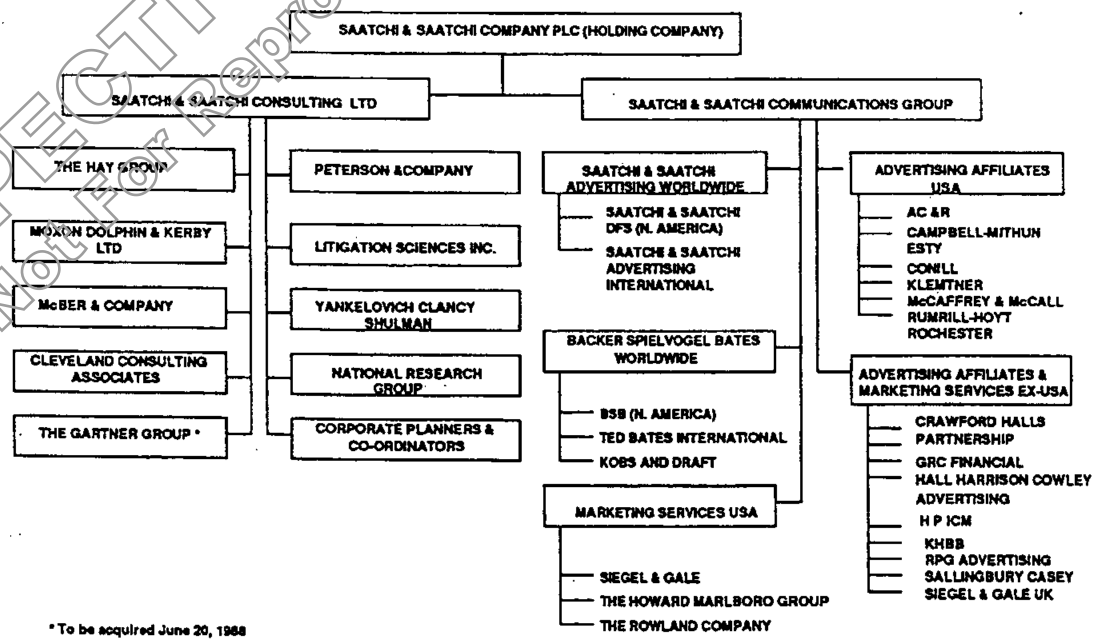

Exhibit 7
Saatchi and Saatchi PLC
Share Price 1979-1989