

# Approaches taken by South African advertisers to select and appoint advertising agencies

M. Jansen van Rensburg, P. Venter &  
J.W. Strydom

## ABSTRACT

Pitch and industry guidelines play an important role in awarding advertising agency contracts, but agencies must take into account that not all advertisers will adhere to these guidelines. The exploratory research study on which this article reports provides insight into the appointment process and selection criteria applied during the appointment of advertising agencies. This article examines the views of 116 senior marketing executives in South Africa to determine typical decision processes followed when advertising agencies are appointed. Consideration is also given to the structural arrangements in place, the composition and size of buying centres, switching barriers that make it more difficult or costly for advertisers to change agencies and selection criteria used to appoint advertising agencies. Data were obtained by means of structured questionnaires administered via a web-based survey. The findings provide advertisers with insights into procurement decisions and selection criteria and can also provide valuable insight to agencies with regard to buying decision approaches taken by advertisers. Insight into the size and composition of buying centres adds to agencies' understanding of who to target during customer relationship-building initiatives. From an academic perspective, this research offers a better understanding of the organisational buying process and the importance of selection criteria within the South African context.

**Key words:** advertising agencies, advertisers, appointment, switching barriers, selection criteria, acquisition, buying centres and buying decision approaches

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Prof. M. Jansen van Rensburg, Prof. P. Venter & Prof. J.W. Strydom are in the Department of Business Management, University of South Africa. E-mail: [jvrenm@unisa.ac.za](mailto:jvrenm@unisa.ac.za)

## Introduction

Selecting the most suitable advertising agency is a crucial decision for any company. If chosen wisely, it can lead to positive results for a company. Conversely, the wrong agency/client fit will not only affect the working relationship but will also be a waste of money – a risk not worth taking in current economic times (McDowell 2009). In order to help agencies to pitch successfully and marketers to find the agencies that best fit their needs, various guides have been jointly produced by the procurement, client and agency trade bodies to promote local and global best practices. Locally, the Government Communication and Information System (GCIS), National Treasury and the Association for Communication and Advertising (ACA) (2008) compiled *Best Practice Guidelines for the Procurement of Marketing, Advertising and PR Services/Products*, which was released in 2008. This document presents South African advertisers with guidelines pertaining to the appointment of advertising agencies.

On 12 May 2009, the World Federation of Advertisers (WFA) and the European Association of Communication Agencies (EACA) released their *Guidelines on Client–Agency Relations and Best Practices in the Pitch Process* (2009). These guidelines aim to promote best practices that would help agencies to pitch successfully and advertisers to appoint the most suitable agency. The focus on best practice guidelines is justifiable, as pitch processes tend to be time consuming and expensive. Although the industry welcomes these guidelines, not all advertisers adhere to them. In one of the most recent examples of violation of the guidelines, the state-owned enterprise Transnet invited nine advertising agencies to submit pitch proposals, violating the guideline maximum of five agencies. Transnet's spokesperson, John Dlodlu, considers the ACA's guidelines as: "exactly what they purport to be and not the law for the Medes and Persians. Therefore, there's no truth in suggestions that Transnet's public invitation for the submission of proposals by advertising agencies constitutes an illegality" (Da Silva 2009).

Pitches and industry guidelines play an important role in awarding agency contracts, but agencies must take into account that not all advertisers will adhere to these guidelines. Moreover, selecting an advertising agency is a multiple-criteria decision-making problem that requires considering a number of complex factors as multiple evaluation criteria (Faisal & Khan 2008). The objective of this article is to provide insight into the selection and appointment process and evaluation criteria applied during the selection of advertising agencies. While researchers have focused on issues relating to agency selection, this has mostly been done by studying specific organisational or individual level factors, rather than recognising a myriad of forces affecting organisational buying behaviour (Lichtenthal & Shani 2000). In order to provide a comprehensive set of factors that affect advertising agency selection, this

research considered industry norms and practices, buying behaviour within client firms, and a broader range of environmental and social forces affecting client–agency appointment and relations. In this study, we therefore attempt to provide a richer representation of the various forces affecting advertising agency selection.

## The importance of advertising agency appointments

Even though guidelines exist that recommend and prescribe best practices for the appointment of advertising agencies, there is growing interest in understanding how advertisers' preferences and choices vary despite these guidelines. Insight is important, as small client numbers are indicative of the advertising industry, and although agencies intuitively appreciate the value of retaining advertiser accounts, account acquisition remains a priority (AdFocus 2008a). Top advertising agency executives are, however, cautious to pitch for accounts that may not be won due to the high financial and opportunity costs associated with the pitching process (Maggs 2006). The average amount of time taken for a global/regional pitch is, for example, just under four months, and creative pitches cost agencies approximately 11% of their gross income (Lucas 2009). These executives would benefit from a better understanding of buying decision approaches employed and the selection criteria used by advertisers.

Conversely, advertisers realise that the success of marketing campaigns hinges on making effective judgments about how they approach agency appointment decisions. Advertisers have as a result come to view procurement as a strategic-level concern in developing competitive advantage, and hence agency appointment has become more sophisticated and professional (Hunter, Bunn & Perreault 2006). To achieve a better return on advertising investment, management expects that marketing executives will take the time to find the right advertising agency partner. Choosing wisely will lead to visible, positive results for companies, while the wrong agency fit will not only be a waste of money but could also result in brand discontinuity. While client, industry and category differences necessitate that each advertising agency selection process is tailored and focused upon specific needs and situations, both advertising agencies and advertisers should consider current practices in the selection process (Faisal & Khan 2008). The guidelines offered in this paper provide a tool for advertising and marketing managers to include important criteria when evaluating advertising agencies.

## The appointment of South African advertising agencies

According to the best practice guidelines for the procurement of marketing, advertising and PR services/products document (GCIS et al. 2008), the appointment of advertising agencies should adhere to a specified code of conduct. This code of conduct provides a standard set of guidelines to ensure that a fair process is implemented when pitching for new business. The prescribed process requires a two-stage bidding process to be instituted. During stage one, advertisers provide the actual brief and request proposals from advertising agencies. This phase includes a pre-screening and short-listing process. Bidders are shortlisted based on an evaluation of their strategy, proposals, *modus operandi* and credentials. During stage two, a more concise formal brief may have to be developed or refined. This stage will culminate in a formal presentation of the communication strategy (and in exceptional cases a creative proposal) to an evaluation panel. During this stage, bidders are evaluated in relation to functionality (strategy presentation/creative presentation) and price.

Members of the ACA, the official, representative body for the communication and advertising profession in South Africa, are expected to abide by the code of conduct. Adherence is expected to be motivated by peer pressure and democratic sanctions by members (GCIS et al. 2008). As set guidelines therefore exist for the procurement process, the scope of the research was limited to understanding compliance with the guidelines among South African advertisers. This study furthermore considered non-specific campaign forces, in addition to specific advertising agency selection criteria, to reflect the fact that clients are likely to be subjected to a multitude of forces affecting organisational buying behaviour (Faisal & Khan 2008; Lichtenthal & Shani 2000). In order to identify a set of forces likely to be active in influencing buying behaviour for advertising services, this study considered existing buying behaviour literature and frameworks to identify buying patterns and situations relevant to the procurement of advertising services. Organisational or individual level factors, such as internal structural arrangements, were also considered along with environmental and social forces imposing procedural, financial and relationship-switching costs. These forces were considered as they could impact on or prevent advertisers from switching from one advertising agency to another. Finally, the advertising agency selection criteria used during phase two of the appointment process were reviewed.

### Organisational buying behaviour

Advertising agencies are marketers of business-to-business (B2B) services, and factors affecting client–agency relations typically resemble those forces affecting organisational buying behaviour. Understanding the forces influencing buying

behaviour for advertising agency services is important, as knowing the forces that affect the buying behaviour of potential new clients can allow agencies to more precisely tailor their efforts to the advertisers they serve (Lichtenthal & Shani 2000). Such understanding is difficult to achieve, however, because the organisational buying process is often dynamic and complicated (Hunter et al. 2006).

In consumer research, well-refined models of evoked or consideration-and-choice set formation are used to explain consumer buying behaviour (Brisoux & Cheron 1990), but little research has been conducted for B2B buying situations (Kauffman & Popkowski Leszczyc 2005). Organisational buying research generally focuses on the structure of the informal group involved in the buying decisions (who constitutes the buying centre), the decision-making process (how the decision is made) and the factors influencing both of these. Although the theoretical importance of understanding the decision-making process is clear, research has not fully delineated its dimensions (Barclay & Bunn 2006). To delineate dimensions appropriate to the procurement of advertising services, this study used a classification scheme of buying patterns and situations developed by Bunn (1993). Bunn's seminal taxonomy of buying decision approaches identified six buying decision approaches, ranging from casual to strategic new task, among organisational buyers (Bunn 1993). Bunn's findings regarding the decision approaches differ across four different situational characteristics and four underlying buying activities of buyers. These dimensions can be generalised to determine the corresponding decision approaches applied by South African advertisers.

### Situational characteristics

According to Bunn (1993) the use of a particular buying decision approach depends on four situational characteristics, namely purchase importance, task uncertainty, extensiveness of choice, and perceived buyer power. Purchase importance has been defined conceptually in terms of the "impact of a purchase on organisational operation, profitability and productivity" (Lau, Goh & Lei 1999: 578). Empirical evidence indicates that the importance of the purchase may influence many aspects of the decision process, such as the size and structure of the buying centre (decision-makers involved in the appointment of an advertising agency) as well as the perceived influence of the decision participants. The greater the importance of the purchase, the more technical the analyses of the offering and suppliers available, and the greater the involvement of specialised personnel from various departments and divisions required in the purchase decision (Lau et al. 1999).

Uncertainties surrounding tasks of organisational decision-making have long been recognised as determinants of variations in the decision process. Indeed, industrial purchasers are encountering greater uncertainty as a result of a rapidly evolving purchasing environment where change is considered the only constant (Lau et al. 1999). Task uncertainty can be defined as “the buyer’s perceived lack of information relevant to a decision situation” (Bunn 1993: 42). The scope of choices facing a decision-maker will also influence the decision process (Bunn 1993). The extensiveness of choice set is defined as “the number of alternatives that are potentially able to meet the purchasing need” (Hunter et al. 2006: 158). Finally, buying power can be defined as “the profitability and attractiveness of a sale to the buying firm by one or more suppliers and the suppliers’ desire for the customer’s business” (Hunter et al. 2006: 158). Understanding the prevailing situational characteristics will provide valuable insight into the procurement process applicable to the appointment of advertising agencies.

## Buying activities

Bunn (1993) identified four buying activities underlying the situational characteristics described in the previous section, namely: search for information, use of analysis techniques, proactive focusing and procedural control.

Search for information refers to assembling and sorting through information that is central to management activity and is particularly relevant to buying decisions. It can thus be defined as “the buyer’s effort at scanning the internal and external business environment to identify and monitor information sources relevant to the focal buying decision” (Hunter et al. 2006: 157). Analysis tools are useful for evaluating different aspects of buying decisions (Tseng & Lin 2005). Conceptually, buyers use analysis techniques to bring structure to the mass of information available in an attempt to rationally address the issues surrounding the procurement. Bunn (1993: 42) defines this underlying activity as “the extent to which the buyer makes use of formal and/or quantitative tools to objectively evaluate aspects of the buying decision”. Proactive focusing is relevant to aspects of the decision process such as forecasting, contingency planning and maintaining good relationships. Bunn (1993: 43) defines this concept as “the extent to which decision making, related to the focal purchase, is prospective and thus considers the strategic objectives and long-range needs of the firm”. Finally, the use of established procedures varies across different buying situations. Procedural control is defined as “the extent to which the evaluation of a buying decision is guided by previous experience – including established policies, procedures, or transaction norms” (Hunter et al. 2006: 157). These four constructs seem to capture much of

what buyers actually do when making purchasing decisions. The classification of buying decision approaches is useful for managers because it provides a framework for focusing marketing efforts (Moon & Tikoo 2002). Additional insight will, however, be gained if this discussion is extended to consider organisational-level factors that influence decision-making, such as the structure of the informal group involved in the buying decisions.

### Structural arrangements

Structural arrangements refer to the composition of decision markets and the degree of formalisation of the decision process. Organisational purchasing decisions are typically made by a number of specific individuals or departments that might be involved or be expected to play a role in purchasing decisions (Morris, Pitt & Honeycutt 2001). This group is collectively called a buying centre or decision-making unit (Dwyer & Tanner 2001). Buying centre members are identified by the area of their functional responsibility or by their role in the purchasing decision (Moon & Tikoo 2002). It is suggested that the size of buying centres for agency selection is in line with those of services. Such a centre typically comprises two to three members, which is smaller than the buying centre for most products (Woonbong, Marshall & Son 2003). In order to focus marketing efforts, advertising agencies have to locate the locus of decision-making within the client organisation and understand the various roles and responsibilities of the decision-makers within each client organisation. Understanding the composition of the buying centre enables agencies to understand who participates in the appointment decision and the factors that affect the interpersonal influence between the participants during the decision (Farrell & Schroder 1996).

A firm's structural arrangements may also influence the manner in which information is processed. Centralisation and formalisation of the buying process refer to the nature of the buying process used (Heide & Weiss 1995). Formalisation is the extent to which purchasing tasks are formally prescribed by rules, policies and procedures to be adhered to, while centralisation relates to the distribution of formal control and power within an organisation (Lau et al. 1999). A high degree of centralisation is usually typified by a concentration of power and control among relatively few organisational members, probably at upper management levels. Conversely, a low degree of centralisation is characterised by a diverse distribution of power (Lau et al. 1999). Buying behaviour is also reliant to some extent on other environmental and social factors, such as the degree of competition, switching barriers, proprietary technology and even the characteristics of individual consumers. In this study, we empirically examine the extent to which a range of switching barriers

represent a cost that acts as a disincentive or deterrent to advertising clients changing advertising agencies (Patterson 2004).

## Switching barriers

As buying behaviour is to some extent affected by environmental forces external to the client firm as a business buyer (Lichtenthal & Shani 2000), this study considers switching barriers that might act as a disincentive to changing advertising agencies. Switching barriers represent any factor that makes it more difficult or costly for advertisers to change agencies and can be financial or psychological in nature (Jones, Mothersbaugh & Beatty 2000). While switching 'costs' must be associated with the switching process, it could be that such costs are not immediately incurred upon switching (Burnham, Frels & Mahajan 2003). In many cases, a failed relationship means that the client pays in the end not only in monetary cost but through anguish over the break, followed by the delays involved in the new agency selection process, time-consuming induction briefings, and the gradual, tedious development of rapport and trust with the new agency (Michell 1987). Burnham et al. (2003) have developed a useful switching cost typology considering procedural, financial and relationship switching costs.

Procedural switching costs consist of economic risks, evaluation, learning and setup costs. Such costs primarily involve the expenditure of time and effort and are dependent on product complexity and the heterogeneity of providers in the market. Another contributing factor is the extent to which the consumer employs a variety of product types, features and functions offered by a provider (Burnham et al. 2003). In the advertising industry, the service may consist of campaign and material development, branding, media placement, event marketing and so forth. This complexity can lead advertisers to perceive that switching to a new agency will involve the outlay of additional funds (economic risk cost). Advertisers may also incur evaluation cost, as time and effort are needed to evaluate alternative advertising agencies. Once the new agency is appointed, the advertiser will incur setup and learning costs. These costs take the form of time and effort associated with initiating a relationship and are dominated by the information exchange needed for a new agency to understand the advertiser's specific needs (Burnham et al. 2003). Financial switching costs consist of benefits loss and financial loss costs. This type of switching cost involves the loss of financially quantifiable resources. Often investments in relationships tie the members together; if the relationship is terminated, the investments are lost. The greater the breadth of products employed, the more likely it will be that the customer has accumulated benefits (such as discount offered) that will be lost in switching.



Financial loss could further occur in the form of non-transferable intellectual property such as design work (Burnham et al. 2003). Relationship switching costs consist of personal relationship loss and brand relationship loss costs. This type of switching cost involves psychological or emotional discomfort due to the loss of identity and breaking of bonds (Burnham et al. 2003). Relationships between agencies and clients tend to have a long-term focus, and interactions between parties tend to be close and enduring. It is for this reason that relationship switching cost would be of particular interest for this study.

In addition to decision-making processes and switching barriers, it is also important to determine factors that advertisers use to assess or evaluate the capabilities of current or prospective agencies in the selection process.

### Selection criteria used

When an advertiser selects an advertising agency to organise, purchase or handle the running of its promotional activities, there are certain “attributes, capabilities, or characteristics” that are valued by clients and must be satisfied before the final decision is made (Fam & Waller 1999: 22). The challenge, however, is to determine which advertising agency is the right fit given the advertiser’s specific needs. This requires objectivity, clear expectations and a proven appointment process that is both effective and adaptable (Faisal & Khan 2008). As the preceding sections dealt with the buying decision process, this section will identify decision criteria used by advertisers during the selection process.

Palihawadana and Barnes (2005) conducted an exhaustive literature review to determine the selection criteria applied by advertisers when selecting an advertisement agency. These authors found that selection criteria could be classified into three broad categories, namely, skills-, market- and compatibility-related selection criteria. In this regard, skills-related criteria include professional or technical skills, the quality of the advertising service, levels of service during pitching and the agency’s record of previous successful campaigns. Market-related criteria include quality of client care, reputation and price. Compatibility-related criteria include previously held competitive accounts, geographical proximity, directives from head office and compatible personality traits. As clients expect much the same services of their advertising agency regardless of industry type, geographic location or company size (Woonbong et al. 2003), the selection criteria identified by Palihawadana and Barnes (2005) are useful in determining the importance advertisers place on these factors within the South African context.

In addition, a guiding requirement of procurement decisions in South Africa is accreditation as a Black Economic Empowerment (BEE) compliant company. The Marketing, Advertising and Communication (MAC) Transformation Charter (2005) provides a common blueprint for transforming the industry. It is based on the BBBEE Codes of Good Practice, but has been harmonised to fit within the marketing and advertising industries. Black Economic Empowerment may therefore be considered as an additional selection criterion used within the South African environment. As most advertising agencies comply with the transformation targets (namely, industry transformation targets for direct agency ownership are set at 25 per cent in 2006 and 30 per cent in 2009 [AdFocus 2008b]), this could reduce the importance of this criterion, as advertisers could expect agency compliance.

To conclude, understanding the appointment approach of advertising agencies requires the consideration of relevant situational characteristics, buying activities, structural arrangements, switching barriers and selection criteria used by advertisers.

## Research problem

Advertisers realise that the success of marketing campaigns hinges on making effective judgements about how they approach advertising agency appointment decisions. Such judgments are difficult to achieve, as the selection of an advertising agency is a multiple-criteria decision-making process that requires the consideration of various complex factors as multiple evaluation criteria. The purpose of this research is to investigate the buying decision process applied by South African advertisers during the selection and appointment or re-appointment of advertising agencies.

## Research objectives

The primary research objective of this study was to gain a better understanding of advertising agency appointments in South Africa. The secondary research objectives include the following:

- To determine the typical buying decision approach followed when advertising agencies are appointed
- To determine what structural arrangements are in place when advertising agencies are appointed
- To determine which switching barriers are in place when advertising agencies are appointed
- To determine the selection criteria used for the appointment of advertising agencies.

## Research methodology

This was an exploratory research study, and empirical research was conducted to gather quantitative data. Data were collected using a survey approach. This approach is appropriate, as surveys enable researchers to generalise their findings (Page & Meyer 2000). In the case of this study, respondents were uniquely qualified to provide the desired information by virtue of their past experience, and respondent selections followed clear respondent profile compliance. Data were collected in this study by means of a structured questionnaire administered via a web-based survey.

## Population

The population of the study on which this article is based comprised South African advertisers who employ advertising agencies for advertising services, including below-the-line activity, media planning and buying. This sector provided an accessible example of agency–advertiser relationships, where evaluation occurs relatively frequently. Due to a variety of characteristics displayed by this population, a minimum transactional value of R500 000 was set as a population parameter to identify an appropriate sample frame. Due to the high transactional cost, it was expected that advertisers would employ accountable appointment processes and would therefore undertake formal and elaborate pre-purchase studies.

## Sample

The sample frame was provided by List Perfect, who supplied, by industry standard, the best and most up-to-date database of corporate companies whose advertising budgets exceed R500 000 annually. The database contained information about 743 companies, which was set as the target population. The size of this relevant target population suggested that a census was feasible, and all companies were therefore invited to participate in the survey.

## Measurement instrument

Data were acquired by means of structured questionnaires administered via a web-based survey. Three types of data variables were collected through the questionnaire, namely, opinion, behaviour and attribute data (Saunders, Lewis & Thornhill 2007). Rating questions were mostly used to collect opinion data. Four-point Likert rating scales were used to enable respondents to make a definite choice rather than choose

neutral or intermediate positions on a scale (Garland 1991). Other question types included quantity, list and category questions (Saunders et al. 2007). Questions were mostly closed-ended and provided a number of alternative answers from which the respondent was instructed to choose.

As internal validity and reliability of data and the response rate depend to a large extent on the design and structure of the questions, the appearance and layout of the questionnaire was of particular concern to the researchers. The layout was designed to make it easy to read the questions and fill in the responses. The service of a software developer was furthermore obtained to create a professional web page that offered respondents the opportunity to complete the survey on-line. No coding was visible on the questionnaire, and this was only done once the questionnaire was completed.

Measures to improve validity and reliability included the construction of a data requirement table to ensure that the data collected would be sufficient to achieve the research objectives (Saunders et al. 2007). In addition, measurement items were constructed by using inputs from leading extant sources, thus ensuring that the scales are broadly correlated with other known measures of the concepts. Items were, however, adapted to the specific characteristics of this research setting through pilot testing in order to address issues pertaining to content validity. Through pilot testing, the opinions of a group of four industry experts were obtained on the representativeness and suitability of the questions. Respondents had a combined total of 72 years' experience in this industry. The questionnaire was also reviewed by a qualified statistician from a data perspective, by four marketing colleagues from a respondent perspective and lastly by three members of the information technology department from a technical perspective.

## Data analysis

The online questionnaire automatically entered and saved the data to a computer file that was exported into SPSS in order to perform statistical analysis. After editing and capturing, the data were processed to provide descriptive measures in order to describe the data set according to its shape. Data were summarised for individual variables in the form of frequency tables and, where applicable, graphs. Descriptive statistics were also calculated to describe (and compare) variables numerically (Saunders et al. 2007). In this study, leading extant sources on buying decision behaviour and advertising agency selection were studied to derive the content of the measurement items for the instrument. The content of the items was modified through pilot testing to reflect the context of organisational buying behaviour in buying advertising services.

In order to extend the focus of existing organisational buying decision literature, this study also considered factors representing the environment outside the buying organisation. As environmental influences presenting switching barriers are subtle and pervasive, they are difficult to identify and describe outside the context within which they exert their influence (Lichtenthal & Shani 2000). As a result, the data analysis aimed to empirically validate the numerous variables believed to have an impact on advertiser switching behaviour and combine these variables into factors relevant to the research context. Exploratory factor analysis was used to assess the dimensionality of switching barriers and to determine the relevance of categories unearthed in the literature. To confirm the suitability of the variables contained in the correlation matrix and the significance of all correlations, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's test of sphericity were calculated. The initial factor solution was rotated using Varimax rotation to obtain a clearer separation of factors (Hair, Black, Babin, Anderson & Tatham 2005: 126). To determine the correlation between a scale item and a factor, a factor loading of 0.5 was deemed acceptable, given the guidelines provided by Hair et al. (2005: 128). Cronbach's alpha was used as a measure of reliability for the identified factors. All three factors identified from the factor analysis exceeded the suggested lower limit of 0.7 (Hair et al. 2005; see Table 3 for a summary of the alpha coefficients for the identified factors).

## Results

The results will report on the respondent profile and decision-making approaches and selection criteria that are employed by South African advertisers in appointing advertising agencies.

### Respondent and industry information

The results suggested that the sample frame had overestimated the sample units suitable for the study, as 57 (8%) of the companies contacted indicated that they did not employ an advertising agency but produce their own advertising material and other related services in-house; and 12 (2%) of the companies indicated that their international head offices are responsible for the appointment and relationship with their advertising agencies. The target population was therefore reduced to 674 companies, although it was possible that this could still be an overestimation. One hundred and twenty (120) respondents submitted their surveys online, of which 116 were considered suitable. The response rate for this survey was therefore 17.8% and deemed to be representative of the population.

An analysis of the data revealed that the majority of respondents had been in a senior marketing position (75% of cases) for more than four years (49% of cases), and most respondents were involved in the appointment of the current agency (62% of cases). Respondents were mostly employed in wholesale and retail trade (36% of cases) and also in the manufacturing industry (32% of cases). It was further revealed that most advertising agency contracts (57% of cases) are reviewed on an annual basis and that 16.4% of respondents did not review contracts at all. On average, the advertisers had been appointed for a period of five years, and the majority of agencies are remunerated on a project basis (46% of cases). Relationships are generally regarded as close, and 71% of the respondents indicated that they would continue with the current relationship if given the choice.

### **Appointment of the current advertising agency**

This section will provide insight into the buying decision approach and the procurement process applicable to the appointment of South African advertising agencies.

#### *Typical buying decision approach followed when advertising agencies are appointed*

The findings reported in this section consider the buying decision approach applied by advertisers when agencies are appointed. Bunn's (1993) seminal taxonomy of buying decision approaches was used to describe the buying approaches employed by respondents. The results are summarised in Table 1. The main findings from this analysis suggest that the buying relationship generally fits Bunn's taxonomy (1993: 44) for clusters 5 and 6. Cluster 5 is described a "complex modified rebuy" and cluster 6 as a "strategic new task". These clusters are closely related and in the context of this study would distinguish between cases of re-appointing current advertising agencies (cluster 5) and appointing new agencies (cluster 6). Clusters 5 and 6 represent buying situations characterised by high levels of search and analysis (although the analysis aspect only measured as 'moderate' in this study), and the purchase is managed according to clear-cut rules and procedures. The buying relationship further fits the profile of clusters 5 and 6 to the degree that it represents an important purchase, an extensive choice set is available, and perceived buyer power is high. In addition, task uncertainty is relatively low in line with the requirements of both clusters. Thus, if the advertising agency is re-appointed, the decision best fits the "complex modified rebuy" situation, but if the advertising agency is newly appointed, it fits the "strategic new task" situation (Bunn 1993: 47).

**Table 1:** Advertisers' buying approach

<b>Variable</b>	<b>Research results</b>
Purchase importance	Quite to extremely important <ul style="list-style-type: none"> <li>• 83% of respondents agreed that advertising expenditure was a major financial commitment to their companies.</li> <li>• 68% of respondents agreed that compared to other expenditures, a high level of approval was required to appoint the agency.</li> </ul>
Task uncertainty	Little uncertainty <ul style="list-style-type: none"> <li>• 57% of respondents review agency contracts on an annual basis.</li> <li>• Standard procedures are followed during agency appointment (see procedural control).</li> </ul>
Extensiveness of the choice set	Suitable alternatives available <ul style="list-style-type: none"> <li>• 81% of respondents agreed that other agencies were suitable to be appointed.</li> </ul>
Perceived buyer power	Strong power position <ul style="list-style-type: none"> <li>• 80% of respondents agreed that they had much bargaining power in the appointment of the advertising agency.</li> <li>• 61% of respondents agreed that the agency they appointed gave them a much better deal than other agencies.</li> </ul>
Search for information	High level of search <ul style="list-style-type: none"> <li>• 81% of respondents obtained a moderate to great extent of information about the reliability of agencies.</li> <li>• 77% of respondents obtained a moderate to great extent of information about the capabilities of agencies.</li> </ul>
Use of analysis techniques	Moderate level of analysis <ul style="list-style-type: none"> <li>• 53% of respondents conducted a moderate to great extent of market research on possible agencies.</li> </ul>
Proactive focus	High level of proactive focus <ul style="list-style-type: none"> <li>• The average duration of the agency relationship was five years.</li> <li>• Relationships are close, and 71% of respondents would continue with the current relationship if given the choice.</li> </ul>
Procedural control	Followed standard procedures <ul style="list-style-type: none"> <li>• 66% of respondents agreed that they had an established appointment process.</li> <li>• 84% of respondents agreed that the responsibility in terms of the appointment of an advertising agency was clearly defined.</li> </ul>

### *Structural arrangements in place when advertising agencies are appointed*

Structural arrangements considered the degree of formalisation of the decision process, the composition of decision-makers involved in the process and the size of the buying centre. In order to determine the degree of formalisation, respondents were asked whether the company they represent had an established way of appointing an advertising agency and if the responsibility, in terms of the appointment, was clearly defined. The results indicated that the appointment of advertising agencies adheres to a high degree of formalisation. As such, 65.5% of the respondents somewhat (31% of the cases) to strongly (34.5% of the cases) agreed that an established method of agency appointment exists within their companies. Most respondents (83% of the cases) also somewhat (38% of the cases) to strongly (45% of the cases) agreed that the responsibility was clearly defined.

In order to determine the composition of the decision-makers involved in the process and the size of the buying centre, respondents were asked to identify the role-players involved in the appointment of the agency. Respondents were able to select more than one option and could also specify other role-players not listed in the predetermined set of options. Data analysis indicated that the average size (mean) of the buying centre (decision-makers involved in the appointment of an advertising agency) is 2.69 members. Table 2 indicates the composition of members of such buying centres. In most cases reported in this study, there were two (30% of cases) to three (27% of cases) decision-makers involved in the appointment of an advertising agency. Respondents indicated that in 20% of all cases, only one decision-maker was involved in the appointment process. However, the largest buying centre was composed of nine members.

The decisions are mostly made by senior marketing executives (39% of the cases), but chief executive officers are also key decision-makers (21% of the cases). Relationships should therefore be fostered on a senior executive level and not be limited to the marketing decision-makers. Operations and procurement representatives were considered to be key decision-makers in only five per cent of all the cases reported. In fact, 57% of respondents deemed prescriptions from procurement as either irrelevant or unimportant for the appointment of advertising agencies. It is also important to note that the financial director is only considered as a key decision-maker in four and a half per cent of cases reported. Thus, although industry perceive themselves as experiencing more financial and procurement pressures, it can be concluded that these pressures are mostly managed from a marketing perspective. This study also considered switching barriers that represented factors that could make it difficult or costly for advertisers to change advertising agencies (Jones et al. 2000).



**Table 2:** Buying centre composition

	Frequency	Percentage	Valid percentage	Cumulative percentage
Advertising/media specialists	16	6.6	6.6	6.6
Brand manager	32	13.1	13.1	19.7
Business development manager	8	3.3	3.3	23.0
Chief executive officer	52	21.3	21.3	44.3
Financial director	11	4.5	4.5	48.8
Senior marketing executive	94	38.5	38.5	87.2
Key account manager	2	0.8	0.8	88.0
Managing director	17	7.0	7.0	95.0
Operations/procurement representative	12	4.9	4.9	100.0
<b>Total</b>	<b>244</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### *Switching barriers in place when advertising agencies are appointed*

Switching barriers were informed by items addressing financial, procedural and relationship switching cost. This study found the work done by Jones et al. (2000) to be a comprehensive source and included measurement items from their study as variables for factor analysis. Some items were removed, however, as a result of data screening in order to avoid multi-collinearity and singularity items. The adjusted data matrix had inter-item correlations in the suggested range, thus justifying the application of factor analysis. The value of the KMO is 0.767, and the level of significance measured by Bartlett's test of sphericity is lower than 0.001, further suggesting the suitability of factor analysis as an analysis method. Three factors were obtained based on eigenvalues (greater than 1) and explaining about 60% of the variance in the data, as indicated in Table 3.

Results identified three new factors to explain switching barriers (see Table 4). Factor one was labelled switching uncertainty, factor two was labelled switching effort, and factor three was labelled switching time. The next step was to describe these new factors statistically in order to determine whether respondents agreed that these factors were in place in the event of switching agencies. Respondents had to indicate their level of agreement, and responses could vary from 1 if the respondent strongly disagreed with the statement to 4 if the respondent strongly agreed.

**Table 3:** Factor analysis results and total variance explained

Factor	Initial eigenvalues			Extraction sums of squared loadings			Rotation sums of squared loadings			Cronbach's $\alpha$
	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %	
1	3.940	43.783	43.783	3.537	39.301	39.301	2.121	23.569	23.569	0.835
2	1.496	16.623	60.405	1.122	12.462	51.763	1.696	18.843	42.412	0.766
3	1.090	12.107	72.512	.702	7.801	59.564	1.544	17.152	59.564	0.767
4	.765	8.495	81.007							
5	.449	4.989	85.996							
6	.403	4.478	90.474							
7	.373	4.146	94.621							
8	.263	2.921	97.542							
9	.221	2.458	100.000							

Extraction method: principal axis factoring

**Table 4:** Rotated factor matrix

	Factor		
	Switching uncertainty	Switching effort	Switching time
Service will not meet expectations	.814		
Temporally bad service	.796		
Involves hidden costs/charges	.594		
Bad deal financially	.569		
Switching requires many formalities		.797	
Involves up-front costs		.667	
Takes effort to get up to speed		.617	
Takes too much time/effort to evaluate substitutes			.765
Do not have the time to evaluate substitutes			.730

Extraction method: principal axis factoring

Rotation method: varimax with Kaiser normalisation

### *Switching uncertainty*

The first factor accounted for 39.3 per cent of the variation in the data and related to uncertainty issues dealing with expectations, services and costs. It was labelled ‘switching uncertainty’ as it relates to the fact that some advertisers are not willing to leave advertising agencies due to the likelihood that switching between agencies could lead to undesirable consequences. The switching uncertainty factor comprising four items (see Table 4) and a Cronbach’s alpha of 0.835 (see Table 3) indicates internal consistency reliability. Statistically, a positively skewed distribution of the data and a mean of 2.77 (using a four-point Likert scale) indicate that the majority of the respondents agreed that switching uncertainty is present when advertisers switch between agencies.

### *Switching effort*

The second factor accounted for 12.46 per cent of the variation in the data and related to the amount of work/effort involved in switching between advertising agencies. It was

labelled 'switching effort' as it relates to the fact that some advertisers are not willing to leave advertising agencies due to the likelihood that switching between agencies involves additional effort and cost to establish productive working relationships. The switching effort factor comprising three items (see Table 4) and a Cronbach's alpha of 0.766 (see Table 3) indicates internal consistency reliability. Statistically, a mean of 2.72 indicates positively skewed distribution of the data, which shows that the majority of the respondents agreed that switching effort is present when they switch between agencies.

### *Switching time*

The third and final factor accounted for 7.8 per cent of the variation in the data and related to the time required to evaluate and switch between advertising agencies. It was labelled 'switching time' as it relates to the fact that some advertisers are not willing to leave advertising agencies due to the likelihood that they do not have the time to evaluate and select new advertising agencies. The switching time comprising two items (see Table 4) and a Cronbach's alpha of 0.767 (see Table 3) indicates internal consistency reliability. Statically, a mean of 2.07 indicates negatively skewed distribution of the data, which shows that the majority of the respondents did not agree that switching time is a barrier when they switch between agencies. Switching barriers would therefore include switching uncertainty and switching effort but not the time required to switch from one agency to another.

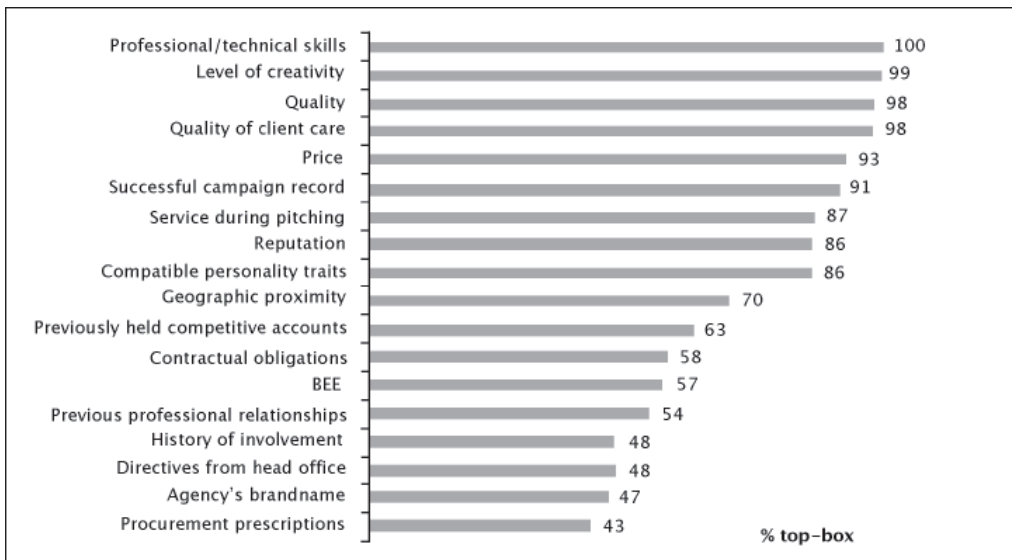
### *Selection criteria used for the appointment of advertising agencies*

Table 5 provides a summary of the findings with regard to the various criteria considered important for the appointment of an advertising agency. In Figure 1, these findings are summarised using the 'top-box' scores, in other words the sum of the frequencies for 'important' and 'critical' for each scale item. In Figure 1, these are presented in order of importance. From these findings, it appears that the most important criteria relate to the professional relationship, as advertisers considered level of creativity, quality, professional/technical skills and quality of client care as most important. The next level of importance related to the overall quality of the pitch and included a successful campaign record, service during pitching, price, reputation and compatible personality traits. On a third level, clients consider geographic proximity, BEE compliance, previous professional relationship, history of involvement, previously held competitive accounts and contractual obligations as important. Directives from head office, agency's brand name and procurement prescriptions were considered to be less important.

**Table 5:** Frequency table: selection criteria for agency appointment

	Irrelevant (%)	Unimportant (%)	Important (%)	Critical (%)
Procurement prescriptions	16.38	40.52	35.34	7.76
Agency's brand name	14.66	38.79	37.93	8.62
Directives from head office	16.38	35.34	37.93	10.34
Contractual obligations	13.04	28.70	46.09	12.17
Previously held competitive accounts	6.90	30.17	49.14	13.79
History of involvement	10.34	41.38	32.76	15.52
Previous professional relationships	9.48	36.21	38.79	15.52
BEE	13.04	29.57	40.00	17.39
Geographic proximity	8.62	21.55	49.14	20.69
Compatible personality traits	0.00	13.79	56.03	30.17
Reputation	2.59	11.21	55.17	31.03
Price	0.86	6.03	61.21	31.90
Service during pitching	3.51	9.65	52.63	34.21
Successful campaign record	0.00	8.70	53.91	37.39
Quality of client care	0.00	1.74	33.91	64.35
Professional/technical skills	0.00	0.00	34.78	65.22
Quality	0.00	1.74	30.43	67.83
Level of creativity	0.00	0.87	18.26	80.87

**Figure 1:** Selection criteria for agency appointment top-box scores



## Managerial implications

The objective of the research was to provide insight into the selection and appointment process and evaluation criteria applied during the appointment of advertising agencies. The findings of this study confirmed that selecting an advertising agency is indeed a multiple-criteria decision-making problem that requires considering a number of complex factors as multiple evaluation criteria. It is thus important that advertising agencies understand how advertisers' preferences and choices vary despite industry guidelines. It is also important for advertisers to find the right advertising agency partner, as the wrong agency fit could have negative influences on the financial and operational efficiency of the company.

Effective advertising agency selection and appointment generally result in a long-term commitment, and once an advertising agency has been appointed, there is a strong proactive relationship focus from both parties. In cases of client/agency fit, relationships are seen as close and enduring. The average duration of relationships, as indicated by the respondents of this study, was five years; 71% of the respondents in this study indicated that if working conditions remained the same, the propensity for them to continue with the current relationship would be between 76 and 100%. Given the relationship and financial scope of advertising services contracts, advertisers consider agency selection and appointment an important decision that is a major financial commitment and requires high-level management approval.

The South African advertising industry is a very competitive industry in which clients are spoilt for choice. As advertisers can pick and choose among agencies considered to be world standard, the market is seen as a buyer's market, which leads to strong buyer power. Most advertising agency contracts are reviewed and evaluated annually, and remuneration tends to be based on a project basis. Advertisers believe they have bargaining power and can negotiate better deals, but when agencies are appointed, advertisers consider their choices carefully and gather a great deal of information pertaining to agencies' reliability and capabilities. Most advertisers have an established appointment process, and internal responsibilities are clearly defined. Advertisers apply a complex modified rebuy decision approach when advertising agencies are re-appointed and a strategic new task decision approach when new advertising agencies are appointed.

The results furthermore indicated that the appointment of advertising agencies adheres to a high degree of formalisation. In most instances, key decision-makers include senior marketing executives and chief executive officers, and the average size of the buying centre responsible for the selection decision is between two and three members. It was also found that switching barriers, manifesting in the form of

uncertainty and effort, might act as a disincentive to advertisers to change advertising agencies.

Critical selection criteria mostly include issues related to functionality, reputation and price. BEE compliance is becoming less important from a client perspective as agencies seem to comply with the industry scorecards. When advertisers appoint advertising agencies, the level of creativity is considered by 99% of respondents to be either critical (81%) or important (19%). This finding confirms the work done by Davis and Palihawadana (2006), who found that the most important performance dimension that adds or detracts value from exchanges is largely attributable to the creative process. Creative work is, however, blamed for unreasonable, expensive and indulgent pitching processes and often leads to the demise of smaller agencies because of the costs incurred. As such, the best practice guidelines for the procurement of marketing, advertising and PR services/products recommend a creative proposal only in exceptional cases where “absolutely necessary and ideally with the provision of a fee for development attached” (GCIS et al. 2008: 12). This will remain a contentious issue for the industry, as the level of creativity is considered critical for both the appointment of and relationship with the agency. Advertisers therefore need to consider this criterion carefully during the selection and appointment of a service provider. Functionality with regard to quality, professional/technical skills and quality of client care is considered more important than the actual price. However, price seems to be as important as the agency’s reputation (overall reputation and campaign record) and service delivery during the pitch (actual service and compatible personality traits). Still important, but at a lower level, is the geographic proximity of the agency, previously held competitive accounts, contractual obligations, BEE compliance and previous professional relationships. Lastly, respondents considered history of involvement, directives from head offices, the agency’s brand name and procurement prescription to be the least important.

## Conclusion

In management practice, this article provides advertisers’ insights with regard to procurement decisions and selection criteria. It can also provide valuable insight to agencies with regard to buying decision approaches taken by advertisers. Insight into the size and composition of buying centres adds to agencies’ understanding of who to target during customer relationship-building initiatives. From an academic perspective, this research offers a better understanding of the organisational buying process and the importance of selection criteria within the South African context. This research was conducted in the South African advertising industry, which would

be a potential limitation when applied to other parts of the world or other service industries. Future research would be useful to extend the model to other service industries both locally and globally, as the generalisation of this model would be enhanced by replication in other settings.

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