

In-House Advertising Agency –Korean Way of Doing Business?

: An Exploratory Study of Korean In-House Ad Agency

Abstract

This study investigates Korean advertising practitioners' perspectives on the Korean advertising industry, specifically on the in-house advertising structure, its positive and/or negative effects, and the relationship between an advertising agency and its clients. Participating in this study are a total of 136 Korean advertising practitioners from five in-house agencies and four independent agencies. The study results suggest that in-house agencies threaten the growth and even the survival of medium-sized independent agencies. The study concludes that to rectify this situation, the advertising industry should implement its self-regulatory policy. The study also finds that the relationships between advertising agencies and clients are generally worse within in-house agencies. To foster and to build a sound relationship, partnership between the agency and the clients should be built on mutual respect of their tasks. More managerial implications of the study are provided in discussion.



Nam-Hyun Um |
Ph.D., Assistant Professor,
School of Advertising & Public
Relations, Hongik University*

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* Nam-Hyun Um (Ph.D., The University of Texas at Austin) is an Assistant Professor in School of Advertising & Public Relations at Hongik University, Korea. His research interests focus on celebrity endorsement, gay-themed advertising, and consumer engagement in social media. His scholarly work has appeared in *Journal of Advertising*, *Psychology & Marketing*, *International Journal of Advertising*, *International Journal of Internet Marketing & Advertising*, *Social Behavior & Personality*, *International Journal of Contents*, *Journal of Marketing Communications*, *Journal of Promotion Management*, and *Journal of Global Marketing*. He worked as an account manager at Cheil Worldwide for six years. He received his master's in communication at Washington State University in 1999. (e-mail: goldmund@hongik.ac.kr)

Introduction

Many advertising experts have long considered in-house agencies to be old-fashioned or outdated. Many advertising practitioners are skeptical of the function of such agencies. Their skepticism is born of the challenges that in-house agencies struggle with – maintaining an outsider's perspective, producing deep strategic thinking, and coming up with fresh ideas and new creative campaigns (Clow & Baack, 2010). Nevertheless, the practice is far from dying out. According to an American National Advertisers (ANA) 2013 survey report, the penetration of in-house agencies grew in 2013 to 58%, from 42% in 2008. The survey results revealed that 52% of marketers are assigning newer marketing functions (e.g., digital, social, and mobile) to their in-house agency. The increased use of in-house agencies is attributed to internal expertise, greater cost efficiencies, and quicker turnaround time (ANA, 2013). Another study revealed that U.S. advertisers use in-house rather than independent advertising agencies because of the growth of digital advertising (Horsky, Michael, & Silk, 2012). These studies suggest that many companies see more advantages than disadvantages when it comes to running in-house ad agencies.

In Korea, in-house advertising agencies have been a constant presence due to Korea's unique business structure, a structure known as *chaebol*. *Chaebols* still manage a chip-to-ship business strategy (Shaw 2006). Since its inception, the in-house agency system has thrived in Korea. Its

unique model is hard to find elsewhere in the world. As shown in Table 1, the 10 largest U.S. advertising agencies and the world's 10 largest advertising agencies by billings are all external advertising agencies. It would be interesting and meaningful to investigate why the in-house agency system still prevails in Korea. Does the practice positively or negatively impact the advertising industry? What do advertising practitioners think of the in-house agency structure in Korea? What do they think of its emergence on the global market?

This study will provide a baseline understanding about the unique characteristics of *chaebol*-owned in-house advertising agencies. Little is presently known about them. The study's findings will shed light on the status of the Korean advertising industry while also possibly providing momentum for Korean advertising practitioners. For international advertising practitioners, the study's findings will be a useful resource when doing business in Korea and when trying to understand the Korean advertising industry.

The purpose of this study is to investigate characteristics of the Korean in-house advertising agency structure and unearth some unsavory facts on *chaebol*-owned in-house advertising agencies. The research, to the authors' best knowledge, is a seminal study dealing with certain uncomfortable truths, in terms of management structure, of Korean in-house advertising agencies. Most importantly, studies are scarce on the impact of in-house agencies on the Korean advertising industry. This study will broaden our under-

standing of the Korean advertising industry. It will provide perspective on whether this structure is just right for Korea's advertising business environment or whether it is "old fashioned" and in need of reform.

LITERATURE REVIEW

In-House Agency: Pros and Cons

Marketers establish their own in-house agencies for several reasons. First, it reduces advertising and promotional costs. Furthermore, companies have more control over the advertiser (Parekh, 2009). Second, in-house agencies have a better understanding of the product and are aware of the goals and objectives of the company (Clow & Baack, 2010). It is reasonable to suppose that in-house agencies are better educated about the brand they work on. They have no other accounts to deal with, unlike independent agencies who handle several accounts simultaneously. Third, a company is able to unify its brand message when it comes to developing global brand strategies. A consistent brand message could be more easily delivered to global consumers via in-house agencies. After all, not all independent advertising agencies have international branch offices for their clients. Global brands working with several advertising agencies internationally take on the risk of a fractured brand message. It was the desire for a consistent image worldwide that prompted Hyundai in 2009 to drop its highly regarded incumbent ad

agency and choose its in-house agency, Innocean Worldwide (Parekh, 2009).

A fourth reason why marketers opt for an in-house agency is for its marketing process (Cagley, 1986). From the clients' perspective, switching advertising agencies takes considerable time and cost (Davies & Prince, 2011). From a new advertising agency's perspective, it is time consuming to explain to prospective clients new advertising and marketing strategies. In summary, switching advertising agencies is likely to cost both parties (i.e., clients and advertising agencies) "education expenses" (Cagley, 1986; Jung & Kim, 2013). Switching costs also shed light on ad agency-client relationships (Davies & Prince, 2011). If a company employs an in-house agency, switching costs do not occur.

Fifth, an in-house agency may be considered more efficient in terms of its decision-making process. The highest levels of a company are likely to be involved in the marketing process. According to a report by Forrester Research, approximately 60% of in-house agencies report directly to the company's CEO or CMO (Parekh, 2009). Thus, decision making on advertising, promotion, and marketing strategies could be made in a timely manner.

Finally, an in-house agency has a lower turnover rate, making them more stable. (High turnover rates have been reported at independent agencies.) Forrester data suggests that the average annual turnover rate of staff at in-house agencies is less than 5% (Parekh, 2009). From the agencies' perspective, high turnover rate may translate

into high recruiting costs and may harm the long-term relationship with their client(Michell, Cataquet, & Hague, 1992). However, from a client's perspective, it would cost marketers' time to educate new account managers or account planners on their brand and marketing strategies.

Yet for all these advantages, a majority of companies use, for a host of reasons, outside ad agencies. Paradoxically, one major reason for doing so is to cut costs. Setting up a strong in-house capability will cost a company a great deal of resources. Second, an outside agency will retain objective perspectives. In-house agencies may be biased or too close to the project. Over time their campaigns are liable to become stale. An outside agency keeps a company from becoming too insular. Such an agency not only brings an outside, unbiased perspective to marketing challenges but it also invigorates advertising campaigns with new ideas. Third, having access to top talent comes with employing an outside agency. It is no easy task to keep a highly talented creative staff within one business. Talented individuals might desire the variety of daily challenges from various clients. Innocean Worldwide, for example, had difficulty recruiting talented creative staff (Halliday, 2009). For this reason, many believe that the level of creativity at an in-house agency is unlikely to match that of an independent agency.

Given these limitations, large companies generally do not have in-house advertising agencies. According to a study by Silk and Berndt in 1993, only five of the top 100 national advertisers used

in-house agencies. Nevertheless, in some specific business categories, in-house agencies still thrive. The biggest two factors seem to be the characteristics of the business and the speed of creative work. The multinational conglomerate GE, for example, has owned an in-house agency for 50 years, mainly because their B2B products are technologically complex (Brainposse, 2010). All in all, high B2B advertisers are more likely to have in-house communication groups. Brainposse (2010) also suggested that retail is probably the product/service category most dependent—because of confidentiality issues—on in-house agencies. Retailers may feel more secure with all the details of sales and company information under their company's roof. Another reason is speed. Many aspects of retail are tactically driven, with an emphasis on a transactional rather than a relational sell. Thus in retail fast turnaround takes on greater importance.

Korean In-House Advertising Agencies

Rise and Growth of the In-House Agency and the Difficulties Facing Independent Agencies

Korea's early history of agency development and television broadcasting were influenced by the U.S., which provided technologies and shaped certain aspects of these industries. Hapdong Advertising Bureau was established in 1967 as the in-house department of the first news agency, Hapdong News. One of the earliest advertising agencies in Korea, Manbosa, was launched in 1969. In large measure, it shaped the industry's

recognition and commission system. Manbosa was born out of Coke and Pepsi's entry into the Korean market. Since the 1970s, Korean advertising agencies have had technical assistance agreements or affiliations with U.S. and Japanese agencies.

As the Korean economy expanded in the 1970s, large Korean conglomerates, known as *chaebols*, needed to advertise their products. They chose to create their own in-house agencies. *Chaebols* could thus save money and maintain control over ad campaign development. Soon the Korean advertising industry was dominated by *chaebols'* in-house agencies. Samsung, in 1973, established the first in-house ad agency, Korea First Advertising. This was later renamed Cheil Communications and later, to reflect their ambitions to be a global advertising agency, renamed Cheil Worldwide. Then in 1975 Doosan Group set up its own agency, Oricom. In 1979, Lotte Group founded its agency, Daehong Communications, and in 1982 Hyundai established Diamond. In 1984, LG created its own ad agency, LGAD, now called HSAD. This in-house trend was followed, in scale, by many medium-sized conglomerates. In 1982, for instance, Amore Pacific created Dongbang Communications and, in 1984, Hanwha Group launched Hancomm.

One conspicuous difference between in-house agencies in Korea and those in the U.S. is that Korean in-house agencies are full-service agencies. They deal with advertising planning, creativity, media planning, and media buying. However,

U.S. in-house agencies are departments of companies. They specialize in campaign planning, not in creativity or media. Also, Korean in-house agencies have not only internal clients from their parent company but also outside clients gained through agency competition. Korean in-house agencies differ from American counterparts in terms of their roles, scale, and client portfolios.

Hence, Korean advertising has always been dominated by *chaebols'* in-house agencies. Their presence acts as a high barrier for multinational foreign advertising agencies. Difficulties that independent agencies face are products of the Korean in-house agency structure. Independent agencies struggle due to a lack of resources and high-profile accounts that would attract talented, creative personnel. Their client base is thus unstable, exposing them to cash flow problems. Losing one or two clients is a grave problem to independent agencies, sometimes forcing layoffs. Such a problem is of little concern to in-house agencies, where agency managers need not fear losing clients from their parent companies.

Consequently, the dominance of in-house advertising agencies thwarts the growth of independent advertising agencies. Korea's largest national advertisers—Samsung Electronics, LG Electronics, SK Telecom, Hyundai Motor, Kia Motor, and Lotte Confectionery—keep most of their accounts in-house. Korea's advertising market, with "no big fish to catch," is fiercely competitive as independent agencies strive to win over small- or medium-sized accounts. It is

Table 1 Top 10 Clients and Their Affiliation with Agencies: 2014 Traditional Media (TV, RD, Newspaper, & Magazine) Advertising Expenditure and Market Share (Unit: US \$ million)

Rank	Company	Group Affiliation	Traditional Media Expenditure (Market Share)
1	Samsung Electronics	Samsung Group	206,5 (6,2%)
2	SK Telecom	SK Group	98,1 (3,0%)
3	Hyundai Motors	Hyundai Group	95,6 (2,9%)
4	KT	N/A	82,0 (2,5%)
5	LG U Plus	LG Group	75,2 (2,5%)
6	LG Electronics	LG Group	68,7 (2,3%)
7	Korea GM	N/A	53,5 (2,1%)
8	Kia Motors	Hyundai Group	41,9 (1,6%)
9	DongSuh	N/A	36,7 (1,1%)
10	Lotte Himart	Lotte Group	32,4 (1,0%)

Note: The Total Traditional Media Advertising Expenditure in 2014 – US\$ 3,319 Million

sometimes said that *chaebols* wield their influence over account competition if the would-be clients are *chaebols*' subcontractors. In sum, the in-house agency structure suppresses any potential growth of independent agencies.

Dominance of In-House Advertising Agency in Korea

As shown in Table 1, of the top ten clients (based on their traditional media advertising expenditure in 2014), seven companies employ in-house agencies. These seven are Samsung Electronics (1st), SK Telecom (2nd), Hyundai Motor (3rd), LG U Plus (5th), LG Electronics (6th), Nongshim (6th), Kia Motor (8th), and Lotte Himart (10th). Companies such as KT (4th), Korea GM (7th), and Dongsuh (9th) have used either independent

or *chaebol*-owned major in-house agencies. Similarly, seven of the top ten advertising agencies, based on 2014 traditional media advertising expenditure, are in-house agencies: Innocean Worldwide (1st), Cheil Worldwide (2nd), Daehong Communications (3rd), SK Planet (4th), HSAD (5th), Oricom (9th) and Hancomm (10th). On the other hand, TBWA Korea (6th), GroupM Korea (7th) and Leo Burnett Korea (8th) are independent agencies which are owned by multinational foreign agencies.

In-house agencies derive their strength from their parent companies. For instance, Cheil Worldwide, the largest advertising agency in Korea, is responsible for most of Samsung's affiliates and subsidiaries, including Samsung Electronics. Innocean Worldwide has been an

Table 2 Top 10 Advertising Agency and Their Affiliation, 2014 Traditional Media (TV, RD, Newspaper, & Magazine) Advertising Expenditure and Market Share (Unit: US \$ million)

Rank	Agency	Group Affiliation	Traditional Media Expenditure (Market Share)
1	Innocean Worldwide	Hyundai Group	2,090 (39.5%)
2	Cheil Worldwide	Samsung Group	1,496 (28.3%)
3	Daehong Communications	Lotte Group	213.4 (4%)
4	SK Planet	SK Group	199.3 (3.8%)
5	HSAD	LG Group	185.9 (3.5%)
6	TBWA Korea	WPP	122.3 (2.3%)
7	Group M Korea	GroupM Global	59.0 (1.1%)
8	Leo Burnett Korea	Publicis Groupe	51.9 (1.0%)
9	Oricom	Doosan Group	48.4 (0.9%)
10	Hancom	Hanhwa Group	48.0 (0.9%)

Note: The Total Traditional Media Advertising Expenditure in 2014 – US\$ 3,319 Million

in-house agency for two major national automakers, Hyundai Motor and Kia Motor. SK Group, which includes SK Telecom, SK Energy, SK C&C, etc., controls SK M&C as its in-house agency. LG Group also leaves in the hands of its in-house agency, HSAD, most of its subsidiaries and affiliates including LG Electronics and LG Telecom. Lastly, Lotte Group, which includes Lotte Confectionary, Lotte Department Store, Lotte Card, and Lotte Himart, controls Daehong Communications.

Of the top 10 advertising agencies, in-house agencies hold the top five spots, Cheil Worldwide, Innocean Worldwide, SK M&C, HSAD, and Daehong Communications; they also hold the bottom two spots, Oricom and Hancomm. As shown in Table 2, only three of the top ten agen-

cies – TBWA Korea, GroupM, and Leo Burnett Korea – are independent.

In 2014, the traditional media advertising expenditure of the seven major in-house agencies accounted for 80.9 percent of total traditional media advertising expenditure. Other three independent agencies accounted for only 4.4 percent. This figure is in sharp contrast to the 2004 figure of 27 percent by six independent multinational agencies. As indicated in Tables 2 and 3, the 2014 traditional media advertising expenditure and total billing by advertising agencies mirrored the rise of *chaebol*-owned in-house agencies and the fall of independent agencies. Aside from the IMF period in the late 90s, the advertising industry in Korea has always been dominated by *chaebols'* in-house agencies. During the IMF cri-

Table 3 Top 10 Advertising Agencies: 2014 Total Advertising Expenditure and Market Share (Unit: US \$ million) Note: * means Korean In-House Agency

Rank	Agency	Year 2014 Advertising Expenditure	Year 2014 Advertising Expenditure	Growth Rate
1	Cheil Worldwide	4,520	4,280	- 5.6%
2	Innocean Worldwide	3,234	3,129	- 3.3%
3	Daehong Communications	814	925	12.0%
4	HSAD	607	647	6.2%
5	SK Planet	329	346	4.8%
6	TBWA Korea	299	257	- 16.4%
7	Group M Korea	114	143	20.3%
8	Oricom	147	134	- 9.9%
9	Hancom	138	130	- 5.4%
10	Leo Burnett Korea	119	130	8.2%

Note: The Total Advertising Expenditure in 2014 - 12,342 US\$ Million

sis, *chaebols* were forced to sell their in-house agencies to multinational agencies. Still, a handful of *chaebols* today control the general economy in Korea, and as a subgroup the in-house agencies of these *chaebols* dominate the general advertising industry (Kim, 1996).

There is another perspective with which to view the dominance of in-house advertising agencies in Korea – that of the advertising agency-client perspective. Na and Marshall (2001) compared their earlier study of New Zealand (Marshall & Na, 1994) and found that there was a stronger need for marketing-related services (i.e., marketing analysis and consultation, full range of agency service) as compared with advertising account and creativity related services. Compared with independent advertising agen-

cies, in-house agencies in Korea are more capable of providing their clients with a full range of agency services including marketing and branding consulting (Jung & Kim, 2013).

Revival of the In-House Agency in Korea

After the Korean economy plummeted in the late 1990s, the government forced the conglomerates to divest their non-core businesses (Shaw, 2006). The IMF-imposed conditions led to the toughest business environment that advertising agencies had ever experienced. Consequently, a great deal of companies had no choice but to cut down their advertising spending as a means to cutting expenses (Na & Marshall, 2001). In financially stricken periods, advertising is deemed to be not an investment but mere spending. As for adver-

tising agencies, they reshaped their organizations and systems to emphasize marketing for the sake of winning more new clients (Na & Marshall, 201).

Pressure from the government and banks on companies to focus on their core businesses and divest other assets like in-house ad agencies led to a series of mergers and acquisitions by such global communications giants as WPP and Omnicom. These mergers transformed the agency landscape of the world's eighth largest advertising market (Shaw, 2006; Blecken, 2008). LG, for instance, sold its in-house agency LGAD; Hyundai sold its Diamond Agency to WPP with exclusivity contracts in place; TBWA, a subsidiary of Omnicom Group, acquired SK's in-house agency in 1998. TBWA maintained a strong relationship with SK until 2008. By 2004, foreign networks controlled six of Korea's top ten agencies and were responsible for 27 percent of Korea's broadcasting expenditure.

Once the exclusivity contracts expired, however, many *chaebols*, including Hyundai, SK, and LG, launched new in-house advertising agencies. Hyundai abandoned the WPP-owned Diamond Enterprise, its former in-house agency. In its place Hyundai established, in 2007, Innocean (Shaw, 2006). Likewise, LG launched GIIR, an ad holding company of HSAD. Once it had established this new in-house agency, LG transferred most of its accounts to in-house (Shaw 2006). SK in 2008 also founded its own ad agency, SK M&C which was later named SK Planet (Blecken, 2008). TBWA, which had been ranked

fourth largest in sales, fell to ninth after SK transferred the bulk of its telecom business to SK M&C. While not the size of *chaebols*, companies like Ottogi Food, GS Group, and Myung-In Pharmaceutical have also launched in-house agencies (Shaw, 2006).

The return to the in-house ad agency system makes industry observers speculate that Korea will become another North Asian fortress where local business giants maintain an iron-grip on the major domestic accounts (Jung & Kim, 2013). Korea's renaissance of in-house agencies offers implications for multinational foreign agencies: The Korean advertising market is barren and full of potential pitfalls. For those multinational agencies that had hoped buying the in-house agencies would give them a stronghold on Korean ad revenue, the revival of the in-house agency has been a major setback.

Advancement of Korean chaebol-Owned In-House Agencies: Cheil Worldwide and Innocean Worldwide

After Hyundai severed ties with its advertising agency, Goodby, Silverstein & Partners, it announced that its American marketing would be run by its in-house agency, Innocean Worldwide (Halliday, 2009). Innocean Worldwide, founded in the spring of 2005 in Seoul, is owned by Hyundai Chairman Chung Mong-Koo, along with his daughter and son. The news of Hyundai's decision shocked American advertising practitioners. Goodby, Silverstein & Partners had created some of the most admired ad campaigns, including the highly regarded Hyundai's Buyers' Assurance

Program. (This program allowed buyers to return their cars for up to a year after purchase should they lose their job.) Nevertheless, why did Hyundai decide to switch to its in-house agency? It seems Hyundai was seeking a cohesive, consistent brand image worldwide as well as more control over what was coming from the brand's parent in South Korea (Halliday, 2009).

In 2005, after less than a year with an ill-fated holding company arrangement with WPP Group, Samsung appointed Leo Burnett as its lead global agency. Since then, Leo Burnett has worked closely with Korea's largest advertising agency, Cheil Worldwide (the world's 16th largest). Samsung holds an 18 percent stake in the company. Cheil Worldwide, Samsung's in-house advertising agency, is an intermediary or liaison office between Samsung Electronics and Leo Burnett. Cheil Worldwide is essentially another layer of client approval – Leo Burnett must first sell its ideas to Cheil Worldwide (O'Leary, 2009).

RESEARCH QUESTIONS

This study is designed to investigate Korean advertising practitioners' perspectives on the in-house agency structure. The author is trying to understand why in-house agencies are still dominant in the Korean advertising industry and why Korean *chaebols* employ in-house agencies instead of outside, independent agencies. The study also explores the relationship between *chaebols* and their in-house advertising agencies. More specifically,

the study focuses on how the unique Korean *chaebol* management system affects the in-house advertising industry.

Korean in-house agencies differ from those in the U.S. in that they are full-service ad agencies (Jung & Kim, 2013). In the U.S. they are more of a department of a company, specializing in devising strategies and planning ad campaigns (Clow & Baack, 2012). It would be interesting to examine how in-house and independent agencies think of the relationship with their clients. In addition, the study examines the positive and negative effects of the in-house agency structure on the Korean advertising industry. For the past 40 years, in-house agencies have coexisted with independent agencies. It would be meaningful to find out from both sides the perspectives on the good and ill effects of in-house advertising agencies

- R1. *How do Korean advertising agency practitioners (in-house agency practitioners vs. independent agency practitioners) think about managerial characteristics of in-house advertising agency in Korea?*
- R2. *How do Korean advertising agency practitioners (in-house agency practitioners vs. independent agency practitioners) think about the relationship between in-house agency and management in Korea?*
- R3. *How do Korean advertising agency practitioners (in-house agency practitioners vs. independent agency practitioners) think about the relationship between advertising agencies and*

clients in Korea?

- *R4. How do Korean advertising agency practitioners (in-house agency practitioners vs. independent agency practitioners) think about impact of in-house agency on Korean advertising industry?*

METHOD

Procedure

The researchers distributed survey questionnaires (pencil and paper) to a total of 200 advertising practitioners working at in-house agencies and independent agencies. Half of the survey questionnaires were circulated to in-house agencies whereas the other half were distributed to independent agencies. The five major in-house agencies were Cheil Worldwide, Innocean Worldwide, SK M&C, HSAD, and Daehong Communication. The four independent agencies were TBWA Korea, JWT Korea, McCann Erickson Korean, and Welcomm Publicis. The response rate was 72 percent, considered high, especially given that this survey was distributed to practitioners.

Measure

The survey questionnaires mainly consisted of three parts: 1) organizational characteristics of Korean in-house advertising agency (i.e., managerial characteristics, relationship with clients, 2)

impact of in-house advertising agency on Korean advertising agency, 3) open-ended questions regarding positive or negative effects of in-house advertising agencies, challenges Korean in-house and independent agencies face, and reasons for *chaebols'* employing and establishing in-house advertising agencies. Survey items were mostly adopted from Cho's (1989) survey of Korean advertising practitioners. It was, however, further developed to reflect the most current situation of the Korean advertising industry. Upon survey completion, participants were asked to answer general demographic questions as well as questions regarding participants' types of association (whether they work at in-house or independent advertising agency), their types of clients (whether their clients were affiliated with the mother company), and years of experience with advertising agencies.

Organizational Characteristics of Korean In-house Advertising Agency

Characteristics of Korean in-house advertising agency was measured based on a 10-item, 7-point scale, where "1" represented "strongly disagree" and "7" represented "strongly agree." Included were items such as the following: 1) "Since there is no risk of losing the client, an in-house agency structure may result in a lowering of creative quality." 2) "In-house agencies have difficulty bringing in accounts similar to clients from the agency's parent company." 3) "The parent company may wield undue influence over client's competitors." 4) "There is less likelihood that cli-

ents from a parent company will move to another agency.” And 5) “In-house agencies can help their clients control and maintain consistent advertising activities.”

Relationship between In-House Agency and Management

Perspectives on in-house agency and management were measured based on a five-item, 7-point scale where “1” represented “heavily influenced by the parent company” and “7” represented “not influenced by the parent company.” The items were as follows: 1) “management policy,” 2) “personnel - executive,” 3) “finance,” 4) “bringing in accounts and maintenance,” and 5) “personnel - staff.”

Relationship between Agencies and Clients

Relationship between agencies and clients were measured based on six items. Each item was rated on a seven-point Likert scale where 1 represented “strongly disagree” and 7 represented “strongly agree.” The items were as follows: 1) “Clients treat me as a partner, not as a vendor.” 2) “Communication with clients is horizontal, not vertical.” 3) “Clients always listen to our recommendations in terms of marketing planning.” 4) “Clients highly value our work.” and 5) “Clients highly value the contribution of advertising agencies.” And 6) “Clients regard us as part of their marketing departments.”

RESULTS

A total of 144 Korean advertising practitioners participated in the survey. After eliminating 8 incomplete questionnaires, 136 were included in subsequent analyses. Among them, 72 (52.9 percent) were completed by males and 64 (47.1 percent) by females. Eighty-one (59.6 percent) participants were from in-house advertising agencies while 55 (40.4 percent) were from independent advertising agencies. Participants were from diverse professional backgrounds. Sixty-two percent of participants were account executives who were believed to have most frequent contacts with clients. Also participating in this study and providing various perspectives were account planners, creative directors, copy writers, graphic designers, producers, and media planners in major in-house and independent advertising agencies. Their average age was 36.4 years old with an average field experience of 8.2 years. Table 4 provides a profile of participant characteristics. A series of independent sample t-tests were conducted to see whether differences exist between in-house advertising agency practitioners and independent advertising agency practitioners on issues such as organizational and managerial characteristics of in-house advertising agency and relationship between agencies and clients.

Characteristics about In-House Agencies

Organizational Characteristics

The organizational characteristics of in-house

Table 4 Characteristics of Participants

Items		Absolute Frequency (N)	Relative Frequency (%)
Gender	Male	72	52,9%
	Female	64	47,1%
Types of Agency	In-House Agency	81	59,6%
	Independent Agency	55	40,4%
Job Title in Agency	AE	85	62,5%
	AP	7	5,1%
	CD	2	1,5%
	CW	9	6,6%
	GD	8	5,9%
	PD	2	1,4%
	ETC	23	17,0%
Experience with In-House Agencies	Only In-House Agency	52	38,2%
	Only Independent Agency	42	30,9%
	Both In-House and Independent Agency	42	30,9%
Total		136	100,0%

and independent agency practitioners' perspectives differed in several aspects. 1) Since there is no risk of losing the client, an in-house agency structure may result in a lowering of creative quality (in-house agency: \bar{X} = 3.58 vs. independent agency: \bar{X} = 5.00). 2) In-house agencies have difficulty bringing in accounts similar to clients from the agency's parent company (in-house agency: \bar{X} = 6.09 vs. independent agency: \bar{X} = 5.53). 3) Since the parent company has absolute control over the company's personnel matters, the in-house agency may lose its specialty. Thus, employee morale may be affected (in-house agency: \bar{X} = 4.06 vs. independent agen-

cy: \bar{X} = 4.67). 4) The parent company may wield undue influence over client's competitors (in-house agency: \bar{X} = 3.91 vs. independent agency: \bar{X} = 4.96). 5) There is less likelihood that clients from a parent company will move to another agency (in-house agency: 4.33 vs. independent agency: \bar{X} = 5.11). 6) In-house agencies can help their clients control and maintain consistent advertising activities (in-house agency: \bar{X} = 5.44 vs. independent agency: \bar{X} = 4.73). And 7) In-house agencies have more control over media management (in-house agency: \bar{X} = 4.88 vs. independent agency: \bar{X} = 4.18). As seen in Table 5, among 10 items, item 1, 2, 3, 5, 6, 8, and 9 showed stat-

Table 5 Managerial Characteristics about In-house Agency

Items	Overall Mean	In-House Agency	Independent Agency
1. Since there is no risk of losing the client, an in-house agency structure may result in a lowering of creative quality	4.15 (.89)	3.58 (.75)	5.00** (.91)
2. In-house agencies have difficulty bringing in accounts similar to clients from the agency's parent company	5.86 (1.02)	6.09 (.93)	5.53* (1.04)
3. Since the parent company has absolute control over the company's personnel matters, the in-house agency may lose its specialty. Employee morale may be affected.	4.31 (.78)	4.06 (.85)	4.67* (.89)
4. Clients from the parent company often ask for too many favors	4.76 (.99)	4.73 (1.07)	4.80 (1.02)
5. The parent company may wield undue influence over client's competitors	4.34 (.87)	3.91 (.77)	4.96** (.75)
6. There is less likelihood that clients from a parent company will move to another agency	4.65 (.78)	4.33 (.92)	5.11* (.85)
7. In-house agencies can give more benefits to clients of the parent company	4.35 (.79)	4.37 (.76)	4.31 (.82)
8. In-house agencies can help their clients control and maintain consistent advertising activities	5.15 (.96)	5.44 (.98)	4.73* (.91)
9. In-house agencies have more control over media management	4.60 (.72)	4.88 (.67)	4.18* (.69)
10. In-house agencies are stable as a member company of the parent company	5.71 (.75)	5.83 (.81)	5.53 (.90)

() means standard deviation

* $p < .05$, ** $p < .001$.

istical significant differences between in-house and independent agency practitioners at the .05 or .01 level.

Relationship between In-House Agency and Management

In terms of the degree to which the parent company influences its in-house agency, in-house and independent agency practitioners' perspectives differed in two categories: 1) Bringing in ac-

counts and maintenance(in-house agency: \bar{X} = 4.53 vs. independent agency: \bar{X} = 5.69) and 2) personnel - staff (in-house agency: \bar{X} = 3.99 vs. independent agency: \bar{X} = 5.25). As shown in Table 6, only item 4 and 5 showed statistical significant differences between in-house and independent agency practitioners at the .01 level.

Relationship between Agencies and Clients

In terms of the relationship between agencies and

Table 6 Relationship between In-House Agency and Management

Items	Overall Mean	In-House Agency	Independent Agency
1. Management policy	5.41 (.86)	5.32 (.81)	5.55 (.79)
2. Personnel – Executive	5.91 (.92)	5.83 (.88)	6.04 (.86)
3. Finance	5.72 (.93)	5.57 (1.01)	5.95 (.98)
4. Brining in accounts and maintenance	5.00 (.80)	4.53 (.79)	5.69** (.81)
5. Personnel – Staff	4.50 (.91)	3.99 (.89)	5.25** (.92)

() means standard deviation

* $p < .05$, ** $p < .001$.**Table 7 Relationship between Agencies and Clients**

Items	Overall Mean	In-House Agency	Independent Agency
1. Clients treat me as a partner, not as a vendor	3.88 (.85)	3.69 (.81)	4.15 (.95)
2. Communication with clients is horizontal, not vertical	5.01 (.79)	5.06 (.76)	4.93 (.88)
3. Clients always listen to our recommendations in terms of marketing planning	4.67 (.98)	4.64 (.97)	4.71 (1.03)
4. Clients highly value our work	4.16 (1.01)	3.99 (.97)	4.42* (1.04)
5. Clients highly value the contribution of advertising agencies	4.01 (.88)	3.79 (.85)	4.33* (.93)
6. Clients regard us as part of their marketing departments	3.95 (.82)	3.74 (.76)	4.25* (.86)

() means standard deviation

* $p < .05$, ** $p < .001$.

clients, in-house and independent agency practitioners' perspectives differed in three aspects. 1)

Clients highly value our work (in-house agency: \bar{X} = 3.99 vs. independent agency: \bar{X} = 4.42). 2)

Table 8 Impact of In-House Agency on Korean Advertising Industry

Items	Overall Frequency (%)	In-House Agency Frequency (%)	Independent Agency Frequency (%)
1. Have a very positive impact on the Korean advertising industry	4 (2.9)	3	1
2. Have a little positive impact on the Korean advertising industry	45 (33.1)	34	11
3. Have nothing to do with Korean advertising industry	24 (17.6)	15	9
4. Have a slightly negative impact on the Korean advertising industry	44 (32.4)	25	13
5. Have a very negative impact on the Korean advertising industry	19 (14.0)	3	2
Total	136 (100%)	81	55

Clients highly value the contribution of advertising agencies (in-house agency: \bar{X} = 3.79 vs. independent agency: \bar{X} = 4.33). 3) Clients regard us as a part of their marketing department (in-house agency: \bar{X} = 3.74 vs. independent agency: \bar{X} = 4.25). As can be seen in Table 7, item 4, 5, and 6 showed statistical significant differences between in-house and independent agency practitioners at the .05 level.

Impact of In-House Advertising Agency

In terms of the impact in-house agencies have on the Korean advertising industry, 46.4 percent of respondents answered Korean in-house agencies had some degree of negative impact on advertising industry; 35 percent said Korean in-house agencies had some degree of positive impact on the advertising industry. When practitioners' answers were analyzed by types of agencies they currently belonged to, in-house practitioners believed that in-house agencies had a positive impact on the advertising industry. Practitioners at

independent agencies were more likely to perceive such an impact as negative.

Open-Ended Questions

Why are in-house agencies still dominant in the Korean advertising industry? Why do Korean chaebols employ in-house agencies instead of outside, independent agencies?

Of the 136 participants, 122 answered this question. Their answers were analyzed then categorized into seven reasons for employing in-house agencies. The most frequently mentioned reason (frequency = 49) was saving on advertising spending. Within the *chaebol* structure, ad spending is not considered actual spending. It is considered "money circulation" within a mother company. The second reason (frequency = 25) was to secure confidential company information; this was both marketing and financial. *Chaebols* are clearly averse to divulging their confidential information to other companies. The third rea-

son (frequency = 19) was that in-house agencies could be used to launder money by *chaebols*. Practitioners noted that slush funds or secret funds could be tucked away for *chaebols* within their in-house agencies. The fourth reason (frequency = 11) was that in-house agencies have a better understanding of the product and are aware of the goals and objectives of the company. And in-house agencies are very quick to respond to new marketing trends. The fifth reason (frequency = 7) was that the barrier to entering business is relatively easy to overcome in setting up an advertising agency. An advertising agency, in its initial stage, generally requires little capital. The sixth reason (frequency = 6) was what might be called second-generation management. In-house agencies are used as arenas for *chaebol* owners' sons or daughters to take management lessons. The last reason (frequency = 5) was to influence the media. Since in-house agencies have media power, they are likely to be used by the mother company especially when negative news occurs.

What challenges do Korean in-house and independent agencies face? How can in-house and independent agencies cope with these challenges?

There were 115 respondents who provided their opinions, and these could be divided into three perspectives: challenges in-house agencies face, challenges independent agencies face, and challenges that both face. Regarding the challenges in-house agencies face, the most commonly mentioned were lowering creative quality (frequency = 26), interference from a mother company

(frequency = 14), and high dependence on the mother company (frequency = 11). Since clients are stable and there is no need to compete to keep them, respondents raised concerns over the possible lowering of the creative quality of in-house agencies. Because in-house agencies are also considered to be an affiliate company, a mother company is likely to wield power over management meaning in-house agencies have less freedom in management and even recruiting.

Regarding the challenges that independent agencies face, respondents indicated fierce competition (frequency = 37), changes to the structure of the creating profit (frequency = 21), and losing top creative staff to in-house agencies (frequency = 16). The biggest challenge independent agencies face is that competition has been continually increasing since the number of in-house agency has increased and the large-sized clients have already signed on with the in-house agencies. Independent agencies compete for a quite limited number of potential clients. Thus, competition is fierce. Some big companies have a tendency to hire independent agencies for creative execution only. Then they let their in-house agencies control media, a major source of revenue for advertising agencies. It is also reported that experienced top creative directors move to in-house agencies in hopes that they can work on large accounts and for various clients.

A challenge both in-house and independent agencies face is vertical relationship or employer and employee relations with clients. A desirable relationship with clients is defined as a

“partnership.” However, in reality, employer and employee relations are still dominant in Korea, which may result in a lowering of creative quality. Often, clients treat advertising practitioners as part of their department staff and underestimate the professional expertise they bring in.

What are the positive and negative effects of the in-house agency structure on the Korean advertising industry?

This question was answered by 115 respondents. In terms of positive effects, the most frequently mentioned (frequency = 53) was the role of in-house agencies in expanding the advertising industry. Most of the practitioners agreed that in-house agencies helped the Korean advertising industry to expand. Unlike independent agencies or foreign multinational agencies, in-house agencies recruit new undergraduates and provide them training programs. That was considered one of the positive effects of in-house agencies.

Regarding the negative effects of in-house agencies, they are blamed for being an obstacle to the growth of independent agencies (frequency = 35). According to one practitioner, that of the 5 trillion won (about \$ 4.5 billion) in annual Korean advertising sales, only 10 percent of that is for fair competition, leaving 90 percent of the total advertising sales for in-house agencies. Since a host of independent agencies compete for limited advertising sales, the possibility for growth is not promising for the independent agencies in Korea.

In addition, as Table 3 shows, the seven in-house agencies in Korea account for 80.9 per-

cent of the total traditional media advertising expenditure. The other three independent agencies account for only 4.9 percent of that expenditure. If we include the total advertising expenditure, as shown in Table 3, seven in-house agencies rank among the top ten, making up 77.7 percent of the total market share, up 15.4 percent from 2009. As these numbers suggest, in-house agencies threaten the growth and even the survival of medium-sized independent agencies.

DISCUSSION

Korean advertising practitioners complained that the in-house advertising agency structure resulted in a lowering of creative quality. To resolve these issues, in-house agencies should sometimes adopt different approaches. They could implement creative boutiques or competition within an in-house agency. Such a move ought to boost the agency's creative quality. Clients should consider advertising more seriously despite being tied to their in-house agencies. Companies should exercise more freedom when choosing their advertising agency. In addition, advertisers should enjoy options of using either an in-house agency or an external agency when it comes to sourcing advertising services. It would be also desirable for advertisers to externally source some services and develop some internally as an alternative.

In in-house agencies, the relationships between advertising agencies and clients are generally worse. Subsidiaries of a mother company

tend to consider their in-house agency as part of their marketing department. A more desirable relationship is horizontal; clients and agencies should work together as partners. To build and sustain a good relationship, clients should appreciate agencies' efforts and accept their professional expertise.

The big negative of in-house agencies is their blocking the growth of independent agencies. Since in-house agencies take, with no competition, the largest clients and more than 90 percent of the total advertising sales, the prospects for independent agencies are grim. Their path to continual growth is inherently blocked. In-house agencies are also blamed for using a mother company's influence to win over competition from other agencies. Sometimes a mother company's buying power in the business world can, when competition is aggressive, favor in-house agencies. In Korea, as elsewhere, a mother company leverages her influence over the competition. To help level the playing field, some measures have been taken to protect small- and medium-sized independent agencies. Korean in-house advertising agencies like to take credit for swelling the total volume of advertising spending as well as for recruiting recent graduates. Nevertheless, they are accused of employing unethical business practices. If independent agencies are to be protected, then the management of in-house agencies must exercise restraint.

Most important, *chaebols* must learn, especially in this era of global marketing, to share advertising. When a company is looking for an advertising

agency to bolster their brand, fair marketplace competition can only help that company's endeavor. To help or coexist with small- and medium-sized independent agencies in Korea, *chaebols* and/or *chaebol*-owned in-house agencies should do their part to promote fair competition; such agencies should refrain from entering competition for small-sized clients. Choosing its in-house agency to save money is not always going to be the best option for a brand. An outside agency can be a breath of fresh air, preventing a company's becoming too insular. Such an agency not only brings an outside, unbiased perspective to marketing challenges but it also invigorates advertising campaigns with new ideas.

LIMITATIONS AND AREAS FOR FUTURE RESEARCH

This study, like any other research, has its limitations. First, it was conducted with advertising practitioners working only at either in-house agencies or independent agencies. Perspectives on in-house agencies in Korea were somewhat skewed toward advertising agency practitioners in the current study. It would be worthwhile to include perspectives from advertisers, in particular, advertisers working with in-house agencies. Their perspectives on managerial characteristics of in-house agencies and agency-client relationship should be given equal weight as those from advertising agency practitioners.

Second, study findings are based on advertis-

ing agency practitioners' perspectives. Due to high turnover rate in advertising industry in general there might be a great number of practitioners who experienced both in-house and independent advertising agency. This study should have considered these segments as another group to see whether their perspectives are different from other groups.

Third, among 136 survey participants, only 21 participants (15.4 percent) were "creatives," such as creative directors, copy writers, graphic designers, or producers. The majority of participants were account managers and account planners. It would be interesting to include more creatives from both in-house agencies and independent agencies. Compared to creatives at an in-house

agency in the U.S., creatives at an in-house agency in Korea enjoy large accounts and a diverse client portfolio.

Furthermore, this study suggests that an in-house agency in the U.S. has a lower turnover rate making them more stable than independent agencies. It would be interesting to examine advertising practitioners' turnover intention both at in-house agencies and at independent agencies in Korea. In addition, a cross-cultural comparison (i.e., advertising practitioners from US in-house and independent agencies vs. advertising practitioners from Korean in-house and independent agencies) would generate meaningful findings in terms of organizational structure in creative industries and agency-client relationships.

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국문초록

인하우스 광고 대행사—한국 광고 대행사의 비즈니스 방식인가?

: 한국 인하우스 광고 대행사에 대한 탐험적 연구

본 연구는 한국 광고 산업에 대한 광고인들의 관점에 대해 알아보고자 진행되었으며, 좀더 구체적으로 인하우스 광고 대행사의 구조, 인하우스 광고 대행사 구조의 장점 및 단점, 그리고 광고 대행사와 광고주와의 관계에 대해 살펴 보았다. 인하우스 및 독립 광고 대행사에서 근무하는 136명의 광고인들이 본 연구에 참여 하였다. 본 연구 결과, 인하우스 광고 대행사는 중소 규모 광고 대행사의 성장은 물론 생존에 부정적인 영향을 미치는 것으로 나타났다. 광고 대행사와 광고주의 관계는 독립 광고 대행사보다 인하우스 광고 대행사에 더 큰 문제인 것으로 보인다. 광고주와 대행사와의 관계를 강화하기 위해서 상호 업무에 대한 신뢰 및 존중을 바탕으로 한 파트너십이 선행 되어져야 할 것이다. 관리적 시사점들은 토의 부분에 더 자세히 설명하고자 한다.

주제어: 광고인, 인하우스 광고 대행사, 독립광고 대행사, 재벌