AGENCY-CLIENT RELATIONSHIPS BEFORE AND AFTER MERGERS IN
THE ADVERTISING INDUSTRY

by

SALVADOR JOSE SIMAN

B.B.A., Applied Economics and Finance
Loyola University
(1986)

Submitted to the Sloan School of Management
in Partial Fulfillment of
the Requirements of the Degree of
Master of Science in Management

at the

Massachusetts Institute of Technology

May 1989

© Massachusetts Institute of Technology (1989)

ALL RIGHTS RESERVED

Signature of Author
Alfred P. Sloan School of Management, May 12, 1989

Certified by
Alvin J. Silk
Professor of Business Administration
Thesis Supervisor

Accepted by
Jeffrey A. Barks
Associate Dean, Master's and Bachelor's Programs

ARCHIVES

JUL 13 1989
AGENCY-CLIENT RELATIONSHIP BEFORE AND AFTER MERGERS IN THE ADVERTISING INDUSTRY

by

SALVADOR JOSE SIMAN

Submitted to the Sloan School of Management on May 12, 1989 in Partial Fulfillment of the requirements for the Degree of Master of Science in Management

ABSTRACT

This study explored conflicts arising before clients and agency mergers in the advertising industry. First a proper definition of the type of conflicts was discussed as well as some policies and accommodations to solve these conflicts. Specially the American Association of Advertising Agencies (A.A.A.A.) policy and the "umbrella" concept were mentioned.

Three client mergers were studied: Procter & Gamble's acquisition of Richardson Vicks; Philip Morris' purchase of General Foods; and R. J. Reynolds' acquisition of Nabisco. It was found that P&G and R. J. R. had a very strict policy on conflicts, although P&G did not apply it in a consistent manner. Philip Morris, on the other hand, allowed its agencies to continue working with competing products.

Two agency megamergers were discussed: the Omnicom Merger, and the Saatchi-Bates Merger. Most of the conflicts found in this section were of direct competing products in an umbrella company. It was found that most of the conflicts were resolved by one of the clients dismissing the agency, or the agency withdrawing one of the accounts. However, while almost all the conflicts in the two mergers were solved in this fashion, the Omnicom Group was able to retain more directly competing accounts. An important reason may be that the Saatchi & Saatchi Group was less concerned about the clients than the Omnicom Group.

Finally, it was found that the umbrella concept was not followed by most of the clients. Also, the A. A. A. A. conflict policy was to narrow in most of the cases and needed to be modified to include cases of conglomerate competition.

Thesis Supervisor: Alvin J. Silk

Title: Professor of Business Administration

-2-
TABLE OF CONTENTS

Acknowledgements...........................................................................................................5

1. INTRODUCTION TO ACCOUNT CONFLICTS.................................................................6
   1.1 Nature of the Problem...............................................................................................6
   1.2 Issues in Defining Account Conflicts.................................................................9
       - A Policy for Client-Agency Conflicts...............................................................9
       - Type of Account Conflicts..............................................................................10
       - Accommodations to Account Conflicts...........................................................11
   1.3 Purpose of this Thesis............................................................................................13
   1.4 Rationale for Studying Account Conflicts that Arise from Client and Agency Merger...........................................................................................................13
   1.5 Organization of this Thesis....................................................................................14

2. ADVERTISER MERGERS AND ACQUISITIONS.............................................................16
   2.1 Procter & Gamble....................................................................................................17
       - Procter & Gamble Conflict Policy......................................................................18
         A) Procter & Gamble Conflicts after Merging with Richardson Vicks..............19
         B) Procter & Gamble Conflicts after the Saatchi & Saatchi Merger with Bates...24
   2.2 Philip Morris..........................................................................................................28
       A) Philip Morris Conflicts after Merging with General Foods..........................30
       B) Philip Morris Conflicts after the Saatchi & Saatchi Merger with Bates.........33
   2.3 R. J. Reynolds.........................................................................................................34
       A) R. J. Reynolds Conflicts after Merging With Nabisco....................................37
       B) RJR Conflicts after the Saatchi & Saatchi Merger with Bates......................41
       C) RJR Nabisco Conflicts after the BBDO-DDB-Needham Merger....................42
   2.4 Conclusion..............................................................................................................43

-3-
3. ADVERTISING AGENCIES MERGERS..............................46
  3.1 The Merger of Needham Harper, BBDO, and Doyle
  Dane Bernbach..............................................47
    -Conflicts after the Merger of BBDO, Doyle and
      Needham...................................................48
      A) General Mills Conflicts..................................49
      B) Campbell Soup Conflict....................................50
      C) Brewery Conflicts.........................................52
      D) Automobile Conflicts......................................53
      E) Other Conflicts...........................................54
    -Conclusion..................................................55
  3.2 The Merger of Saatchi & Saatchi with Ted Bates
  Worldwide......................................................55
    -Conflicts after the Merger of Bates with Saatchi &
      Saatchi.....................................................58
      A) Mars Inc. Conflicts.......................................58
      B) General Mills Conflicts...................................59
      C) Warner Lambert Conflicts................................60
      D) Cigarette Conflicts.......................................61
      E) Brewery Conflicts........................................61
      F) Automobile Conflicts.....................................63
      G) Other Conflicts..........................................64
    Conclusion..................................................65
  3.3 Concluding Remarks........................................66

4. CONCLUSION ..................................................68
  4.1 Research Questions........................................68
  4.2 Recommendations..........................................72
  4.3 Suggestions for Further Studies..........................73

Bibliography.................................................75
ACKNOWLEDGEMENTS

Writing this thesis have been a good learning experience, and will be very helpful for my future.

First, I want to give my thanks to the Sloan School of Management for giving me the brilliant opportunity of attending one of the best business schools in the world. The program will make a great contribution to my career.

I want to give special thanks to Alvin Silk for his support, his kindness, and all the time he spent with me helping me to improve this thesis. His encouragement during all the process to guide me to write a good thesis is appreciated. Also my thanks to Deborah Marlino, for taking all the time to read this work.

Finally, I want to dedicate this thesis to my family in El Salvador, for helping me achieve a Master's Degree from the M.I.T. Sloan School of Management.
CHAPTER 1

INTRODUCTION TO ACCOUNT CONFLICTS

1.1 NATURE OF THE PROBLEM

The problem of account conflicts arises when a client does not want its agency to work with competing accounts. Clients disapprove agencies handling competing accounts for two reasons: (1) To protect confidentiality of plans, strategy and proprietary information, and (2) To assure exclusivity of agency services and talent.

The prohibition of agencies to handle competitors had its origins before 1912. For example, by around World War I, it was generally established that agencies would not handle competitor accounts.¹ However, this topic has been relatively unstudied.

This restriction on handling competing accounts is very problematic for agencies. Advertising agencies want to grow, and

they do this by adding new or larger accounts. This norm of avoiding handling conflicting accounts affects both the agencies freedom to select clients and clients' freedom to select agencies.

This idea of merging agencies to allow agency to grow and get around with the problem of "conflict", was originally developed by Marion Harper. Harper was born in Oklahoma City in 1916 and became president of McCann-Erickson in 1948. He helped a global marketing strategy for Coca-Cola, and developed an organization to serve Coke bottlers around the world. Harper was successful in assisting Coca-Cola to increase its market share and won the entire Coca-Cola account, worth $25 million in 1956 one of the largest accounts at that time.²

Harper's strategy was to increase his agency's billings by finding a way to get around the problem of conflicting accounts. He did this by creating a holding company called Interpublic Inc., which was the parent company of McCann-Erickson and another agency, Marschalk & Pratt, that McCann had acquired in 1954. In February 1961, Interpublic acquired Pritchard Wood & Partners, a major British ad agency. During the next two years, Interpublic continued acquiring advertising agencies around the world. By the fall of 1963, Interpublic had $413 million in billings, very close to J. Walter Thompson, the U.S. leading advertising agency at that time, with billings of about $420 million.³

On October 1963, Interpublic acquired Erwin Wasey, with billings of $83.5, and went ahead of world leader J. Walter

³ *Ibid.*, pages 41 and 42.
Thompson. However, despite a continued growth in total billings, the company got into financial problems in 1966 due to increasing debt loads, and posted a $250,000 loss. In 1967, interpublic loss $4 million, and Marion Harper was replaced as president of the company.4

Despite Marion Harper's idea to get around conflicts, the problem of account conflicts became very frequent in the 80's. According to "A practical Solution to Client-Agency Account Conflicts", there are three good reasons to seek solutions that are good for both the agency and the client:

1- "A conflict can cause the disruption of a productive client-agency relationship. The disruption of a relationship is a cost to the advertising agency. However there are also consequences for the firm, such as the expense to the client of re-educating new personnel, the time lost in developing a new campaign, and the momentum sacrificed while the change is being effected. Also, the client is likely to find himself at a very real competitive disadvantage, if the new agency is not as productive".5

2- "It can seriously limit the creative talent that is available to the client. Creative talent is valuable. Some limit on creative availability to a client is unavoidable, but those limits should be minimized to the maximum extent to give the client optimum exposure and flexibility in securing this critical resource".6

3- "It can limit the potential for agency growth and it penalizes accomplishment. Agency growth is important to the

4 Ibid., pages 43-47.
5 Ibid., pages 43-47.
6 Ibid., pages 43-47.
agency and the client. New challenges and diversity constantly stimulate creative people to do their best work. Increased agency resources allows an advertising agency to up-grade its staff, to add new functions, and to keep pace with the progress an the needs of its clients.\textsuperscript{7}

This problem is important since "account conflicts" cause disruptions to good agency-client relations and can be costly in real economic terms as clients drop agencies or agencies resign accounts. Second, it limits the creative talent that is available to a client. Finally, it breeds mutual distrust on part of both agencies and clients and undermines "partnership" relations.

1.2 \textbf{ISSUES IN DEFINING ACCOUNT CONFLICTS}

\textit{A Policy For Client-Agency Conflicts}

The Committee on Client Service of the American Association of Advertising Agencies (A.A.A.A.) believes there is a simple and effective policy which should be used:

"The practical client-agency policy on account conflicts is one which is based on individual product category rather than the total line of products of any given client. Under such a policy, an agency would not handle products which are directly competitive for more than one client, without the express permission of the clients. The

\textsuperscript{7} \textit{Ibid.}, pages 43-47.
clients would permit the agency to represent other companies in product areas beyond those it already serves, even if the clients is involved in such areas with other agencies".  

Type of Account Conflicts

One of the problems in establishing and implementing a policy on account conflicts, is the proper definition of "competition". While both agencies and clients generally agree, that an agency should not handle a "competitors' account", they do not always interpret "competition" in the same way. At least three basic views of competition may be invoked in addressing client-agent account conflicts:

1- Direct Product Competition. If agency A handles the toothpaste account of client X, then it should not handle the toothpaste account of client Y. This is the policy advocated by the A.A.A.A.A. which I just described.

2- Indirect Product Competition. If agency A handles the toothpaste account of client X, then it should not handle the mouthwash account of client Y, because toothpaste and mouthwash are partial substitutes and, to some degree are competitive products.

3- Conglomerate Competition.

a) Multiproduct Multidivision Clients. If agency A handles the toothpaste account of client X, then it should not handle the soap account of client Y because either client Y also owns a toothpaste

---

8 Committee on Client Service, American Association of Advertising Agencies, A Practical Solution to Client-Agency Account Conflicts, July 1979, pages 2 and 3.
whose advertising is handled by agency B, or because client X also
owns a soap account handled by agency C, and toothpaste and soap
are in the same division of client X and/or Y.

b) Mega or Multinational Agencies.

(i) If agency A handles the toothpaste account of client X, then
agency A should not handle the toothpaste account of client Y
because agencies A & B are both owned by, or part of the same
mega-agency.

(ii) If agency A handles the toothpaste account of client X in
country 1, then the agency’s wholly/partially owned
subsidiary/affiliate should not handle the toothpaste account of
client Y in country 2.

Accommodations to Account Conflicts

A popular approach advocated by agencies to avoid conflicts is
the "umbrella concept". This consists of the agencies acting as
corporate umbrellas with a number of separate, and often
autonomous, member agencies which allow a client to place
different parts of his business in several of them. These agencies
may be located in the same city or in different ones. This
separation is intended to allow the client to achieve
confidentiality and avoid conflicts, and the advertising agency to
handle competing accounts.9 This idea was originally developed
by Marion Harper as noted above.

Although agencies seek to avoid conflicts by employing the

9 Ibid., page 5.
"umbrella concept", advertisers often reject it because they adhere to a policy of avoiding "conglomerate competition". Many clients do not believe the two agencies of an umbrella are going to be operated separately. Advertisers still believe the two agencies are part of the same company, and the agencies can interchange confidential information about a company and give it to the competitors. So this solution is not adequate enough to solve all conflicts, as was evidenced by the account shifts after the megamergers which be discussed in chapters two and three.

Other solutions used by the agencies to solve conflicts is to use separate offices and to employ different teams. However, these solutions still have the same problems as the umbrella company, since companies fear the separate offices and/or different teams can share confidential information and pass it to competitors.

A final solution to advertising mergers conflicts which is being used is conflict insurance. This tool is being used by clients to defend themselves against agency megamergers. Some companies are pressing agencies to sign contracts ensuring financial compensation should a merger disrupt the agency-client relationship. In 1987, these indemnification clauses were added by American Cyanamid Co.'s Shulton U.S.A. Division and Nissan Motor Corp. U.S.A. in their agency agreements. Shulton signed the contract with Scali, McCabe, Sloves, N.Y., and Carrafiello, Diehl & Associates, Irvington, N.Y., while Nissan with Chiat/Day, Los Angeles.

7 John Lafayette, "Advertisers Protect Against Shop Mergers", Advertising Age (December 14, 1987), page 1.
1.3 PURPOSE OF THIS THESIS

The purpose of this thesis is to investigate "conflict" problems that have arisen in connection with several recent mergers and acquisitions involving large agencies and major advertisers.

There are a series of questions that I intend to answer in this thesis. What type of "conflicts" arose? How were the conflict resolved? Is there any relationship between the type of conflict and the manner of resolution? Are there differences in the source of conflicts between client vrs. agency mergers? Have consistent policies on conflicts emerge? Do different clients follow the same policy? Do different agencies follow similar policies? Were the A.A.A.A. Policy guidelines or procedures followed in these cases? Why or why not? Are they workable or adequate to cover the conflicts that arose? What are their weaknesses and limitations? What modifications are needed?

1.4. RATIONALE FOR STUDYING ACCOUNT CONFLICTS THAT ARISE FROM CLIENT AND AGENCY MERGERS

Account conflict became very common in the 1980's, when there was a wave of mergers of advertising clients. The most important which I will cover in this thesis were Procter and
Gamble's acquisition of Richardson Vicks, Philip Morris' purchase of General Foods, and R. J. Reynolds' acquisition of Nabisco. These mergers left many advertising agencies having several competing clients.

Also in 1986, there were several advertising agency mergers. The biggest which will be discussed later were the Omnicom merger (BBDO-Needham and Doyle Dane Bernbach), and the Saatchi & Saatchi acquisition of Ted Bates. These mergers created numerous client conflicts, and billions of dollars in account shifts.

This wave of mergers makes the evaluation of account conflicts very relevant. It is important to perform this study to see how the conflicts were resolved, and determine if either the client policies are too strict and need to be modified, or new solutions will be needed to solve account conflicts in the future. It is also interesting to find out if advertising agencies can continue to grow through acquisitions.

To perform this study, I collected information from periodicals and books. The three sources I used the most were: Advertising Age, Adweek, and The Wall Street Journal. I also employed The Standard Directory of Advertisers and The Standard Directory of Advertising Agencies. The most important book utilized in this thesis was Emperors of Adland by Nancy Millman.

1.5 ORGANIZATION OF THIS THESIS

In Chapter 2, three important clients mergers are discussed:
Procter & Gamble's acquisition of Richardson Vicks, Philip Morris' acquisition of General Foods, and R. J. Reynolds' acquisition of Nabisco. Chapter 3 examines two advertising agencies' mergers: The Omnicom merger, and the Saatchi & Saatchi acquisition of Ted Bates. The last chapter of this thesis will answer the questions posed for study in section 1.3, and suggest recommendations to both advertisers and agencies.
CHAPTER 2

ADVERTISER MERGERS AND ACQUISITIONS

Procter & Gamble, Philip Morris and RJR Nabisco accounted for 10% of all national advertising spending in the United States in 1986 according to an analysis performed by the Newspaper Advertising Bureau.\(^{11}\)

In this chapter, I intend to study these three companies relationships with their advertising agencies. First I will discuss the companies, and the conflicts created when these corporations acquired other firms. Then, I will analyze how the conflicts were resolved. This chapter will end with a comparison of the policies followed by these three advertisers, and how to predict the outcome of a conflict based on these mergers.

\(^{11}\) Advertising Age Roundup, "The Mighty Urge to Merge", Advertising Age, (October 26, 1985), page 1.
2.1. PROCTER & GAMBLE

The first company which is important to discuss is Procter & Gamble. P&G was the largest U.S. advertiser in 1985, and has spoken louder than any other company about mergers and conflicts. P&G also used a variety of tactics to make it known its displeasure with the megamergers agency combinations.

P&G is divided in five divisions. Please see table 2.1 for P&G divisional chart.

Table 2.1

P&G Divisional Chart

<table>
<thead>
<tr>
<th>Procter &amp; Gamble</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soaps, Detergents</td>
</tr>
<tr>
<td>&amp; Household Cleaners Division</td>
</tr>
<tr>
<td>Food Division</td>
</tr>
<tr>
<td>Personal Care Division</td>
</tr>
<tr>
<td>Household Division</td>
</tr>
<tr>
<td>Coffee Division</td>
</tr>
</tbody>
</table>

Richardson Vicks, a manufacturer of beauty and health care products, accepted a friendly merger offer from Procter & Gamble Co. (P&G). The offer was valued at $1.24 billion, and ended weeks of battling to acquire Richardson Vicks.

The Procter & Gamble $69-a-share bid beat out a similar proposal from Pitzer Inc. of New York and frustrated a hostile takeover attempt by Unilever N.Y., a huge consumer packaged goods
company.

This acquisition gave P&G an immediate presence in areas of health care that it has had difficulty entering on its own. It improved P&G position into the $1.6 billion annual market for nonprescription analgesic products. This acquisition represented a change from P&G's traditional strategy of relying on internal growth rather than on outside purchases. 12 Faced with declining market share for its stronger brands, P&G reported in 1985 its first drop in operating profits in 33 years.

Hug Zurkuhlen, an analyst at Salomon Bros., said, "The buyout of R-V is a good fit, both productwise and debtwise. R-V and P&G have synergies in distribution and marketing channels, which will be helpful to both companies. It appears, given P&G's (uneven) success in new products, that it's easier to acquire existing products with name recognition and market them heavily". 13

Procter & Gamble Conflict Policy

P&G's longstanding policy states that a conflict exists when an agency handles any product anywhere that might compete with any brand in the P&G division of the assigned product. P&G officials have stated that this policy is "designed to keep agencies from ending up in a compromising position. " 14

P&G's conflict policy is a type of conglomerate competition,

13 Ibid., page 3.
14 Nancy Giges, "Stage set for Agency Reviews at P&G-Vicks", Advertising Age (October 6, 1985), page 1 and 92.
which was described in chapter 1. Specifically, it follows under the "multiproduct multidivision clients". This policy is more strict than the A.A.A.A.'s policy which defines competition in a narrow sense. Under P&G policy, two products are competitors if they are in the same division, while under A.A.A.A.'s policy, the products have to be direct competitors.

In order to analyze how Procter & Gamble has applied its policy on conflicts, it is important to discuss P&G in two different situations. First, after P&G merged with Richardson Vicks. Second, after Saatchi & Saatchi merged with Bates.

A. Procter & Gamble Conflicts after Merging with Richardson Vicks

Procter & Gamble acquisition of Richardson Vicks created several conflicts with the advertising agencies for the Richardson Vicks' $160 million advertising budget. The main conflict created by this merger was with Young & Rubicam. Y&R handled an estimated $40 million in Richardson Vicks billings. Y&R handled the Richardson Vicks products which included the Oil of Olay line of moisturizing products as well as Formula 44D cold and cough medicine and Tempo antacid. Y&R also directed some $120 million worth of Colgate business worldwide. The products that Y&R handled for Colgate Palmolive included: Irish Spring, Fresh Start, Ajax Light Duty Liquid and Dentagard. Table 2.2 provides a divisional structure of Colgate-Palmolive.
Table 2.2
Colgate-Palmolive Divisional Chart

<table>
<thead>
<tr>
<th>Household and Personal Care</th>
<th>Health Care</th>
<th>Specialty marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colgate-Palmolive</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Oil of Olay product was in P&G's Bar Soap and Household Cleaning Products Division. The Irish Spring is a soap and directly competed with Oil of Olay (also a soap). Also Fresh Start and Ajax Light Duty Liquid were in conflict with other P&G products in the Bar Soap and Household product division. So, there was a conflict since the Colgate products competed with P&G products in the same division.

This created a conflict when P&G acquired Richardson Vicks, since P&G and Colgate Palmolive are major competitors, and after the acquisition, Y&R had both competitors on its roster.

Two years before this merger, Y&R dropped P&G, after 34 years together, because of P&G's hard line on conflicts was keeping the agency from accepting new business. Then, Y&R took Colgate Palmolive $124 million account. Y&R was better off as one of Colgate's two global agencies instead of being only one in Procter's vast stable of agencies.

The conflict arising from the P&G-Vicks merger was resolved by P&G exercising its corporate-conflict policy. P&G fired Young &
Rubicam. Procter & Gamble then moved the $28-million Oil of Olay domestic account to Wells, Rich, Greene (US), and the $30 million European account went to Saatchi & Saatchi Compton International. Vicks Formula 44 ($12 million billings) joined the rest of that line at D'Arcy Masius Benton & Bowles. Tempo antacid ($5 million) went to Leo Burnett, which already handled health-and personal-care products for P&G.

Before this acquisition, P&G had chosen to overlook the over-the-counter drugs that P&G agency D'Arcy Masius Benton & Bowles (DMB&B) handled for Richardson Vicks including Vicks Nyquill and Day-Care cold medicines, Sinex sinus remedy, Cremacoat cough medicines, Vicks cough drops, and Clearasil cough medicine. In this case, there was a conflict before P&G acquired Richardson Vicks, since the Richardson Vicks products were in the same division as the P&G products. The P&G products that DMB&B had were P&G drugs, such as Pepto-Bismol stomach remedy and Norwich aspirin which were in the Personal Care Products Division. Although there was a conflict in this case, P&G decided to continue working with the agency since P&G had had very good relations with DMB&B. Therefore P&G was being selective in applying its policy on conflicts, since it was very strict with Y&R while it is more tolerant with DMB&B.

Another conflict took place with Pantene. Pantene was owned by Richardson-Vicks. Pantene, which markets shampoos and conditioners in department stores has minimal share strength in the United States but has a strong international presence. Leber Katz Partners had been the longtime agency for Pantene, but Leber
Katz merged with Foote, Cone & Belding's New York office (FCB).¹⁵

FCB is one of the major agencies for Procter & Gamble arch rival Colgate Palmolive. FCB handled the following Colgate-Palmolive products: Dynamo, Fluorigard, Fab Detergent, Ultra Brite Toothpaste, and Ajax All Purpose Cleaner. The Pantene product is in the P&G's Personal Care Product Division. In this case, the Colgate-Palmolive products did not conflict with P&G products in the Pantene division, but in a different division, The Bar Soap and Household Product Division.

FCB/Leber Katz Partners already had had to resign new-products assignments that the agency has been working on for P&G, because of P&G's concern with having its competitor Colgate Palmolive also working with FCB/Leber Katz. However in this case, Procter & Gamble continued working with the agency. So P&G did not contradict its policy in this case, since the Colgate-Palmolive products did not compete with products in Pantene Division, but in a different division.

Procter and Gamble did not apply its policy on conflicts in a consistent manner. It favored the agencies with whom it had had good business relations, while it was very strict with others. This fact was demonstrated in the P&G conflict with Vicks, before the P&G acquisition, since P&G decided to continue working with the DMB&B agency with whom it had had strong relations. On the other hand, it was very strict with Y&R, and ended up firing it.

Table 2.3 provides a summary of the P&G conflicts.

### Table 2.3

**Procter & Gamble Conflicts**

<table>
<thead>
<tr>
<th>P&amp;G Product</th>
<th>Comp. Product</th>
<th>P&amp;G Agency</th>
<th>Comp. Agency</th>
<th>Resolution/Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pantene</td>
<td>Colgate</td>
<td>Leber Katz</td>
<td>FC&amp;B</td>
<td>P&amp;G stayed with agency.</td>
</tr>
<tr>
<td>Dishwashing</td>
<td>Colgate</td>
<td>Saatchi</td>
<td>Bates</td>
<td>Colgate resigned 100 million account 5/86.</td>
</tr>
<tr>
<td>Detergent.</td>
<td>Palmolive Dishwashing.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baked Goods,</td>
<td>Baked Goods</td>
<td>Saatchi</td>
<td>DFS</td>
<td>P&amp;G resigned $70 million account 9/86.</td>
</tr>
<tr>
<td>Duncan Hines.</td>
<td>Cookie &amp; Crackers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crisco</td>
<td>(Nabisco)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquid Soap.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
B. Procter & Gamble Conflicts After the Saatchi & Saatchi Merger with Bates

The merger of Bates with Saatchi & Saatchi created several conflicts involving Procter & Gamble.

The major conflict created by this merger was between P&G and Colgate-Palmolive. Colgate-Palmolive had its $100 million advertising account with Ted Bates Worldwide. Procter & Gamble, a major competitor with Colgate-Palmolive, is Saatchi & Saatchi's main customer. Bates had handled the Colgate account for 48 years.

Saatchi & Saatchi Compton handled in 1986 $173 million worth of P&G business in the U.S. including Tide powder and liquid laundry detergents, Cascade dishwasher detergent, Ivory soap, Comet cleaner, Top job cleaner, Crisco shortening and oil, Duncan Hines (muffins, cakes mixes, frostings, cookie mixes and brownies), and High Point coffees.\(^{16}\) The only product category that conflicted at both agencies was dishwashing liquid, since Bates handled dishwashing liquid for Colgate-Palmolive while Saatchi & Saatchi served P&G. Therefore, this conflict is with products in the same P&G division, The Bar Soap and Household product division.

This conflict was resolved by Colgate-Palmolive withdrawing its $100 million advertising account from Ted Bates Worldwide inc. Colgate said it would consolidate all its advertising with the two other agencies it already worked with. Foote, Cone & Belding Communications Inc. Chicago was assigned Palmolive dishwashing

liquid, with $7 Million in 1985 measured media, the Ajax brand, and Dentagard plaque fighting toothpaste. Colgate toothpaste (with $31 million spent in measured media in 1985), went to Young & Rubicam Inc. Y&R was also assigned Colgate toothbrushes and Palmolive Rapid Shave. Colgate's billings world-wide totaled about $300 million.

These account shifts not only removed Bates from Colgate accounts in the U.S., Canada, Mexico, and six countries in the Asian Pacific, but also ended the relationship with Colgate which dated back to 1940.

Many agency combinations are structured so that acquired agencies continue to operate separately within an umbrella company. However in the Saatchi-Bates case, Colgate Palmolive did not believe the umbrella company resolved the conflict. Colgate believed the two agencies merged under the umbrella concept were still the same company, and was concerned that confidential information might reach Procter and Gamble.

A second conflict that occurred after this merger was that Bates handled several basic food accounts including baked goods, cookies and crackers for Nabisco. Saatchi & Saatchi Compton also handled Procter & Gamble food products division, consisting of Duncan Hines baked goods and Crisco Oil. Here there was a conflict since Saatchi & Saatchi and Bates had competing products within P&G's Food Product Division.

This conflict was resolved by Procter & Gamble withdrawing some $20 million in Duncan Hines baking mix line, and some $35 million in Crisco oil and shortening billings from Saatchi &
Saatchi. Crisco and Crisco Oil went to Grey Advertising inc., New York, and Duncan Hines baking mix line went to Cunningham & Walsh Inc., New York.

A third conflict involving Procter & Gamble, was a paper product conflict. Saatchi & Saatchi subsidiary, DFS Dorland, managed Bounty (a $10 million account), and Luvs Baby Pants (a $20 million account). Johnson & Johnson's Stayfree Silhouettes sanitary napkins were at Compton. Here there was a conflict between P&G and Johnson & Johnson since both market sanitary napkins. Also, Bates' subsidiary, William Esty Co., also had Stayfree feminine hygiene products from Tambrands. However the conflict that worried P&G the most involved Johnson & Johnson.

Procter & Gamble moved $20 million in billings of Luvs Baby Pants, and $10 million of Bounty Paper Towels from DFS Dorland New York, to resolve this conflict. Luvs Baby Pants went to Leo Burnett USA, Chicago. Bounty Paper Towel was shifted to Jordan Manning Case, Taylor & McGrath, New York. So, P&G reinforced its stance on agency conflicts by moving $85 million in billings from the Saatchi & Saatchi agencies to other P&G agencies.

P&G also conflicted with General Foods. Both companies are competitors in the Coffee Products Division. General Foods had its two coffee brands, Maxim and Mellow Roast at Bates. The conflict was resolved by General Foods withdrawing its $25 million account from Bates, but according to Advertising Age, this departure was an "internal business decision" unrelated to the agency having become part of the Saatchi empire. No further

---

17 Stewart Alter and Laurie Freeman, "P&G Trims Saatchi Sails", Advertising Age (September 15, 1986), page 1.
information was available on the specific reason of this account shift.

The last P&G conflict was that Bates' Pine-Sol $25 million account conflicted with P&G cleaning products assignments, since Bates' sister agency, Saatchi & Saatchi's Compton handled Ivory bar and liquid soap. This conflict was resolved by Bates dropping the $25 million account.

"Procter & Gamble has told its agencies it will not accept the agency holding concept as a way to accommodate what it perceives as conflicts. P&G would not allow its agencies to handle any product that competes with a P&G product from a division with which the agency works even if there are not direct product conflicts within the agency. *18 This statement considers two or more agencies of the same umbrella company as the same agency.

In all these cases arising from the Saatchi-Bates merger, P&G has been very consistent in applying its tough policy on conflicts. All of these situations involved products that compete with other P&G products within the same division, and P&G ended up withdrawing the account, or forcing the agency to withdraw the competing account in each case. By these actions P&G was demonstrating, that it was standing firm against appeals that it modify its U.S. "divisional" account-conflict policy.

---

2.2. PHILIP MORRIS

Philip Morris Inc. is a New York-based Tobacco and beverage company. Its main tobacco lines are: Marlboro, Virginia Slims, Merit, Players, Cambridge, Parliament Lights and Philip Morris regular. Table 2.4 provides a divisional structure of Philip Morris before the acquisition of General Foods.

Table 2.4
Philip Morris Divisional Chart

Philip Morris Co.

<table>
<thead>
<tr>
<th>Philip Morris</th>
<th>Miller Brewing</th>
<th>Seven Up</th>
<th>Industrial</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Tobacco)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Philip Morris had been the least diversified of the large tobacco companies before it acquired General Foods, and it also had been the most successful in acquiring customers for its brands, particularly Marlboro, the number one selling cigarette in the world. Only 8% of Philip & Morris earnings derived from nontobacco operations, despite $4.2 billion in nontobacco assets in Seven-Up Co. and Miller. Brewing Co., according to Diana K. Temple, tobacco analyst with Salomon Brothers in New York.19

19 William Gloede and Nancy Giges, "PM-GF Rumors Top Week", Advertising Age (September 16, 1985), page 128.
On November 1, 1985, Philip Morris purchased 45.3 million shares, or 97.7% of General Foods Corporation. Philip Morris acquired General Foods for $5.67 billion, or $120 a share. This acquisition created the largest consumer-products company in the U.S. at that time, with about $23 billion of annual sales.

General Foods, the largest U.S. company that was strictly in the food and beverage business, had a reputation for being bureaucratic and stodgy. But many consultants and analysts believed it had made progress in the past few years. They suggested that General Foods was becoming more aggressive, pointing to its introduction of several successful products such as Jell-O pudding pops, a frozen dessert, and Crystal Light powered beverage mixes.²⁰

---

Table 2.5
General Foods Divisional Chart

<table>
<thead>
<tr>
<th>Division</th>
</tr>
</thead>
<tbody>
<tr>
<td>Birds Eye Meals Desserts</td>
</tr>
<tr>
<td>Breakfast Beverage Maxwell</td>
</tr>
<tr>
<td>Maxwell Foods House Services</td>
</tr>
</tbody>
</table>

Hamis Maxwell, chairman of Philip Morris concluded that General Foods was the best purchase. Maxwell argued that General Foods offered the best entry into the food business "It has a diversified product line, and it has available all forms of

distribution." He also emphasized that General Foods would remain independent with all divisions intact and would operate with its current managers and employees as a separate company within the Philip Morris structure. For a divisional structure of General Foods please see table 2.5.

General Food agreed a few months before the acquisition that in some cases its agencies could handle competitors products. No stated conflict policy was found, however Adweek expected Philip Morris would let the General Foods agencies continue working with tobacco and beer accounts.

In order to analyze the conflicts involving Philip Morris, it is important first to address the conflicts that occurred after the acquisition of General Foods. Finally I will analyze the Philip Morris conflicts that arose following the advertising agency megamergers.

A. Philip Morris Conflicts after Merging with General Foods

The first conflict occurred with R. J. Reynolds. Young & Rubicam was a major General Food agency with an estimated $100 million in billings. Y&R handled GF's Sanka and International Coffees, Jell-O-brands, Birds Eye, frozen foods and other products. These products were in the Breakfast, Birds Eye Agricultural and Dessert Divisions.

Young & Rubicam also served R.J.R. as the agency for Canada Dry and Kentucky Fried Chicken. Reynolds is Philip Morris' biggest U.S. tobacco rival. However, Canada Dry is a beverage product, and
the conflicts arose with products in different divisions. The same logic would apply to Kentucky Fried Chicken. Finally, Y&R continued working with both products.

A second conflict that arose was at Leo Burnett USA, Chicago. Leo Burnett handled cigarettes for Philip Morris and 7-Up. This agency also handled Kellogg Co., Pillsbury Green Giant frozen foods and Peter Eckrich & Sons meats - all competitive with General Foods products. Leo Burnett was a major agency for Pillsbury and handled Green Giant and Totino's Pizza. However, these products do not conflict with Philip Morris (the cigarette business), but did compete with General Foods which is a different division of Philip Morris. So, in this case there was really not a conflict inside the division, and the agencies continued handling both accounts.

A third Philip Morris conflict occurred at Backer & Spielvogel. This agency which had Philip Morris' Parliament cigarettes and the Miller Brewing Company beer account, also handled Quaker cereals and Gatorade. However this conflict was not in the same division, because the Cereals and Gatorade did not compete with the cigarettes or beers. Backer & Spielvogel continued working with both accounts.

A last conflict occurred at Wells, Rich, Greene. This agency handled Philip Morris' Benson & Hedges and Players products. Wells, Rich, Greene Inc. also handled Ralston Purina Co. products. This conflict also involved products in different divisions, and the agencies continued working with both companies.

Table 2.6 provides a summary of all Philip Morris conflicts.

---

Table 2.6
Philip Morris Conflicts

<table>
<thead>
<tr>
<th>PM Product</th>
<th>Comp. Product</th>
<th>PM Agency</th>
<th>Comp. Agency</th>
<th>Resolution/Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sanka, Int. Coffees</td>
<td>Canadian dry</td>
<td>Y&amp;R</td>
<td>Y&amp;R</td>
<td>Continue with both accounts.</td>
</tr>
<tr>
<td>Jell-O-Brands</td>
<td>Kentucky Fried</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bird Eyes</td>
<td>(R.J. Reynolds)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Frozen Foods</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7-Up and cigarettes.</td>
<td>Billsbury Green</td>
<td>Leo Burnett</td>
<td>Leo Burnett</td>
<td>Continue with both accounts.</td>
</tr>
<tr>
<td></td>
<td>Giant Frozen F.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7-Up and cigarettes.</td>
<td>-Peter Eckrich Son Meats.</td>
<td></td>
<td>Leo Burnett</td>
<td>Continue with both accounts.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miller Brewing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maxim Mellow.</td>
<td>Food products (P&amp;G)</td>
<td>Saatchi</td>
<td>Bates</td>
<td>General Food withdrew $25 million account on June 86.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miller Brewing</td>
<td>Michelob</td>
<td>Backer Spielvogel</td>
<td>Bates</td>
<td>Anheuser-Bush resigned $38 million account on June 86.</td>
</tr>
<tr>
<td></td>
<td>Anheuser-Bush</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parliament</td>
<td>Wisom-Salem RJR</td>
<td>Backer Spielvogel</td>
<td>Esty</td>
<td>RJR resigned $50 million account in June 86.</td>
</tr>
</tbody>
</table>
The rest of the conflicts in table 2.6 will be analyzed in the next part.

All of these situations arising after the Philip Morris' acquisition of General Foods involved products competing in different divisions. There was not enough information available on the size of the accounts, nor on the resolution of the conflicts. However, I have found consistency in the way the Philip Morris conflicts were resolved. In all of these conflicts, Philip Morris did not resign the account nor force the agency to drop the competitor account.

B. Philip Morris Conflicts after the Saatchi & Saatchi Merger with Bates

The first conflict occurred between General Foods and Procter & Gamble after the Saatchi & Saatchi merger with Bates, which was previously discussed in the P&G section. As noted there, the conflict was resolved by General Foods shifting its Maxim coffee, and Mellow coffee brand from Bates. However, as mentioned before, according to Advertising Age, this account shift was not related to the conflict with Procter & Gamble.

A second conflict which arose at Saatchi & Saatchi involved Anheuser-Busch. Bates handled Anheuser-Busch's Michelob beer, which is an RJR's division. Backer & Spielvogel, acquired by Saatchi & Saatchi, handled Miller Brewing, a Philip Morris subsidiary. Here, there was a conflict since all these products are in the brewery business. The conflict was finally resolved by Anheuser Busch
withdrawing its $38 million Michelob account from Bates.

A third conflict that occurred after the Saatchi & Saatchi merger with Bates was with cigarette products. Bates' move to the Saatchi network roster resulted in three cigarette companies in the Saatchi & Saatchi camp. Philip Morris had its Parliament at Backer Spielvogel, Lorillard had its True brand at DFS Dorland and R.J. Reynolds had its Salem brand at Bates' subsidiary, William Esty Co.22 In order to resolve this conflict, R. J. Reynolds pulled Salem cigarettes estimated $50 million account from Esty which moved to FCB/Leber Katz Partners. RJR Nabisco Winston-Salem N.C. also pulled $96 million from Bates' William Esty Co. unit and another $32 million. RJR was one of Esty's initial accounts 34 years ago.23

So Philip Morris did not seem to have a strong policy on conflicts. It continued working with the agencies (Bates, and Esty) in two of the three conflicts. It only resigned its account from Bates in the Philip Morris-P&G conflict at the Saatchi & Saatchi Umbrella. However, according to Advertising Age (as mentioned before), this account shift was an "internal business decision" unrelated to the Saatchi-Bates merger.

2.3. R. J. REYNOLDS

R.J. Reynolds is primarily a cigarette company which have

23 An Advertising Age Roundup, "Saatchi Omnicom Losses Mount", Advertising Age (June 30, 1986), pgs.1 and 70.
diversified into other areas in recent years. The company also owns Del Monte Inc., Heublein Inc., and Kentucky Fried Chicken. Table 2.7 shows the different product divisions of RJR.

Table 2.7
R.J.R. Divisional Chart

<table>
<thead>
<tr>
<th>R.J. Reynolds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco</td>
</tr>
<tr>
<td>Food</td>
</tr>
<tr>
<td>Beverages</td>
</tr>
<tr>
<td>Others</td>
</tr>
</tbody>
</table>

In 1984, R.J.R. sold its major non-consumer products units, Sea Land Inc., an ocean shipping company, and Aminoil Inc., an energy business. Reynolds' then acquired Sunkist Soft Drinks Inc, a Canada Dry corp.

On June 1985, R.J.R. decided to acquire Nabisco Brand Inc. This merger made R.J.R.-Nabisco the largest consumer products company selling products like cigarettes, Life Savers, Kentucky Fried Chicken, and Oreo Cookies. This acquisition appeared to accomplish Reynolds' ambition for a global presence.

Reynolds paid $4.9 billion in cash, preferred stock and senior debt securities, and the combined company had sales of more than $19 million at that time. Reynolds offered about $85 cash a share for as much as 51% of Nabisco's common stock. Each remaining Nabisco share was exchanged for $42.50 in new senior debt securities and $42.50 of a new preferred stock with a stated value.
of $42.50. 24

"Nabisco had a reputation of being colorless and conservative, but before the merger, the Company has won praise from analysis for its responses to attacks on its cookie turf."25 Nabisco Brand's products included: Ritz Crackers, Oreo Cookies, Planters Nuts, Fleishmann's and Blue Bonnet Margarines, cereals, candies and other products. For the divisional chart, please see table 2.8.

Table 2.8
Nabisco Divisional Chart

<table>
<thead>
<tr>
<th>Nabisco Divisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biscuit All Brand Food Margarine Planters Grocery Vinegar Fleischmann Importers Services Products</td>
</tr>
</tbody>
</table>

Apparently R.J. Reynolds does not have a written policy on conflicts, but did RJR indeed have a policy by which it evaluated agencies. From RJR actions, it is implied that their policy was similar to PG's conflict policy. "While its agency roster included shops that handled products competitive with its own, in the same division, it is widely believed in the agency business that Reynolds liked shops that avoided conflicts."26

25 Ibid., page 3.
26 William Gloede, "RJR/Nabisco Would Top Ad List", Advertising Age (June 30,
A. R.J. Reynolds Conflicts after Merging with Nabisco

There were several conflicts which occurred at Dancer Fitzgerald Sample. DFS used to be an RJR agency until 1979, when it lost the then-$40 million account. This agency handled $69 million in Nabisco billings with such products as Almost Home, and Chips Ahoy and Chewy Chips Ahoy cookies, as well as Life Savers products. These products were in the Biscuit and Life Saver division. There were potential conflicts with several accounts which are important to address:

1- DFS handled an estimated $65-70 million in billings from Lorillard's True Cigarettes which competed with R. J. Reynolds tobacco. However, this conflict involved competing products in different divisions. DFS handled Nabisco's products that were on the Nabisco Biscuit and Life Saver division. On the other hand, Lorillard 's products at DFS were cigarettes.

2- DFS also worked for Wendy's, a competitor of RJR's Kentucky Fried Chicken (officially a subsidiary of RJR's subsidiary Heublein). This conflict did not contain products from the same division, since Wendy's (a fast food products) was not competing with the Biscuit and Life Saver divisions.

3- The agency also handled S&W Fine Foods, a rival of RJR's Del Monte Foods. This conflict also involved products in different divisions.

---

1985), page 102.
4- The last conflict at DFS involved Guilt Wineries & Distillers, a competitor of Heublein's Inglenook wines in some segments. Again, as in the other three cases, this product did not conflict either with products in the Life Saver or in the Biscuit division.

So, all the conflicts involving DFS did not involve an agency handling competing products in the same division. DFS continued handling both accounts, in all four cases.

A second conflict took place at Doyle Dane Bernbach. DDB was an agency for Nabisco with $20 million in billings. It handled Blue Bonnet and Fleischmann's margarines, Fleischmann's yeast, Cream of Wheat and ready-to-eat cereals. These products were in the Fleischmann Division.

This agency also worked for Brown & Williamson Tobacco and Joseph E. Seagram & Sons liquor, and their combined billings amounted to $50 million.27 B&W's Kool competed with RJR's Salem, and Seagram with Heublein in several categories. However, the conflicts did not involve products in the same division, since beer and wine did not compete with margarines. Although the agencies continued working with both products after the RJR-Nabisco merger, it resigned $15 million in billings after the Needham-Doyle Dane Bernbach merger which will be discussed in part B of this section.

The third conflict involved Bozell & Jacobs which worked with Nabisco's Planters Peanuts, snacks and candy bars (i.e., Butterfingers and Baby Ruth) all worth about $30 million. These products were in the Nabisco Planters and LifeSavers divisions.

---

This agency also handled James Beam Distilling, (which competed indirectly with Heublein $6 million) and McDonald's franchises (about $25 million). This is another conflict involving products of different divisions, since neither McDonalds nor the distilling competed with any products on the Planters and Lifesavers division. As in the other conflicts, both accounts continued to be handled by Bozell & Jacobs.

A fourth conflict due to the RJR-Nabisco merger occurred at the Bloom Agency, New York. All Brand Importers, a division of Nabisco, whose beer brands included Moosehead, Foster's Lager and Dos Equis had its account at Bloom. The agency also handled Glenmore Distilleries. Bloom's major Glenmore brands included Amaretto di Saronno, Kentucky Tavern Straight Bourbon Whiskey and Mr. Boston Schnapps.28 All of these products directly competed with All Brand importers' (RJR subsidiary) wines, and the conflict was between products competing in the same division. This conflict was resolved by All Brand Importers withdrawing its account from the Bloom Agency. The billings which were about $5 million, were shifted to the McCann-Erickson agency.

A final conflict which was previously described in the Philip Morris section occurred with RJR, in the Y&R agency. As noted earlier, this conflict did not involve products in the same division, and Y&R continued working with both accounts.

Table 2.9 provides a summary of the conflicts involving RJR-Nabisco.


-39-
<table>
<thead>
<tr>
<th>RJR Product</th>
<th>Comp. Product</th>
<th>RJR Agency</th>
<th>Comp. Agency</th>
<th>Resolution/Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Savers, Chip Ahoy, Almost Home</td>
<td>1- Lorillard's True Cigarette.</td>
<td>DFS</td>
<td>DFS</td>
<td>Agency continued with all accounts.</td>
</tr>
<tr>
<td></td>
<td>2- Wendy's</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3- S&amp;W Fine Foods.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4- Guilt Wines-ries distilled.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blue Bonet, Fleischman, Margarine, Cream of Wheat, Ready To-Eat-Cereals</td>
<td>-Brown William Tobacco.</td>
<td>DDB</td>
<td>DDB</td>
<td>Agency continued with all accounts.</td>
</tr>
<tr>
<td></td>
<td>-Joseph Seagram Sons Liquor.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Anheuser-Bush.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moosehead, Foster's Lager Dos Equis (Brand Imports)</td>
<td>-Glenmore-Distilleries.</td>
<td>Bloom</td>
<td>Bloom</td>
<td>Brand Imports resigned $5 million account on Jan. 86.</td>
</tr>
<tr>
<td>RJR Product</td>
<td>Comp. Product</td>
<td>RJR Agency</td>
<td>Comp. Agency</td>
<td>Resolution/Budget</td>
</tr>
<tr>
<td>-------------</td>
<td>---------------</td>
<td>------------</td>
<td>--------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Wistom-Salem RJR</td>
<td>Parliament, Backer Spielvogel</td>
<td>Esty, Needham</td>
<td>RJR resigned, $50 million in June 86.</td>
<td></td>
</tr>
<tr>
<td>Ready-To-Eat Cereals, Cream of Wheat, Fleischmann.</td>
<td>General Mills Cereals</td>
<td>DDB, Needham</td>
<td>Nabisco resigned, $26 million account on August 86.</td>
<td></td>
</tr>
</tbody>
</table>

These RJR conflicts were resolved in a very consistent matter. Every time the conflict was between products in different divisions, the agency was allowed to continue working with both accounts. However, in the Bloom Agency's conflict in which the conflict occurred between products in the same division, then the conflict was resolved by RJR withdrawing its account.

B. RJR Conflicts After the Saatchi & Saatchi Merger with Bates

There were three conflicts after this merger which were described before. The first was with P&G, and involved competing
products of the same Food division. As explained previously, the conflict was resolved by P&G pulling some $20 million in Duncan Hines baking mix line, and some $35 million in Crisco oil and shortening billings from Saatchi & Saatchi.

The other two conflicts were covered in the Philip Morris section. One involved competing products in the brewing industry (Anheuser-Busch's Michelob an RJR Miller brewing). The conflict was finally resolved by Anheuser Busch withdrawing its $38 million Michelob account from Bates. The last conflict had products competing in the cigarette division: Philip Morris' Parliament, and RJR's Salem. As I mentioned before, this conflict was solved by Salem cigarettes removing the estimated $50 million account from Esty.

C. RJR-Nabisco Conflicts After the BBDO-DDB-Needham Merger

The first conflict arising from this merger occurred with General Mills. General Mills had an estimated $50 million of billings at Needham, including its Wheaties, Hamburger Helper and Bisquick brands. Nabisco had an estimated $25 million at DDB, including Fleischmann's and Blue Bonnet margarines, Cream of Wheat and ready-to-eat cereals, and Eggbeaters. The General Mills products were in conflict with Nabisco cereals in the Fleischmann division. The conflict was resolved by DDB resigning Nabisco $26 million cereal products account, because of pressure from General Mills. RJR-Nabisco moved the account to Foote, Cone & Belding.
All the conflicts created by the two mergers were resolved by either RJR resigning its account or the competitor, but in any case, the agencies were not allowed to handle one product that competed with another in the same division. It seemed that RJR was very strict in this type of conflict.

2.4. CONCLUSION

The policies followed by Procter and Gamble and R. J. Reynolds were the same. Both companies did not allow an agency to handle any product that competed with any brand in the company division of the assigned product. However, while R. J. Reynolds was consistent in applying its policy on conflicts, P&G was selective. Procter and Gamble did not move its account from the agency if they had had very good relations.

Philip Morris was very different from the other two companies, and did not appear to have a strong policy on conflicts. Philip Morris continued working with the agencies in all situations except in the Maxim Mellow-P&G conflict. However, according to Advertising Age, General Food's withdrawal of the Maxim Mellow account from Bates was not related to this conflict.

Also, the conflicts which occur after agency megamerger involved direct competing products in two or more agencies of an umbrella company. This was one reason why conflicts which
occurred after agency mergers were resolved in every case, by one of the conflicting accounts being dropped by the agency, or the agency being fired by the client. Procter and Gamble in particular was very strict in conflicts after agency megamergers, while it was more flexible in conflicts that occurred after the P&G-Vicks merger. Although the policies that each client follow after each type of mergers were the same, there was a general tendency to apply the conflict policy more rigorously after agency megamergers.

To predict the outcome of a conflict, the first thing is to determine the kind of conflict policy a client has, and how consistent it is in applying it. If the client has a strong policy and is consistent, then it will not allow an agency to have competing accounts. It will fire the agency, or make the agency resign the competing account. On the other hand, if the company is not consistent in applying its policy, then the history of the relations between the client and the agency should be examined. If the relationship has been very strong, then chances are that the client is going to overlook the conflict.

When a client has a rigid policy and decides to be strict with the agency, then either the client will fire the agency, or the agency drop the competing account. In this situation, the most important factor in deciding the resolution of the conflict is the account size, and the past agency-client relationship. A client will prefer to be fired by the smaller client rather than resign a bigger account. This can be seen in the P&G-Colgate conflict at Young & Rubicam. Y&R preferred to stay with Colgate-Palmolive and be

-44-
fired by P&G, since the Colgate-Palmolive budget at that agency was much higher. So the client which has a larger budget tend to stay with the agency.
CHAPTER 3

ADVERTISING AGENCIES MERGERS

The three-way combination of BBDO, Doyle Dane Bernbach and Needham Harper created Omnicom which, for a short time, formed the world's largest agency. But then Saatchi & Saatchi added Ted Bates, and became number one. These, and the many other combinations have restructured the industry, sending it off in new, and uncertain direction.

In this chapter, two very important mergers in the advertising agency industry will be described. First the conflicts and account shifts created by each of these mergers will be analyzed, as well as the resolutions of each of these conflicts. At the end of the chapter, the conflicts produced by the two mergers will be compared, and contrasted with those discussed in chapter 2.
3.1 THE MERGER OF NEEDHAM HARPER, BBDO, AND DOYLE DANE BERNBACH

Doyle Dane Bernbach Group, Needham Worldwide and BBDO International agreed on April 1986 to create a new agency holding company that immediately would become the biggest in the world. It had billings of more than $5 billion and gross worldwide income of $736 million.

This new agency replaced the Interpublic Group of Cos., with its $4.7 billion in billings and worldwide gross income of $707, as the largest agency holding company. BBDO was the sixth largest U.S.-based agency in the world with $2.5 billion in billings, while DDB was 12th at $1.7 billion and Needham was 16th at $847 million.²⁹

BBDO holders received under the merger agreement 65% of the holding company's 24 million shares, Doyle Dane holders got 24%, and Needham Harpers received 11%. The new group included two subsidiaries: BBDO Worldwide and DDB Needham Worldwide. In addition, the three companies' general advertising and marketing services was operated as the Diversified Agency Group.³⁰

These agencies wanted to use the umbrella holding company concept to avoid conflicts that arose after the merger. Each agency of the holding company was going to be operated independently and the agencies thought they could convince advertisers that the

agencies of the holding company would operate separately. Advertising agencies thought they could grow by acquiring more agencies and adding new accounts, and that advertisers were going to accept this idea. However, as discussed later, most of the clients did not accept the umbrella holding company. Advertisers still thought that two or more agencies of a holding company were the same enterprise. Clients remained concerned about confidentiality of their information and strategy, and about the exclusivity of agency services and talent.

The two problems that the Omnicom group were concerned before making this deal were: (1) How many clients would they lose as a result of conflicting accounts? (2) How to manage the financial part of the deal? Analysts involved in the planning of the Omnicom merger calculated carefully the account losses they would have and therefore found few surprises.31 This is a sharp contrast to Saatchi & Saatchi's attitude which (as will be discussed in the next section) did not take into account before merging with Bates, the heavy losses that would occur, and was hit very hard with account losses after the Saatchi-Bates merger.

Conflicts After the Merger of BBDO, Doyle and Needham

There were several conflicts caused by this merger. Table 3.1 provides a summary of these conflicts.

A. General Mills Conflicts

General Mill conflict policy was that "its agencies should not handle any other account that competed in the same category". General Mills also refused to use an agency group that does any work for Quaker Oats, according to Adweek.32

The first conflict was with Quaker Oats Co. Quaker Oats Co. had $20 million in billings at BBDO of Quaker 100% Natural, Puffed Life Cereals and Puss'n Boots. These products conflicted with the General Mills cereals of the Betty Crocker division at DDB/Needham. General Mills put a lot of pressure on the agency to resign the account. The conflict was resolved by BBDO resigning the $20 million Quaker's account, following pressure from General Mills, and terminating their 13-year relationship.

A second conflict was with Pillsbury. Pillsbury billed an estimated $20 million at BBDO's New York office with products that included Frosting, Supreme and Refrigerated Pie Crust business, cakes and bread mixes, pie crusts, microwavable food lines and artificial. These products were in conflict with General Mills' Betty Crocker division's cakes mixes and frosting at BBDO's Omnicom sister shop, DDB/Needham, Chicago, with about $50 million in billings. The conflict was resolved by Pillsbury moving its $20 million in cakes and frosting to Young Rubicam.

The last General Mill conflict was with Nabisco (please see the Nabisco section). As I said before, this conflict involved products in the cereal division, and was resolved by the agency resigning the

32 Tom Delaney, "General Mills on Conflict Issue; The Ball is in the Agencies' Court", Adweek, June 16, 1986, pages 1 and 8.
RJR-Nabisco account, because of pressure from General Mills.

All of these conflicts were of the conglomerate competition type, which was defined in chapter 1, specifically of "the Mega or Multinational Agency" kind of competition.

In all the three conflicts, General Mills put pressure to the advertising agency to resign the competitor account. All the three conflicts were resolved by either the agency dropping the General Mills competitor account, or the competitor resigning the account. General Mills was consistent in applying its policy in the conflicts created by the Omnicom merger.

What determined here which account was resigned was the account size and its potential for growth. Since General Mills had a bigger account than its competitors with these agencies ($50 million in billings for General Mills vrs. $20 and $25 million for the competitors), and General Mills account had a much better prospect for growth, so the agency preferred to retain General Mills account.

B. Campbell Soup Conflict

Campbell had a reputation of being open-minded about client conflicts, according to Adweek. Campbell Soup had about $20 million in billings at Needham. The products included: Campbell's Bean products, Swanson Canned Foods & Franco American, Superiori Ravoli & Casa Brava Mexican Frozen Dinners.
Table 3.1
Conflicts after the BBDO-BBD-Needham Merger

<table>
<thead>
<tr>
<th>Product X</th>
<th>Comp. Product</th>
<th>Agency X</th>
<th>Comp. Agency</th>
<th>Resolution/Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>GENERAL MILLS</td>
<td>QUAKER OATS: DDB</td>
<td>BBDO</td>
<td>BBDO</td>
<td>$20 million</td>
</tr>
<tr>
<td>1- Betty Crocker</td>
<td>(cereals)</td>
<td></td>
<td></td>
<td>Quaker’s account on July 86.</td>
</tr>
<tr>
<td></td>
<td>100% Natural,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Puffed Cine</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cereals.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2- Cakes, Mixes</td>
<td>DDB and</td>
<td>BBDO</td>
<td>Pillsbury resigned $20 million</td>
</tr>
<tr>
<td>and frostings.</td>
<td>PILLSBURY: cakes,</td>
<td>Needham.</td>
<td></td>
<td>account in 86.</td>
</tr>
<tr>
<td></td>
<td>bread mixes and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>pie crusts.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3- Cereals</td>
<td>NABISCO:</td>
<td>Needham</td>
<td>DDB</td>
<td>Nabisco resigned $26 million</td>
</tr>
<tr>
<td></td>
<td>Ready-To-Eat,</td>
<td></td>
<td></td>
<td>account on Aug. 86.</td>
</tr>
<tr>
<td></td>
<td>Cream of Wheat,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fleischmann.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAMPBELL</td>
<td>SOUPS:</td>
<td>Needham</td>
<td>DDB</td>
<td>Agency continued with both</td>
</tr>
<tr>
<td></td>
<td>Frozen dinner</td>
<td></td>
<td></td>
<td>accounts.</td>
</tr>
<tr>
<td></td>
<td>products.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>H.J. HEINZ: Ore-Ida</td>
<td>Needham</td>
<td>DDB</td>
<td>Stroh Brewery resigned $100</td>
</tr>
<tr>
<td></td>
<td>Line of frozen food,</td>
<td></td>
<td></td>
<td>million account on May 86.</td>
</tr>
<tr>
<td></td>
<td>Weight Watchers.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STROH</td>
<td>BREWERY: Old</td>
<td>BBDO</td>
<td>Needham</td>
<td>Honda resigned $55 million</td>
</tr>
<tr>
<td></td>
<td>Milwaukee.</td>
<td></td>
<td></td>
<td>account on May 86.</td>
</tr>
<tr>
<td></td>
<td>ANHEUSER-BUSCH:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Budweiser,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Michelob Light.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HONDA:</td>
<td>Automobiles.</td>
<td>Needham</td>
<td>BBDO</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CHRYSLER:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dodge Cars &amp; Trucks.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product X</td>
<td>Comp. Product</td>
<td>Agency X</td>
<td>Comp. Agency</td>
<td>Resolution/Budget</td>
</tr>
<tr>
<td>-----------</td>
<td>---------------</td>
<td>----------</td>
<td>--------------</td>
<td>------------------</td>
</tr>
<tr>
<td>SEAGRAM</td>
<td>NATIONAL</td>
<td>DDB</td>
<td>BBDO</td>
<td>Agency continued with both accounts.</td>
</tr>
<tr>
<td>DISTILLERS:</td>
<td>DISTILLERS:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whiskey and Rums.</td>
<td>Gim, Vodka and Rum.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BRISTOL-MYERS.</td>
<td>GILLETTE:</td>
<td>DDB</td>
<td>BBDO</td>
<td>Agency continued with both accounts.</td>
</tr>
<tr>
<td>Tickle and Excedrin.</td>
<td>Razors, anti-perspirants.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Its big rival, H.J. Heinz, had more than $30 million in billing at DDB including the Ore-Ida line of frozen foods, and Weight Watchers International. There was a conflict since both company products were frozen foods, and were in the same division. However, Campbell decided to keep an estimated $10 million in billings at the BBDO side of the mega-agency. So Campbell accepted the fact that the two agencies were going to be run separately, and both companies continued working with the agencies.

C. Brewery Conflicts

This conflict was between Stroh Brewery Co. and Anheuser Busch. Stroh Brewery had its $70 million account at BBDO, including Old Milwaukee beer and corporate assignments. Anheuser

Busch had its $100-million account at Needham including Budweiser and Michelob Light. So, after this merger, there were going to be two products which were direct competitors (beer). This is another case of conglomerate competition of mega or multinational agencies, involving direct competing products. The conflict was resolved by Stroh Brewery withdrawing its $70 million account from BBDO to Grey Advertising.

In this case, the advertising agency preferred to retain the large account, the Anheuser Busch account. It realized that the Busch account was more important to the Omnicom group, and the only way of solving the conflict was by Stroh Brewery switching its account. Stroh brewery probably resigned the account before the agency withdrew itself.

D. Automobile Conflicts

This conflict was between Honda and Chrysler. American Honda had its $55 million Automobile Division account at Needham Harper. Chrysler had its account at BBDO including Dodge Cars & Trucks. This created a conflict, since after the merger, the agency would have competing automobile products. The policy both companies used seemed not to allow directly competing products in one agency, or in two or more agencies of an umbrella company. They were strict in enforcing this policy, so both accounts could not stay at the umbrella company. This conflict was resolved by American Honda withdrawing its $55 million account from
Needham Harper Worldwide, demonstrating that the Japanese were very strict with mergers and account conflicts. The account was moved to Rubin/Postaer & Associates, L.A.

**E. Other Conflicts**

There were other clients that decided to stay with their agency, in spite of conflicts. Seagram had substantial DDB billings including Crown Royal Canadian Whiskey, Kessler American Whiskey, Leroux Cordials and Captain Morgan Spiced Rum. Seagram's competitor, National Distillers, had several products at BBDO including Gilbey's Gin, Gilbey's Vodka, Gilby's Rum. These two companies were competing in the same division. However, Seagram decided to remain with DDB/Needham, while National Distillers stayed at BBDO. So, these two companies accepted the concept that the two agencies were going to be run separately.

A final conflict occurred between Bristol-Myers and Gillette. Bristol-Myers with an estimated $30 million account at DDB including Tickle and the Excedrin Line. Gillette had several products at BBDO including its razors, anti-perspirants, etc. Bristol-Myers and Gillette agreed to continue working with both agencies.

Although no information was available on the reason why these companies continued working with the Omnicom Group, it can be inferred these two companies did not object to conglomerate competition.
Conclusion

In most of these conflicts, one of the companies ended up resigning their account from the Omnicom merger, or putting enough pressure on the advertising agency to resign the account. This fact can be evidenced primarily by the firm position on conflicts by General Mills.

However, there were other companies like Campbell Soups, Seagram Distillers and Bristol Myers which decided to stay with their agencies, despite having competitors in the same division. So, these companies accepted the umbrella concept, and the proposition that the agencies were going to be run separately.

The reactions of the companies to conflicts created after agency mergers depended on the policy a client had on conflicts, and how often it enforced it. While General Mills refused to accept the umbrella concept, other companies studied in this section allowed the agency to handle competing accounts in the umbrella company.

3.2 THE MERGER OF SAATCHI & SAATCHI WITH TED BATES WORLDWIDE

Saatchi & Saatchi agreed to acquire Bates on May 12, 1986 for
$450 million, creating the world's largest advertising agency at that time. Saatchi paid an initial $400 million for Bates, which was the third largest agency in the United States in 1986. Saatchi & Saatchi paid an additional $50 million in 1988 to about 200 employee shareholders of closely-held Bates to complete the transaction.\textsuperscript{34} In this sale, Robert Jacoby, Bates Chairman, made a profit of $112 million.\textsuperscript{35}

This combination created an agency with more than 50-blue chip clients an annual billings totalling $7.5 billion. The Bates acquisition "fulfill our strategic objective to ensure the company's position as one of the market leaders in advertising", said a Senior Saatchi official. "To be outside is to be increasing vulnerable to any downturns in advertising revenue in the future", he said. Robert Jacoby, Bates chairman and one of its major shareholders, saw that both agencies together would be the strongest force in the advertising industry. Analysts added that the move will sharply increase Saatchi's billings in the US.\textsuperscript{36}

Saatchi & Saatchi started its big US expansion in 1982, when it acquired the Compton agency for $57 million. A year later Saatchi & Saatchi bought Mccaffrey & McCal and became strong in the US market. As with other acquisitions, Saatchi said Bates would continue to operate as an independent entity within the Saatchi Group, with its own management and international network. According to Saatchi & Saatchi, "no communication, nor transfer of

\textsuperscript{34} Craig Forman, "Saatchi & Saatchi Agrees to Buy Bates", \textit{The Wall Street Journal} (May 12, 1986), page 1.
personnel or knowledge would exist between the agencies of the Saatchi Group".\textsuperscript{37}

The principal reason Saatchi & Saatchi acquired Bates was to grow by attracting package goods advertisers as clients - the type of advertisers that make agencies really big. Agencies like J. Walter Thompson and Young & Rubicam grew by attracting products like soaps, detergents, soups, candies and colas. These type of products paid for television programming and gave advertising agencies huge profits.\textsuperscript{38}

However, According to Nancy Millman "In their haste to achieve dominance, the Saatchis failed to investigate the condition of the agency they were buying, They did not weigh client reactions, never plotted a worst case scenario in terms of client defections, and were ignorant of the management turbulence that Robert Jacoby (Bates Chairman) had fostered for years".\textsuperscript{39} Bates officials did not take any step to test client reactions to this merger in advance. As will be discussed later, there were many account departures after this merger which the Saatchi & Saatchi group did not predict and which caused them heavy losses in terms of money, people and clients. Therefore, the expansion of the Saatchi & Saatchi Group and the personal enrichment of Bates executives seemed more important than the close relationship that had been a tradition in the advertising industry.\textsuperscript{40}

\textsuperscript{37} Ibid., page 1.
\textsuperscript{39} Ibid., pages 128 and 129.
\textsuperscript{40} Ibid., page 134.
Conflicts After the Merger of Bates with Saatchi & Saatchi

Table 3.2 provides a summary of the Saatchi & Saatchi conflicts. Besides the several P&G conflicts created by the merger of Saatchi and Bates, (which were discussed in the P&G section), there were other conflicts.

A. Mars Inc. Conflicts

There were several conflicts after the merger involving Mars Inc. The first one involved M&M candies. Bates handled M&M/Mars candies, with billings exceeding $100 million worldwide. Rowntree had its $15 million account at Saatchi & Saatchi. Rowntree was in direct conflict with Mars inc. since both companies then had candies in the same agency. Finally, Mars pressure the Saatchis until the agency resigned the Rowntree candy account.

Another source of conflict involving Mars was that Saatchi & Saatchi was involved in an estimated $50 million in billings at DFS/Dorland, half of which was for gum and candy brands. DFS also handled Cadbury-Schweppes' Peter Paul brands in competition with Mars. The Cadbury Schweppes group had Schweppes mixers and carbonated drinks business in the U.S., having bought Canada Dry, Sunkist and a share in Dr. Pepper, in 1986.

Mars appeared to have a policy like Procter and Gamble, and

---

considered two or more agencies of a holding company, as the same agency. So, Mars did not accept that the umbrella company would protect the confidentiality of information. Although Saatchi & Saatchi tried to retain Mars by giving up $14 million in international billings from Nestle-owned Carnation pet foods and Rowntree Mackintosh, the U.K. confectionary products giant. Mars ended up withdrawing its account to resolve its several conflicts created by the merger.

B. General Mills Conflict

Another conflict involved General Mills and Quaker Oaks. Backer & Spielvogel, an agency bought by Saatchi & Saatchi handled about $55 million in Quaker Oats Co. business. The products at Backer Spielvogel were Quaker's Cap'n Crunch, Corn Bran and Instant Oatmeal brands, as well as the granola-bar items. Campbell-Mithun (Bates) had $30 million in General Mills' billings in cereal products. Here there was a conflict since both General Mills and Quaker Oats had cereal products at the Saatchi & Saatchi agencies. General Mills complained to the Saatchis about the perceived client conflict. The conflict was resolved by Saatchi & Saatchi selling the Backer & Spielvogel agency to its local management group, which as an independent agency under the name of Bayer, Bess, Vanderwarker & Flynn continued to handle the Quaker account. 42

The kind of conflicts involving General Mills after the Saatchi-Bates merger and following the Omnicom Merger, were exactly of the same kind. All of them were direct competing products in two

agencies of an umbrella company.

General Mills continued enforcing its tough policy on conflicts by forcing the Saatchi & Saatchi group to sell the Backer Spielvogel agency.

**C Warner Lambert Conflict**

Bates created ads for Warner Lambert's Trident sugarless gum, Bubblicious gum and Dynamints, with $64 million in billings. This conflict with Saatchi's DFS/Dorland Inc. unit's Carefree Sugarless Gum, Bubble Yum Gum and Breath Savers, all Life savers Inc. products. This conflict was created by direct competing products in two agencies of an umbrella company. Melvin Goodes, president of Warner Lambert, was very upset about Jacoby $112 million profit, and about Bates failure to inform Warner Lambert about the merger beforehand, so the company could have time to prepare for a new agency.43

This conflict was resolved by Warner Lambert dropping its accounts from Bates and moving it to JWT and Y&R. The JWT Group Inc. got about $34 million in billings, and Young Rubicam close to $30 million. Warner Lambert terminated its 20 years relationship with Bates in the United States, the decision on whether to remain with Bates overseas was left to Warner Lambert management in each country. From Warner Lambert actions, it can be inferred that they were not going to allow direct competing products in two or more agencies of an agency group.

D. Cigarette Conflicts

The merger also caused conflicts in the cigarette business which I previously discussed in the Philip Morris section. The conflict was resolved by Salem and RJR withdrawing the accounts.

E. Brewery Conflicts

There were also conflicts in the brewery business in Germany. Bavaria's St. Paul beer was handled by Hamburg-based Scholz & Friends which was 51% owned by Bates. Saatchi & Saatchi handled Hamburg-based Holsten brewery in West Germany. The account involved $1 million of billings for Holsten Edel beer. Both products competed in the brewery business. The conflict was resolved by Folstein brewery firing Saatchi & Saatchi from its $1 million account because of conflicts.

Another conflict involved Anheuser-Busch, (which was previously discussed in the Philip Morris conflict after mergers section.) The conflict was finally resolved by Anheuser Busch removing its $38 million Michelob account from Bates.

These brewery conflicts were of direct competing products in the same agency group, and neither of these companies believed in the umbrella company concept.

44 Laurel Wentz, "Saatchi Slowing Down", Advertising Age. (November 17, 1980), page 64.
### Table 3.2

**Conflicts after the Saatchi & Saatchi-Bates Merger** (Except the Procter & Gamble Conflicts)

<table>
<thead>
<tr>
<th>Product X</th>
<th>Comp. Product</th>
<th>Agency X</th>
<th>Comp. Agency</th>
<th>Resolution/Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARS</td>
<td>1- ROWNTREE Candies.</td>
<td>Bates</td>
<td>Saatchi</td>
<td>Mars resigned $100 million account at the Saatchi &amp; Saatchi network in July 86.</td>
</tr>
<tr>
<td>M&amp;M, gums and candy bars.</td>
<td>2- CADBURY SCHWEPPES: mixers &amp; carbonated drinks.</td>
<td>DFS</td>
<td>DFS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>GENERAL MILLS: Cereal Products.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WARNER-LAMBERT: Trident, Sugar-less Gum.</td>
<td>LIFE SAVERS: Buble Yum Gum, Breath Savers, Carefree Sugar-less Gum.</td>
<td>Bates</td>
<td>DFS</td>
<td>Warner-Lambert resigned $64 million account in July 86.</td>
</tr>
<tr>
<td>BAVARIA ST. PAUL: beer. (Germany)</td>
<td>HOLSTEN BREWERY: Michelob.</td>
<td>Scholz &amp; Friends (Bates)</td>
<td>Saatchi</td>
<td>Holsten resigned $1 million account in October 86.</td>
</tr>
<tr>
<td>Product X</td>
<td>Comp. Product</td>
<td>Agency X</td>
<td>Comp. Agency</td>
<td>Resolution/Budget</td>
</tr>
<tr>
<td>---------------------</td>
<td>---------------------</td>
<td>-------------------</td>
<td>------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>PHILIP MORRIS:</td>
<td>RJR:</td>
<td>Backer Spielvogel</td>
<td>Esty</td>
<td>RJR resigned $50 million account in June 86.</td>
</tr>
<tr>
<td>Parliament.</td>
<td>Wistom-Salem</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automobiles.</td>
<td>Automobiles.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Breck Shampoo &amp; Old Spice.</td>
<td>CURTIS: Industry Suave &amp; Haircare Line.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**F. Automobile Conflicts**

Another conflict created by this merger in Germany was between Jaguar and BMW. The Jaguar account was handled by Saatchi & Saatchi in the U.K. Schloz & Friends (50% owned by Bates) had the $22 million BMW account in Germany. Although both companies are in different countries, their products are competitors, and in the same product category (automobiles).

BMW, which traditionally uses smaller agencies, threatened to bolt Scholz & Friends, one of the hottest breakaway agencies in Europe, if the agency did not maintain its independence from Saatchi. To solve this conflict, Scholz & Friends took the
unusual step of issuing "confidentiality agreements" to BMW, and possibly to other clients to assure that no information would be passed between Scholz and Saatchi.

The resolution of this conflict was very interesting because BMW did not believe the umbrella company was going to protect the confidentiality of its information. So, the confidentiality agreements were overcoming the shortcomings of the umbrella concept, since they protected the transfer of BMW confidential information between agencies of an agency group, which was BMW's main concern.

**G. Other conflicts**

The last conflict was between American Cyanamid and Helen Curtis. Bates handled American Cyanamid's Breck Shampoo and Old Spice fragrances. Backer & Spielvogel handled Helena Curtis Industries' Suave Haircare line and DFS handled its Finesse. Here there was a conflict in the same division, since the Breck Shampoo conflicted with Helena Curtis' Suave Haircare line. This conflict was resolved by Bates resigning the American Cyanamid business and the Breck haircare lines (the estimates of the account billings are unavailable). So from these actions, it appeared the policy of Helen Curtis was not to allow competing products in two or more agencies of an umbrella group, and competition was defined as Procter and Gamble did.

Conclusion

In the majority of the conflicts created by this merger, one of the conflicting companies ended up withdrawing the account from the Saatchi & Saatchi agencies to resolve the conflict. So, the companies did not agree with the umbrella concept.

However, there were two exceptions in the way the conflicts were resolved: First, The General Mills and Quaker Oats conflict, where the agency was sold by the Saatchi Group. Second, the automobile conflict in Europe, when BMW made the Scholz & Friends issue "confidentiality agreements to BMW, to assure that no information would be passed between Scholz and Saatchi.

These two exceptions did not mean these companies accepted the umbrella company. General Mills forced Saatchi & Saatchi to sell the Backer & Spielvogel agency. BMW did not accept this concept either until it was protected by a written agreement that no information was going to be given to the competitor's agency.

However, the Saatchi & Saatchi group was hit very hard by account losses. The Saatchis did not take into account how clients were going to react to a Bates-Saatchi merger, and ended up loosing more than $300 million in accounts. If they would have analyzed the advantages and disadvantages of merging with Bates, they never would have paid that very high price for Ted Bates.
3.3 CONCLUDING REMARKS

The major difference between these two mergers was in the expectations these mega-agencies had about client acceptance of the umbrella concept. While the Omnicom group carefully analyzed the account losses involved in the merger, the Saatchi group apparently only cared about becoming the biggest agency, and did not take into consideration all the account losses. The Saatchis thought that the clients were going to accept the umbrella concept, and were given a slap in the face by the advertisers.

Also, the reactions of the advertisers was more strong to the Saatchi-Bates merger than to the Omnicom merger. Bates clients were very upset about Robert Jacoby's (Bates Chairman) $112 personal profit, and about how little he seemed to care about the clients. This may be one of the main reasons why the Saatchi & Saatchi Group ended up losing almost all the conflicting accounts studied, and even selling its Backer Spielvogel agency. The Omnicom Group, on the other hand, was able to retain a larger number of its conflicting accounts.

The conflicts involved after these mergers were, for the most part, directly competing products in one or more agencies of an umbrella company. These are different from the conflicts after clients mergers which were of the "multiproduct-multidivision" type of competition. This was one reason why a larger proportion of the account conflicts were resolved in shifting agencies after
agency mergers than after clients mergers. Most of the clients did not accept directly competing products within the same umbrella company.

The reaction of each client to account conflicts was different and depended to a greater extent to its policy and how it enforced it. For example R. J. Reynolds was very strict in applying its policy in conflicts arising from agency mergers as well as in conflicts after client mergers. Others like Procter & Gamble were more strict in conflicts arising from agency mergers, and complained much about the Saatchi-Bates merger.

The policies the clients applied in this type of conflicts appear to be similar to the A.A.A.A. policy with one modification. These clients defined several agencies of an umbrella company as one agency. Clients for the most part were not going to allow directly competing products, nor competitors within the same division, in two or more agencies of an umbrella company. Most of these companies (except Campbell Soup, Seagram Distillers, and Bristol Myers) rejected the umbrella concept, and resigned their account or forced the advertising agency to withdraw the competing account. Only Campbell Soup, Seagram Distillers, and Bristol Myers which did not appear to have a strict policy on conflicts decided to stay in the Omnicom group. However, most advertisers did not believe the umbrella concept was going to protect the confidential information.
CHAPTER 4

CONCLUSION

This chapter will start by answering the research questions posed in chapter 1. Then, at the end of this chapter, recommendations for clients and advertising agencies will be given, as well as suggestions for further study of this topic.

4.1. RESEARCH QUESTIONS

A. What Types of "Conflicts" Arose?

There was a big difference in the conflicts that arose after clients mergers than those after clients mergers. Those conflicts that occurred after clients mergers were for the most part of conglomerate competition, specifically of the multiproduct-multidivisional type. The majority of the conflicts that took place
after agencies megamergers contained direct competing products in two or more agencies of an umbrella group.

B. How Were the Conflicts Resolved?

The most common way of resolving these conflicts was by one or more of the clients involved in the conflict withdrawing its account from the advertising agency, or the agency resigning one of the accounts. In other situations, the clients involved in a conflict decided to keep their account at the advertising agency. There were only two exceptions to this ways of resolving conflicts. One was when BMW made its agency (Scholz & Friends, a Saatchi & Saatchi’s agency) issue confidentiality agreements. The other case was a General Mills conflict, which forced the Saatchi & Saatchi Group to sell the Backer Spielvogel agency to solve the General Mills-Quaker Oats conflict.

C. Is There Any Relationship Between the Type of Conflict and the Manner of Resolution?

No significant relationship was found between the type of conflicts and its resolution. In the conflicts arising after clients mergers, most of the conflicts were cases of conglomerate competition. Some of these conflicts were resolved by the the client dismissing the account from the agency, or the agency resigning the account. In other cases, both accounts stayed at the advertising agency. So, the resolution of these conflicts depended
of the conflict policy followed by the clients, and how consistently
the policy was applied.

The conflicts arising after agency mergers were for the most part directly competing products in two or more agencies of an umbrella group. Their resolution in the same type of conflict was different and depended more on the company policy and on which of agency group was involved. For example, almost all the directly competing accounts that arose after the Saatchi-Bates merger were resolved by the client resigning the account, while in the Omnicom conflicts, the advertising agency was able to retain more accounts.

D. Are There Differences in the Source of Conflicts Between Client vrs. Agency Mergers?

Most of the conflicts after client mergers were cases of conglomerate competition, especially of the "multiproduct multidivision clients" type of conflicts. On the other hand, the conflicts arising after agency mergers involved directly competing products present in two or more agencies of an umbrella group.

E. Have Consistent Policies on Conflicts Emerged?

In conflicts arising after clients mergers, Procter & Gamble and R. J. Reynolds had the same policy on conflicts. Both of them would not allow an agency to handle products that competed with any of their products within the same division. Although R. J.
Reynolds applied this policy in a consistent manner, Procter & Gamble was more flexible with agencies with whom it had had good relations. Philip Morris seemed to be less concerned about conflicts, and would allow its agencies to handle directly competing accounts.

In conflicts arising after agency mergers, most of the clients (except Campbell Soup, Seagram Distillers, and Bristol Myers) used a policy of not allowing directly competing products in the same umbrella company. However some clients like Campbell Soup, Seagram Distillers, and Bristol Myers did not have a strong policy on conflicts and allowed directly competing products in the same agency group.

The two agencies groups studied were different in the way they handled conflicts. The Omnicom Group was more concerned about clients and was able to retain some of the conflicting accounts. The Saatchi & Saatchi Group apparently did not care too much about its clients, and ended up losing almost all its conflicting accounts.

F. Were the A.A.A.A. Policy Guidelines and Procedures Followed in These Cases?

The A.A.A.A. policies were not enough to define account conflicts in the majority of the cases. In conflicts arising after clients mergers, a policy like that of Procter & Gamble was used more often by P&G and R. J. Reynolds. These companies were not only concerned about direct competed products. They were concern about a rival whose products competed with any of the client's
product in the same division. So, the A.A.A.A. policy was too narrow to resolve conflicts arising after clients mergers.

In conflicts arising after agency megamergers, the A.A.A.A. policy was also inadequate. Most of the companies broadened the A.A.A.A. policy, and defined all agencies of an umbrella company as one. These companies did not believe the agencies of an umbrella company were separate, and the two clients' concerns of protecting confidential information and assuring exclusivity of agency services were not satisfied. P&G, for example, rejected the A.A.A.A. policy because it refused to accept "conglomerate competition" and won't tolerate the umbrella concept. Therefore, most of the companies did not follow the A.A.A.A. policy, as discussed above, in dealing with conflicts arising after agency megamergers.

4.2. RECOMMENDATIONS

The recommendations I give to clients is to have a policy on conflicts and apply it consistently in all cases. Also, I suggest that clients like Procter & Gamble should soften their policy to include only directly and indirectly competing products. A very strict policy can restrict agencies' growth, as well as clients' flexibility to choose advertisers. A big agency serving Procter & Gamble cannot add many other advertisers to its roster, since P&G has so many products, and it is very easy to have a P&G's conflict with another client.

-72-
To advertising agencies I suggest to carefully evaluate beforehand the advantages and disadvantages of growing by acquiring other advertising agencies. Agencies should be more concerned about the clients reactions to a merger, and not only about making a huge profit like Ted Bates or becoming the largest advertising agency, as Saatchi & Saatchi did. If the advantages of acquiring another agency outweigh the losses in client defections and people, then the agency should go ahead and merge. A failure to do a careful evaluation could result in an agency paying a very high price for acquiring another agency, in the form of heavy account losses.

4.3. SUGGESTIONS FOR FURTHER STUDIES

Further studies about this subject are needed to better understand the reactions of clients to mergers in the advertising industry. Also, it would be useful to know more about clients' stated policy on conflicts as well as the exact reasons for firing, or continuing to work with an agency. Some of the account shifts attributed to mergers might have occur because of other reasons such as client's prior dissatisfaction with an agency's performance and the conflicts might then have been used as an excuse to fire an agency. These findings might alter the conclusions reached in this study.

Although some of this information will never be provided by the
companies since it can affect their relations with agencies in the future, a better understanding of the subject can be gained by interviewing directly the marketing people of each company, and finding out their opinions about these issues.
Bibliography


Alter, Stewart. "Omnicom Deal Sealed, Shops Turn to Business". Advertising Age, September 1, 1986, pp. 1, 42.


Alter, Stewart. "P&G's Signal Reveals Scope of Its Concern".

-76-
Advertising Age, October 17, 1986, pp. 1, 100.


Brock, Fran. "DDB Needham Gets a Sear-ing". Adweek, October 6,
1986, pp. 1, 4.


Delaney, Tom. "Going for No. 1: Saatchi, Bates Resume Talks". -78-


Doherty, Lawrence, Nancy, G. and Gloede, Williams. "PM-GF Combine Would Top the Advertiser List". Advertising Age, October 30, 1985, pp. 1, 94.

Editorial. "More Merger-Bashing Doesn't Help". Advertising Age,
March 9, 1986, p. 16.


Franz, Julie. "Conflicts Bedevils B&S in Chicago". Advertising Age,


Giges, Nancy. "Stage Set For Agency Reviews at P&G-Vicks". Advertising Age, October 6, 1985, pp. 1, 92.


MacDougal, Malcom D. "Needed: Conflicts by Category". *Adweek*, May 12, 1986, p. 34.


Moran, B. "Clients Splits Force Shops To Pare Staff". *Advertising Age*, June 30. 1986, pp. 1, 6, 69.


Norris, Eileen. "Clients Pluck Buying From Agencies' Grasp".

-85-


Poppe, Fred C. "The Bigger, the Worse". Advertising Age, June 16, 1986, pps. 18, 22.


-86-


Tyrer, Thomas. "Saatchi Has Advertisers' Eye". Advertising Age, December 5, 1988, pps. 1, 68.


Wentz, Laurel. "Saatchi Chills Merger Talk, Pacifies Mars".
Advertising Age, October 27, 1986, pps. 1, 98.


