

Instituting innovation in Latvian advertising agencies and its role in competitive advantage development.

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Abstract

Economic indicators show that Latvian economy continues to stagnate awaiting faster growth. This is one real reason why companies and households are cautious about accelerating their growth and therefore businesses experience competitive pressure. Particularly, this exacerbation is felt by the advertising industry, where competitive pressure is extreme. Advertising agencies must find ways to develop competitive advantage.

The purpose of this paper is to look at how advertising agencies can become innovative to gain this needed advantage. This research encompasses a survey of 20 Latvian advertising agencies with in depth inerviews with management personnel. Based on research of the Latvian advertising agencies, survey results show that the largest gains come from inovations such as reduction of manufacturing expenses (indicated by 70% of respondants), increased value of advertising services (80% of respondants) and competitive advantage development (100%).

Key words: *advertising agencies, innovation, competition, competitive advantage*

The framework for competitive advantages

The Latvian author Rainis once wrote that “that which changes will survive,” and that fully applies to the modern business environment in Latvia and the rest of the world. Globalisation has led to increasing competition in all of Latvia’s economic sectors, including the advertising sector. Advertising agencies find it hard to adapt to the rapidly changing external environment. As technologies develop and the intensity of competition rises, agencies must find new and ever new ways of preserving and enhancing competitive advantages. Innovations are one possible solution in this regard.

Indicators relating to new technologies, innovations and the development of science and research are at the centre of economic analysis and discussions today. During the past decades, the importance of innovations has increased when it comes to ensuring economic growth and development in Latvia. Still, Latvian companies are still behind those of other European Union member states because of low indicators in the area of capacity for innovations.

The concept “competitive advantages” dates back to 1985, when Porter defined strategies the create such advantages. He argues that differences must be based on the use of specific resources that are not available to competitors and are an important factor of choice for the relevant product.

A company that uses its resources in accordance with the development of the sector so as to fill in empty niches in the market can also create competitive advantages.

On the basis of these ideas, competitive advantages can be defined as long-term benefits from a strategy that creates unique consumer values – one that is not used simultaneously by any existing or potential competitor, thus ensuring that the competitor does not receive the benefits.

The advantage in terms of competitive advantages rests with advertising agencies that can merge knowledge, technologies and experience so as to ensure innovations in advertising services. According to Drucker, innovation represents “an effort to implement targeted changes in the economic or social potential of the company.”¹ Alderson also emphasises the importance of competitive advantages, arguing that each company must seek different characteristics in its development so as to distinguish itself among competitors.

Barney, for his part, argues that “companies have access to long-term competitive advantages if they use a strategy that creates value and is not simultaneously used by any existing or potential competitor, thus ensuring that these competitors cannot replicate the benefits that are created by this strategy.”² Coyne supplements this definition with the claim that a company’s clients must be able to differentiate between the company’s products and those of competitors.

Latvia’s advertising sector

Latvia has a small advertising market, which means that all market participants, including advertisers, advertising agencies and the media must take into account the specifics of a small market – ones that will forever be a unchanging background for the development of the sector. There are 180 advertising agencies in Latvia,³ and the media advertising market, which is worth around EUR 77 million, is divided up by 10 media agencies.⁴ That is too large a number for a market with fewer than two million residents, which means that exacerbated competition is only logical. “The strength of Latvia’s advertising market rests in the talents and brains of people in the sector, while the weakness is the negligible size of the market,” says a former president of the Latvian Advertising Association.⁵

¹ Davila T., Epstein M.J., Shelton R. *Making Innovation Work: How to Manage It, Measure It, and Profit from It*. New Jersey: Wharton School Publishing, 2006. P.31

² Hoffman N.P. An Examination of the "Sustainable Competitive Advantage" Concept: Past, Present, and Future. *Academy of Marketing Science Review*, 2000, N.4 http://findarticles.com/p/articles/mi_qa3896/is_200001/ai_n8893038

³ Data from Lursoft:

https://www.lursoft.lv/lapsaext?act=URCP&ref=LurTop®code=&task=search&company_name=&tipas=&CompanySearchForm%5BcompanyName%5D=rekl%ECent%FBra&CompanySearchForm%5Bcountry%5D=&general=rekl%ECent%FBra&cid=LVA_NG_PROD&utf=1

⁴ Data from Marketig research company TNS Latvia <http://www.tns.lv/?lang=en&fullarticle=true&category=showuid&id=4786>

⁵ <http://latvijas-reklamas-gadagramata.raksts.zl.lv/latvijas-reklamas-asociacijai-aprit-20-gadi/>

Media advertising market in Latvia 2007 – 2015

Year	Millions of Euro	Growth or decrease %	
2015	77.2	+ 2	▲
2014	76.6	+ 46	▲
2013	51.6	- 28	▼
2012	71.4	+ 3	▲
2011	69.4	+ 5	▲
2010	65.8	- 13	▼
2009	75.6	- 46	▼
2008	139.1	+ 3	▲
2007	134.7	+ 24	▲

Source: Data based on information from TNS Latvia. (Data were adjusted by converting the former Latvian lats into euros in accordance with the European Central Bank's exchange rate on December 31, 2012.)

Figure 1: Latvia's media and advertising market, 2007-2015.

As can be seen above, the consequences of Latvia's economic crisis are still felt today. The 2015 results, however, show that the advertising sector has started to recover from the crisis. The small expansion of the advertising market (3%) was seen in 2014, but the overall scope of the segment is still at only 60% of where it was during 2008, the last year before the crisis.

Development and growth in the advertising sector has also caused changes in the types of media that are available, with advertisers increasingly preferring the digital and mobile environment. They see advantages in investing in the programming of various solutions, in digital content applications, communication and advertising on social networks such as Facebook, Twitter and Instagram, content marketing and Internet advertising. Some clients fully reject traditional channels such as TV and radio. Against this background, Latvian advertising agencies have experienced more serious competition. One reason is the fact that the number of advertisers is declining, which means that competition over ad budgets is more and more severe. Agencies are losing clients who either merge with other enterprises or move their marketing departments to regional centres such as Finland or Poland.

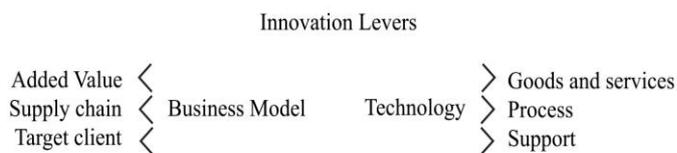
As competition over clients becomes harsher, the importance of creative talents and innovations in the advertising sector becomes more and more important. The specific thing for companies provide services is that the greater the complexity and specialisation of assets that are used in the provision of the services, the more important innovations are in ensuring the necessary competitive characteristics. According to the Global Innovation Index, Latvia is currently in 26th place among 28 EU member states, but it is also the country in which the most rapid increase in innovative work indicators has been seen in comparison to the previous year. Latvia is in 6th place in the export of cultural and creative services, measured as a percentage of overall trading volumes, and it is 3rd place in goods and services in the creative industries.⁶

⁶ WIPO The Global Innovation Index http://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2016-appendix3.pdf

Creativity or innovations?

Is it possible to differentiate between creativity and innovation when it comes to the foundation of business operations of advertising agencies? At the theoretical level, Kuhn considers creativity as a way of creating something new from nothing, also linking creativity and innovation as a way of transforming something new into goods and services. Badaway also argues that creativity creates innovations, while innovations make it possible to make use of the new things.

Davila, Epstein and Shelton, for their part, define two major directions toward which a company can ensure innovations – improving technologies and setting up new business models.



Source: The author's construction is based on the basis of work done by Davila, Epstein and Shelton

Figure 2: Levers to introduce innovations

These two directions involve six levers of innovation, and innovation includes changes in one or more of these elements.

The research and its results

The study involved a survey of Latvia's 10 largest advertising agencies (in accordance with data from the Latvian Advertising Association) and 10 media agencies, with 20 directors being interviewed. The study was conducted from February until May 2016. The interviews suggested that the functions of advertising agencies are expanding.



Source: The author's construction is based on the questionnaire results

Figure 3: The traditional functions of an advertising agency

Along with traditional advertising agency services, they also offer innovations such as taking part in the creation of new and sustainable products. Proper data analysis and usages are becoming of ever greater importance, as these are one of the factors of the quality and effectiveness of agency services. Providers of advertising services must understand clients, their needs, and consumer habits. Advertisers are increasingly demanding a strategic and long-term offer – one that coincides with the company's values and future goals. The development of technologies enhances demand among advertisers for the integration of the social media into the everyday lives of consumers, doing so in accordance with consumer needs. Effective advertising must become an event that offers consumers a chance to ensure influence and choices and to be co-authors in the creation of new products.

The range of operations, functions and services among advertising agencies is influenced not just by serious competition in the sector, but also by other factors. The main ones that were mentioned by the experts are:

- Shifting demographic factors;
- A rapid increase in the number of Internet users;
- Bilingualism;
- The influence of geopolitical events on the moods and habits of individuals;
- The rebirth of nationalist ideas;
- The digital environment;
- Relations with clients.

What follows is a brief description of these factors.

- **Demographics**

A new generation is entering the market – one that perceives information in a completely different way than was the case in the past. Unlike the previous generation, which was far more conservative, young people are much readier to shift from one brand to another.

- **Internet users**

The Internet is developing and expanding rapidly in Latvia. Its format and major accessibility make it possible to introduce various innovations in the offer of advertising services quickly and successfully. The increased number of Internet users makes it possible to segment the target audience in a better way. The latest data suggest that 80% of Latvia's residents can be reached via the Internet, 33% of them use Facebook, and 38% shop on the Internet.⁷

- **Bilingualism**

Most people in Latvia communicate in Latvian and Russian, and this influences the advertising market in a very specific way. The main trend involves different values, elements of culture and use of communications channels. Clients who wish to speak to both audiences must increase their budgets, because each audience needs a special message and an appropriate strategy that are meant for it.

- **Geopolitical events**

⁷ http://www.lia.lv/media/uploads/Buklets_nozare_ciparos_2016.pdf

People get more upset and nervous when hearing about conflicts and tensions in international relations, the increased threat of terrorism and the refugee crisis in Europe. Major events affect people’s moods and habits in the choice and use of products, which means that this has an indirect influence on advertising and communications between clients and the target audience.

- The rebirth of nationalist ideas

The economic crisis and the current geopolitical processes have made nationalist topics more important, not least in the advertising sector. People increasingly choose local products. They are more pragmatic and take fewer risks or experiments with unknown brands, preferring that which is already known. It was specifically during the economic crisis, for instance, that domestic brands of beer strengthened their market position.⁸

- The digital environment

The excess of communications channels and their constant changes are a challenge for providers of advertising services. The digital environment is complex, forcing agencies to analyse data and to find the correct solutions. Advertising campaigns must have a framework that reacts to things that are happening. Content must be used and understood by the target audience in the context of things that are important to it at that moment. What’s more, if digital communications are to be effective, decisions must be taken most swiftly, indeed. When something important happens, the brand must react to it. Accordingly, clients expect complicated strategies from agencies – ones that are based on data and analysis that are at the highest possible level.

- Relationships with clients

All of these factors lead to the fact that relationships between clients and advertising agencies are changing. Clients used to visit agencies to receive ideas, focus groups, an evaluated reciprocal link, and only then a decision that relates to the campaign strategy. That is no longer possible, because it takes a week or two, and it is possible that things will no longer be important after that period of time. Winning brands today have a fast, simple and wise message. To create such a message, the client must trust the agency, because the time when agreement could be reached on all decisions is gone.

To identify stimuli and innovations for agencies, 20 agency directors were interviewed and asked to rank the most important factors that stimulate innovations at their agencies on a five-point scale. The directors indicated the service and process innovations at their agencies.

Incentives for Innovations in Advertising Agencies



Source: The author’s construction is based on the questionnaire results

Figure 4: Stimuli for innovations at advertising agencies

⁸ Data base about TOP Brands of Latvia: <http://www.zimolotops.lv/ietekmigakie-zimoli/iesaiete/zimoli/>

Competition is seen as the main stimulus for innovations in the advertising sector. The surveyed agencies confirmed a high level of competition in the advertising sector, with new competitors appearing all the time. The respondents emphasised the fact that there must be improved and new services so as to maintain their level of competitiveness. They also said that the rapid development of technologies has fundamentally changed the specifics of offering and providing services. The development of digital technologies in particular creates the need for new jobs and offers opportunities for new types of advertising services. Respondents in the survey argued that innovations are a way in which an agency can create and maintain competitive advantages.

The next fundamental stimulus for innovations is a focus on clients. Respondents insist that the desires and needs of clients determine the way in which an agency organises its work. Innovations are seen as a way of increasing client satisfaction, thus providing added value that, in turn, establishes more competitive advantages.

Financial motivations are also seen as important by the survey respondents, who say that innovations help to reduce labour costs or increase profits. The leading position, in turn, improves work effectiveness, with the motivation of employees seen as being less important. The surveyed agencies argue that a leading position in the sector does not stimulate innovations, because innovative services and trust-based relations with clients will lead to a leading position. Improved work effectiveness is also not seen as a stimulus for innovations. The agencies say that the quality of advertising services and improved effectiveness are in line with the focus on clients. The motivation and enthusiasm of employees also facilitate innovations, but these are not seen as being of decisive importance. None of the agencies argued that a focus on their shareholders was a stimulus for innovations.

Conclusions

The survey confirms that the views of agency representatives about how innovations are stimulated differ, but there is common ground in the sense that the two main stimuli for innovations at the agency are an intensive competitive environment and a focus on clients. Financial motivations are the third stimulus in terms of cutting costs and increasing profits. The results show that harsh competition among providers of advertising services facilitate targeted changes in the business potential of advertising agencies, thus also facilitating innovations.

Advantages in establishing and preserving competitive advantages exist among those advertising agencies that can use the latest technologies in combination with knowledge and experience so as to create innovations of advertising services and the way in which they are provided. Innovations at advertising agencies involve two major directions – establishing a new business model and improving technologies.

The research results speak to a correlation between innovative advertising services and the establishment and preservation of competitive advantages for the agency. The answers from surveyed directors show that they are 100% convinced that serious competition among advertising service providers must be seen as a factor that facilitates innovations. Innovation at an advertising agency is a foundation for ensuring sustainable competitiveness.

80% of the respondents said that innovations increase the value of advertising services, with 70% arguing that they have a positive effect on finances, because there are lower costs. All in all, however, the advertising world has become more complicated for advertisers and advertising agencies alike.

The conclusions from the research cannot be used to come up with new theoretical ideas. Instead, they are aimed at revealing the importance of innovations that improve the competitiveness of advertising agencies.

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