

Business Practices of Marketing Agencies in Croatia

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Abstract - Marketing communications represent an important segment of the creative industries with a number of economic and wider social contributions. In addition to advertisers and the media, marketing agencies are key players in this rapidly changing industry affected by technology and growth of interactive digital communications. Given the growing role of communication and the fact that the last relevant research on marketing agencies was conducted in 2014 by the Croatian Association of Communication Agencies (HURA), the authors launched a study using a mixed-method approach. First, a qualitative survey was conducted using in-depth interviews with directors of marketing agencies, followed by a quantitative survey with a questionnaire. The results of the research showed that Croatian marketing agencies are increasingly providing digital advertising services and often hire freelancers with specialized knowledge and skills for their projects. When hiring, they pay the greatest attention to the motivation of candidates, general competencies and soft skills such as communication skills, teamwork and problem-solving. After a long period, this research provides a systematic insight into the business practices of marketing agencies and communication trends.

Keywords - marketing communications industry; marketing agencies; communication trends; digital marketing

I. INTRODUCTION

Creative industries are often portrayed as being a generator of economic growth and marketing communications represent one of the most dynamic segments of these industries, with technological innovation allowing new forms of interactive communication across the expanding multimedia universe. Marketing agencies play an important role in the marketing communications industry by providing specialized services to advertisers, based on their communications expertise. However, there is surprisingly little literature on the relationship between marketing communications and the economy, with only the most recent papers capturing the emergence of digital advertising and its economic contribution [1] and the impact of the global lockdown on the advertising industry [2].

The Croatian advertising industry has a long tradition, that has been severely shaped by both political and economic factors [3]. Since Croatia is a relatively small European country, the national market is limited and Croatian (digital) marketing agencies are commonly

internationalizing their activities looking for potential clients abroad [4] [5]. This outward internationalization has an impact on the Croatian national economy but there are no official records of it. In overall, the Croatian marketing communications industry received limited attention from academic researchers. Occasionally, trade associations and specialized media would conduct *ad hoc* research studies in order to investigate current trends within the industry. Therefore, this study is explorative in its nature and authors aim to shed some light on the Croatian marketing agencies' business models and recent practices. Furthermore, the overall role and importance of the marketing communications industry in general are also investigated.

II. PREVIOUS RESEARCH

Marketing communications represent a major intangible investment on the part of the companies, greater than R&D investment which is usually seen as a lever for economic growth, yet very little is known about their wider economic role [6].

In his PhD thesis, Maximilien Nayaradou examined the mechanisms by which company investments in commercial communications influence the economic growth of developed countries. After an in-depth analysis of the theories and studies, he demonstrated the positive impact investments in advertising have on growth utilizing the following four key mechanisms [7]:

- **Consumption:** the sectors with the highest advertising investment rates are also those in which consumption is growing the most, so they contribute proportionally more to economic growth;
- **Innovation:** the sectors in which investment is above average both in advertising and in innovation and R&D, are also those in which the growth of added value is highest. For the best levels of economic performance, investment in innovation and R&D must go hand-in-hand with investments in advertising;
- **Competition:** the sectors with the highest advertising investments are also those in which competition, a recognized driver of growth, is liveliest;

- **Sectoral leverage effect:** advertising is a multiplier of economic growth in terms of both added value and employment.

The study demonstrated that investments in marketing communications, and in particular media advertising, improves the economic efficiency of material investments. Positive correlations between “advertising investments” and “economic growth” were found; economic growth is significantly stronger in countries where investments in advertising are high.

Similar findings were presented in the report commissioned by the World Federation of Advertisers (WFA) and prepared by Deloitte, the world's largest professional services firm, in 2017. This report pointed to the economic as well as broader social contributions of advertising. Using an econometric model to isolate the benefits of advertising to the European economy, Deloitte found that advertising expenditure in the EU has a seven-fold impact on the wider economy, through supporting competitiveness, driving innovation, providing consumers with information and increasing their choice of goods and services. Advertising provides almost 6 million jobs in the EU (2.6% of all EU employment in 2014) and personal and social benefits by funding media (news and entertainment) and internet services (email, social networks etc.). The benefits of advertising are ubiquitous and the report concludes that Europe without advertising would be poorer, less well informed and less competitive [8].

When it comes to the Croatian market, in 2014 the Croatian Association of Communications Agencies (HURA), in cooperation with the market research firm Ipsos, conducted a quantitative survey on Croatian marketing agencies [9]. This census initiative was launched at the European level and the results represented the first clear overview of the agency market in Croatia. The key industry data were collected to serve as a benchmark for national and international comparisons, but also as a source of valuable information for a presentation of the marketing communications sector in various discussions with national and European institutions.

The questionnaire was divided into three sections: the scope of work and agency structure (a), the business forecasts (b) and the information about the agency (c). The key findings that helped define the questions for our survey can be summarized as follows:

- Most agencies are primarily creative.
- The total revenue of an agency is usually between 2 and 10 million HRK
- Creative, media and digital services have the largest share in agency revenues.
- Most agencies are independent while 37% belong to international networks.
- The average age of employees between 31 and 40 years.
- The majority of employees is employed on a full-time basis.

- Men predominate in almost all positions (except in HR, finance and media services)
- The share of pitches won (the hit rate) is mostly between 30 and 50%.
- The business expectations for the following year (i.e., 2015) were more positive at the agency than at the industry level.
- Costs were most often cited as the deciding factor which will affect the operations of the agencies in the following year.

III. METHODOLOGY

The HURA census can be considered as the main inspiration for this study. However, this census has several limitations. First of all, the sample was limited only to the members of the association. Although these agencies account for slightly over 50% of the industry turnover, a significant number of agencies was not included in the census. Finally, the census was not grounded on some existing theoretical models nor any hypotheses were tested. Therefore, this study is explorative in its nature, with the goal to provide relevant guidelines for further research.

To enrich the results with different perspectives and obtain a complete and more comprehensive picture of the marketing agency business, the research was conducted using a mixed methods approach. From the methodological point of view, the mixed methods approach gives an opportunity to draw conclusions from multiple forms of data applying both quantitative and qualitative analysis [10]. Therefore, the primary research consists of the qualitative and quantitative stage.

In the preliminary phase, in June 2020, semi-structured in-depth interviews were conducted with six directors of Croatian marketing agencies. The in-depth interviews consisted of the seven stages as suggested by Brinkmann and Kvale [11]. All interviews followed the same agenda containing the list of questions on the following topics:

- Basic agency information;
- Development of the agency;
- Agency employees;
- Clients and partners;
- Competition;
- Awards and reputation;
- Predictions of future events and their impact on agency business.

Before the qualitative analysis, the voice recordings of the interviews were transcribed. The data from each interview transcript were arranged into sections and sub-sections and then major trends and patterns in the data were identified. Terms and statements were marked out to break down the data into discrete ideas and beliefs relating to the sections.

Based on the previous research studies and in-depth interviews, a structured questionnaire was developed as a primary data collection method. The questionnaire was created using the Google Forms tool and the link was sent to the email addresses of 98 marketing agencies in Croatia, both members and non-members of HURA. From July to September 2020, it was completed by 36 agencies, which gives the response rate of 36,7%. The questionnaire consisted of 38 questions divided into 5 sections similar to the topics in the interview guide for the qualitative study (basic info, services, employees, competition and marketing awards).

IV. FINDINGS

A. Qualitative Research

The interviews with directors of marketing agencies revealed that most agencies are looking to expand to other markets, but some do not make international expansion a priority. Agency leaders measure their performance in terms of the number of clients and employees, as well as revenues and profits. They also reported difficulties with finding competent employees and they consider motivation to be a crucial factor when hiring. In opposite to routine tasks, diverse clients and challenging projects are the preferred *modus operandi* for the interviewees. Furthermore, customer retention is considered to be more important than customer acquisition. They welcome healthy competition and mutually beneficial partnerships. Reputation can be gained through marketing awards but the main tangible benefit is winning new business.

The main trends in the industry identified through the interviews are the growth of digital advertising, personalized and omnichannel communications, the primacy of content over format, the dominance of video content and the emergence of new competitors to agencies in the form of technology companies and consulting companies. The agency model is under constant threat. Remaining relevant to the clients and attracting and recruiting talented, creative people are the biggest challenges.

Key findings from the interviews were used in the development of the questionnaire.

B. Quantitative Research

Out of the sample of 38 agencies, 82% of participants are independent agencies, not belonging to any international network. Although agencies offer a variety of different services, ranging from creative to digital, they predominantly regard themselves as full service providers (66%). Most of the agencies are in business for less than 15 years (63%). Regarding their annual turnover, 55% of agencies reported earning up to 5 million HRK, while 19% reported income of over 50 million HRK.

Employees and Hiring Practices

Marketing agencies in Croatia employ, on average, 20 people, with only 24% of agencies employing more than 20.

The gender / age employee structure is presented in Figure 1 and shows a perfect gender equality (50/50), while in a similar research done on the European level female employees predominated with 56% to 44% [12].

From the organizational perspective, surveyed agencies are structured dominantly using two models: in 54% of cases the functional organization is reported, while in the remaining 44% staff is organized into client and project dedicated teams. Only 12% of agencies do not have a defined or formalized organizational structure.

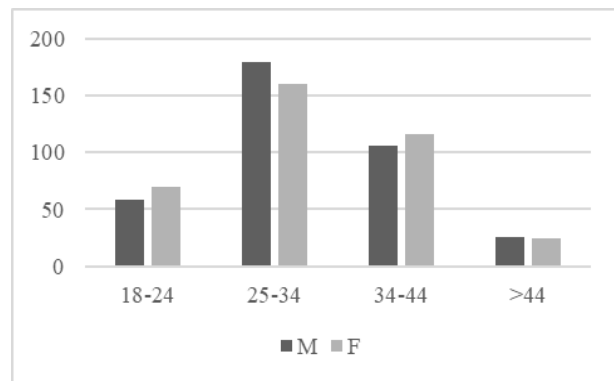


Figure 1. Marketing agency employees in Croatia – gender and age (N=38)

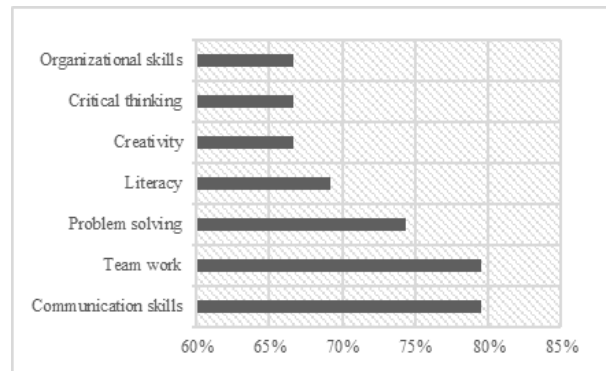


Figure 2. The most required skills by marketing agencies in Croatia (N=39)

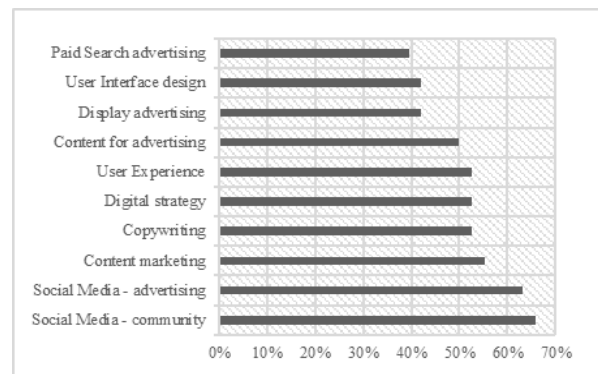


Figure 3. Top 10 digital skill required by marketing agencies in Croatia (N=39)

While recruiting new professionals, the biggest challenges for agencies are lack of high-quality candidates (79%), a high number of inadequate applications (68%) and lack of specific knowledge and skills (63%). Nevertheless, 58% of surveyed agencies pointed out unrealistic expectation from recruited candidates. As a part of the solution for this issue, 41% of agencies plan to improve their employer branding. Also, agencies put more value on candidate's soft skills over hard skills and pay the greatest attention to communication skills (79%), teamwork (79%), problem-solving (74%), organizational skills (67%), literacy (67%) and motivation (64%) (Figure 2.). Out of all knowledge skills, 62% of respondents value marketing knowledge and foreign languages while less than 50% of agencies value skills like strategic thinking, analysis, visualization, reporting and usage of marketing tools.

Interestingly, 70% of agencies plan new recruiting in the next period on at least one post, while 32% have plans to open more than one vacancy. Most of the new positions require digital advertising and programming skills. As shown in Figure 3, the most required skills are social media community management (66%), social media advertising (63%), content marketing (55%), copywriting (53%), digital strategy (53%), user experience (53%), content creation for advertising (50%), display advertising (42%), user interface design (42%) and paid search advertising (39%). Also, agencies plan new employments for the positions of account manager, project manager and graphic designer.

Competition and Client-agency Relationship

Over the last decade, marketing agency industry has undergone some important changes caused by the high adoption of digital communication channels. The result of that can be seen in the big number of digital agencies established in this period (24% of respondents are less than 5 years in business). Yet only 32% of respondents find Croatian marketing agency industry saturated. Traditional media agencies tackled the competition by founding their digital marketing teams while some acquired small agencies specialized in digital marketing. Nevertheless, 13% of respondents plan new acquisitions in the near future. How agencies perceive their competition is represented in Figure 4.

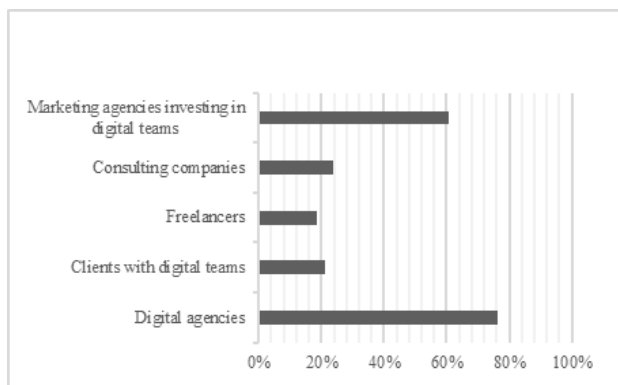


Figure 4. Competition perception of marketing agencies in Croatia (N=39)

Big changes in the industry introduced new practices, not all of them positive and 58% of respondents find industry regulation insufficient and the overall ethical standards to be on the low end. Despite that, only 47% of agencies protect their intellectual property by signing contracts with their clients. For example, in one of the interviews in qualitative research, the respondent mentioned the case of competing agency's sales team targeting their client portfolio offering lower-priced services. As many as 79% of surveyed agencies consider lowballing by competing agencies the most common reason for the ending of the client-agency relationship. Also, 71% of respondents find absence of compensation for pitch costs as an unfair practice, while only 16% of surveyed agencies restrain themselves from participating in such client pitches.

Awards and Agency Reputation

This research also aimed to showcase the importance of industry rewards in reputation management of marketing agencies in Croatia. Surprisingly, 39% of agencies do not participate in industry competitions in Croatia and only 34% of agencies participate in international competitions. The important part of creating visibility is showcasing the work on specialized online platforms (29%) and online industry competitions (also 29%). Consequently, 32% of surveyed agencies find the awards won increased their reputation and brought them new clients.

More than half of respondents regularly manage the agency portfolio (61%) and communicate their projects through different owned communication channels such as website and social media (55%).

V. CONCLUSION

Based on their communications expertise, marketing agencies play an important role in marketing communications industry by providing specialized services to advertisers. Apart from the agency census taken by The Croatian Association of Communications Agencies in 2014, which included only member agencies, little research has been conducted on agency business. In order to close this research gap and shed some light on the newest developments in the industry, we launched a mixed methods study which resulted in a comprehensive overview of the marketing communications business and agency landscape in Croatia.

Our findings indicate that Croatian marketing agencies are increasingly providing digital advertising services, hiring freelancers and adapting their business models. Among top digital skills required from new employees are content creation and social media. The main industry trends include the growth of digital advertising, content creation, video formats and the emergence of new competitors to agencies in the form of technology companies and consulting companies.

We suggest several important implications for marketing communications managers. They should invest in increasing digital competences of their employees and expose top students to their agency culture and values to ensure a good fit at the early stages of their professional

careers. The threat of client insourcing marketing communications services can be overcome with higher transparency and cooperation.

Due to the limited sample size and one country focus, this study has certain limitations. The drawn conclusion can be hardly generalized and applied to other markets. However, this study can act as a starting point for further research of the Croatian marketing communications industry. Since no single empirical study can capture the accelerating complexity of agency business, we recommend that a similar study be repeated in the following years on a larger sample. Furthermore, the Croatian marketing communications industry can be also used as a testing ground for advanced theories and theoretical models.

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