

WPP's Chief Champions Tribal Culture

Despite a flat advertising market in his native Britain, Sir Martin Sorrell is optimistic about the future. That's because his global business interests are being given big boosts elsewhere - namely in China and India, where he says "even if we did nothing, this shift away from North America and Europe and to these other regions is going to happen... My only reservation is that Western Europe should wake up!"

Sir Martin Sorrell is the founder and CEO of **WPP**, one of the world's largest communications services groups, with headquarters in London and New York. Think of practically any top agency – **Ogilvy & Mather, JWT, Burson-Mars-teller, Grey, Millward Brown, Y&R** – and **WPP** owns them. Think of practically any service – advertising, media investment management, information and consultancy, public relations and public affairs, branding and identity, healthcare and specialist communications, direct, promotional and relationship marketing – and **WPP** does it. More than 300 of the Fortune Global 500 companies are **WPP** clients.

An economics graduate of Cambridge University and with an MBA from Harvard Business School, Sir Martin worked as finance director of the **Saatchi & Saatchi** advertising agency group until 1985, overseeing its international expansion, before starting his own global company in 1986.

Twenty years later, **WPP** has annual revenues of \$10 billion, and he is considered one of Britain's most successful and influential businessmen.

It is that business acumen that IESE has valued over the past decade that Sir Martin has been a member of the school's International Advisory Board. IESE Alumni Magazine had a chance to catch up with Sir Martin when he was in Madrid for the latest board meeting in April. He talked about the challenges of running a global company, the rise of China and the Internet, and made some interesting observations about the current state of MBA programs and how that relates to his business.

You maintain links with several different schools: Harvard, London Business School, Cambridge, Boston University, Indian School of Business, as well as IESE. Do you see any similarities emerging from your involvement with other business schools?

Oh, yes. I see many schools trying to position themselves as international schools and capitalizing on the developments in the faster growing markets of Asia and Latin America. However, there is a danger that too many schools are trying to do the same thing. The real issue is: how do you differentiate yourself in an increasingly competitive environment? You've got clients who can obviously choose where they want to go, issues of cost, the threat of disintermediation from the new technologies. You may remember, about seven or eight years ago, the big thing was whether all the physical campuses were going to be disintermediated by electronic campuses. While that has happened, to a certain degree, it hasn't happened entirely, because at the premium end of the market, you can't replace electronically or online a two-year experience here in Barcelona or Madrid. So, there are similarities with my own industry: overcapacity and branding, the balance between research and the practitioners, the threat of the web, internal communications, getting people to work together...

With more than 80,000 people working in over 2,000 offices in 106 countries as part of the WPP Group, how do you get people to work together and communicate effectively?

It's very difficult. There are diseconomies of scale in creative businesses, with the exception of media buying. I think the most difficult kind of company to run is a company like ours, which has grown by acquisition and is multi-branded. I think

the easiest, in a way, is a uni-branded company that has grown organically. But what we're trying to do is build a group of companies with a unified purpose, which doesn't fall foul of the diseconomies of scale in creative businesses, can capitalize on the economies of scale in media buying (where we're getting about 25% to a third of most media in most countries) and at the same time can grow effectively both geographically and functionally. Now, with that sort of structure, it's much more difficult to get people to work together. We've got them working in "tribes," as we call them. Trying to pull them all together to face in the same direction at the same point of time is very difficult.

Have you found anything that works?

The best thing is training. There's no doubt about that. Of course, there are all the usual things: annual reports, websites, newspapers, communications of all sorts, external and internal. But I think the most effective, and probably the most expensive, is training. So, getting together, say, 20 to 30 people, from half a dozen different companies, who operate in various functional areas. We branded them "maestros." We bring them together, and they build social as well as professional contacts. They're usually together for about a week, and then they filter that back to their respective agencies.

Recently, WPP (the parent company) has started to pitch for the client's global advertising and marketing services business, rather than the client dealing with each individual agency, as traditionally happened in the past. This seems an interesting new development worth noting...

What we did was form a team from our various tribes to offer the client one integrated global solution to all their needs. I



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don't think the client is particularly interested or worried about hiring this agency over that agency. What they worry about is having the resources necessary to deal with the opportunity or problem they're facing. So, what they want is solutions. I remember, **Ogilvy** did a campaign for **IBM** in the early days called "solutions for a small planet." And I think that sums up what we're talking about here. What we're trying to do continuously is put the best sets of resources together, which may not be within one tribe or two tribes but across a whole range of tribes. Where the necessary talents do not exist under a single roof, we may create a virtual company for the benefit of each client. The big agency of the future may not even be an agency. There will be global clients whose geographical spread and multidisciplinary demands can be met professionally only through the creation of tailor-made teams of specialist agencies working together under parent company leadership. This concept is slowly taking root.

How has the rapid shift to new, interactive technologies challenged the way you do business?

This is a difficult issue to deal with, but it's perhaps been easier for us. Media owners tend to put their bets on a specific technology, but what we're doing is purveying all the technologies. The real issue for us is: how can we develop a better understanding of what is happening technologically, so that we can advise our clients on how much they should spend and where they should spend it?

Now, with something like **Google**, is it a friend or a foe? The answer is probably a bit of both. If **Google** wants to set up an Internet-based media planning and buying tool, for example, the main thing is that

we can respond to that and compete with that. As long as we can embrace technology and understand technology, then we won't be excluded from the table; we're not shut out. That's the key issue for us when it comes to responding to the challenges of new technologies.

In what ways are you seeking to cultivate a new generation of fresh, creative talent across your industry, bearing in mind past comments you have made that you find it hard to recruit and retain younger people, yet the under-30s are the ones who are driving the media future?

With \$10 billion of revenue, we invest \$6 billion a year in people. And all the demographics are against us - a declining birth rate, an aging population. So, recruiting, retaining, incentivizing and developing talent is critically important. It's the big issue. We only spend about \$150 million a year on capital expenditure, but it's amazing how many people in our organization refuse to spend enough time on recruitment of people and spend more time worrying about what computer they get. To be honest, our people tend - wrongly - to be unwilling to give young people the right opportunity. We also have to change attitudes inside our company about MBA graduates, because it's business schools like IESE, along with art schools and design schools, that are going to be important in determining our future ability to recruit the best people.

What's the perception of MBA graduates?

That their expectations are too high. The thing is, I think some people do the MBA when they are too old. If you look at the original concept of the MBA, it was that you had, maybe, two years' work experience, on average, then you did a two-year MBA, and then you went off and started your

career. I look at myself: I was a baby when I did my MBA at Harvard - I was only 21. Maybe being that young was unusual, even then, but even so, the average age at that time was still only around 24. And in some ways, I think we should go back to that. So, after doing your MBA and working for a while, you come back in your early 30s and do a Program for Management Development, and maybe in your early 40s you do an Advanced Management Program, and so on. This could then lead to continuous, lifelong educational development. I would recommend this approach.

One of your stated priorities is to increase the combined geographic share of the Asia-Pacific, Latin America, Africa, Middle East, and Central and Eastern Europe regions to represent a third of your overall business. How are things shaping up?

At the moment we're 40% U.S., 40% Europe and 20% Asia, etc. If I include associates - that's where we have minority interests - then we're up to around 25% in Asia, Latin America, etc. Even if we did nothing, this shift away from North America and Europe and to these other regions is going to happen. A reporter recently asked me, what will China and India be in five years? Well, Asia now is growing at 14% and it's bound to grow by 1% a year as a proportion of our business, so I predict it will be up 20% in five years' time. Last year, our business overall was up by 5.5%, our business in India was up by 15% and China by 22%. So far, in the first quarter of this year alone, growth in China is up by 19%, India is up 28% and our business as a whole is up almost 5%. That tells you everything you need to know. Admittedly, these regions can't carry on growing forever, and there will be cyclical bumps along the way, but there will undoubtedly be continued opportunities.



There's a lot of hype about China. Any reservations?
My only reservation is that Western Europe should wake up!

In your report for the first quarter of 2006, every region of the world in which you have business showed double-digit revenue growth, except the U.K., which is cited as the slowest-growing region in your group. Why does there appear to be such malaise in Europe, particularly in the U.K.?

Because I think all the advances we made in the '70s and '80s have been eroded. The government as proportion of GNP is rising. Not all the new employment, but a lot of the new employment we've seen in the U.K. in the last few years comes from the state sector. It can't work. One of the questions asked at Davos recently was, what percentage of the population thought that working hard was important? In certain countries of Western Europe, something like 2% thought it was important, compared to 98% of the Chinese. That says it all, really. And then there's the legislation and bureaucracy we have to deal with in Europe. For example, there's a new piece of E.U. legislation concerning the transfer of a business undertaking, which is just being enforced in the U.K. It applies to a lot of industries, but what it means in our case is, if we win a piece of advertising business, the people in the losing agency, if they work 100% on this piece of business, they have the right to move with the business to us as the winning agency. And if we don't want them, we have to pay their severance. This is a nonsense, but our lawyer said this will be effectively enforced in the U.K.

So, if India is growing at 8% and the prime minister says it will grow at 10%, if China is growing at 10% and is probably understating its growth, and you've got 1.5 billion people in China and 1.1 billion in India, and you see the self-sustaining growth you're starting to get there, where am I going to invest if I'm a manufacturer or a retailer? Am I going to invest in Europe? I know Europe is a big market, but it's slow growth, and institutions and analysts and everybody else want growth. Although China is only 4% of worldwide spending, although the Internet is only 4-5% of worldwide spending, that's where the growth is, and people are naturally going to focus on those things more.

Phil Seager

"The Indians and the Chinese are Going to Eat our Lunch"

"I am a believer that the balance of power in the world is shifting. There is a shift in wealth from the West to the East, and China is the biggest manifestation of that."

So said Sir Martin Sorrell in a recent Financial Times interview, announcing further acquisitions of Chinese agencies in an effort to boost WPP's regional presence. "We continue to acquire in China and India, and despite the protestations of our competitors, we have been the most active in this region," he said.

Bates Asia acquired another Hong Kong PR company and **Group M** formalized another venture in Beijing. This follows **Hill & Knowlton** winning a communications contract to advise the Beijing Olympics, which Sir Martin has predicted will be responsible for blockbuster media spending in the period leading up to 2008.

"No major multinational corporation will miss out on the opportunity of the Olympics in Beijing," he once told a Bloomberg broadcast. "Then there are other events after that in China, such as the Shanghai Expo in 2010."

He echoed these thoughts in The Independent daily newspaper: "The Olympic Games in Beijing is not just a sporting occasion; it's a political, social and economic occasion and will mark, in our view, the year the Chinese economy becomes the second-largest advertising market in the world."

In an address delivered at the British Museum last year, Sir Martin said he believed that "the Americans are facing the ultimate challenge now... When you have vacuums like you have at the moment, you always find that somebody fills the vacuum. And China is quite clearly filling that gap at the moment and will continue to do so; and probably we should also add to that India."

An ongoing BBC series exploring the big trends upheaving the world in the 21st century perhaps summed it up best. After seeking Sir Martin's insights, the report concluded: "The Indians and the Chinese (and maybe the Russians and the Brazilians) are going to come and eat our lunch."