

PROJECT PROFILE

ON

ADVERTISEMENT AGENCY

Month & Year
July 2010

**PREPARED BY
TANSTIA-FNF SERVICE CENTRE
B-22, INDUSTRIAL ESTATE
CHENNAI-600032**

Supported by

Friedrich Naumann
STIFTUNG **FÜR DIE FREIHEIT**

ADVERTISEMENT AGENCY

INTRODUCTION

Advertising is a service industry geared towards the communication of information and ideas to and on behalf of others. It is the main arm of marketing, involved in the communication of information and ideas to and on behalf of others for promoting goods and services in order to optimize sales or levels of awareness. Advertising is not an end in itself but a means to build a relationship between the product and the consumer.

Advertising plays a significant role in today's highly competitive world. A career in advertisement is quite glamorous and at the same time challenging with more and more agencies opening up every day. Whether its brands, companies, personalities or even voluntary or religious organizations, all of them use some form of advertising in order to be able to communicate with the target audience.

PROCESS OF ADVERTISEMENT

Broadly there are 6 departments in any advertising agency

- Account Servicing
- Account Planning
- Media
- Creative

- Production
- Finance and Accounting

Account service department

The account service, or the account management department, is the link between the ad agency and its clients. Depending upon the size of the account and its advertising budget one or two account executives serve as liason to the client. The account executive's job requires high degree of diplomacy and tact as misunderstanding may lead to loss of an account. The account executive is mainly responsible to gain knowledge about the client's business, profit goals, marketing problems and advertising objectives.

The account executive is responsible for getting approved the media schedules, budgets and rough ads or story boards from the client. The next task is to make sure that the agency personnel produce the advertising to the client's satisfaction. The biggest role of the account executive is keeping the agency ahead of the client through follow-up and communications.

Media department

The responsibility of the agency's media department is to develop a media plan to reach the target audience effectively in a cost effective manner. The staff analyses, selects and contracts for media time or space that will be used to deliver the ad message. This is one of the most important decisions since a significantly large part of the client's money is spent on the media time and/or space. The media department has acquired increasing importance in an agency's business as large advertisers seem to be more inclined to consolidate media buying with one or few agencies thereby saving money and improving media efficiency.

Creative department

To a large extent, the success of an ad agency depends upon the creative department responsible for the creation and execution of the advertisements. The creative specialists are known as copywriters. They are the ones who conceive ideas for the ads and write the headlines, subheads and the body

copy. They are also involved in deciding the basic theme of the advertising campaign, and often they do prepare the rough layout of the print ad or the commercial story board.

Creation of an ad is the responsibility of the copywriters and the art department decides how the ad should look.

Production department

After the completion and approval of the copy and the illustrations the ad is sent to the production department. Generally agencies do not actually produce the finished ads; instead they hire printers, photographers, engravers, typographers and others to complete the finished ad. For the production of the approved TV commercial, the production department may supervise the casting of actors to appear in the ad, the setting for scenes and selecting an independent production studio. The production department sometimes hires an outside director to transform the creative concept to a commercial.

Finance and accounting department

An advertising agency is in the business of providing services and must be managed that way. Thus, it has to perform various functions such as accounting, finance, human resources etc. it must also attempt to generate new business. Also this department is important since bulk of the agency's income approx. 65% goes as salary and benefits to the employees.

D. TECHNICAL ASPECTS

1. Installed Capacity

The Ad agency can undertake the following types of jobs.

Installed Capacity	Qty, Nos Per annum
Print media advertisements	120
Visual Media advertisements	60

There is no restriction on installed capacity. The actual jobs to be done can be increased with the existing staff to higher levels without any increase in staff levels.

The compensation paid to advertising agencies by the media (broadcast or print) for purchases of time or space made on behalf of clients. Since the ad agency saves the media the expense of direct sales and billing, the media allows the agency a 15% discount, based on the gross advertising rate billed to the client. (The discount also serves as incentive to the agency.) For example: If XYZ Company spends Rs100000 on advertising placed through a recognized ad agency, the agency commission is Rs15000 and the balance of Rs.85000 is paid to the media. The agency commission system represents the basic financial structure of the ad agency business.

2. Office Equipments

The necessary office equipments are available locally.

Computer & printer and software for accounting-	2.00	
Telephone	0.05	
Tables & Chairs	2.00	
	4.05	

3. Land and Building

Total area of 1000 sq.ft is sufficient, which can be arranged on lease basis. The monthly rent is around at Rs.10000 advance Rs. 100000.

4. UTILITIES

Power :

The unit does not require power and to run the office equipments commercial power connection is sufficient.

Water : Water is required for human consumption only.

Transport:

Transport facilities are required and the site to be selected is to be located near Main Road.

Manpower

Labour requirement of the unit is estimated as follows.

MANPOWER

Category	Nos	Salary p.m	Total
Artists-Creative personnel	2	15000.00	30000.00
Marketing executives	2	10000.00	20000.00
Account executives	1	12000.00	12000.00
Administrative assistants	2	7000.00	14000.00
			76000.00
Salaries per Annum			912000.00
Total Salaries per Annum			9.12
			lakhs

5. Implementation Schedule

If finance can be arranged the project can be implemented within a month's period.

6. Assumptions

Revenue	Commission earned – News paper ads- 15% on Advalues 120 nos Rs.10000 each .(Advalue assumed Rs67000 each) Visual media ads- 15% on Ad value 60 nos Rs.20000 each.(Ad value assumed Rs134000 each) Annual increase 10% every year.
Power charges	Rs.3000 per month
Salaries	Rs.9.12 lakhs per annum
Rent	Rs.10000 per month
Telephone charges	Rs.2500 per month
Traveling expenses	Rs.10000 per month
Printing and stationery	Rs.10000 per month
Repairs and maintenance	Rs.5000 per month
Depreciation	Wdv method
Promotional exp	Rs.20000 per month
Books and periodicals	Rs.5000 per month
Misc exp	Rs.5000 per month
Interest on term loan	Term loan not provided
Income tax	33.22% on taxable income

FINANCIAL ASPECTS

1. COST OF PROJECT	Rs lakhs
Land & Building-Rental Advance (1000 sq.ft)	1.00
Office Equipments	
- Computer & printer	2.00
- Telephone	0.05
- Tables & Chairs	2.00
	4.05
Pre-Operative Expenses	0.10
Margin for Working Capital	0.05
	<u>5.20</u>

2. MEANS OF FINANCE

Capital	2.16
Term Loan	3.04
	<u>5.20</u>

3. COST OF PROFITABILITY STATEMENT

	Rs. Lakhs		
Year	1	2	3
Installed Capacity			
Print media ads No of cases	120	132	145
Visual media adsNo of cases	60	66	73
Utilisation (%)			
Sales Value (Rs. lakhs)	<u>24.00</u>	<u>26.40</u>	<u>29.04</u>
Power	0.36	0.38	0.40
Wages & Salaries	9.12	9.58	10.05
Rent	1.20	1.26	1.32
Telephone Charges	0.30	0.32	0.33
Travelling Conveyance	1.20	1.26	1.32
Printing & Stationary Exp.	1.20	1.26	1.32
Repairs & Maintenance	0.60	0.63	0.66

Depreciation	0.61	0.52	0.44
Promotion Exp.	2.40	2.52	2.65
Books & Periodicals	0.60	0.63	0.66
Miscellaneous Exp.	0.60	0.63	0.66
Total	18.19	18.98	19.82
Profit Before Tax	5.81	7.42	9.22
Provision for Taxes	1.80	2.29	2.85
Profit After Tax	4.02	5.13	6.37
Add: Depreciation	0.61	0.52	0.44
Total Cash Accruals	4.62	5.65	6.81

3. PROFITABILITY RATIOS BASED ON 80%

<u>Profit after tax</u>	<u>6.37</u>	
Sales	29.04	22%
<u>Profit before Interest & Tax</u>	<u>9.22</u>	
Total Investment	5.20	177%
<u>Profit after Tax</u>	<u>6.37</u>	
Promoters Capital	2.16	295%

4. CALCULATION OF BREAK EVEN LEVEL

FIXED EXPENSES

Wages & Salaries	10.05
Repairs & Maintenance	0.66
Depreciation	0.44
Rent	1.32
Telephone Charges	0.33
Printing & Stationery	1.32
	<u>14.13</u>

Profit Before Tax 9.22

$$\text{BREAK-EVEN LEVEL} = \frac{\text{FE}}{\text{FE} + \text{P}} \times 100\%$$

61%