WPP Group plc

Annual Report and Accounts 1988

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CORPORATE STRATEGY

Strategic Service Vision

To become *the* major multi-national marketing services company to service the increasingly complex and international needs of our clients – the major national and multi-national companies.

By providing a comprehensive and, where necessary, integrated range of media and non-media marketing services of the highest quality to meet clients' strategic and tactical marketing needs.

Through a dominant presence, not only in the major consumer markets of the world but also in the smaller but more rapidly developing worldwide markets.

Through this focused operating strategy, and through a lean organisation and limited hierarchy, to provide stimulating career opportunities in all these areas for young, energetic and talented professionals who are primarily concerned with the qualitative aspects of their work. At the same time, to seek to provide incentive and financial reward and minimise the separation between ownership and control, between manager and entrepreneur, and between *'hunter'* and *'farmer'*, by encouraging as many as possible to own a significant share of the company, either directly or indirectly.

Progress So Far

1986, the first full year following our change in strategic direction from manufacturing to services, saw the company build a dominant position in the United Kingdom in non-media advertising and develop a strong base in specialist communications in the United States.

The organic growth achieved during 1987, together with major developments by acquisition concluded at the same time, positioned us to achieve our strategic objective more rapidly and more effectively.

In 1988, we concentrated on consolidating our operations worldwide and addressing functional or geographic weaknesses (opportunities) through 'in-fill' acquisitions or start-ups.

Financial Strategy

To increase earnings per share by at least 20% per annum through organic growth, including improvement in market share and profit margins.

To enhance this growth by acquiring companies that fit our strategic service vision and that can be acquired on financial terms that enhance earnings per share.

To maximise the cash flow of the Company and to limit capital expenditure to that level required to maintain its long-term competitive position.

To pay out one-third of after-tax earnings in dividends to shareholders.

David Maister, of Maister Associates and a former Associate Professor at the Harvard Business School, who specialises in the management of professional service firms, divides the most successful organisations amongst professional service businesses into two distinct and contrasting types of firms – "hunters" and "farmers". The former are designed to capture and capitalise on the benefit of individual (or small group) entrepreneurialism; the latter to obtain the advantages of collaboration, strategy and focus. Here are some key elements of each:

Characteristics	*Hunters*	*Farmers*
Philosophy	Results measurement (almost exclusively)	Greater use of judgements
Planning Systems	Mostly financial	Strategic
Profit Centres	Strongly used, tied to compensation	For accounting purposes only
Attitude to Overheads	Resist with vigour	Prepared to invest
Internal Structure	Loose, frequently shifting	More organised
Level of R & D	Lower	Higher
Size of Operating Groups	Smaller	Larger
Size of Engagement Team	Smaller	Larger
Best Marketing Opportunities	Emerging practice areas	Practice areas with scale
Optimum Positioning	Creative Innovative Frontier	Reliable Efficient Thorough
Reaction to Market Shifts	Good at small, fast shifts	Better at getting organized for systemic change
Levels in Client Organisation	Anywhere	Aim for higher
Attitudes to Growth	Opportunistic, prime goal	Studied, secondary goal
Use of Mergers	High	Lower
Key Appraisal Characteristic	Revenue production	More varied roles for individuals
Turnover	High, especially through "quitting"	Also high, but more asked to leave
"Fast Track" Opportunities	High	Low

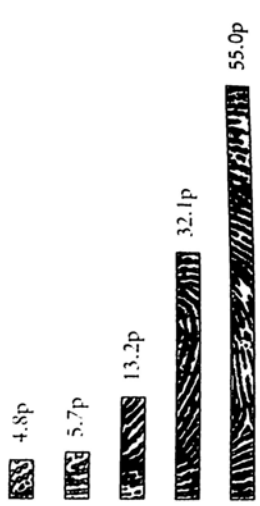
RESULTS IN BRIEF

	1988 £000	1987 £000	% increase
Turnover	**2,251,306**	1,097,775	**105**
Revenue	**547,129**	284,082	**93**
Operating Profit	**51,436**	21,454	**140**
Profit before Taxation	**40,318**	14,117	**186**
Profit after Taxation	**21,388**	7,307	**193**
Profit attributable to the Shareholders	**21,122**	7,085	**198**
Earnings per 10p Ordinary Share	**55.0p**	32.1p	**71**
Earnings per ADS	**$1.96**	$1.08	**81**
Dividend per 10p Ordinary Share	**17.8p**	6.4p	**178**
Dividend per ADS	**$0.63**	$0.22	**186**
Operating Margins*	**9.5%**	7.5%	**27**
Pre-Tax Margins*	**7.4%**	4.5%	**64**

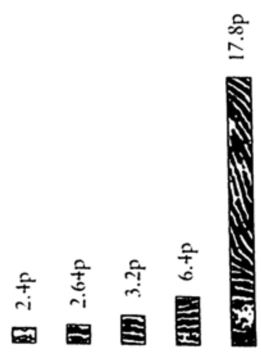
**Pro-forma Basis*

Profit before Tax per Employee (£)

Revenue per Employee (£)

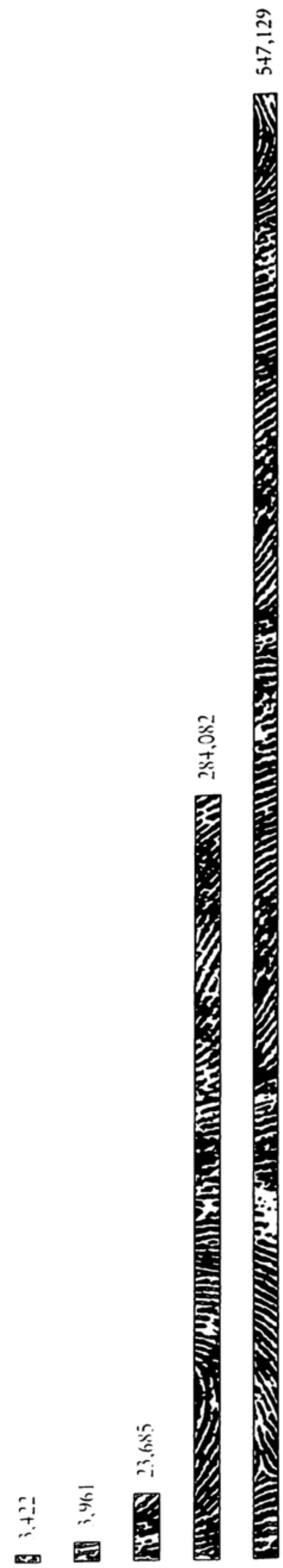


Earnings per Share



Dividends per Share

Profit before Tax (£000)



Revenue (£000)

FINANCIAL HIGHLIGHTS

*Sales by Activity**

Strategic Marketing Services 1%
Media Advertising 49%
Public Relations 15%
Market Research 6%
Non-Media Advertising 15%
Specialist Communications 13%
Manufacturing 1%
**Pro-forma Basis*

*Profit by Activity**

1% Strategic Marketing Services
49% Media Advertising
11% Public Relations
7% Market Research
16% Non-Media Advertising
15% Specialist Communications
1% Manufacturing
**Pro-forma Basis*

*Sales by Geography**

United Kingdom 24%
United States and Canada 52%
Rest of the World 24%
**Pro-forma Basis*

*Profit by Geography***

United Kingdom 32%
United States and Canada 38%
Rest of the World 30%
***Pro-forma Basis and after Acquisition Debt Interest*

Shareholders by Country

United Kingdom 78%
Europe 8%
United States and Canada 13%
Others 1%

Shareholders by Type

Pension Funds, Insurance & Investment Companies 73%
Individuals 7%
Others 5%
Employees 15%

1988 Cashflow by Item

Cash in £175.9 million

Cash from Pre-Tax Profits plus Depreciation £51.9 million
Sale of Property £110.5 million
Change in Working Capital £13.5 million

£155.9 million Cash Out

£63.2 million Acquisition of Subsidiaries
£16.2 million Tax Paid
£2.3 million Dividends Paid
£5.7 million Purchase of Fixed Assets
£68.5 million Loans Repaid

Increase in net cash £20 million

CHAIRMAN'S STATEMENT

I am happy to report that 1988 was the sixth successive year of growth.

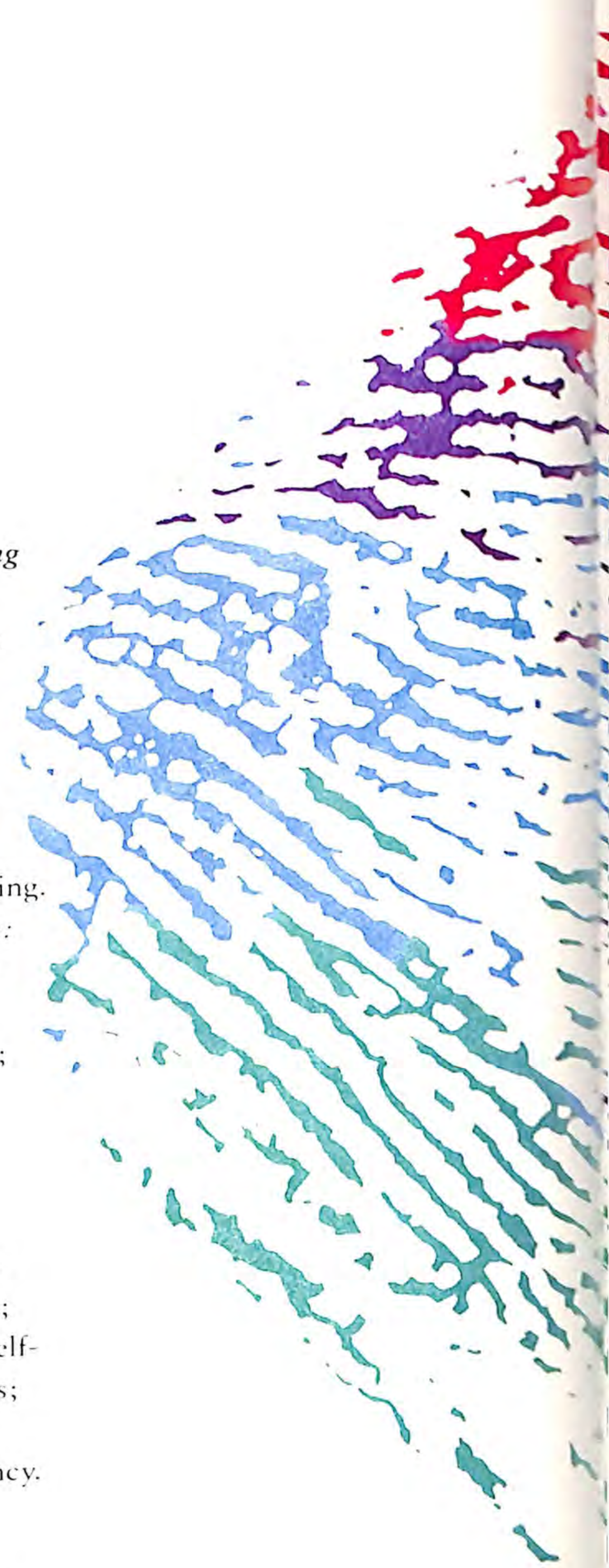
In 1988 revenues almost doubled from £284.1 million ($477.3 million) to £547.1 million ($974.7 million). Profit before tax was up 186% to £40.3 million ($71.8 million) from £14.1 million ($23.7 million) and earnings per share by 71% from 32.1p to 55.0p (107.9¢ to 196¢ per ADS). The Directors are recommending a final dividend of 12.4p net, making a total for the year of 17.8p, 178% up on last year.

On a directly comparable basis operating margins have improved from 7.5% to 9.5% reflecting an improvement in operating efficiency. Most importantly, primarily due to the continued improvement of margins at both J Walter Thompson Company and Hill and Knowlton, the pre-tax operating margins of the former JWT Group actually reached the targeted 10% in the last half of the year – two and a half years ahead of the schedule established at the time of the rights issue in July 1987. This compares with 4.5% in 1986, 6.5% in 1987, 8.4% in the first half of 1988 and 9.2% for the whole of 1988.

On the same basis, Group pre-tax margins rose from 4.5% to 7.4% reflecting improved liquidity, and at the year-end the Group had net debt of £31.7 million ($57.3 million). Accordingly net debt was approximately $209 million (£116 million) less than that incurred in the acquisition of JWT Group Inc, even after subsequent acquisition payments of $122.5 million (£68 million).

The reduction in net debt reflects the sales of freehold properties in Japan, Australia and the United States which after payment of tax will have resulted in an increase in net cash of over $100 million, and working capital improvements of over $60 million which are expected to continue.

WPP Group Companies' Six Service Sectors



Non-Media Advertising

Graphics & Design: Architectural services; exhibition and display; furniture, industrial and product design; interior design and implementation; packaging; space planning.

Incentive & Motivation: Business seminars and entertainment; staff incentive programmes; conference and travel management.

Sales Promotion: Consumer and trade promotions; premium schemes; point-of-sale; coupon redemption; self-liquidating promotions; on-pack offers; trade promotions; consultancy.

Audio Visual Communications: Corporate and training videos; demonstrations, exhibitions and conferences; equipment installation, servicing and hire; presentations, product launches and trade shows; production, editing and standard transfer; internal communication, training and recruitment material.

Strategic Marketing Services
Social, economic and market forecasting; formation of total corporate strategy; econometric modelling; total environmental changes tracked through regular publications.

Market Research
Consumer, media, corporate communication and policy research; advertising research, pre-testing and evaluation; design and management of international market studies; new product development and testing.

Media Advertising
The planning, production and placing of advertising for multi-national and national advertisers in all categories.

Specialist Communications
Ethnic, business-to-business, corporate, entertainment, pharmaceutical, travel, recruitment, retail and flotation advertising; annual reports; direct mail and direct marketing; investor communications; corporate identity.

Public Relations
National and international corporate communications; crisis communications; product publicity; public affairs and management counselling.

The Group tax rate fell from 48.2% in 1987 to 47.0% in 1988 reflecting more structured tax planning. The Company believes that there is scope for a further reduction in the Group's tax rate for the current year.

These results were achieved despite an 8% strengthening in the pound in 1988 as compared with 1987. Internal growth accounted for over two-thirds of the earnings per share improvement of 71%.

Review of Operations

In 1988 the Group added *net* new business revenues of over £80 million ($144 million) equivalent to *net* billings of £534 million ($960 million).

Media Advertising

J Walter Thomson Company *alone* added net billings of over £235 million ($422 million). This compares with a net loss of £67 million ($120 million) in 1987 and is indicative of the outstanding results achieved by Burt Manning and his management team, in first consolidating and strengthening existing client relationships, then expanding them, and finally developing an aggressive new business programme. Emphasising that attention was not only being given to the top line, J Walter Thompson Company as a whole achieved its demanding budgets for the year, and at year-end Chicago, Detroit, New York, Los Angeles and San Francisco in the United States, as well as Canada, Italy, France, Netherlands, Belgium and Portugal were well ahead of their individual budgets. By carefully evaluating where resources should be allocated, these targets were achieved at the same time as the agency invested a record amount in its worldwide creative function and in its creative product.

Despite the difficult circumstances facing the new management team at Lord, Geller, Federico, Einstein, following rationalisation, the agency added several new accounts in the last half of the year including Codex, a subsidiary of Motorola, Lederle Laboratories/American Cyanamid and Sheridan Distributors, Inc. Additional business was awarded the agency from existing clients Contel and Schieffelin & Somerset. A judicial decision concerning the injunction and its continuation has still not been issued, although a temporary restraining order has de facto remained in force since 5th April 1988. The company intends to pursue its claim for money damages against the defendants, including Young and Rubicam.

Public Relations

At Hill and Knowlton the situation was as encouraging as at J Walter Thompson Company. The Hill and Knowlton management team generated net new business revenues of over £17 million ($30 million), and the encouraging level of new business activity seen in the first half of 1988 continued into the second half, so much so that pre-tax profits for the year were over £4.5 million ($8 million) against £1.6 million ($3 million) at the half-way stage, and compared with break-even in 1987 and a loss of £2.7 million ($4 million) in 1986. Profit centres in Canada, Germany, Italy, UK, Netherlands, Belgium, Spain and Japan performed particularly well against budget.

Market Research

MRB Group ended the year ahead of budget with particularly strong performance at Simmons in the United States, at BMRB in the UK and at JMRB in Japan.

Strategic Marketing Services, Non-Media Advertising and Specialist Communications

Growth in strategic marketing services and in non-media advertising and specialist communications continues as both national and multi-national clients become increasingly concerned about rising costs of network television, declining network television audiences, media fragmentation and the increasing geographical and functional complexity of their tasks. Revenues continue to grow by approximately 20% per annum, with potential margin improvement sufficient to give at least 20% pre-tax growth.

Several of our companies in these areas performed particularly well – including the Henley Centre in strategic marketing services; Einson Freeman, Mando, P & L International Vacationers, Scott Stern, Stewart McColl, EWA and MetroVideo in non-media advertising, and Pace Communications and Anspach Grossman Portugal in specialist communications.

Manufacturing

Our manufacturing division (our industrial roots), had a record year with sales of over £4.5 million and profits over £0.5 million.

New Business

Amongst new assignments won last year in each division were:

Strategic Marketing Services

Allied Breweries
Allied Irish Banks
Allied-Lyons
Bass
British Telecom
BUPA
Europcar
General Foods
The Independent
Milk Marketing Board
Ranks Hovis McDougall
Sterling-Winthorp
Warner-Lambert

Media Advertising

Alfa Romeo
Alitalia
Allied-Lyons
American Cyanamid
BAT
Bell Atlantic
Benetton
Brooke Bond Oxo
HP Bulmer
Carling O'Keefe
Chevron
Chesebrough-Pond's
Citibank
Crown
Del Taco
Deutsche Bank
Diners Club
Dunlop
ST Dupont
EftPos
Electrolux
Elida Gibbs
Eli Lilly
ERG
Esso
Findus
Fleischmann
Ford
GEC
Gerber
Glaxo
Golden Wonder
Goodyear
Greek Government
Health & Tennis Corp
Hello Magazine
Heineken
Hewlett-Packard
Hyatt International
Irish Tourist Board
ITT
ITV Association
SC Johnson
Johnson & Johnson
Kellogg
Kentucky Fried Chicken
Kodak
Kraft
Lever Bros
Levi Strauss
London Regional Transport
Mattel
McDonnell Douglas
3M
Motorola
Nabisco
National Westminster Bank
Nestlé
Oscar Mayer
Philips
Quaker Oats
Ranks Hovis McDougall
Reckitt & Coleman
Reebok
R J Reynolds
Royal Mail
Rowntree
Samsung
Sanyo
Scott
Seagram
Seat
Shell
Southland Corp (7-Eleven)
Sterling Drug
Swaddlers
Tenneco
Unigate
Unilever
Wardair
Warner-Lambert
Wellcome

Public Relations

Allstate
American Airlines
American Standard
Ameritech
Arthur Andersen
Barclaycard
Cetus Corp
Chase Manhattan Bank
CIBA-GEIGY
Citicorp
Colgate-Palmolive
Co-operative Retail
Coopers & Lybrand
Crown Estate
Daewoo Corp
Dean Witter
Dowty Group
EftPos
Eli Lilly
Exide Corp
GEC
Geest
Gerber
GTE Spacenet
Goldman Sachs International
Hitachi
IBM
ITV Association
Indonesian Government
Johnson & Johnson
Kellogg
Kodak
KPMG
Kraft
Lever Industrial
McDonald's
3M
Monsanto
Nestlé
New York Stock Exchange
PepsiCo
Philips
Procter & Gamble
Prodigy
Quaker Oats
Racal
Republic of Turkey
RJ Reynolds
Rowntree
Schering-Plough
Seagram
Shell
SmithKline Beckman
Southland Corp (7-Eleven)
US Steel
Sterling Health
Texas Instruments
Thomson-McKinnon
Unilever
United Artists
Vaux Group
Warner-Lambert
Wellcome
Wendy's International
Wyeth Pharmaceuticals
Xerox
Yamaha

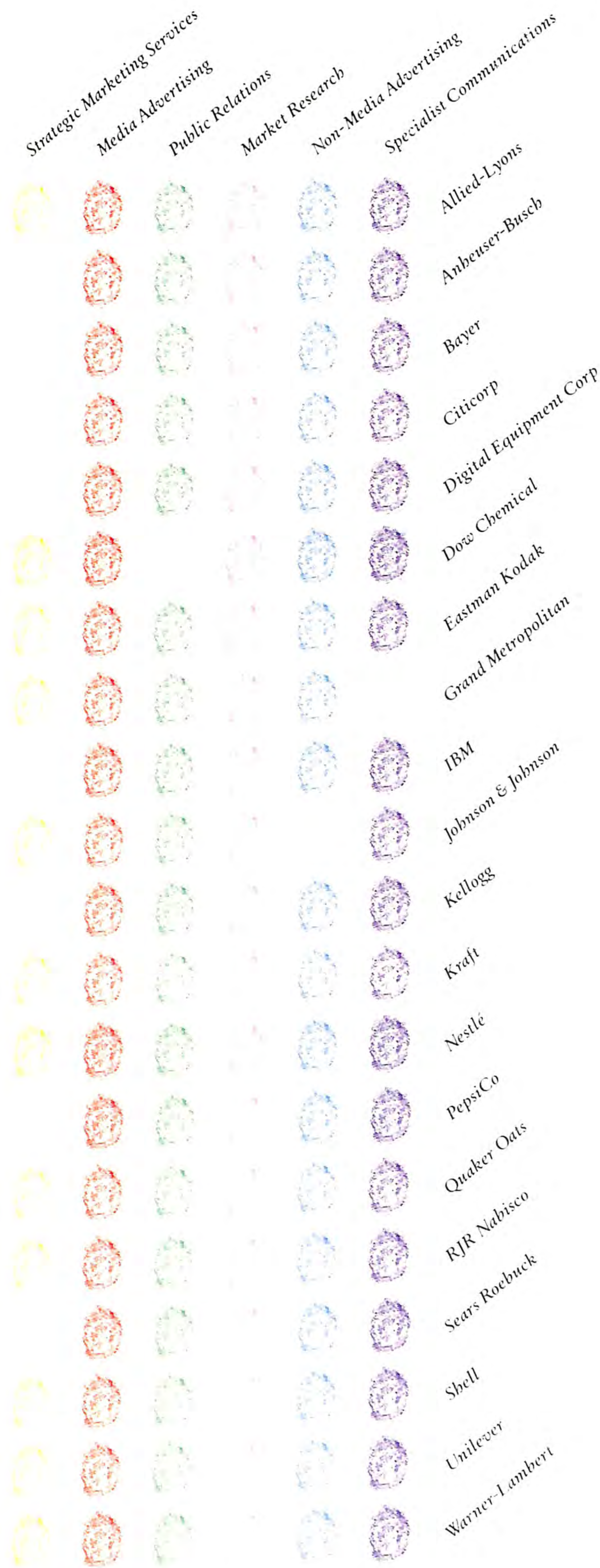
Market Research

Abbey National
American Express
Anheuser-Busch
Arthur Bell
Asda
Barclays Bank
Bass
BAT
Beecham
British Airways
British Gas
British Telecom
Brooke Bond Oxo
Central Office of Information
CIBA-GEIGY
Crown
De Beers
Department of Trade and Industry
Digital
Ford
Gillette
Guinness
Hertz
ICI
Kellogg
Kimberly-Clark
Kodak
Lever Bros
LWT
3M
Parker Pen
Philip Morris
Price Waterhouse
Prudential
Regional Electricity Boards
Scottish & Newcastle
Sealink
Shell
Unilver
United Biscuits
United Distillers
Wellcome
Wrigley Company
Yamaha

Non-Media Advertising

Alberto Culver
Allied-Lyons
American Express
Anheuser-Busch
Arthur Bell
Arthur Young
AT&T
Austin Rover
Barclaycard
Bass
BBC
Booker McConnell
Boots
British Airways
British Gas
British Oxygen
British Petroleum
British Rail
British Telecom
Brooke Bond Oxo
BUPA
Burger King
Burton Group
Cadbury Schweppes
Carnation
CIBA-GEIGY
Citibank
Citizen
Clorox
Colgate-Palmolive
Co-operative Retail
Coopers & Lybrand
Crown Estate
Del Monte
Digital
EftPos
Elders IXL
Eveready
Esso
Firestone
Ford
Frito-lay
General Foods
Gillette
Grand Metropolitan
Habitat
Heublein
Homebase
House of Fraser
International Paint
Kodak
KP Foods
KPMG
Kraft
Legal & General
Lever Bros
Levi Strauss
Lex Service
London Regional Transport
Mattel
Metal Box
Miller Brewing
3M
Monsanto
Nabisco
New York Stock Exchange
PepsiCo
Post Office
Quaker Oats
Ralston Purina
RJ Reynolds
Royal Mail
Royal Opera House
J Sainsbury
Scottish & Newcastle
Sealink
Securities & Investment Board
Shell
Standard Chartered Bank
Tenneco
Texaco
TSB
Unilever
Unisys
United Rum Merchants
USAir
Wyeth Pharmaceuticals
Xerox
Yamaha

Clients Served
by Sector



Specialist Communications

American Express
AT&T
Beatrice
Chesebrough-Pond's
Digital
Eli Lilly
Firestone
Ford
General Foods
Gillette
Goodyear
Hewlett-Packard
Irish Tourist Board
Johnson & Johnson
Kellogg
Konica
Kraft
Lever Bros
Levi Strauss
Mattel
McDonnell Douglas
Miller Brewing
Nestlé
Nabisco
Pan Am
Pfizer
Philip Morris International
Pitney Bowes
Quaker Oats
Rothmans
Seagram
Schering-Plough
Sears
STC
Texaco
Unilever
Wang
Warner-Lambert
Wendy's International

The Group now serves over 360 major national or multi-national clients in two or more services (as opposed to 78 the previous year) reflecting the increasing opportunity for cross-referral between activities both nationally and internationally. It works with 153 clients in three or more services (as opposed to 41 at December 1987) and with 60 clients in five or more countries (as opposed to 37 at December 1987). The Group now serves over 200 of the Fortune 500. The Group employs 11,335 people in 289 offices in 50 countries.

Clients Served Worldwide

Business Mix and Growth

These results reflect organic growth rates of over 20% in strategic marketing services, 10% in media advertising, 15-20% in public relations and market research, over 20% in non-media advertising and specialist communications, and 10% in manufacturing. In addition they include a first-time contribution from a series of internally-financed "in-fill" acquisitions which have reinforced the Company's position as one of the top three marketing services companies in the world.

Acquisitions During 1988

Each of these acquisitions has addressed specific geographic or functional opportunities. As a result the Group now includes *the* (best and largest) retail design group in the world; a major corporate identity and consultancy business in the US; a major sales promotion company in the

IBM	Nestlé	Benetton	Rolex	RJR Nabisco	Kellogg	McDonnell Douglas	Eastman Kodak	Warner-Lambert	Unilever
ARGENTINA	ARGENTINA	AUSTRALIA	ARGENTINA	ARGENTINA	ARGENTINA	ARGENTINA	ARGENTINA	ARGENTINA	ARGENTINA
CANADA	BELGIUM	AUSTRIA	AUSTRIA	BELGIUM	AUSTRALIA	AUSTRALIA	AUSTRALIA	AUSTRALIA	AUSTRALIA
CHILE	BRAZIL	BELGIUM	BELGIUM	BRAZIL	AUSTRIA	AUSTRIA	AUSTRIA	AUSTRIA	AUSTRIA
CHINA	CHILE	BRAZIL	BRAZIL	CANADA	BELGIUM	BELGIUM	BRAZIL	BELGIUM	BELGIUM
DOMINICAN REPUBLIC	COLUMBIA	CANADA	CANADA	CHINA	BRAZIL	BRAZIL	CANADA	BRAZIL	BRAZIL
GUATEMALA	GUATEMALA	CHILE	CHINA	COLUMBIA	CANADA	CANADA	CHILE	CANADA	CANADA
HONG KONG	HONG KONG	DENMARK	DENMARK	ECUADOR	CHILE	CHILE	COLUMBIA	CHILE	CHILE
INDONESIA	INDIA	FINLAND	FINLAND	FRANCE	DENMARK	DENMARK	ECUADOR	COLUMBIA	CHINA
KOREA	ITALY	WEST GERMANY	FRANCE	WEST GERMANY	ECUADOR	FINLAND	FINLAND	DENMARK	COLUMBIA
NEW ZEALAND	MALAYSIA	GREECE	WEST GERMANY	GREECE	FINLAND	FRANCE	FRANCE	DOMINICAN REPUBLIC	DENMARK
PERU	MEXICO	INDIA	HONG KONG	GUATEMALA	FRANCE	WEST GERMANY	WEST GERMANY	ECUADOR	ECUADOR
PHILIPPINES	NETHERLANDS	ITALY	ITALY	HONG KONG	WEST GERMANY	GREECE	GREECE	FINLAND	FRANCE
PUERTO RICO	NORWAY	JAPAN	JAPAN	JAPAN	GREECE	HONG KONG	GUATEMALA	FRANCE	WEST GERMANY
SINGAPORE	PERU	MEXICO	MEXICO	MALAYSIA	GUATEMALA	INDIA	HONG KONG	GREECE	GREECE
SOUTH AFRICA	PORTUGAL	NETHERLANDS	NETHERLANDS	MEXICO	ITALY	INDONESIA	INDIA	GUATEMALA	GUATEMALA
SRI LANKA	PUERTO RICO	NORWAY	NORWAY	NETHERLANDS	JAPAN	ITALY	INDONESIA	HONG KONG	HONG KONG
TAIWAN	SINGAPORE	PORTUGAL	PHILIPPINES	NEW ZEALAND	MALAYSIA	KOREA	ITALY	INDIA	INDIA
THAILAND	SPAIN	SPAIN	PORTUGAL	PERU	MEXICO	MALAYSIA	JAPAN	ITALY	INDONESIA
TURKEY	SRI LANKA	SWEDEN	SPAIN	PUERTO RICO	NETHERLANDS	MEXICO	MALAYSIA	JAPAN	ITALY
UNITED KINGDOM	TURKEY	SWITZERLAND	SWEDEN	SPAIN	NEW ZEALAND	NETHERLANDS	MEXICO	KOREA	JAPAN
URUGUAY	UNITED KINGDOM	UNITED KINGDOM	UNITED KINGDOM	SWITZERLAND	NORWAY	NEW ZEALAND	NETHERLANDS	MALAYSIA	MALAYSIA
UNITED STATES	UNITED STATES	URUGUAY	URUGUAY	TURKEY	SINGAPORE	NORWAY	NEW ZEALAND	MEXICO	MEXICO
		UNITED STATES	UNITED STATES	UNITED KINGDOM	SOUTH AFRICA	PHILIPPINES	NORWAY	NETHERLANDS	NETHERLANDS
			VENEZUELA	URUGUAY	SPAIN	PORTUGAL	PERU	NORWAY	NEW ZEALAND
				UNITED STATES	SWEDEN	SINGAPORE	PHILIPPINES	PERU	NORWAY
				VENEZUELA	SWITZERLAND	SPAIN	PORTUGAL	PHILIPPINES	PERU
					THAILAND	SWEDEN	PUERTO RICO	PORTUGAL	PHILIPPINES
					TURKEY	SWITZERLAND	SINGAPORE	PUERTO RICO	PORTUGAL
					UNITED KINGDOM	THAILAND	SPAIN	SINGAPORE	SINGAPORE
					UNITED STATES	TURKEY	SRI LANKA	SOUTH AFRICA	SOUTH AFRICA
					VENEZUELA	UNITED KINGDOM	SWEDEN	SPAIN	SPAIN
						URUGUAY	TAIWAN	SRI LANKA	SRI LANKA
						UNITED STATES	THAILAND	SWEDEN	SWEDEN
						VENEZUELA	TURKEY	SWITZERLAND	SWITZERLAND
							UNITED KINGDOM	THAILAND	TAIWAN
							URUGUAY	TURKEY	THAILAND
							UNITED STATES	UNITED KINGDOM	TURKEY
							VENEZUELA	UNITED STATES	UNITED KINGDOM
								VENEZUELA	URUGUAY
									UNITED STATES
									VENEZUELA

US, a major direct marketing company with offices in 17 cities in 13 countries; the leading Dutch advertising agency; a strategic marketing counsellor to the Group's clients initially in the UK and Europe; a leading public relations firm in the Pacific Rim; a leading Belgian advertising agency; a leading healthcare marketing company with nine offices in five countries; and one of the leading recruitment agencies in the US.

Sales and Profits by Function

Following the latest acquisitions, on a pro-forma basis, 1% of Group sales and 1% of pre-tax profits are now represented by strategic marketing services, 49% and 49% by media advertising, public relations represent 15% and 11%, market research 6% and 7%, non-media advertising 15% and 16%, and specialist communications 13% and 15%. Manufacturing still accounts for 1% and 1%.

Sales and Profits by Geographical Area

Operations in the US and Canada account for 52% and 51%, UK 24% and 26%, and the Rest of the World 24% and 23%. It should be noted that the Group's borrowings which are mainly dollar denominated have tended to reduce the proportion of US dollar profits. Including the impact of interest, operations in the US and Canada account for 38% of pre-tax profits, the UK 32% and the Rest of the World 30%.

"Start-Ups" in 1988

Contrary to popular belief the Group has not grown exclusively by acquisition. 1988 saw the Group's geographic and functional capabilities also strengthened by several "start-ups". In Europe, Conquest Europe commenced operations in January 1988 and profitably handled over £24 million ($44 million) of media advertising through eleven offices in eleven countries. It services not only Alfa Romeo but also Atkinsons, Cartier, Evian, Ferragamo, Gonzales Byass, Hoechst, Mazzola, Monroe, Platinum Guild, Rizzoli, R J Reynolds, Time and Yamaha. Based in Milan this parallel media advertising network is ideally positioned to capitalise on the actual and perceived significance of 1992 and service rapidly expanding European national and multi-national companies. In addition J Walter Thompson's geographic coverage has been strengthened by a start-up in Taiwan. By the year end, after nine months of operation, the agency is profitable and in that country's Top Ten with Citibank, Ford, IBM, Johnson & Johnson, Kodak, Lever Brothers, R J Reynolds, Warner-Lambert and Wedgwood as clients.

In Public Relations, a parallel network has been initiated with the re-emergence of Carl Byoir in New York. Pursuing a more focused strategy, Carl Byoir will capitalise on the strength of its brand name, and provide new opportunities for key staff and be able to serve conflicting business. Hill and Knowlton has also initiated a co-operative arrangement with the Sumitomo Group in Japan. In addition J Walter Thompson and SampsonTyrrell have set up joint media advertising and design companies in the UK, and Walker Group/CNI have set up a joint venture with Nomura Display in Japan which has already secured over $1 million of fee income. The Group will continue to explore such start-up opportunities, whilst bearing in mind the necessity to reach adequate levels of profitability in the short-term.

Achievement of Short-Term Financial Objectives

As these results indicate, the Group has largely achieved two short-term financial objectives established at the time of the rights issue to finance the acquisition of JWT Group in June 1987. Gearing will have been reduced from $260 million to $100 million (after payment of tax) and the former JWT Group's pre-tax margin has improved from 4% to 10% by the last half of the year, the average for the major multi-national marketing services groups. In 1989 it is anticipated that this margin level will be achieved throughout the year. Beyond 1989, it is believed that this margin could be improved to 11% in 1990 and 12% in 1991, primarily reflecting J Walter Thompson Company's concentration on packaged-goods clients who in turn concentrate on more profitable television advertising, and the margin improvement opportunities at Hill and Knowlton, whose operating margins are still only 6% against industry averages of 10%–20%.

Evolving Role of the Holding Company

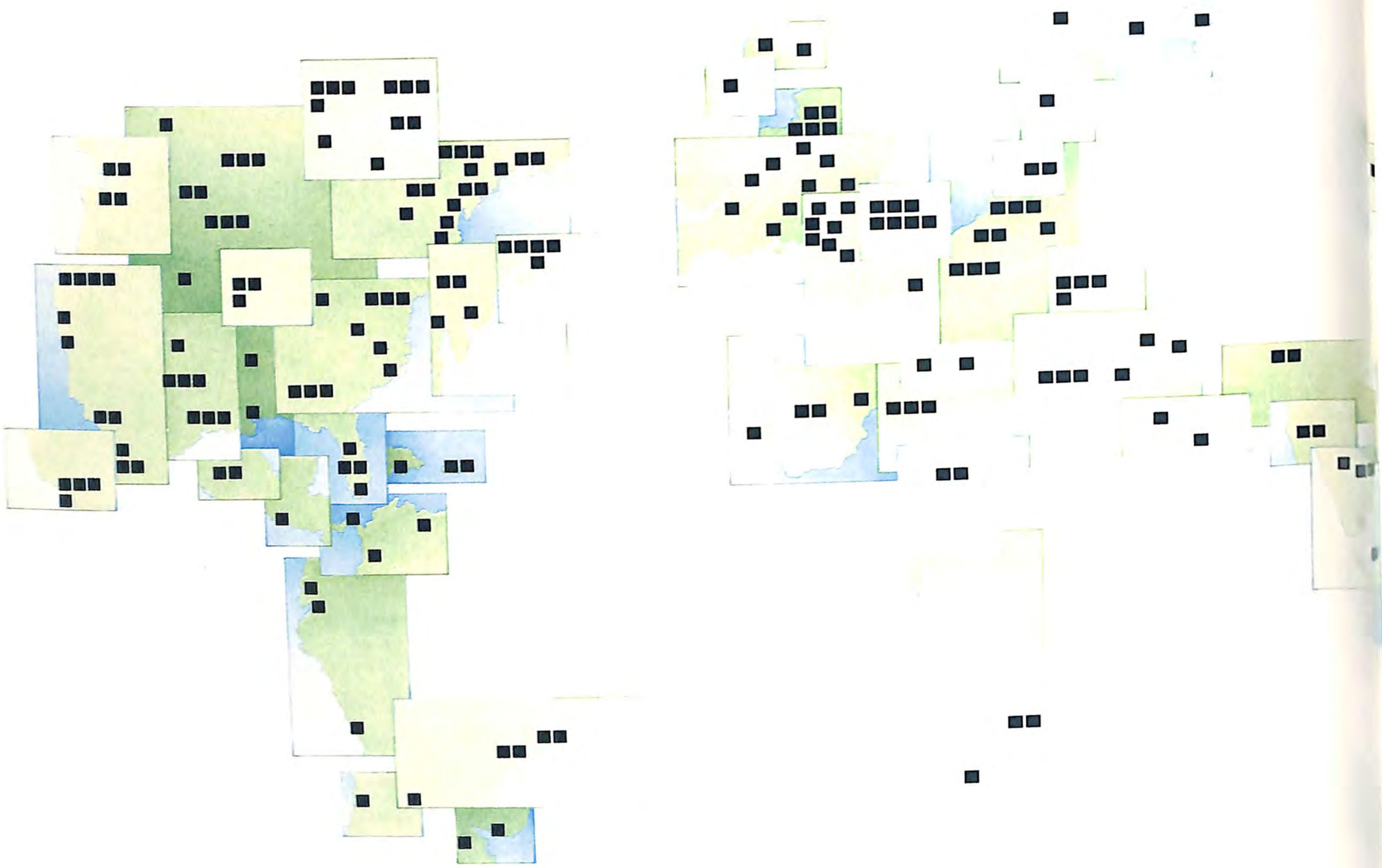
Reflecting this progress the holding company's activities have broadened from planning and monitoring financial strategy and performance to include encouraging cross-referral across divisions and countries.

Executive and non-executive appointments have recently been made in both the US and the UK to encourage Group companies to refer existing clients to each other and to develop targeted new business development programmes. This is now happening on a regular basis, so much so that in 1988 12.5% of new business revenues or $18 million out of a total of $144 million came from cross-referrals of this kind. This compares with 10%, or $10 million out of a total of $100 million for the year ending 30th June 1988, indicating a significant improvement. Moreover, potential cross-referrals of over $33 million were generated in 1988, equivalent to 23% of total new business. This compares with $20 million in the year ending 30th June 1988 which was equivalent to 20% of total new business, again a significant improvement. Greater attention is being given to "converting" these new business opportunities, and it is hoped that the conversion ratio will continue to improve from the current 54% and last year's 50%.

Given the increasing geographical and functional complexities of our clients' businesses, the Company believes cross-referrals will represent a rapidly-growing segment of our business and to this end intends to expand the cross-referral activity into Europe from the US and the UK. Organisational initiatives and appointments will be made in the near future.

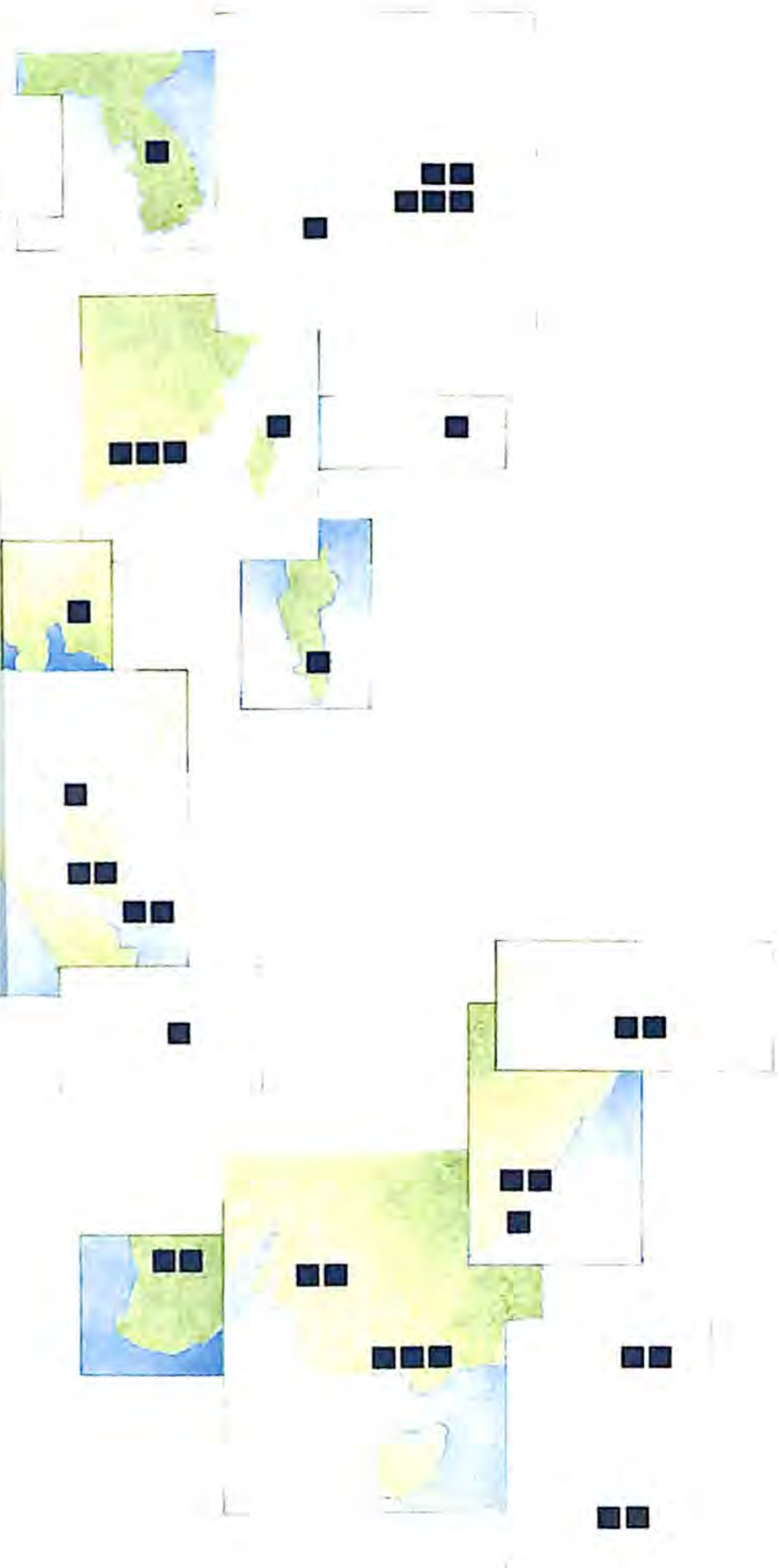
On the basis of experience to date, the Company believes that there are exceptional cross-referral opportunities in strategic marketing services, public relations and specialist communications. This is principally because companies in these areas like the Henley Centre, Hill and Knowlton and Anspach Grossman Portugal deal with clients at the highest levels on projects which demand a detailed understanding of the development and implementation of that client's strategies. Particularly pleasing results have been achieved over recent months with the following clients – DEA Mineralol, Ford, Kodak, Mattel, Motorola, Paramount, PepsiCo, Warner-Lambert and Wyeth.

Worldwide Offices



Developments Since Year End

Since the year end the Group has continued to implement its strategic objective – to become *the* major multi-national marketing services company. The acquisition of Timmons and Company in the US and PARG in Canada will further strengthen the public relations and public affairs capabilities of Hill and Knowlton Inc and will reinforce its position as the Number One public relations company in the world. The acquisition of Millward Brown Plc, a leading UK market research company, will strengthen the Group's ability to conduct continuous advertising tracking studies for clients in order to help them gauge the effectiveness of their advertising campaigns in the UK, US, Germany, France, Spain and Italy.



Adelaide
Amsterdam
Ankara
Arlington
Asuncion
Athens
Atlanta
Auckland
Aylesbury
Baltimore
Bangalore
Bangkok
Barcelona
Beijing
Bicester
Bogota
Bombay
Boston
Brisbane
Bristol
Brussels
Buenos Aires
Calcutta
Calgary
Canberra
Cape Town
Caracas
Charlotte
Chelmsford
Cheltenham
Chicago
Cincinnati
Cleveland
Colombo
Copenhagen
Dallas
Dayton
Denver
Detroit
Dubai
Dublin
Dusseldorf
Edinburgh
Epsom
Fairfield
Frankfurt
Glasgow
Guatamala City
Guayaquil
Hamburg
Hartford
Helsinki
Henley on Thames
Hilo
Hong Kong
Honolulu
Houston
Hythe
Indianapolis
Istanbul
Izmir
Jakarta
Johannesburg
Kansas City
Kidlington
Kuala Lumpur
Leamington Spa
Leicester
Lima
Lisbon
London
Los Angeles
Lyndhurst
Madras
Madrid
Manama
Manila
Manchester
Melbourne
Memphis
Mexico City
Miami
Milan
Minneapolis
Montevideo
Montreal
New Delhi
New Orleans
New York City
Newport Beach
Oklahoma City
Orlando
Osaka
Oslo
Ottawa
Panama
Paramus
Paris
Philadelphia
Pittsburg
Penang
Perth
Phoenix
Quito
Reading
Rio de Janeiro
Richmond
Rochester
Rome
St. Louis
Salt Lake City
San Francisco
San Juan
San Mateo
Santa Clara
Santiago
Santo Domingo
Sao Paulo
Seattle
Seoul
Singapore
Southampton
Stamford
Stockholm
Swindon
Sydney
Taipei
Tampa
Tokyo
Toronto
Tring
Vancouver
Vienna
Waddesdon
Waltham
Washington DC
Wellington
Zurich

Subsequent to the acquisition of The Marketing Consultancy in April, a holding company is being formed with Scott Stern to co-ordinate the Group's UK sales promotion activities.

The Company intends to continue to develop and implement this selective programme of internally-financed in-fill acquisitions, with particular emphasis on Continental Europe and the Far East.

Brand Valuation

The Company has seriously considered and decided to incorporate the values of its brand names in its Balance Sheet. These revaluations total £175 million, are confined to J Walter Thompson Company and Hill and Knowlton, and are on a conservative basis. The Board feels that in the absence of such a revaluation the Balance Sheet would significantly understate the value of the Group's total and net assets and that traditional accounting concepts fail adequately to value intangible assets such as brand names and the values of which our clients are well aware. The Henley Centre, a Group company which has done similar work for our clients, prepared a report which was reviewed by our Investment Bankers, Samuel Montagu & Company, which values the Group's brands conservatively.

Future Prospects

The Group continues to trade satisfactorily, and the Board believes that the results for 1989 will reflect continuing progress. In the first three months of the year a number of significant new assignments have been awarded by clients including American Express, Boeing, British Gas, British Petroleum, British Rail, British Telecom, BUPA, Burton Group, Chesebrough-Pond's, De Beers, Eyelab, Ford, Freddie Mac, Guinness, Ministry of Defence, Mobil, Ogilvy & Mather, PepsiCo, Quaker Oats, Sunsweet and Unilever with a total value in excess of £20 million ($36 million) in revenue or £132 million ($238 million) in billings.

J R Symonds
Chairman

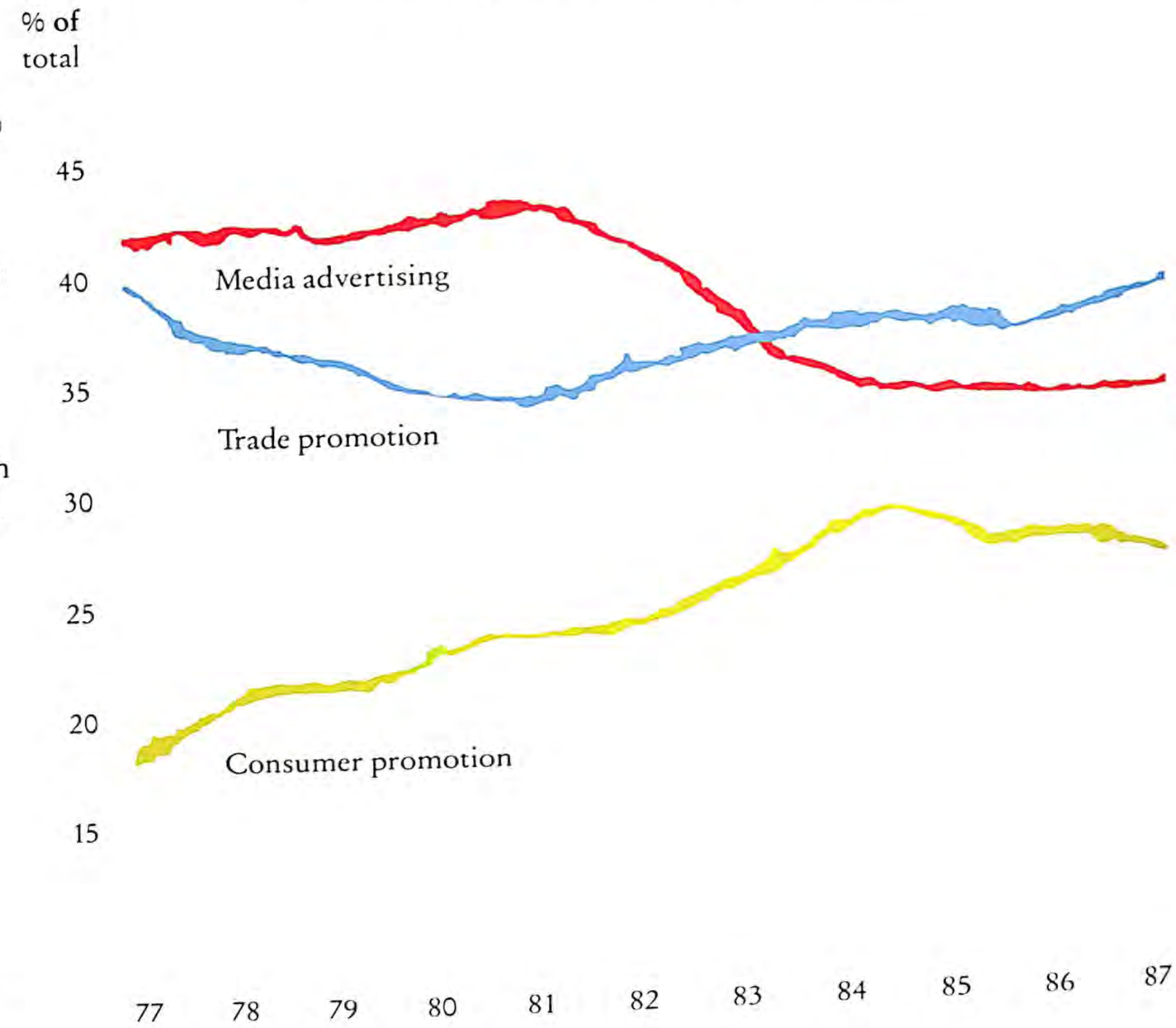
Marketing Services

THOUGHTS AND TRENDS

"Our established brands continue to prosper and contribute mightily to our earnings and our growth. We have further increased our marketing effort, devoting $450 million, or 8.6% of sales, more than triple the investment of a decade ago. Most important, half of our consolidated sales comes from products that are the number one brands in their respective national categories. This is due in no small measure to our significantly increased expenditures for marketing support coupled with competitive price and profit margin advantages made possible by low cost operator status at home and abroad."

Dr A J F O'Reilly
Chairman, President and Chief Executive
H J Heinz Company
Statement to Shareholders
Year to April 27th, 1988

US Advertising and Promotional Expenditure



Source: Donnelley Marketing

"It's self defeating for us to try and squeeze agencies on their profits. What we want is the best possible advertising and quality for our products. And, clearly, there has to be a bit of difficulty if you're constantly squeezing the people you're supposed to be getting it from. I'm not one of those in favour of ever trying to cut agency compensation (but), on the other hand, we pay top dollar, top commission . . . (and) we want the best creative work."

Hamish Maxwell
Chairman, Philip Morris
Advertising Age, November 1988

"I believe in advertising quite simply because I have seen throughout 25 years that the correlation between profitable – let me emphasize profitable – business growth on our brands and having great copy isn't 25%, it's not 50%, it's not 75% – it is 100%."

John Pepper
President, Procter & Gamble
Speech to the American Association of Advertising Agencies
May 1988

"Year after year, I see the creative output of every office. Year after year, I also see their profits.
My conclusion: 'The better the advertising, the more profitable the office. The worse the advertising, the more money the office loses.'"

David Ogilvy
The Unpublished David Ogilvy
'A note to heads of offices'
January 4th, 1980

"Financial success through professional excellence."

WPP Group plc
1988

"By the mid-1990s, the media and entertainment industry will consist of a handful of vertically integrated, worldwide giants. Time Inc will be one of them."

Time Inc
1988 Annual Report

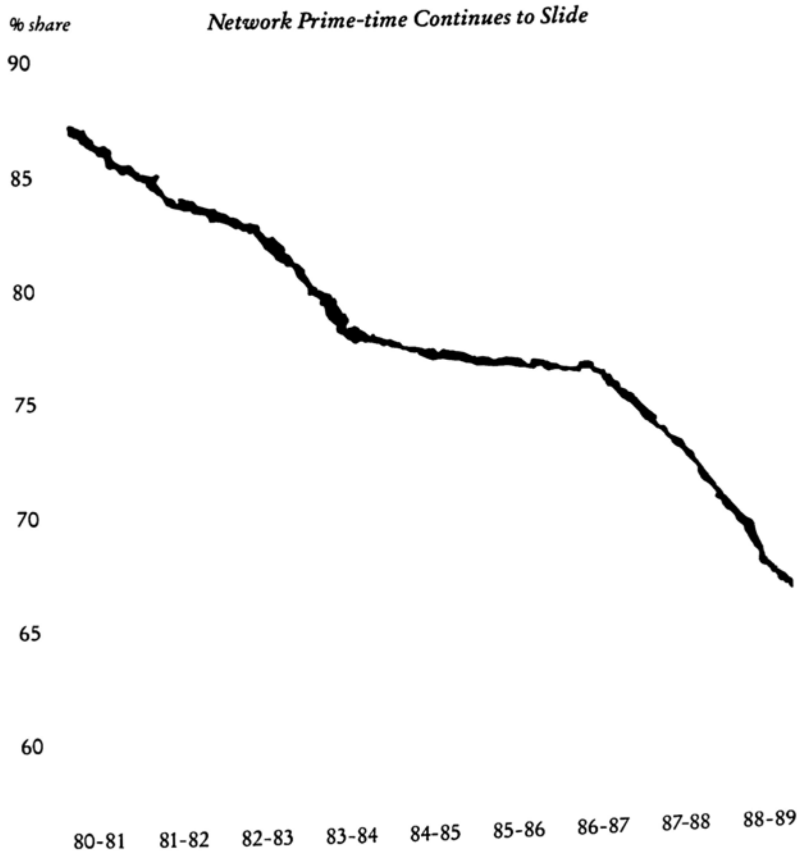
"In Japan, market share is pursued regardless of immediate costs and short-term losses. Long-term strategy invariably takes precedence over concerns regarding return on investment. In both the manufacturing sector and the service sector, market share is the ultimate measure of performance.

Once market share has been secured, profits will eventually follow. Synonymous with corporate success, market share is the laurel of victory."

Aron Viner
'The Emerging Power of Japanese Money'
1988

"The Europe of 1992 will not present the sort of consolidated, exclusive face that many of its current critics appear to think it will. You will continue to see the French pursuing French interests, the Germans pursuing their interests, the Italians pursuing everybody else's interests, the British continuing their sense of Olympian detachment."

Tony O'Reilly
Chairman
Independent Newspapers
February 1989



Source: Nielsen Media Research

"If we give the American people what they want to watch, their main viewing will be with the networks."

Laurence A Tisch
Chief Executive
CBS

"In spite of the fact that our audience isn't as commanding as it once was, we're still the best game in town."

Thomas S Murphy
Chairman
Capital Cities/ABC

"I don't think there's relevance to the numbers. There's no real difference between a 63 and a 55 share."

Robert C Wright
Chief Executive
NBC

MARKETING SERVICES – A LARGE AND RAPIDLY GROWING MARKET

The worldwide demand for marketing services is worth over $560 billion and is growing at between 12-15% per annum. According to Philip Rawstorne of the Financial Times, today there are three times as many advertisements displayed around the world as fifteen years ago. The average American is exposed to 1,600 advertising messages a day.

The industry can broadly be divided into two segments: media advertising, consisting largely of network and local television advertising, newspaper and magazine advertising, radio advertising and outdoor advertising; and non-media advertising, consisting of public relations, market research, graphics and design, incentive and motivation, sales promotion, audio-visual and video communications.

Media advertising accounts for approximately 39% of worldwide marketing services, is worth approximately $220 billion and growing at 10-12% per annum.

Perhaps surprisingly, non-media advertising is worth more at approximately $340 billion or 61% of the market and is growing more rapidly at 15-20% per annum.

Worldwide Marketing Services Expenditure – 1988
($ billion)

Marketing Services Segment	US	UK	France	Germany	Japan	Rest of the World	World Wide
Media Advertising	113.2	12.4	7.9	10.5	27.4	47.5	218.9
Public Relations	11.3	1.2	0.4	0.6	2.5	0.8	16.8
Market Research	1.8	0.6	0.2	0.3	0.3	1.3	4.5
Non-Media Advertising							
Graphics & Design	13.5	4.2	1.0	1.2	5.0	1.7	26.6
Incentive & Motivation	2.1	0.5	0.1	0.2	0.6	0.9	4.4
Sales Promotion	118.3	12.3	7.3	9.2	29.3	42.1	218.5
Audio Visual & Video	2.3	0.5	0.3	0.4	0.5	0.8	4.8
Specialist Communications							
Real Estate	1.0	0.2	0.1	0.2	0.4	0.2	2.1
Financial Communications	1.2	0.4	0.1	0.1	0.5	0.1	2.4
Ethnic	0.8	0.2	<0.1	<0.1	<0.1	<0.1	1.3
Public Affairs	3.7	0.8	0.2	0.3	0.9	0.3	6.2
Direct Mail	20.5	3.6	1.5	2.1	5.9	8.1	41.7
Recruitment	3.5	0.6	0.2	0.5	0.7	1.1	6.6
Healthcare	2.5	0.5	0.2	0.3	0.7	0.3	4.5
Total	295.7	38.0	19.6	26.0	74.8	105.2	559.3

Sources: Industry associations, government data, WPP Group

Size and Growth Rates of UK Marketing Services 1978–87

	Media Advertising		Sales Promotion		Public Relations		Direct Marketing	
	£bn	%	£bn	%	£m	%	£m	%
1987	6.18	12.4	6.53	7.0	816	15.3	575	11.2
1986	5.50	12.0	6.10	10.9	708	18.0	517	10.0
1985	4.44	9.4	5.50	10.0	600	20.0	470	9.3
1984	4.06	13.4	5.00	25.0	500	16.3	430	6.2
1983	3.58	14.4	4.00	14.3	430	22.9	405	9.5
1982	3.13	11.0	3.50	16.7	350	27.3	370	19.4
1981	2.82	10.2	3.00	10.7	275	37.5	310	3.3
1980	2.56	19.6	2.71	11.5	200	23.5	300	15.4
1979	2.14	16.9	2.43	13.6	162	14.1	260	18.2
1978	1.83	22.8	2.14	15.7	142	11.8	220	29.4
10 year growth rate		15.5		13.5		22.1		15.8
5 year growth rate		12.3		13.4		18.5		9.2

Sources: Advertising Association, Post Office, Keynote, DMPA, ISP, Hollis, IPR, PRCA

Worldwide Marketing Services Expenditure ($560 billion)

Factors behind the growth of the marketing services industry

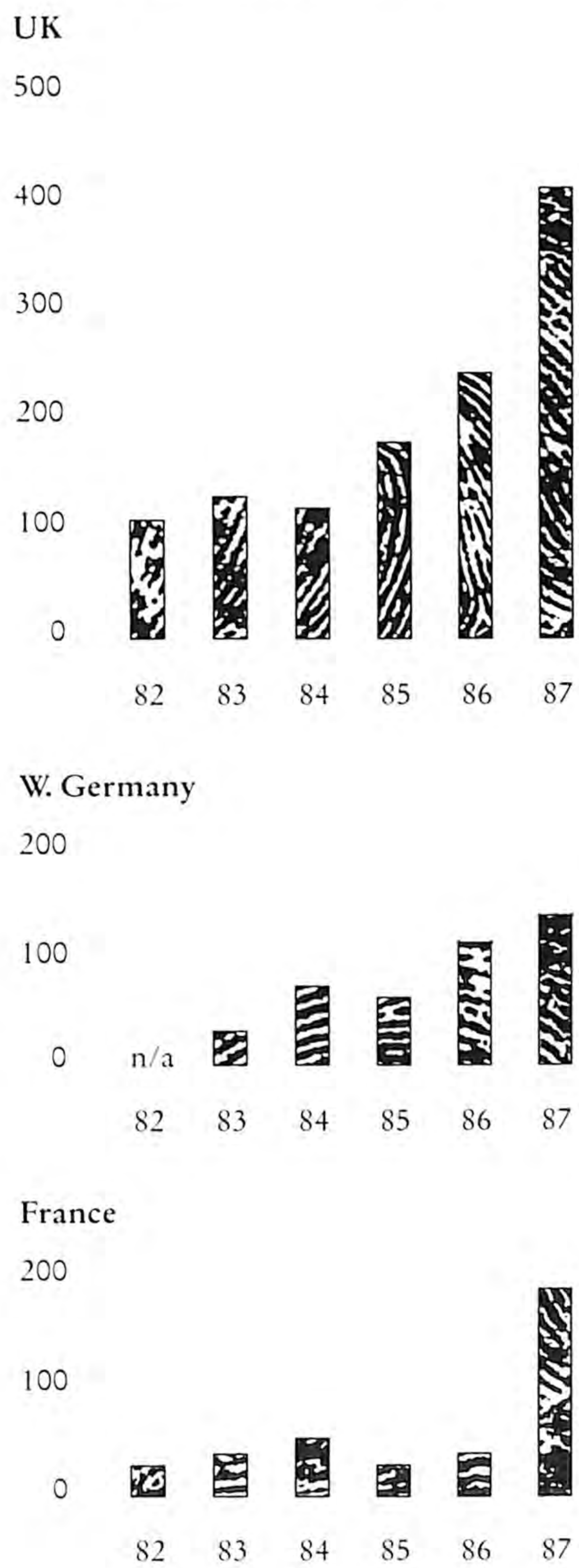
Generally, most major multi-national companies and national companies face increasingly complex marketing problems. Particularly, over the last 15-20 years, the geographical and functional spread of most corporations has increased markedly.

Over 40% of Hoare Govett's UK Quoted PLC's sales and profits come from outside the UK, while the comparable statistics for US is 20% with this proportion growing rapidly. In some north American industries, such as computers, overseas operations are much more significant.

In 1988 IBM, DEC, Hewlett-Packard and NCR all gained half or more of their total sales abroad.

Total number of cross-border takeover bids in Europe, North America & the rest of the world

By nationality of acquiring company



European proportion of total %

	82	83	84	85	86	87
UK	37	34	39	31	27	20
France	95	60	63	47	77	50
W. Germany	n/a	83	86	77	72	66

Source: Booz, Allen & Hamilton

Another indication of this trend is increasing cross-border takeover activity, an increasingly important part of which is originating in Europe.

In this environment these companies, our clients, are increasingly concerned with the careful development of their strategic marketing objectives, the possible integration of their communications programmes, the management of geographical complexity, and ways of maximising the effectiveness of their marketing budgets.

The demand for marketing services has been stimulated by diminishing opportunities for cost reduction, shortening product life-cycles, maturing market sectors, and the consequent need to add competitive value through product and brand differentiation.

The two rapidly growing segments of the marketing services industry

Media advertising is growing faster outside the US.

Recent growth in media advertising has been stimulated by a number of factors. It has proven to be the most reliable method of mass communication, reaching the largest number of consumers in the fastest way, at the lowest cost. It has proven to be the best vehicle for brand development and support, and an effective means of combating increasing retail concentration (in the UK, for instance, five supermarket groups now control over 70% of the total grocery market).

As a result, the US market for media advertising is today worth $113 billion, or around 50% of the worldwide market.

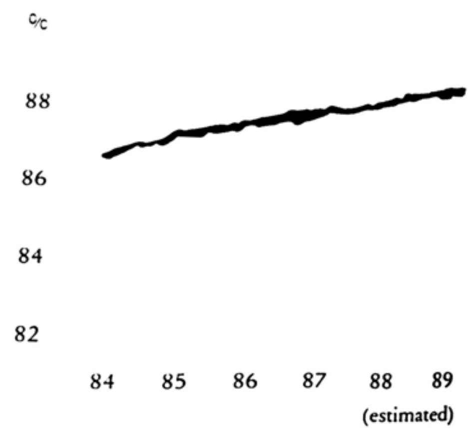
Double digit growth in the US in the early 1980s has slowed in the last four years to high single digits. In 1988 it actually reached 8%, which was higher than earlier estimates from industry pundits.

We have remained consistently bullish for the outlook for media advertising in the US. As Alan Gottesman of Paine Webber pointed out in October 1988, "Big-time ad buyers were chasing last-minute chances to get on the Olympics [and] at the same time they were committing significantly larger sums to their TV advertising plans for the upcoming regular year... Advertisers' willingness to step up late in the process to buy expensive ad time is an omen of strength in this economic sector in the year ahead, not weakness." We believe that this is basically because our clients, chiefly national and multi-national consumer goods companies, are committed to maintaining and developing the sales and market shares of their brands and are only too well aware of the risks and costs attached to attempting to re-establish a lost position.

Consider what William Smithburg, the chairman and CEO of Quaker Oats, calls "the strategy of buying brands". Companies such as Unilever or Philip Morris do not pay significant earnings multiples for firms with well-developed brands in order to reduce marketing expenditures and devalue the very (intangible) assets they are acquiring. Backing its prediction that Rowntree would be able to count on lavish marketing support from new owner Nestlé, *Fortune* noted in January 1989 that Carnation, Nestlé's previous large acquisition, had almost tripled its advertising and promotion spending in four years. Marvin Solomon, American Chicle marketing – VP, last year summed it up this way: "[Big takeover offers] are making companies realise again the value of brands. Already, media budgets are going up, because top management is seeing the value in top brands that the advertising community has long recognised." The same iron law – premium prices in the corporate market mandating premium marketing support for brands – also applies to leveraged buyouts such as RJR Nabisco, where any buyer would have to maintain or increase brand spending to preserve the value of their considerable investment. Interestingly, recent studies indicate that capital spending by LBOs is several times the industry average.

Nor is the emphasis on buying brands likely to go away. *Business Week* recently observed that "the economic imperative driving consolidation (in the food industry) is the search for growth. The volume of food sold in the US is rising by only 1% a year. Combine this with the sky-rocketing cost of rolling out new products, and it's easier and cheaper to buy market share than build it." According to John M McMillin, food-industry analyst for Prudential-Bache Securities, big brand names are helping the leading processors fatten their earnings. For the largest 20 companies, average gross margins widened to 35% last year, from 27% in 1982.

Brand-Name Sales as a Share of Total US Dry-Grocer Food Sales



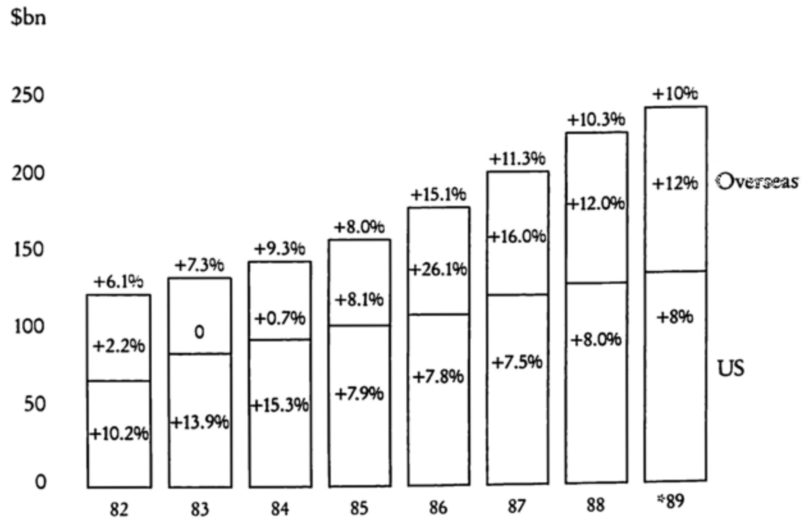
Data: Sami/Burke Inc, BW estimate for 1989

Focus on the top line has been further concentrated by clients' espousal during the 1980s of "low-cost producer" strategies, reducing headcounts and generally forcing themselves to become lean and mean. As *Business Week* recorded in September 1988, "since 1982 Mobil has slashed its white-collar payroll by 17%, Du Pont by 15%. Ford has trimmed its worldwide salaried ranks in 35 of the past 36 quarters. In the past 18 months alone General Electric's Medical Systems Group has cut its management ranks by 35%." Peter Drucker envisions that in 20 years the typical corporation will employ no more than a third of its current managers, with fewer than half the hierarchical levels.

However, it is only possible to cut costs once. On the other hand, in theory at least, revenues and margins can be increased indefinitely (at least until 100% market share). As a result, we expect to see, and indeed are seeing, heavier spending on brand development in the US.

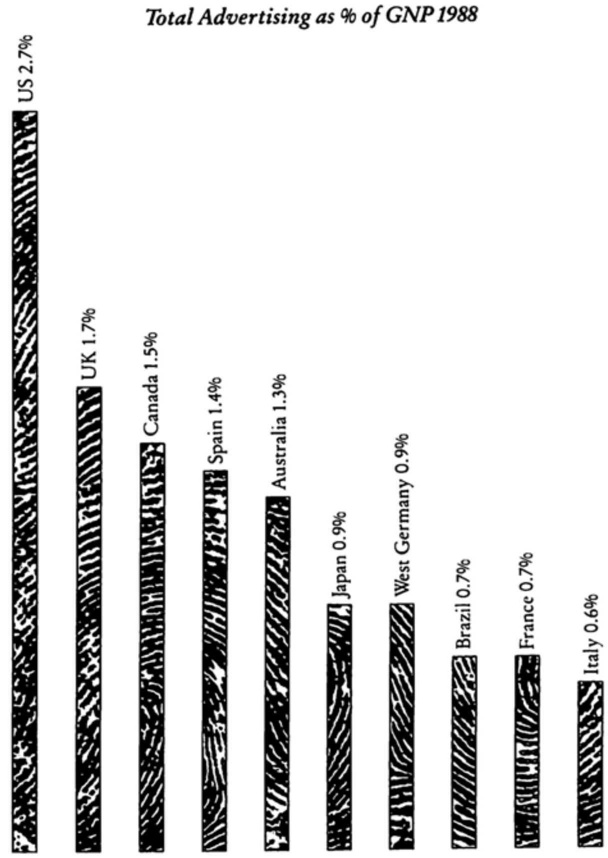
Yet outside the US media advertising expenditure is increasing even faster – on average over 12% per annum. This reflects two factors. Firstly, in the rest of the world levels of media advertising are proportionally half those of the US. Secondly, media deregulation, particularly television, has stimulated primary demand for TV advertising. High double digit growth in recent years in the UK, France, Italy and Spain reflects these developments, and the high-growth markets of the next five to ten years will be Continental Europe, South-East Asia and Latin America.

Worldwide Media Advertising Growth 1982–1988



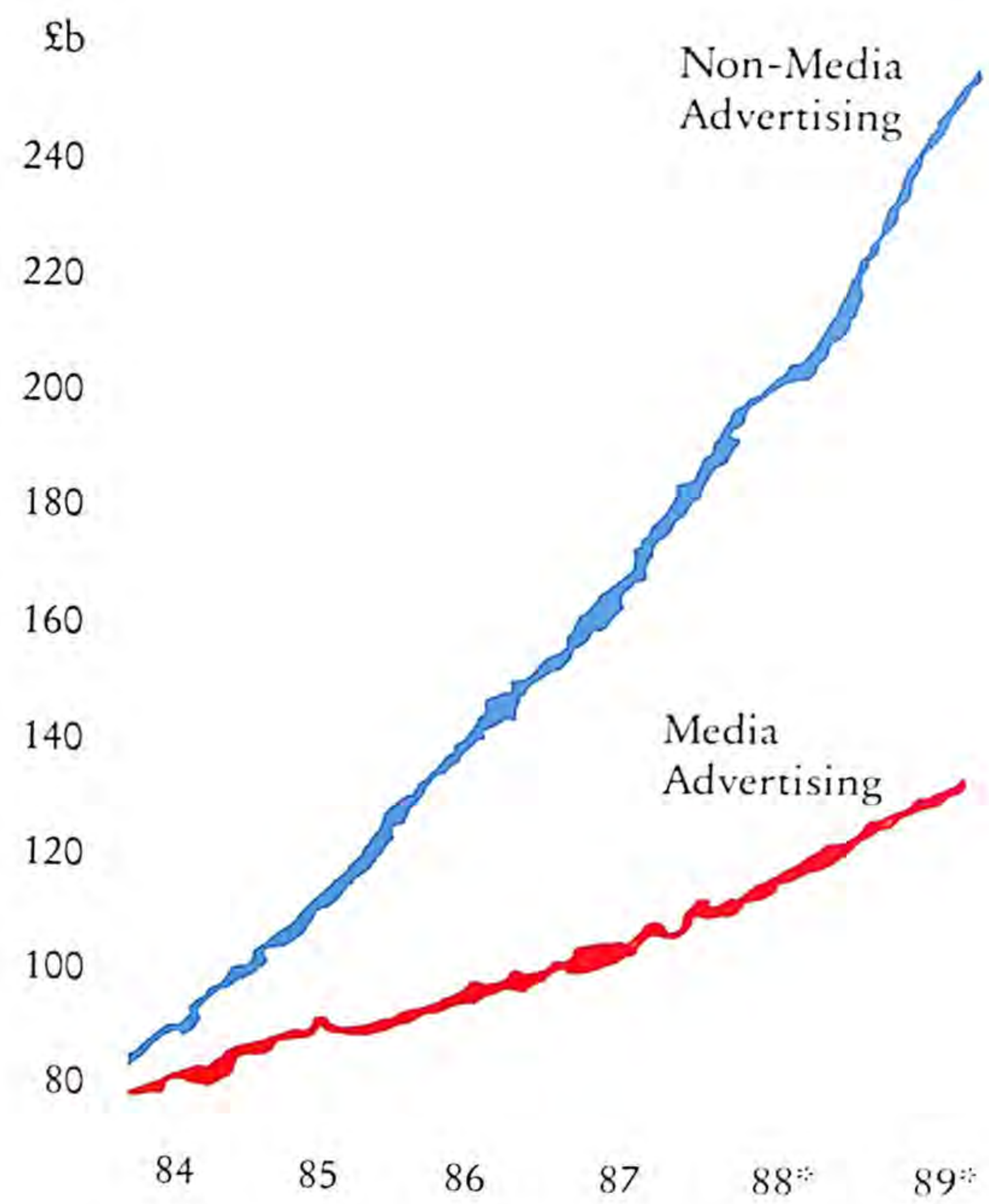
Source: McCann-Erickson

Total Advertising as % of GNP 1988



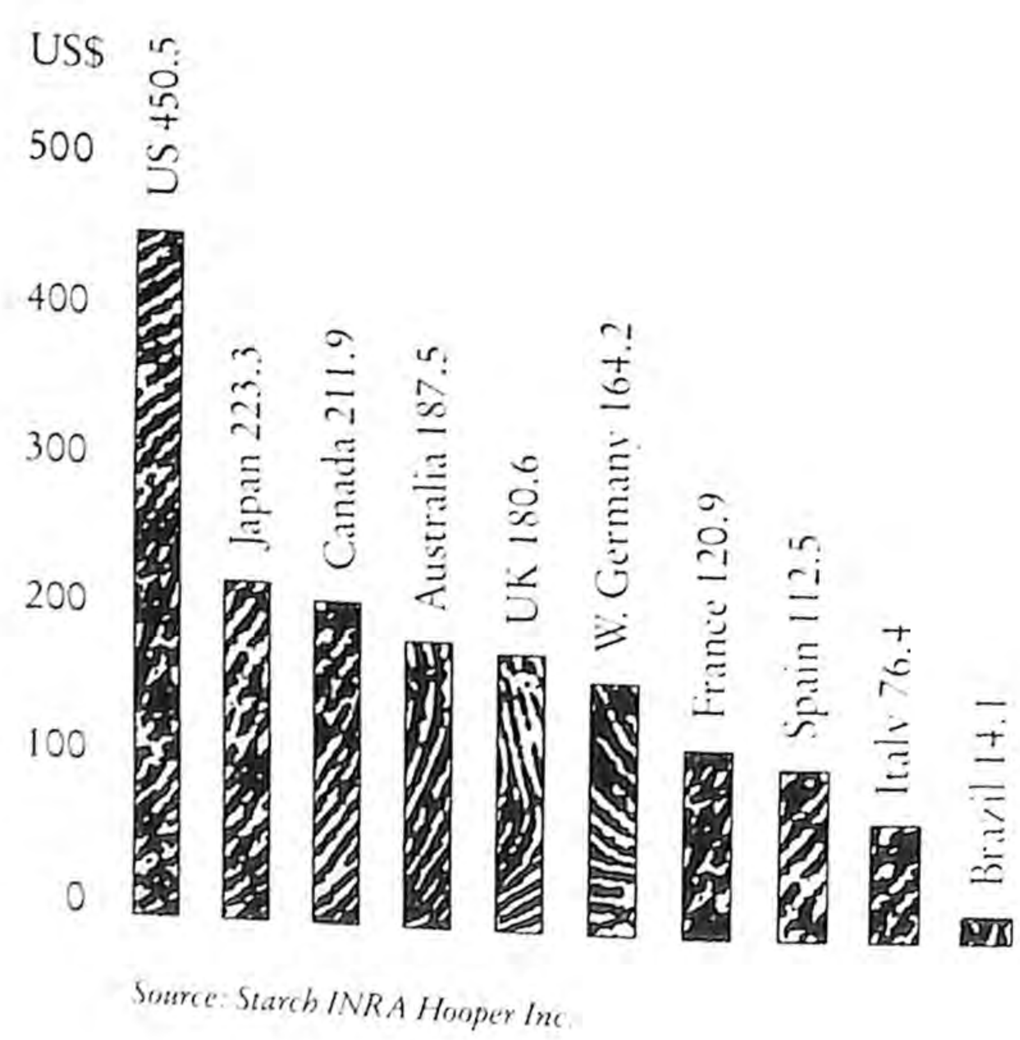
Source: Starch INRA Hooper Inc

Growth in Worldwide Marketing Services Expenditure 1983-1989



*projected
Source: Agency estimates, WPP Group

Advertising Spend per Capita 1987



Source: Starch INRA Hooper Inc.

Non-Media Advertising is growing faster than Media Advertising.

For several years non-media advertising has grown faster than media advertising. This is due to four factors, two short-term and two long-term.

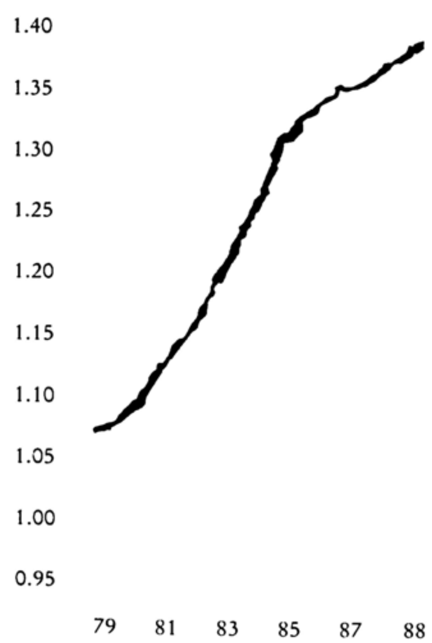
In the short term, low rates of inflation have made it difficult for our clients to pass on to the consumer increasing media costs, particularly in television. Even when prices have increased, "Global competition [now] provides a price discipline unmatched in previous times" (*Fortune* September 1988).

Over the last ten years, television advertising costs have increased significantly faster than the cost of living in four of the five major markets, which account for over 75% of worldwide advertising.

At the same time network audiences have fallen, and because of the increasing number of channels audiences have "decomposed" through zipping or zapping or boredom induced by low-quality programming. Network TV has also suffered under the competitive attack of cable television, syndicated programming and independent stations.

The result, as Alvin Achenbaum, chairman of Canter, Achenbaum Associates, points out, is that although TV remains an effective tool for creating brand awareness, "that's not enough. Marketers must deal more aggressively with all parts of the media mix, not just TV."

US National Advertising Expenditure as a % of GNP 1979-88



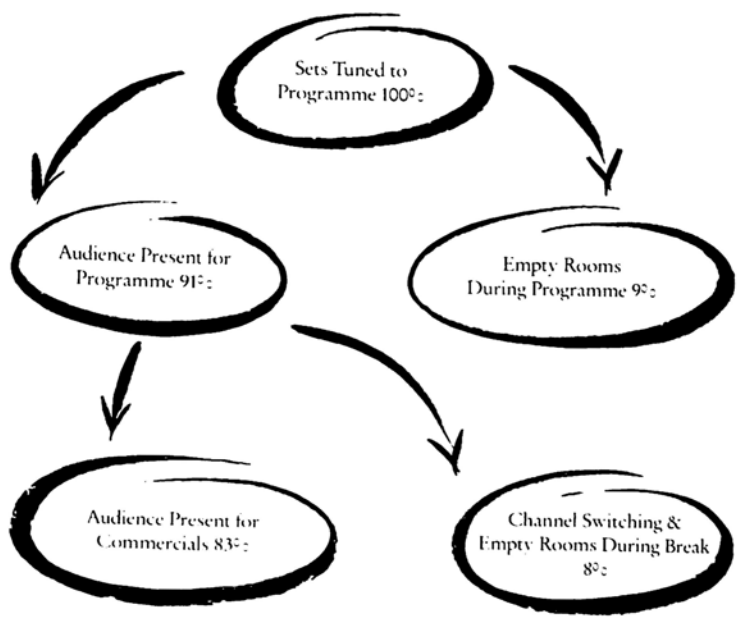
Source: L F Rothschild & Co

Roger Godber, corporate director of media at Colgate-Palmolive, echoes this view: "TV is showing signs of wear. We buy more [time] to compensate as it loses reach."

The second short-term factor favouring non-media advertising is the wave of agency mega-mergers, narrowly defined as where agencies are physically merged. These have affected traditional client-agency relationships either for perceived reasons of conflict of interest or because client masters believed they were being upstaged (or out-earned) by agency servants.

Yet the trend towards consolidation shows no sign of abating - perhaps ironically, largely because of continuing client rationalisation and the increasing pressure on agency compensation that results.

Decomposition of Audience



Source: R D Percy New York data, first quarter 1988, all stations (n = 16,978)

Both compensation and conflict deserve brief comment here. Although one consultant estimates that 19% of all clients have cut agency compensation, it is not just agencies which are arguing that this may be a false economy. Paine Webber's Gottesman, for one, has produced figures to show that gearing agency compensation to sales results rather than to ad spending enables both sides to benefit. Luckily (for agencies), some of the biggest advertisers in the world seem to be thinking along the same lines. In February 1988 Procter & Gamble widened the basis to which its full commission applied. Moreover, the increasing fragmentation of the media can only reinforce the agency's role in determining the right media for its client, thus giving the opportunity to add even greater value.

As to conflict, while few anticipate the advent of unworried Japanese attitudes any time soon, there may be signs that clients' worst fears are beginning to be allayed. Gottesman cites Procter & Gamble: "If you look hard at their current line-up, you'll find that even P&G will tolerate reasonable conflicts" (*Advertising Age*, November 1988).

Be that as it may, 1988 and early 1989 have seen increasing consolidation among both smaller and larger advertising agencies. One factor here is 1992. There have been several offers for US and UK marketing services businesses from privately-owned and bank-financed

French groups such as RSCG and BDDP, while in Japan Dentsu and Hakuhodo are expanding into the Pacific Rim and have their sights set on building their own networks worldwide.

Centralized media-buying is another factor. Last year the Ogilvy Group and Omnicom announced their intent to form a joint media-buying operation. Interest in such arrangements tends to be more European than American. The risk to advertising agencies remains that the formation of mega-media outfits may lead to the "unbundling" of agency services, which in turn will result in still greater pressure on compensation.

Taking all these trends into account, it seems inevitable that the marketing services industry will eventually be dominated by four or five major multi-national companies, and that there will be further consolidations, for example, among the 40 or so companies which make up the quoted UK marketing services sector. Most of these firms are too small to compete on a multi-national or multi-functional basis.

Concentration on concentration has been driven not only by the trend amongst clients, but also amongst media owners. The list of leading players in what has been called "the coming Euromedia drama" would include Murdoch and Maxwell in the UK, Bertelsmann, Bauer and Axel Springer in Germany, Berlusconi and Carlo de Benedetti (via Mondadori)

Global Reach: Five Media Giants...
Sales are translated into dollars at the average exchange rate for the period covered

	Home Country	Latest Annual Sales (in billions)	Books	Maga-zines	News-papers	Film/TV Pro-gramming	Broad-Casting	Cable Systems	Music
Time/Warner	US	$8.7	■	■		■	■	■	■
Bertelsmann	West Germany	6.6	■	■		■	■		■
Capital Cities	US	4.8	■	■	■	■	■		■
News Corp	Australia	4.4	■	■	■	■	■		
Hachette	France	4.1	■	■	■	■	■		
...and Three to Watch									
Sony	Japan	$7.6							■
Gulf & Western	US	5.1	■			■	■		
Maxwell	Britain	1.4	■	■	■				

Note: Sony and Gulf & Western derive a substantial portion of their sales from non-media operations
Source: Company reports; Datastream International

in Italy, and Hachette-Filipacchi in France. Supporting players might be Sweden's Bonnier, France's Havas and Hersant, Germany's Leo Kirsch and the UK's W H Smith.

The concentration strategy is based not only on cross-ownership of media, enabling media owners in the future to offer advertisers a complete media schedule, but cross-promotion as well. There seems no limit to how far the process can go. As David Reed noted in *Marketing*, March 1989, Berlusconi was originally a property developer who moved into broadcasting and programme-making in order to supply entertainment to his housing developments. Now, with three Italian TV networks and one in France, a production company and Publitalia, Italy's biggest ad agency, all in his ownership, he plans to offer advertisers a one-stop service, from creative idea to airtime. Not content with this, Berlusconi has since bought a controlling interest in Standa, Italy's biggest supermarket chain. "Is Standa getting favourable rates on TV advertising these days?" Reed wondered, adding: "That's not the half of it. Italian media-watchers believe that Berlusconi's plan is to offer the ultimate add-on to his one-stop media shop: preferential deals on shelf space. A small sign of things to come: Standa recently unleashed a promotional push for 3D glasses – to tie in with a 3D film being shown in one of Berlusconi's channels."

Some people may dismiss these developments as entrepreneurial idiosyncrasies. The fact is that few are immune from their implications. The linking of Kodak and Disney in a fifteen-year cross-sponsorship programme, or the investment by Interpublic Group in Talbot Productions, a producer specialising in TV game shows, acknowledged the potential of programme sponsorship. As Reed summed it up: "Media-buyers believe the programme-provider/programme-broadcaster tie-in may be the most important global synergy for media-owners – and one that will lead to big opportunities for advertisers." Perhaps the most telling example of the changing attitude is David K Braun, director, media and promotion services at General Foods. "Three years ago, nobody would sit down and discuss it [advertiser-generated programming]," he says. "But now we're talking."

There are two long-term and therefore more fundamental reasons why non-media advertising is growing faster than media advertising.

Firstly, measuring advertising effectiveness is extremely difficult. The remark attributed to Lord Leverhulme – "I know I waste half my advertising budget; the trouble is I don't know which half" – neatly sums up the dilemma. Over the last few years various methods have been developed to try and remedy this deficiency –sometimes with disappointing results, at least for the advertising industry. The most controversial recent findings were reviewed in Joanne Lipman's column in the *Wall Street Journal* in February 1989. After analysing single-source data for toilet paper and detergent purchases for a 250-person sample in Eau Claire, Wisconsin, Gerard Tellis concluded that "TV exposure has a very minimal effect."

Other forms of non-media advertising such as sales promotion are more easily assessable. As Alan Gottesman told the 1988 CPSA conference in Berlin, the opportunity for sales promotion lies in "its ability to communicate effectively and directly with a marketer's customer [and]... an ability to accomplish... goals despite the increasing power of the retail establishment [while]...the conventional tools of advertising are going to continue losing effectiveness."

Generally, there now seems to be a belief that complementary forms of media and non-media advertising should be used together. Philip Morris, in the person of vice-chairman William Murray, told Advertising Age in November 1988: "You've got to do both. We historically have been an advertising-driven company...[but] I don't think you see we can stop there because promotional spending is important and becoming more important."

Interestingly, Phil Boyer, senior VP for programme development at Capital Cities/ABC Video Enterprises, has described how two old standbys, TV and the telephone, are currently being recombined in an interactive method that allows advertisers to reach a desired audience on a national scale. Suppose Sears decides to advertise Black and Decker drills at a special price for the first 10,000 callers during a sports programme. In return, ABC undertakes to be able to handle the calls and to record accurate information on each caller through its automated system. "Advertisers will no longer judge their advertising buys on ratings," says Boyer. "They can begin judging them on cost-per-order."

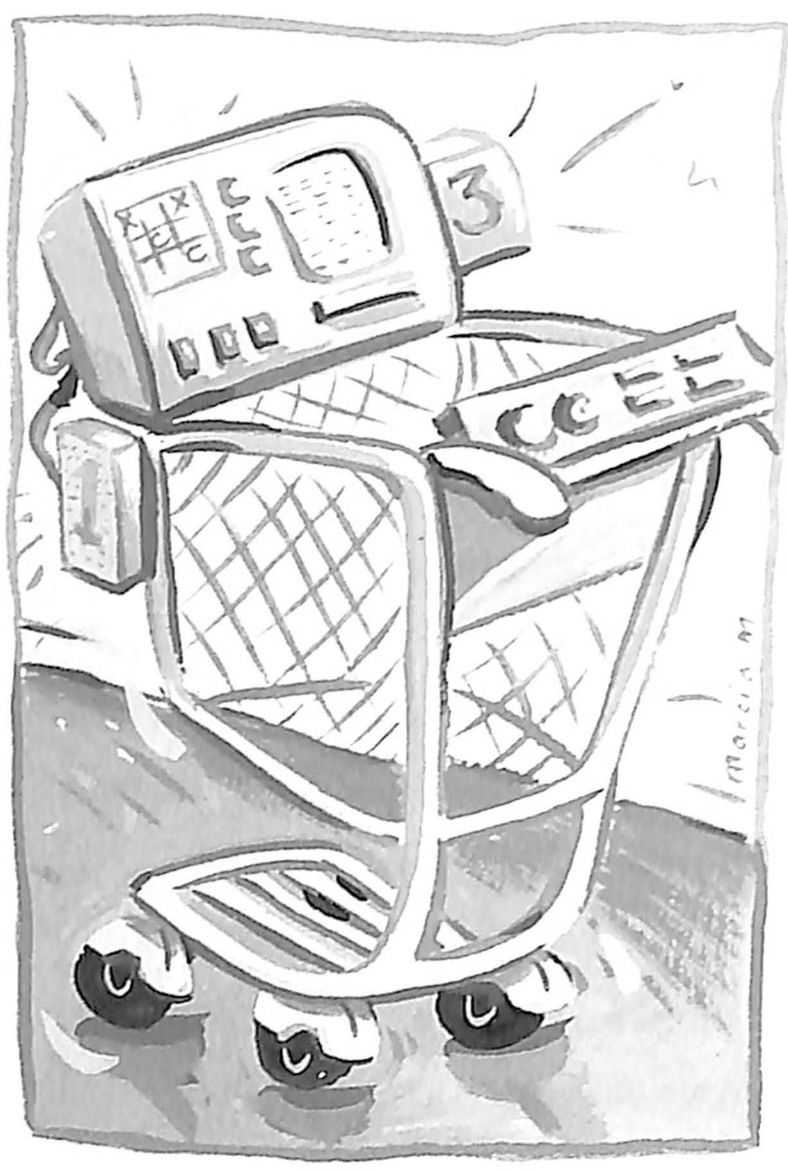
The second reason for faster non-media advertising growth is technological advance. The effect of the increasing use and shrinking costs of computers and the development of mailing and telemarketing techniques has been to fragment the market. And further market-shaking developments are on the way. As Alan Gottesman points out, first in line is optical fibre. A network of high-capacity optical fibre would in the first instance provide better telecommunications. More importantly, though, it would allow deregulated, innovation-minded phone companies to channel all sorts of electronic services – TV, data, security, automatic meter reading – into homes and offices. If each of America's 90 million households bought $20 of new services a month, the market would be worth an annual $20 billion.

The impact of the new vehicles can be gauged by the reactions of clients. According to *Advertising Age* (April 1989), "Procter & Gamble ...in a frenzy of activity...is evaluating participation in CBS – TV's prime-time promotional programme; testing commercials on home videos; and planning to drop coupons and product samples in amusement parks." "We'll test any game on the street," said Robert L Wehling, VP-marketing services. 'We're interested in building on tie-ins between media and promotions in a smart, synergistic way.'" The company uses sports and special events, sponsors a Spanish-language magazine which is distributed in doctors' and dentists' waiting rooms and beauty salons, and is experimenting with a whole range of other vehicles stretching from radio to American Health's wallboard programme in health and fitness clubs.

Perhaps the most extreme and bizarre example of non-media fragmentation is the high-tech grocery cart, "a high-tech video-equipped gadget that can say hello and offer games, shopping tips, sport scores, and... on the spot advertising to consumers," according to Associated Press. Obviously a market opportunity for the Wire and Plastic Products company where we have our roots, the VideOcart reflects "the use of in-store advertising – signs attached to shopping carts, sales pitches on store sound systems and the like – [which has] burgeoned in recent years, with spending growing at 14% a year over the past decade to an estimated $12.6 billion last year."

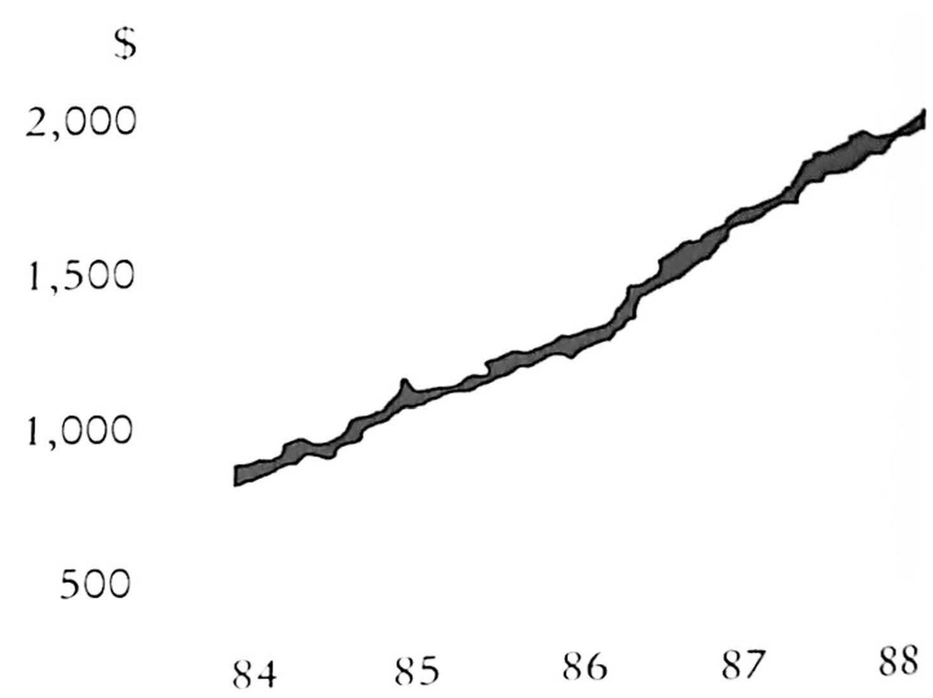
As well as increasing the number of alternatives to TV, growing technological sophistication has fragmented that medium, too. Leaving aside such US exotica as a proposed 24-hour gambling network and Whittle Communications' Channel One, a twelve-minute news programme for schools, in Europe "it will be possible to single out baby boomers on Sky Channel, children on Channel J and Children's Channel, sports enthusiasts on Screen Sport and Eurosport, movie-freaks on Channel Plus and Premiere, and even businessmen on their own purpose-built channels," according to Michael Hook in *Media International*, May 1988.

Whether all these new vehicles will be able to attract the necessary advertising is highly debatable. At the British Film Institute's Broadcasting Research Unit, Dr Michael Tracey



believes that "European satellite enthusiasts have grossly underestimated the terrestrial broadcasters' hold on their national audiences." The main effect of satellite competition, at least in the short-to-medium term, may paradoxically be to reinvigorate these land-based broadcasting organisations, much as commercial TV did to the BBC in the 1960s. Both ITV and BBC are much more receptive to "publishing" new programme ideas from independents; while the ITV companies, in particular, have taken the opportunity to cut down on unnecessary staff, transform working practices and cut costs, at a time when income from advertising is booming.

Cable Deals
Average Price per Subscriber



Data: Paul Kagan Associates

The shifting attitudes of clients are not only a reflection of supply-side phenomena, but also significant demand-side trends. These are perhaps best expressed by key demographic and marketing statistics.

US Demographic and Marketing Statistics

Buying habits

In 1989 over 80% of every $ spent resulted from In-Store decisions versus 65% in 1977.

The average length of a shopping trip has shrunk from just under 30 minutes in 1975 to just over 20 minutes in 1985.

In 1986, 60% of consumers surveyed bought items they did not set out to buy.

Another 5% of consumers switched the brand they planned to buy once they were in store.

Marketplace trends

Three networks combined share of audience at primetime has shrunk from 89% in 1978/9 to 73% in 1984/5.

In 1985 71% of women were working versus 39% in 1970.

Retail trends

The average supermarket has increased by almost 2.5 x in size from 13,000 sq. ft. in 1974 to 30,000 sq. ft. in 1985.

Steady increase in number of products on supermarket shelves (15,000-25,000).

Terry Leahy, Tesco, "There was a time when we offered 4,000 lines; we now offer 13,000". *Marketing*, June 23rd 1988.

48% more new products were introduced in 1985 versus 1982.

70% of all products have been introduced since 1975.

Scanning

"By April of this year 1,347 UK stores had scanners, an increase from the previous December of 135. Even more startling are predictions that within, say, the next five years the proportion of goods scanned by UK grocers alone will soar from 21% to 60% – comparable to the US now". *Marketing*, July 28th 1988.

It is against this background that WPP Group has started to build an effective group able to respond to the changing needs of its clients and able to serve their objectives either uniquely or on a co-ordinated basis.

1992 (or more accurately January 1st, 1993) is in danger of turning into the world's most boring subject!

However, seen in a broader context, 1992 epitomises many of the challenges facing our clients globally, multi-nationally, regionally, nationally and locally.

Indeed, at its heart, 1992 represents a most interesting opportunity for marketing services companies too. What does 1992 really mean? If 1992 does what it's meant to do, most of the measurable factors in marketing will be approximated or harmonised, prices will be about the same, and trade barriers and tariffs will go. More than ever, therefore, the real discriminators between goods and services will have to come from value added, from style and design and personality and communications. The implications for the providers of marketing services are obvious. The marketing and management of imagination will be at a premium – it will be the era of the value-added company.

One of our companies, the Henley Centre for Forecasting, has spent a considerable amount of time analysing the impact of 1992 at the macro-level and has developed a reputation as one of the world's leading experts on the EEC.

In the material that follows, three principals of the Henley Centre, Robert Tyrrell, Paul Ormerod and Eric Salama discuss the opportunity that 1992 provides.

1992 unifies markets, not people. Many diverse forces shape the characteristics and behaviour of individuals, groups and nations. The proposals for a (partially) unified (economic, financial and technical) market in Europe by 1992 alone will do little to make consumers in Leeds and Lisbon more alike.

On the other hand, independently of 1992, there are a number of respects in which the starkest contrasts between European nationalities are diminishing. The forces driving this convergence include the material progress that has occurred across Europe since the war, placing more Europeans in more countries in the category of an urban middle class. International media have played their part too, as has increasing international travel. But perhaps the factor that has given the greatest impression of an increasingly common cultural context has been the power and attractions of American images of progress, the good life and legitimate aspirations. Resent it we might; resist it we have from time to time tried. However, the meta values and images circulating in our societies have tended to be basically American in origin.

As a result of all these things (and without attempting to explain the post-war phenomenon of American cultural hegemony) a number of practically important phenomena and experiences in Europe have been pretty common in all parts. This is not to belittle the importance of differences between Catholic Italy or Calvinistic Holland, nor to deny the fact that Southern and Northern Italy are, by some criteria, still worlds apart. However, it does represent a claim that it is now possible to make reasonably robust generalisations about Europe in a way that was not possible a generation ago and that would not be valid if applied to, say, Africa and parts of Asia.

So, what are these generalisations? There are many we could make, but a sample will have to suffice.

First, and perhaps foremost, is the way that change has left most Europeans less concerned at satisfying *intrinsic* wants and more concerned to achieve their *extrinsic* desires to *be* someone. In itself this is not new. People have always wanted meaning in their lives. The difference now is that this meaning is satisfied by their consumption behaviour more than by their work.

The rise in status of spending owes something to the way contemporary European women are succeeding in asserting themselves. In the wake of the first feminist wave in the 1970s (which might be characterised as an Anglo-German model in which European women tried to persuade themselves and everyone else that they were as good as men) we are now witnessing the ascendance of the French version. In this model 'la petite difference' is played to full effect and women argue that they are as good as *women*, that feminine attributes are as valid as masculine, each requires the other and that men would do well to acquire 'feminine' standpoints in relevant contexts. Thus, contemporary European feminism is encouraging traditional female activities and feminine values to rise in status.

One consequence of this is that fewer European men feel that to be interested in consumption (a traditional preserve of women) is beneath them or non-macho.

A final example of a European-wide trend is the emergence, amongst the affluent urban majorities of *time* as *the* scarce resource. It is being recognised that life and enjoyment costs many things and that of these costs the one that we can, relatively speaking, least afford is time. The 'harried' middle class is the outcome across Europe – with obvious marketing implications.

Perhaps more interesting than to extend further this catalogue of common trends is to consider a possible effect of 1992 on one of those key agents of cultural convergence: namely the hegemony of American culture. The two charts illustrate our thinking schematically.

The first chart makes a case for a culturally more self-sufficient Europe in which the traits of European nationalities become more powerful and more visible. The arguments for this are as follows:

East-West relations are in a rapid thaw phase and Europeans are beginning to be able to think about geopolitics without automatically imagining their destiny bound too tightly to the USA. It is imaginable that Eastern and Western relations might one day evolve to a point where American protection of the Western part is no longer required.

Since the Watergate scandal, the shock of defeat in Vietnam, challenges to American industrial primacy in key sectors and the relatively ineffectual Presidency of Jimmy Carter, America has lost much of its confidence and now betrays more self-doubt. In consequence, external perceptions are of an American society less invincible than was once the case. People have looked to the future and seen that, culturally, it need not be American.

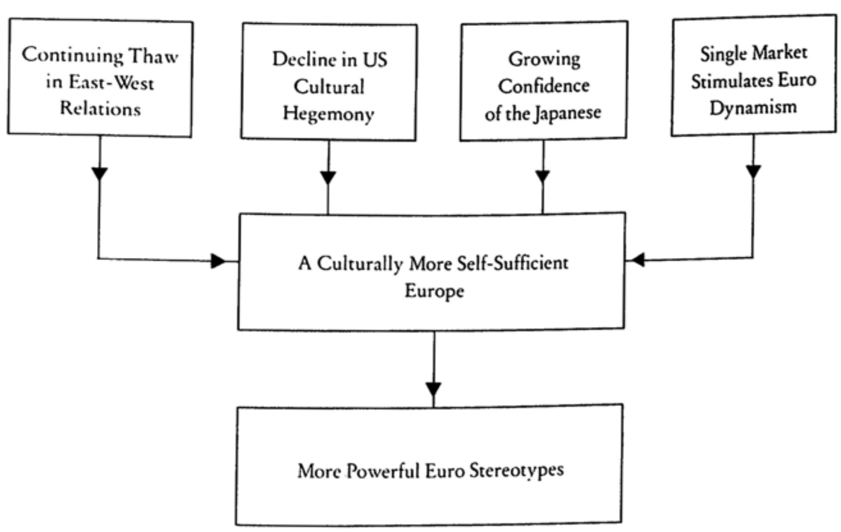
With memories of wartime defeat and disgraces fading, a new generation of Japanese and Germans are, in a cautious way, growing in confidence and keen to see their nations playing a full role in world affairs.

Finally, '1992 hype' seems not to be suffering the fatigue factor some might by now have predicted for it. It is, therefore, arguable that it touched and ignited a very powerful latent mood which, in itself, will fuel European cultural dynamism, self-confidence and self-sufficiency.

In this context of a European stage of greater weight and integrity, more power and attraction may attach to indigenous European images and values.

Further, these images will not play their new parts solely within national boundaries from which they originated. If, as we do in the second chart, we add in another premise, namely the declining importance of the contingency of nationality, we can derive the conclusion that these

European Culture in the World: Scenario for the 1990s



more powerful indigenous images and values will play their parts on the European stage as a whole. The arguments for this are as follows:

From the earlier analysis we have concluded that indigenous European national images may become more powerful.

Evidence exists that nationality *per se* is a less important influence on the way people live and think: just because you are born Spanish or French does not mean that everything you do has to reflect 'Spanish' or 'French' values. Such contingencies as these are increasingly being rejected.

From this the somewhat ironical conclusion emerges that more Europeans will be making use of and responding to images and values from other European nations. Thus, initially on a European stage but ultimately worldwide, we may begin to see Germanic images and values being employed where people (regardless of their own nationalities) wish to assert, say, values of efficiency, French images and values for romance, Italian for style etc. Alongside these we may still have Coke as the symbol of hedonistic (American-style) youth or Marlboro man as the symbol of cool (American-style) tough guys. However, these international values (and associated symbols) will now be only one genre amongst an increasing diversity of styles.

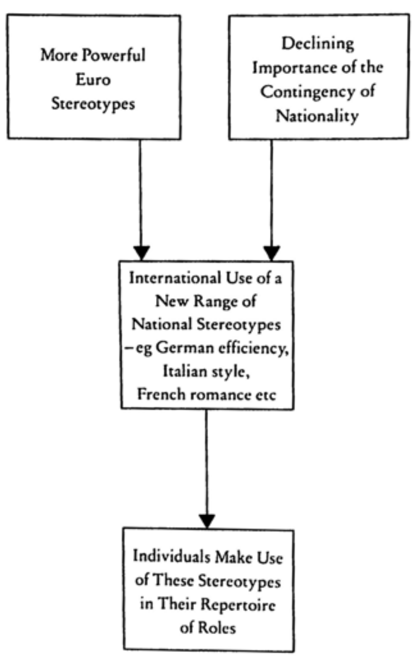
As a postscript, it is worth emphasising that this scenario does not imply a dilution of European national characteristics. In the same way that 'American' imagery is, in reality, the imagery of the mid-West, of California or of the East Coast, so the more powerful European images are likely to be those that are truest to their local geographical origins.

One of the most exciting marketing consequences of all this is that the role of powerful brands will be more rather than less important in the future. Brands will continue to provide that much-needed authority in the face of increasing choice being presented to, and decisions being required of, people. The scarcity of time mentioned earlier is one of the most important reasons why the authority of brands will remain strong. The relatively greater importance of the extrinsic (what something 'says' about you) over the intrinsic (what something 'does' for you) will be why brands will, in many ways, become more important than the products and services to which they are attached.

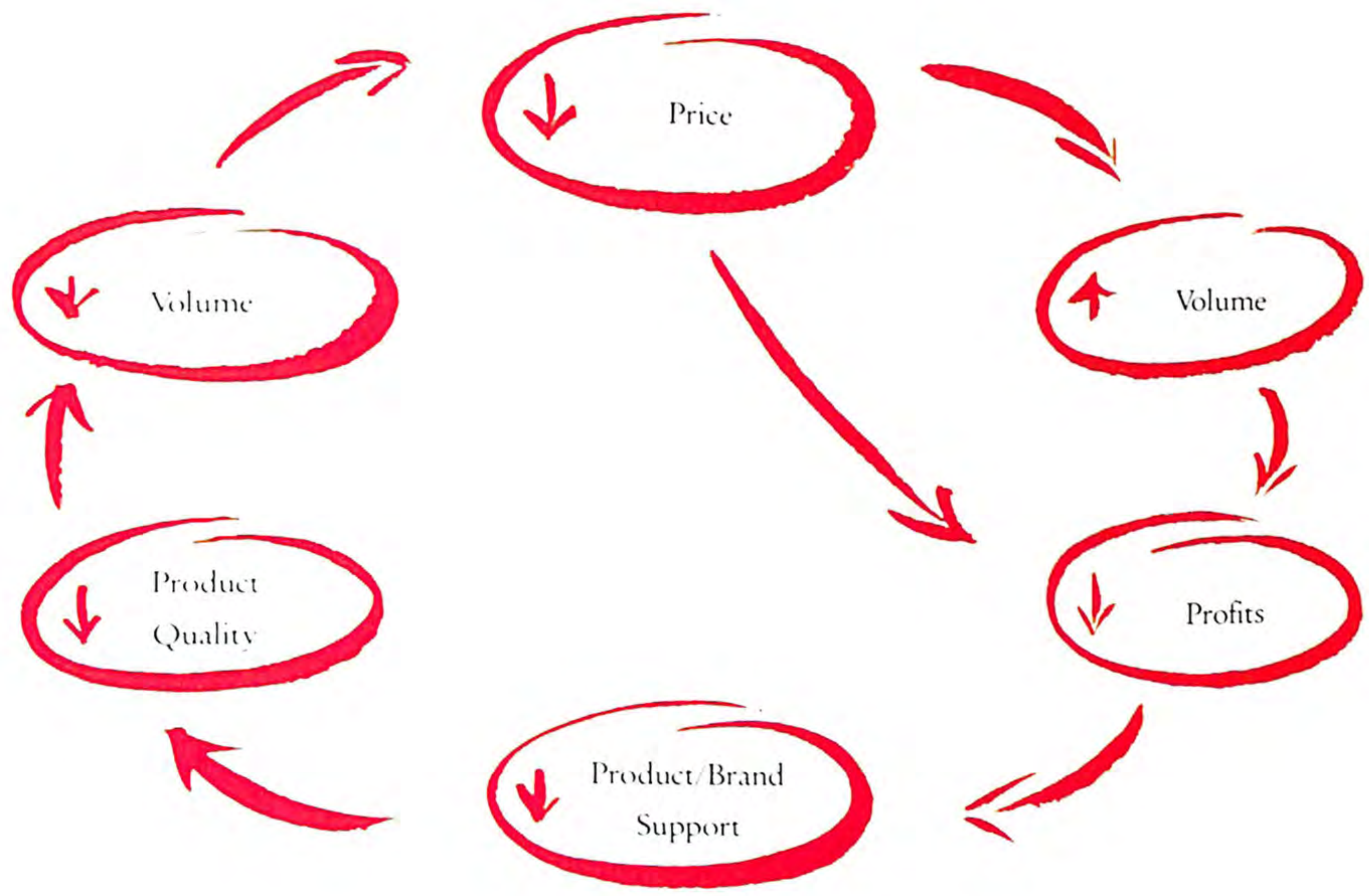
All this in turn implies that a sequence of events which begins with pressure to cheaper products and services illustrated in our diagrams titled 'The Vicious Circle' needs to be avoided at all costs. In its place the sequence of events that begins with an increase in product quality illustrated in our subsequent diagram should be what we strive to introduce. In this context, of course, we must emphasise that product quality will frequently mean the emotional and psychological rewards of consumption supplied predominantly by the qualities of the brand.

Robert Tyrrell

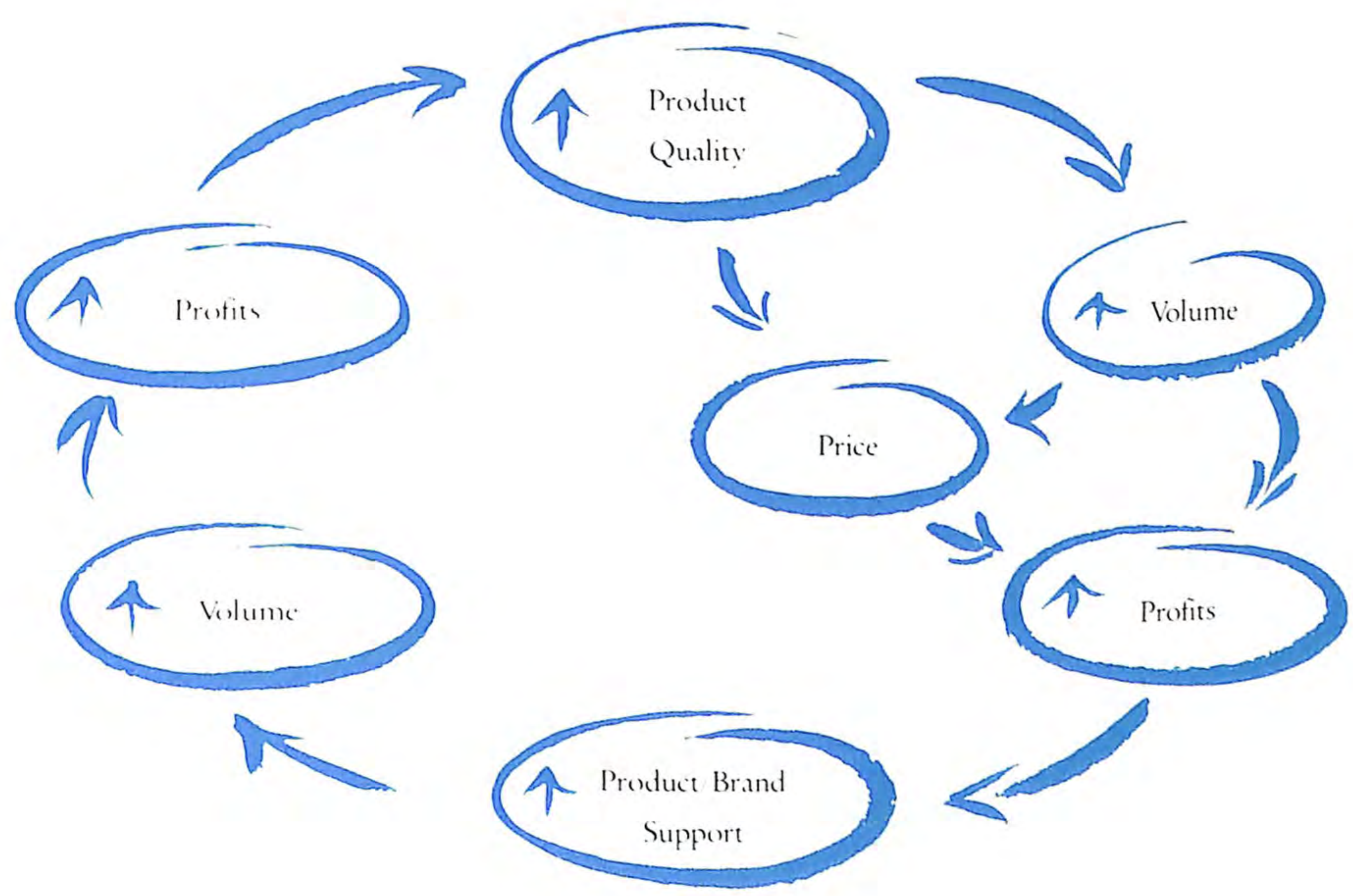
Result



The Vicious Circle



The Virtuous Alternative



The simple arithmetic of consumer markets means that the overwhelming bulk of expansion over the next decade will be in the three largest economic blocks: the United States, Europe and Japan.

It is fashionable to regard the countries of the Pacific Rim as the dynamic sectors of the world economy, and the established industrialised countries as laggards. In one sense this is true. The growth rates in domestic markets achieved by countries such as South Korea have been higher than in the larger countries, and particularly so in comparison to Europe.

But a small percentage increase in a big number is larger than a big percentage increase in a small number. Europe, for example, represents a market at least fifteen times bigger in absolute size than that of the countries of the Pacific Rim.

Attention is also focused on China and even the Soviet Union as alternatives to the 'exhausted' economies of the West. From the perspective of corporate strategy, this will frequently be a complete diversion and distraction from the main markets. The Pacific Rim economies are growing fast, even though in absolute amounts the numbers are not large in world terms, and are enthusiasts for the market economy. China and the Soviet Union represent a smaller market for consumer spending than the Pacific Rim countries, and despite the wishes of their leaders are very backward and conservative. Not for nothing is the Soviet Union known as Upper Volta with rockets.

Prospects for growth in the world economy are good, when examined from the supply side. Technological progress is very rapid – the electronics revolution – making possible a whole new wave of products and reducing the prices of existing ones, increasing people's spending power.

Profits are high, and have recovered from their low point in the early 1980s. The most spectacular example of this is the UK where, as a share of total national income, profits are at a thirty year high.

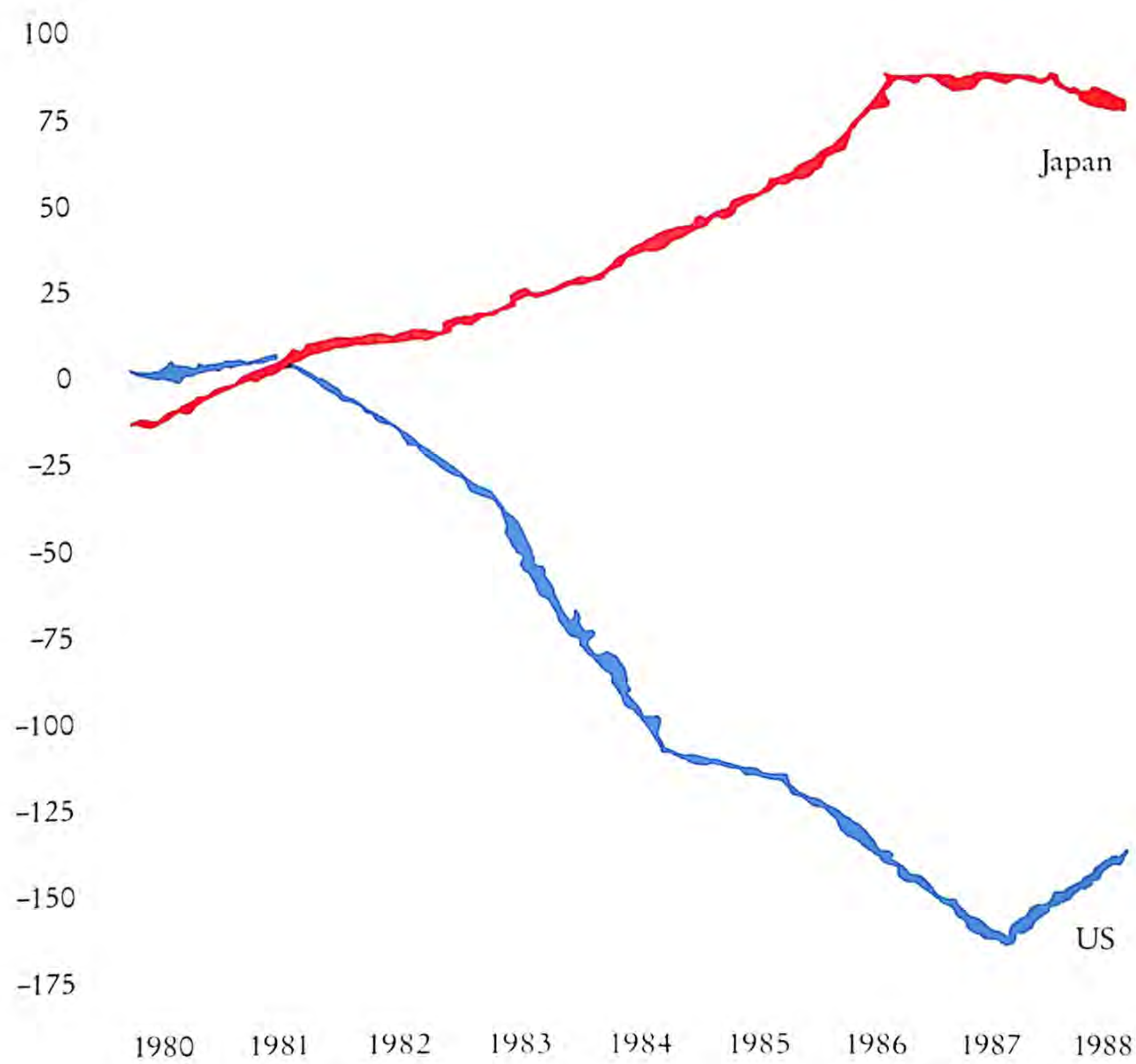
Investment by companies has not yet responded as strongly as it might to the opportunities, particularly given the level of profits available to finance it. 1988, however, showed strong investment growth. All the major European economies experienced an investment boom.

European Investment Growth (%)

	1987	*1988*
Germany	1.8	**6.5**
France	3.4	**7.0**
Italy	5.3	**4.9**
United Kingdom	3.9	**9.3**

The financial markets are operating to constrain growth below its supply side potential. Uncertainty on these markets leads to sharp fluctuations in currencies, interest rates and share prices. This in turn creates uncertainty in the business world.

American and Japanese Current Accounts
Billions of Dollars



The underlying problem is the imbalance between the US and Japan in terms of their trading balance with the rest of the world. In 1982, these were in balance. The US deficit since then has risen to well over $100 billion a year, and the Japanese surplus to almost $100 billion. The Americans have been living beyond their means, and show the greatest reluctance to reign back consumption so as to cut the import bill and get their trade position back in balance.

The Japanese have been performing a benevolent role in funding the American trade deficit. Essentially, Japanese companies work very hard in exporting to build up a huge trade surplus. This is then recycled via the Japanese banks onto Wall Street to finance the US trade deficit. Most of the inflow of funds into the US is on the short-term money markets, and hence could be withdrawn rapidly. Japanese benevolence stems from the fact that the yen has been appreciating against the dollar, so that when the funds are repatriated to Japan and converted from dollars into yen, their value is reduced. The Japanese are willing to do this for fear of quotas and physical restrictions on their trade with the US, but the financial markets worry from time to time that this will not continue.

Over the next five years or so, a certain amount of restraint will be required in the US to reduce the deficit. This does not mean a recession. Simply that growth will be somewhat lower than would otherwise be the case. And given the size of the US economy, the rest of the world will be slowed down by this adjustment.

Paul Ormerod

Seven implications of the European single market:

1. To understand how Europe is likely to change after 1992, it is necessary to look beyond the Commission's proposals for the following reasons:

Other economic and social factors will continue to drive markets. For example, competition is increasing in Europe because of exchange rate movements over the past few years. And profound demographic changes will affect both the level of demand in some markets and imply a shift in the source of European cultural values.

Many of the proposals will not go through in their current form, because of:
- the difficulties of securing agreement amongst governments
- an absence of consensus over the objectives which are being pursued (there remain important policy differences over protectionism, social affairs, further cooperation in the monetary and political spheres and the relative interests of consumers and manufacturers, which mean that the thrust of the proposals and their effect are continually evolving).
- the desire of each country to maintain what it believes are its own high standards (eg on food preparation and environmental issues)

The psychological impact of the proposals in making companies and people think about Europe as a single entity is crucial. American and Japanese companies have been more adept at operating across Europe, partly because their organisational structure and management culture encouraged it. What 1992 is doing is making other companies, including indigenous European ones, follow the same course. At a consumer level, 1992 will be important if, in removing frontier controls and encouraging a move towards a single currency, there is a convergence in values.

There are other barriers to trade – political, economic, consumer-driven, cultural and organisational (corporate) – which will limit the ability of companies to exploit the changes in the way in which they were conceived. To take one example, consumers are different across Europe. They differ in their living standards, attitudes and values according to which they make their purchase decisions. There is nothing in the 1992 process to suggest that consumers will become more alike – indeed the fact that the barriers differ in their nature and severity across countries and that the economic prospects of each country differs (eg according to the amount of inward investment) suggests that consumers will become less alike as time goes on. The fact that we still do not have European symbols, personalities or media reinforces this likelihood.

2. The proposals are fuelled by Europe's poor economic performance in fast growing sectors. European companies have been unable to exploit the economies of scale which theoretically would be available from selling and marketing to a single market. Consequently the thrust of the proposals is to improve the supply side ability of companies to deliver goods – they are not primarily concerned with the demand side.

3. Adoption of the proposals on taxation would affect prices in the various countries. To what extent they affect prices and consequently consumer spending will depend on factors such as the willingness to pass on tax changes to the consumer, price sensitivities and strategic aims among other factors. Given that indirect taxes are levied on the consumer, altering them would not directly affect company profit margins or location decisions.

4. The barriers to trade in the various industries vary according to both their nature and severity. Some restrict entry to the market. Others raise the cost of production. The implications of removing each type of barrier will clearly differ. The key question which manufacturers must address is whether the fragmentation of their market (as witnessed by price differences across Europe or low levels of trade) is due to formal barriers to trade which may be removed by the Commission, or whether it is due to other factors such as fragmented consumer tastes, insular corporate culture and organisation or decentralised distribution systems which are not being legislated on.

5. Given the diversity in consumers and the fact that consumers are becoming more individualistic, companies face a strategic decision over the extent to which they standardise their product and marketing approach. The extent to which they do will depend on a trade-off between the cost advantages of doing so and in most (though not all) cases, the marketing disadvantages associated with such standardisation. A distinction will exist between products where production economies are slight (eg food), where the same consumer niche exists in all countries (eg Benetton) and where consumers are less price sensitive or dependent. A key question is the extent to which manufacturers and retailers can shape consumer tastes in the way in which Japanese companies have succeeded in doing in a number of sectors (eg Sony Walkman).

"The Henley projections of the possible price and market volume effects of liberalisation are fascinating … should be required reading in every UK marketing department."

Marketing Jan '88

6. On standardisation, a company faces three other key strategic issues:

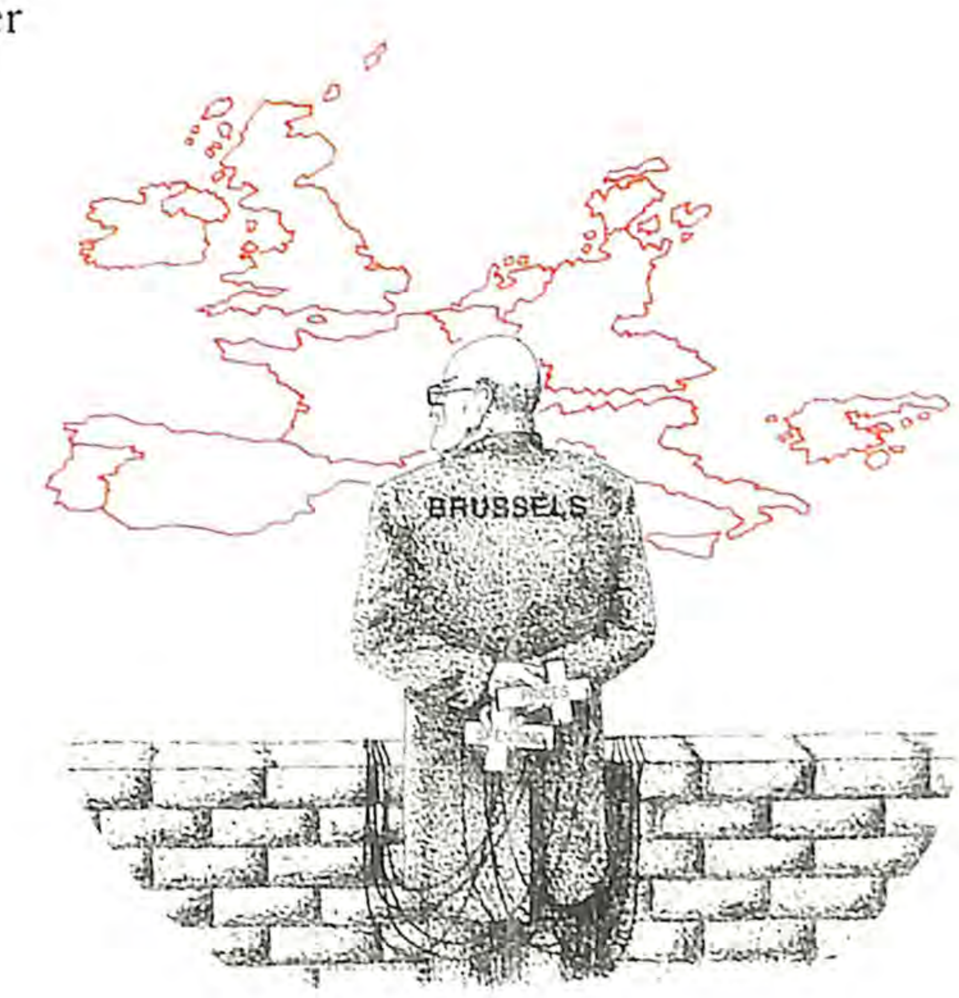
The decision on whether to buy, build up or transfer brands;

Whether and how to reorganise internally;

Whether the new strategy requires a change in marketing or advertising approach.

7. Although there are no proposals directly relating to retailers, since there have been no formal barriers to them moving across frontiers, they will be affected by the way in which their relationship with manufacturers change.
The proliferation in product availability and the growth in centralised buying will significantly increase the power of the retailer, though in some cases this will be offset by the growth of fewer and more efficient manufacturers.

Eric Salama



Over the next 12 pages, the principals of eight WPP companies discuss current issues in the specialist sectors in which they operate and give their views on recent developments and future prospects.

The pictures which accompany this series of articles demonstrate visually the scope and quality of work produced and services offered by companies within the Group.

JWT Latin America
Campaign for Kodak

Carl Byoir & Associates
Strategic counselling worldwide

Public Affairs Becomes A Business Function

Businessmen rather than the communicators of the past are now driving the public relation/public affairs function, with profound consequences for the whole sector. As clients become more bottom-line oriented, they are demanding hard measurement of results on the one hand, and on the other fresh research to give them the creative edge that will set them apart from their competitors.

Consider the world in which these clients are operating. It is:

Shifting in economic balance. After 1992, Europeans will inhabit a single market which is more highly populated than either the US or Japan;

Ever more interconnected and interactive. The trend towards the globalization of markets and finance will continue. Foreign companies and investors will become powerful influences in all countries in the 1990s. Firms will correspondingly become involved with foreign customers, competitors and suppliers. Strategic alliances to boost competitive position, many of them across national frontiers, will increase dramatically;

At the same time, and as a direct result of the foregoing, more protectionist in outlook. The logic of current developments says that there are no such things as 'home markets' any more. That won't stop nations trying to protect industries and markets;

Even faster-moving. In turn, corporations will move much more swiftly in and out of markets, tailoring products to 'hot' market segments, fast-growing regions and ethnic preference;

Subject to labour shortages, particularly at the entry level. These will become especially acute in the US and Europe.

In this fluid world, companies too are changing. They are having to become:

Less hierarchical. As computers redefine the nature of work, transform the role of managers and even alter the legal and physical boundaries of companies, the hierarchical model of business adapted from the military will continue to fade and corporate staffs continue to shrink;

Centralized/decentralized ('loose/tight', as Peters and Waterman put it). There will be further decentralization of operations, with responsibility passed down to decision-makers at the front line. This means that communications, on the other hand, must be driven by a central set of values. Companies will put much more focus on internal communications to put the corporate ship in order before communicating externally;

Training and motivation minded. Because of the shortage of skilled professionals, companies must use training and motivation as key tools for retaining staffs and achieving management goals.

Flattened, pared-down companies will increasingly use temporary task forces, consultants and other outside specialists to fill non-core, occasional needs.

The new economy and the new corporation pose fresh demands for counselling firms. The rise of the Asian and European economies is creating a whole new class of clients with very different ways of thinking about their communications needs. So we need not just multi-cultural staff expertise to be present and available if necessary, but, much more, the management ability to think naturally and constantly in multi-cultural terms.

And not only in one location. More and more large clients are looking for true networks that can offer the same high standard of service in, and between, every part of the world. Paradoxically, as we noted above, this need *increases* as operations become more decentralized, more independent. Yet while client expectations and demands are thus higher than ever, the new conditions also create the potential for us to work more closely and effectively with customers than was ever possible before. That is our challenge and our opportunity.

Robert L Dilenschneider
President and CEO
Hill and Knowlton, Inc.

Millward Brown
International specialists in advertising research

Timmons & Co
Government affairs and lobbying in Washington

Hill and Knowlton
Worldwide sponsorship promotion for Pepsi Cola

The Intelligent Planet

It has been said with increasing frequency that developed economies are becoming more and more oriented to 'knowledge' rather than 'things'. Our business environment thrives on information and how most intelligently (and proprietarily) to apply it. As we move inexorably towards a world economy, that too will become an economy of the mind, an 'informative' economy.

For the market researcher, the advent of a truly global information age will usher in unparalleled business opportunities. To cope successfully with these opportunities will require the right technologies to collect data; the right software to assimilate and analyse it, and most importantly, skilled people to interpret it and supply actionable recommendations. These issues are not terribly different in kind from today's demands – but they are enormously different in scale and scope.

In a knowledge-based world economy, businesses will naturally be market driven; that is, they will have a clear understanding of consumer wants, needs, interests and desires. There are critical imperatives at work here: notably, the high cost of decision making; the inherent value of branding; and the uncertainty that pervades every market opportunity. The greater the knowledge level, the greater the ability to overcome the uncertainties and make correct and timely decisions.

LansdownEuro
TV commercial for Denim

JWT Asia-Pacific
TV commercial for Lux soap shown in Hong Kong, Taiwan and Singapore

It is the job of research to provide the necessary clarity of understanding and action by applying technology to the data captured from human beings.

At the human level, new techniques will enable us to acquire more consumer information with less resistance – information on attitudes, behaviour, preferences, purchase patterns, media habits, lifestyle and life stage, as well as an array of demographic data. This data trove will be significantly enhanced by advances in passive data collection: processes that do not require conscious participation by the purchaser, but which nonetheless yield copious amounts of insightful information.

The $4.5 billion market research industry will be one beneficiary of this quest for knowledge, as the world marketer seeks to create a rational and unique platform for his products or services. Another will be the consumer him or herself, who will benefit from the more personally directed communications of the informative world economy, and evolve into a universally sophisticated and discriminating buyer of goods and services.

But the great long-term potential, for both marketers and researchers, is accompanied by equal challenges. Indeed, the principal challenges of 'data overload' and the development of adequate analytical programmes to cope with it proffer a paradoxical future for information management.

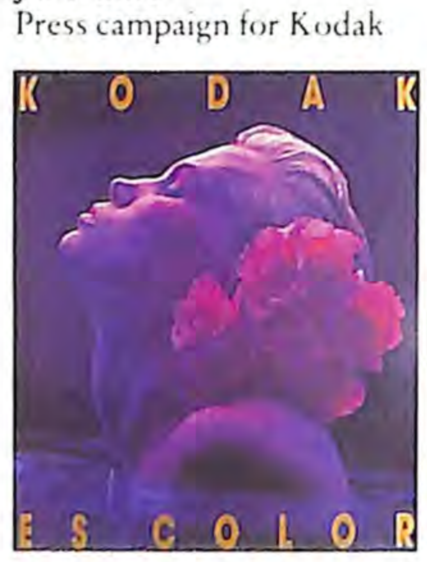
In developed nations the technology is in place now to build real-time sales data for a wide range of products and services, providing an immediate audit of brand movement. However, we lack the analytic tools fully to interpret the mass of information. This imbalance between quantity and quality has shifted a large measure of brand/product control from the marketer to the individual retailer as both collector and interpreter of his own stores' data. The challenge for the researcher is to create the options, either in systems or in products, which will enable the marketer to regain control of his own brands' destinies.

One means is surveys of product usage, amplified by demographic and psychographic profiles of purchasers. These enable us to understand the dynamics of product movement and, of greater importance, to define product needs and project the future actions of consumers. Where the focus is sampling rather than auditing, there is no constraint of data overload, and the researcher can act as a strategic and tactical information resource to the marketer as he reasserts control of his brands. This role is enhanced as data accumulation proliferates.

Coping with data overload is not the only information challenge facing marketers. More prosaic factors still seriously affect the use and value of data for business strategies. Among them: reduced staffing levels of client research departments; the narrowing of competitive response times; the perceived role of research in the overall marketing mix; and the rapidly expanding number of research options available to deal with information needs. Attractive though it will eventually be, the intelligent planet is not yet a foregone conclusion.

Frank Stanton
Chairman and CEO
MRB Group Inc.

JWT USA
Press campaign for Kodak



MRB Group
Researching, monitoring and measuring consumer and corporate attitudes

JWT Europe
Poster campaign for Crown Paints

LGFE
"Civilized Rogues" magazine campaign for Schieffelin & Somerset

Design For Competitive Advantage

The good news is that the retail arena continues to look strong. The bad news is that there will be fewer retailers.

Retailing continues to gain in importance as the focus for manufacturers' and brand managers' financial attention. Often at the expense of advertising dollars, retail – in all its various forms – is the recipient of increased spending for promotion, cooperative arrangements and design.

The past few years have seen an unprecedented series of retail mergers, acquisitions and consolidations in the US. The number of department store groups in north America continues to decline as more groups come under a common umbrella. Campeau's acquisition of Federated Department Stores and Allied, and the Hooker (Australia) purchase of B. Altman, Parisian and Bonwit Teller are just two of the most visible consolidations. And the same thing is happening in other retail segments – supermarket giant American Stores' recent acquisition of Lucky Stores is one more example.

Europe in 1992 will most likely experience a similar wave of consolidations as stronger companies acquire weaker ones. In UK food retailing, the attempt to break up Gateway and the attempted merger of Budgens and William Low may be precursors of what is to come on a European scale.

But while these mergers may create economies of scale in the short term, there is a danger that in consolidation a retailer loses its 'brand identity'. The larger an organization becomes, the more difficult it is to create a unique personality. Decisions are often driven by operations rather than merchandising or customer considerations, and the lowest common denominator becomes the norm.

How can a retailer define a distinct image in the 1990s? There are three possible areas of focus:

Merchandise. This is where most retailers place most attention. But the reality is that in most 'like' stores the merchandise is the same – around 80% of goods are common from one department store or supermarket to another. Some firms have made a brand virtue out of private label and/or generic merchandise, but this has not proven to be an automatic way of defining a personality. For the most part brand merchandise is still king.

Service. Retailers are reawakening to the service aspect of shopping. This can indeed be an important benefit to the consumer, who will continue to demand better service – wider, well-lit aisles, more courteous salespeople – both real and perceived. The problem for retailers, of course, is that as they all try to make themselves more attractive in this way, better service becomes an accepted norm rather than a unique attribute.

Design. It is here that the retailer has the best opportunity to stand out from the pack. Given equality of merchandise and service, design becomes the 'silent salesman' that can create customer loyalty as well as enthusiasm. Every segment of retailing can benefit from improved planning, merchandise presentation and graphic image. Design comes to be the factor that adds 'value' to a customer's perception of a retailer.

Retail consolidation means that the surviving firms need consulting services on a scale greater than before. In the past, retail planning and design firms were mostly small, like their clients, and as long as the latter remained both small and plentiful, there was no need for consultancies to grow.

Business Design Group
Design and project management for Lex Automotive Ltd

Conquest Europe
TV commercial for Maruzzella

Stewart McColl Associates
Merry Hill Shopping Centre retail complex for Richardson Developments

Now, however, large retail organizations require consultants who can handle complex building and renovation programmes. Increasingly, such consultants must offer a geographic presence in all strong market areas – Tokyo and London as well as New York and Los Angeles – not just to provide an international service but also to keep up with trends and information that will maintain them at the cutting edge of marketing and merchandising developments.

Nor is it enough for a consultancy to offer design services only – even design services supported by the latest computer hardware and software. Since design must be based on market research and strategic planning, these too must become integral parts of the client offering, along with specialist expertise in particular markets.

Ken Walker
President
Walker Group/CNI Inc.

Greaves Hall
Packaging design for Burmah Castrol

The Power of Packaging: A Misunderstood Marketing Weapon

With all the creativity and hard cash expended on the struggle to find fresh means of capturing the consumer's attention, one critical element remains largely overlooked by packaged goods marketers. It's inherent in the name: *packaging*. While in 1987 US marketers spent $205 billion on advertising and sales promotion, less than 2% of that – about $5 billion – went on graphics and design.

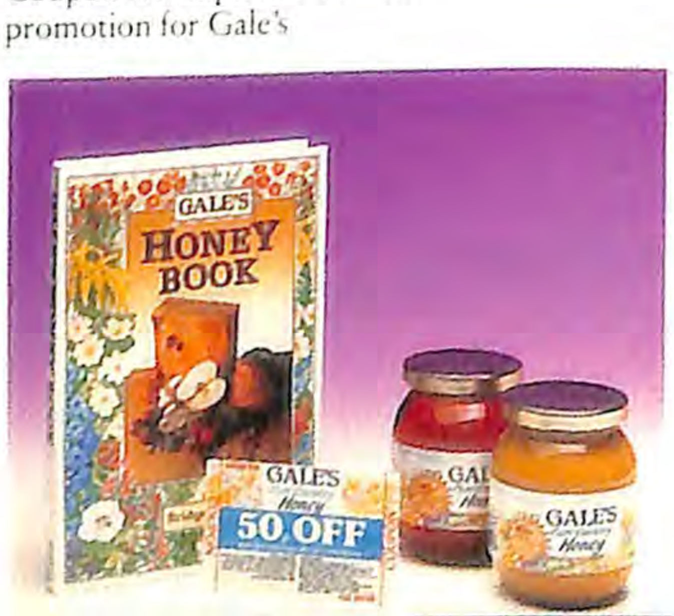
Consider: the average shopper today spends less than 20 minutes per trip in the grocery store and faces an average of 25,000 items on store shelves. 80% of purchase decisions are made in the store, and 60% of consumers buy items they did not set out to purchase. So while scattered elements of all the marketing communication seen or heard about a brand may be "retrieved from memory" to influence a buying decision, along with sales price, display or coupon, the single final message given to the consumer is *what the package says.*


Walker Group/CNI
Development and design of "Retail Bank" concept for Citibank

VAP Group
Design and print for Rover Group

Oakley Young Associates
Design and packaging for Miss Selfridge

Mando Marketing
Coupon redemption and sales promotion for Gale's



Package design has much more to do than look pretty. Its daunting role is to communicate a brand's core marketing messages instantaneously from a chaotic visual jungle to an audience that's ready for a "final persuasion". The package must be easy to find, communicate what the product is, and make a clear distinction between products or varieties.

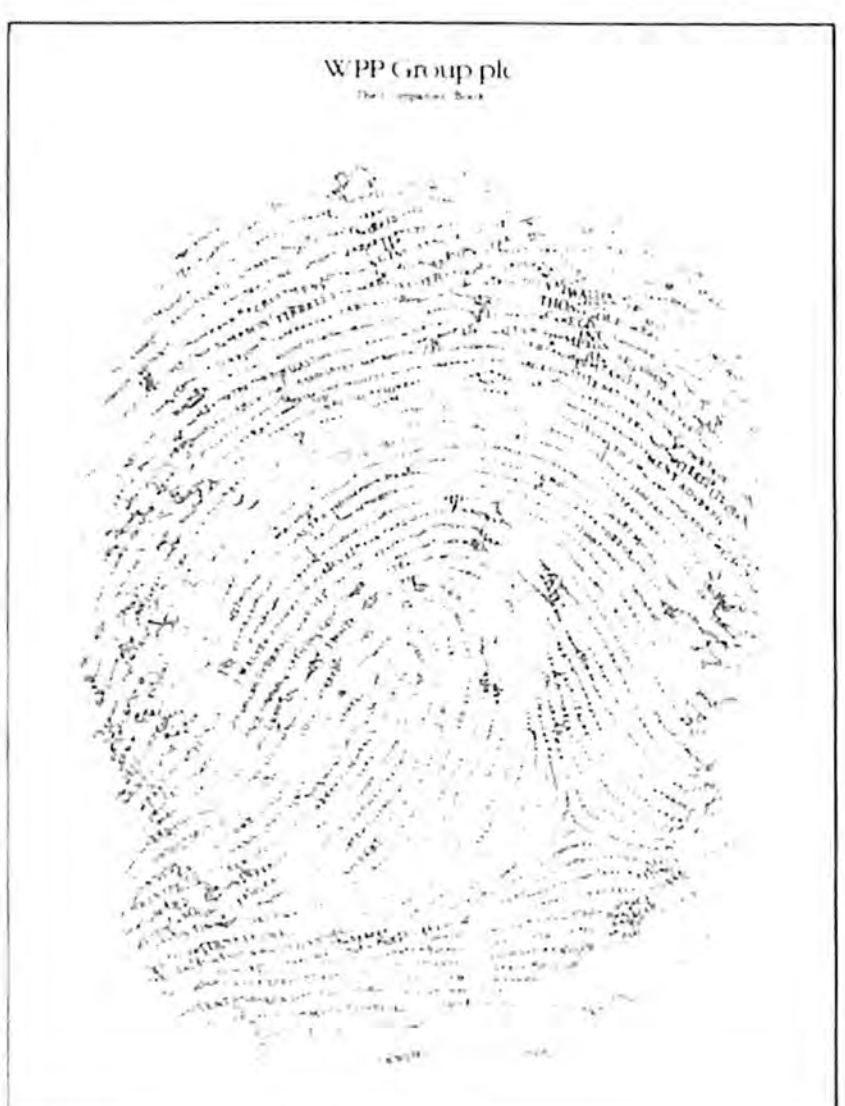
To exploit this key sales opportunity, marketers should use experienced, proven resources. In particular, the correct choice of a consultant design firm can be as important to a brand's success as an effective marketing management team or advertising agency.

Philosophically, we believe that a design firm should:

Function as a business communications specialist, not merely as a graphic designer.

Be results rather than aesthetics driven, and know how to measure those results.

Understand design as a strategic marketing tool in the increasing globalization of business.



SampsonTyrrell
Visual management

Have a strong understanding of the inherent value added by branding. Compare the value of Scotch, Kleenex and Vaseline with adhesive tape, facial tissues and petroleum jelly.

Know instinctively when you can and can't build on the core values of a brand. Kodak successfully extended its franchise to videotapes and batteries; Jeno's pizza failed miserably to extend its core Italian pizza franchise to fruit pie fillings.

Have an acute sense of market segmentation and with it the ability to create multiple branding and market niche strategies.

Know the value of 'brand equities' – the colour, typography, packaging formats, sizes and shapes – which are the cue of a brand's core values.

A crucial role for the package designer is to keep abreast of emerging marketplace trends. We see some of the primary packaging issues in the near future being:

Convenience and Functionality. Using new technology in structural packaging is helping marketers gain a competitive edge in several fields. The Japanese have recently developed self-heating and self-chilling beverage containers. In the US, packaging for microwave cooking and squeezable jelly and ketchup containers are adding a new dimension of consumer convenience.

Demographic and Signal Shifts. Designers must create packaging that caters for an ageing population and an increasing number of dual-income families; for a quality-conscious society with more money than time, which is developing highly individualistic life-styles: and for regional demographic/psychographic differences.

New Shopping Environments. Hyper-markets and warehouse club stores, home video shopping and catalogues, and in the future interactive media, are all developing environments affecting packaging.

Environmental Issues. Marketers, package designers and packaging suppliers must work together to find more efficient biodegradable forms of packaging. Recyclability must be stressed at every opportunity.

Packaging is a critical, often misunderstood, element in the marketing mix. Together, marketers and package designers should keep abreast of the critical issues in the marketplace with affirmative action, consumer and environmental consciousness, and professional integrity.

Robert A Seiler
Partner
SBG Partners

SBG Partners
Design and packaging for the Xerox Corporation

The Harvard Group
Promotion for 20th Century Fox

Key Issues Facing the Sales Promotion Industry in the 1990s

Promotion's decade-long growth, from a 58% to 65% share of the total US marketing dollars, is creating more revenue opportunities and posing greater challenges for the profession.

Opportunities. With two-thirds of the budget now allocated to promotion programmes, responsibility for promotion marketing issues has been elevated to senior management levels. Clients are increasingly seeking "retainer" contract relationships with promotion agencies, similar to the historic partnerships enjoyed by advertising and public relations firms. This trend is causing a shake-out among smaller competitors vying for top-spending clients.

Challenges. Clients expect far more strategic consulting, as well as more sophisticated programme execution, from their promotion agencies. Promotion is becoming every bit as accountable to *brand* building as it is to *sales* building. It is now recognised as critical to building brand loyalty, long-term market share and brand equity overall. Accordingly the pattern has shifted from price discounting to added-value promotion tactics such as continuity programmes, special events, games and premiums which tie in creatively with brand advertising. Increasingly, the aim is to lead clients out of the cluttered, price-discounting spiral.

Here are some key reasons for promotion's growing stature:

Product parity. New product breakthroughs are increasingly scarce, and the cost of failure is prohibitive. According to *Adweek* magazine, "It's times like these that force Procter & Gamble to introduce Liquid Tide as a line extension, when 10 years ago it was not in the P&G culture to risk any of its established franchises."

One financial analyst put it this way: "From a manufacturer's standpoint, a line extension is the ultimate in increased productivity, but to the retailer and consumer, it's boring." *Product parity demands that firms differentiate their brands through tangible "incentives" rather than intrinsic benefits.*

Consumer behaviour. More active and diverse consumer lifestyles have changed television viewing habits forever. Network television audiences are declining rapidly while ad rates are increasing, thereby shrinking media effectiveness. Compounding this trend is more "zapping" of commercials, more VCR watching, and much more competition from cable and independent stations. A functional shift from broadcast advertising to in-store display is occurring in packaged goods marketing, most experts agree. *Research shows that fully two-thirds of all brand purchase decisions today are made at the point-of-sale.*

Micro-Marketing. The entire brand management system is changing. Budgets are being diverted to field sales to propel regional/local marketing. Because promotion agencies understand the dynamics of local marketing more intuitively than national, brand focused ad agencies, clients will be turning to promotion in greater numbers. The promotion agency's ability to *execute* highly targetted, retail customised events will be critical in years ahead. *Micro-marketing, on a store-by-store basis, is promotion marketing's future.*

The Mighty Movie Co
Film and video communications

Grass Roots Group
Incentive programme for the Leeds Permanent Building Society

MetroVideo
Conference production for The Electricity Council

Budget allocation. The budget balancing act between dollars directed to the trade (to support product "push" or sell-in) vs. dollars devoted to consumer activity (product pull-through) will continue to be the major strategic decision point. Promotion agencies must be prepared to consult wisely on this dimension of planning.

A major issue for agencies is the need to increase the *predictive* power of promotion testing. Retail scanning systems enable our clients to "read" promotion results almost daily. This technology will force severe accountability of performance –perhaps even compensation – but it also represents promotion's greatest opportunity.

For the sales promotion profession in the 1990s, the bottom line is the notion of incrementality:
Do promotions truly increase *total* consumption (meaning absolute volume levels over time), or do they only change the *timing* of purchases while mortgaging futures?

The more promotions are quantitatively proven to outperform other communication modes in terms of total consumption, the more strongly they will grow.

Jeff McElnea
President
Einson Freeman

Less Gut Feel. More Logic

In only a few years the design industry has undergone a dramatic transformation. This has come about for two main reasons. The first is consumer awareness. The second is technology.

In order to understand the 'educated consumer', it has been necessary to develop a greater understanding of what motivates him or her – influences, likes, dislikes, lifestyle, combined into a profiling system which has come to be known as psychographics.

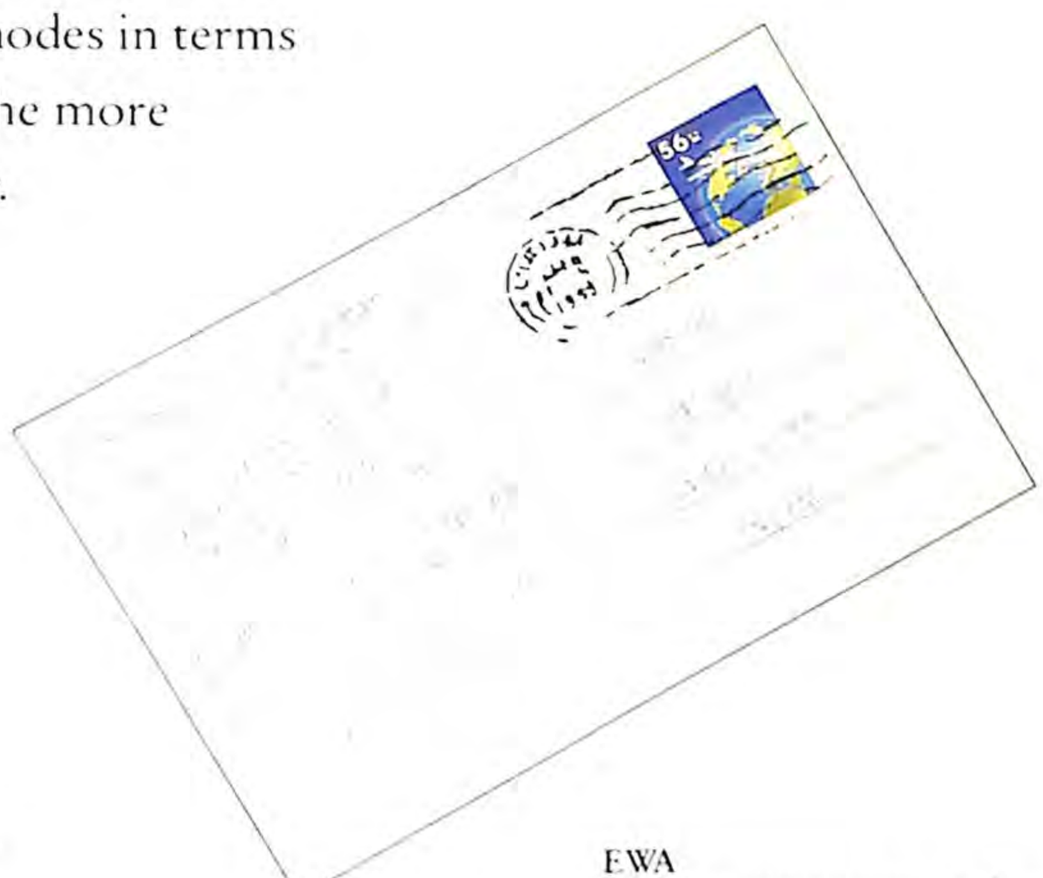
Once the target consumer has been defined, it has also been necessary to know where high densities of like people live, shop and entertain themselves – that is, demographics.

This enables cost-effective targeting of the vehicle which carries the creative message. In turn, the whole consumer analysis need has spurred the industry to turn to technology for the tools which would help it interpret the data.

This is where the computer comes in. At the production end of our business, it has opened up creative opportunities in printing and photography. Silicon chip-driven photographic hardware can 'read' the colour make-up of an original, for perfect matching and duplication in the printing process.

Complex shapes can be printed and cut and then folded to form three-dimensional point-of-sale displays.

P&L International Vacationers
Custom-made events for international clients



Einson Freeman
Sales promotion for Kodak

EWA
Sample computer generated reports, personalised mailings and merchandise, designed, purchased, printed and mailed for Ford Fleet

Contemporary Issues in Heart Failure

HLS CORP
Multi-media medical education programme, involving 50,000 US physicians, produced on behalf of Sterling Drug, Inc

In the studio the computer has become indispensable for its ability to perform sophisticated functions in the process camera and photocopier. We now produce instant and inexpensive full-colour copies of mock-ups for presentation purposes. Computer graphics provide the designer/technical with the flexibility to investigate all the creative permutations on screen. This has revolutionized the design and manufacture of animated video commercials/presentations and audiovisual slides.

At the front end of the industry, the computer has had an even greater impact.

The collection and storage of information on large numbers of consumers has allowed analysis for trends and patterns to be identified and forecasted. This sophisticated system which accumulates, analyses and presents the information now helps define the design brief.

On this sound, logical, analytical foundation the creative talent of the designer is overlaid. What results is design which is still fresh and exciting, but is now much more likely to work – the synergy of art and science, or: less gut feel and more logic.

Raymond Stern
Joint Managing Director
Scott Stern Associates

Pace Communications Group
Commercial real estate marketing

JWT Entertainment
Poster design for 20th Century Fox

Trading Identities

During the past five years, the business environment everywhere has been characterised by change and restructuring. Whether driven by competition, pressure from investors or legislation, the result has been a wave of mergers and acquisitions, buyouts, downsizings, divestitures, spin-offs and corporate reorganisations.

Implicit in all these activities is change – change that provokes the need (and opportunity) to redefine the corporation; and its image.

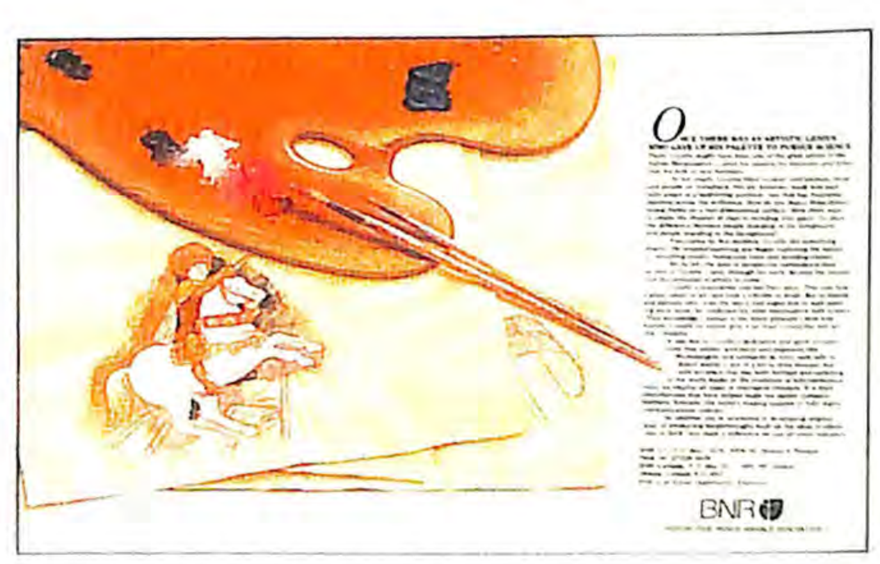
Last year, over 1800 companies in the US changed their names. Many others modified elements of their visual presentation. All these corporations were engaged in the process of re-evaluating their identities and adjusting them to fit the new realities.

Restructuring activities give rise to several key identity issues.

After the deal: who are we? The primary purpose of a well-conceived identity programme is to bring internal and external perceptions of the corporation and its capabilities into alignment with management's overall business objectives. In effect, the aim is to express the corporation's goals and capabilities in visible form. Frequently, these are the very elements that are radically altered.

Scott Stern Associates
Packaging design for Scottish and Newcastle Brewers Plc

Tromson Monroe
Travel and leisure advertising for Lib/Go



Thompson Recruitment Advertising
US and Canadian recruitment campaign for BNR

The change can be as simple as an expansion of geographical coverage – from local identity to a regional presence, or national focus to a global image. More complex issues arise when an organisation significantly alters its core capabilities; when an insurance company expands into real estate or brokerage, or a tobacco company begins dealing in food.

The role of the identity consultant is to help management analyse the impact of such changes and articulate the answers to the fundamental questions 'Who are we?' and 'What do we do?' Of equal importance, once the answers have been defined, is the development of an identity system comprising a variety of verbal and visual requirements to communicate the desired messages.

Downsizing and restructuring: corporate downsizing or restructuring flips the issues raised by merger or acquisition the other way up. The same questions must be asked, but the answers are often in direct opposition to the history and tradition of the corporation. The chemical company that is no longer in chemicals, the industrial boiler manufacturer that sells its boiler operations to a joint venture – each needs to redefine its nature and establish a new identity in the marketplace.

Operations that have been spun off also face a communications challenge. Frequently they must establish a public image and presence for the first time. Even the fortunate ones with a marketing or brand identity to build on must extend that identity with their financial and broader public audiences.

Redundancies and cost pressures: major takeovers often create issues of redundancy. It is not unusual to find corporations operating under 100 or more identities worldwide, with duplicate communications departments and functions. Clearly, supporting 10 identities in the marketplace is more costly than supporting one or two. Which identities have real equity and which can be eliminated? For those that are being weeded out, questions such as "How?" and "Over what period of time?" must equally be answered.

Alternatively, is there an opportunity to leverage existing communications expenditures by extending an image, or combining or endorsing one with another?

LBOs: one audience subtracted? Managements of LBOs face a unique communications challenge. Because stock exchange reporting requirements no longer apply, managers stop using the most common mechanisms for communicating as a corporate entity. The business press may follow the corporation less regularly. When management also cuts communications spending in response to cost pressures, the LBO corporation can virtually disappear from public view.

Most LBOs need actively to maintain a public presence. Apart from anything else, their long-term business plans probably require that they eventually become public corporations again. Withdrawal from public view, while often appealing to management in the short term, runs directly counter to this objective.

Such issues as these are the result of unstoppable change. More than ever, this change underscores the market value of strong corporate and brand identities, as well as the importance of investing in their upkeep.

Kenneth J Roberts
Principal
Anspach Grossman Portugal

Anspach Grossman Portugal
Design and implementation of corporate identity for Unisys

Why Hispanic Programmes Are A Necessity

As I set out on my trek to sell the notion of Hispanic advertising across corporate America in 1976, what I found at General Foods was typical. When I suggested to the Kool-Aid product manager that she should invest in a Hispanic programme, she replied that the product already had a programme in which the company was spending $50,000 on Hispanic media. Was that $50,000 a week or a month? 'No,' she said, 'that's $50,000 a *year*.'

The Kool-Aid story was recurring over and over. Major US brands, heavily supported generally, were getting only token support in the Hispanic market. Ironically, within this environment of tokenism a successful network of Spanish-programmed TV and radio stations was coming into being as local merchants showed the big corporations the way. If corporate America failed to appreciate the value of Hispanic advertising, local car dealers, supermarket chains, retail clothing stores, dentists and lawyers from New York to San Antonio certainly didn't. They provided the dollars to start and build Hispanic media.

How to get people like the Kool-Aid product manager to appreciate the importance of Hispanic advertising to their business? I convinced her that the $50,000 token investment wasn't worth a damn. That wasn't a hard sell. Then I convinced her that there was a reasonable chance that by concentrating the money in one market on TV, with original Hispanic commercials, the company could motivate Spanish-speakers to buy, and Kool-Aid sales would boom.

Kool-Aid bought the test idea, went ahead with it, and sales increased 17% in two months. The plan then went national with a $1.5 million budget. The result was no fluke. We repeated the Kool-Aid success across the land with many other brands. Tokenism gradually evolved into something more serious as the big firms saw the opportunity for advertising in Spanish, through Spanish media, and responded to it. That's how we built Mendoza, Dillon.

The next step in the evolutionary process is to get these companies to treat Spanish advertising not just as an opportunity, which can be (and often is) easily cut in a profit crunch, but a *necessity*. Of MDA's 50 advertised brands, only two have crossed the $1 million 'threshold' to reach the 'necessity' levels of several million dollars a year. Now we must convince others to move over the same threshold. This is the challenge of the next 10 years.

How can we make it happen? In short, by making Hispanic advertising more credible in two areas: TV ratings, and figures for reliable Hispanic brand market shares.

Currently, Hispanic TV ratings are very questionable. There is no accepted authoritative source, a Nielsen or Arbitron. Without the numbers to support Hispanic buys, there is lukewarm support for Spanish advertising programmes at the mid-management levels that upper management looks towards for major decisions in advertising. So media budgets remain at the threshold rather than aggressive levels two or three times that.

This situation is about to change significantly.

JWT Canada
Press campaign for Alcan

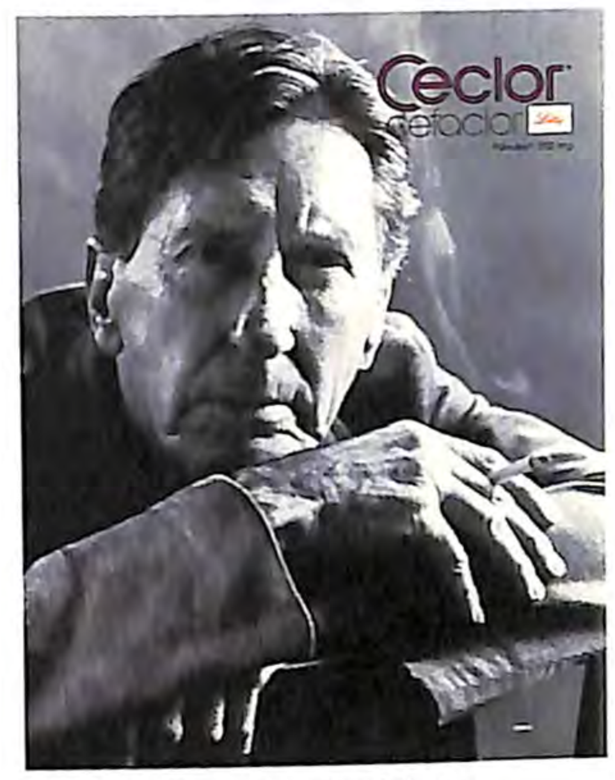
The Marketing Consultancy
Consumer promotions for Berni restaurants

J Walter Thompson Direct
Interactive direct marketing programme for Ford

For a start, Hispanic media have committed themselves to fielding a rating service that will match the Anglo counterpart in reliability. This service should be nationally available by 1990. And with the advances in media ratings will come a syndicated authoritative reading of monthly or bimonthly brand market shares among Hispanics. Again, product managers have this information on the Anglo side, but the reassurance of Nielsen is lacking in judging the effectiveness of Spanish advertising.

Fifteen years ago when a client asked about media ratios and volume impact for a Spanish programme, the response from the agency was, 'trust me'. Some trust was forthcoming – but not too much. With the emergence of authoritative measuring devices in media and market share, 'trust me' can be replaced with 'believe me, read the Nielsen'. Clients can then move confidently, and aggressively, forward with Hispanic programmes that will make a real difference.

Richard Dillon
Chairman
Mendoza, Dillon & Asociados, Inc.



J Walter Thompson Healthcare
Healthcare press advertising for Eli Lilly

Brouillard Communications
Press advertising for Municipal Bonds Investors Assurance Corporation

Reese Communications Companies
Mailpiece for a grassroots campaign to promote a manned US space station for McDonnell Douglas Corporation

MULTI-NATIONAL AWARDS

USA and Canada

By providing clients with creative solutions to their communications requirements, WPP Group companies won over 300 major awards on their behalf in 1988. These are just some of them.

Anspach Grossman Portugal
Conroy's Flowers
Digital Communications Associates Inc
Fireman's Fund
March of Dimes
Raytheon
Texaco Star

Brouillard Communications
Blue Cross/ Blue Shield
Integrated Resources
Irving Trust
Salvation Army
Union Mutual
United Way

Hill and Knowlton
Allstate
Amfac, Inc
CAER Programme
Economic Club of Chicago
First Federal of Kalamazoo 1987
First Florida Banks
Fisher-Price
Kraft
Miles, Inc
Monsanto
Open Software Foundation
Pacific Resources Inc
Texas City-La Marque
Ziegler Securities

HLS Corp
Janssen Pharmaceutica Inc

J. Walter Thompson Direct
Ford
PhoneMate

Lord, Geller, Federico, Einstein, Inc
Chemical Bank
Dean Witter
IBM
Phil Donahue Show
The National Society to Prevent Blindness

Mendoza, Dillon & Asociados, Inc
Cover Girl
Drug Enforcement Agency
Levi's
Ore-Ida

SBG Partners
Berkley
Chase & Sanborn Foods
Culinary Brands Heritage Kitchen
Kraft
MicroPro International
Nalley's Fine Foods
Native Plants, Inc
Nutri-Cheese
Specialty Foods
Universal Foods

Thompson Recruitment Advertising
AMI Park Plaza Hospital
Bell Northern Research
DCH Regional Medical Center
Disneyworld
Georgia Baptist Medical Center
Hewlett-Packard
Los Angeles County/ USC Medical Center
Midlantic North
Northern Telecom
Santa Barbara Cottage Hospital
Wang

Walker Group/CNI
Bloomingdale's
Jerrel, Inc
Woodward & Lothrop

Europe

Conquest Europe
Milan
Maruzzella
World Wildlife Fund

J. Walter Thompson
Athens
Bravo SA

J. Walter Thompson
Brussels
IBM
Panasonic

J. Walter Thompson
Frankfurt
De Beers
Monroe Auto Equipment

J. Walter Thompson
Helsinki
Leaf Hellas

J. Walter Thompson
Istanbul
AEG
IBM
IS Bank
Olivetti

J. Walter Thompson
Italy
Cavit Wine
De Beers
Halls Mentho Lyptus
Kodak
Kraft
League for the Emancipation of the Handicapped
Mattel
Panasonic
Yomo Yoghurt

J. Walter Thompson
Madrid
De Beers
Kodak
Nescafé
Rolex

J. Walter Thompson
Manchester
Chance Pilkington
Greenall Whitley
Manchester Evening News
Northern Telecom
Sharp

J. Walter Thompson
Paris
Alfapac
Chronopost
Guerlain

J. Walter Thompson
Portugal
Bébécar
Beiersdorf
Copaz
Lusitania Vida
Philips
Unilever

J. Walter Thompson
Sweden
Kemetyl

Mando Marketing Ltd
London
Corgi Cars

McColl
London
First Capital City Developments Ltd

SampsonTyrrell
London
Digital Equipment Co

Asia Pacific

Hill and Knowlton
Asia
First Pacific Group
Hewlett-Packard
Hutchison Whampoa
National Development Information Centre
Spencer Stuart

J. Walter Thompson
Bangkok
IBM
S C Johnson
Unilever

J. Walter Thompson
Bombay
Blow Plast
ITC Ltd
Kodak
Reader's Digest
Wipro Ltd

J. Walter Thompson
Hong Kong
China Light & Power
Kodak
Lufthansa
Milan Motors
Nestlé
Red Cross
Reebok

J. Walter Thompson
Japan
De Beers
Kodak
Listerine
Nippon Shohi
Keizai Shimbun-sha

J. Walter Thompson
Malaysia
Kellogg's
Malayan Banking Berhad
Malaysian Airline System
MetroJaya
Nutritional Products
R J Reynolds

J. Walter Thompson
Philippines
Kodak
Unilever

J. Walter Thompson
Taiwan
Ford

Latin America

J. Walter Thompson
Argentina
Autolatina
Banelco
Esso SAPA
Pepsi Cola
Top Toys
Warner-Lambert

J. Walter Thompson
Bogota
Nestlé
Presto
Warner-Lambert

J. Walter Thompson
Brazil
Alpargatas
Brahma/Skol
Citibank
De Beers
Exxon (Esso)
Ford
Kodak
Nestlé
Pepsi Cola
RJR Nabisco
Salvation Army
Sao Paulo
SC Johnson
Unilever
Warner-Lambert

J. Walter Thompson
Chile
Cruz del Sur
Kodak
Nestlé

WPP GROUP PEOPLE

The WPP Group is made up of 42 companies.

Covering 50 countries.

Working from 289 offices.

In total, 11,335 individuals work for those 42 WPP companies covering 50 countries and working from 289 offices.

These are just 48 of them.

Gordon Watson
New Business Development Director
McColl
London

Heather F Wielandt
Associate Senior Designer
Anspach Grossman Portugal Inc
New York

Sarah Rumbelow
Account Executive
The Marketing Consultancy
Henley on Thames

Kathryn Mitchell
Senior Account Executive
Reese Communications
Arlington

Beatrice deVeyrac
Senior Account Executive
Hill and Knowlton, Inc
Paris

Zhao Qing
Account Executive
Hill and Knowlton, Inc
Beijing

Linda Weston
Senior Designer
Sampson Tyrrell
London

Alan Taylor
Creative Director
Oakley Young Associates
Leicester

W Wyatt Neel
VP Director of Design
Walker Group/CNI
New York

J. Walter Thompson
J. Walter Thompson Company

Bobbie Coleman
Designer
Sampson Tyrrell
London

Pat Tally
Revenues Manager
Hill and Knowlton, Inc
Australia

Samantha Fisher
Accounts Assistant
The Henley Centre
London

Clare Rollings
Secretary
Grass Roots Group
Tring

Julian Bravo
President and CEO
JWT Madrid

Man Sai Ho

Peter M Swerdloff
Senior VP Executive Creative Director
Broadlard Communications
New York

Karen Montgomery
Design Assistant
SBG Partners
San Francisco

Peter J Christ
VP Creative Services
HLS CORP
New Jersey

Gene Hight
Senior VP Area Director
Midwest Operations
Thompson Recruitment
Advertising
Michigan

D A McCarthy
Operations Executive
International Vacationers
London

Miranda Lee
Senior VP
Broullard Communications
New York

Clare Sisman
Personal Assistant
Business Design Group
Bristol

Victor Fenwick
Production Assistant
Operations
Reese Communications
Arlington

Neil Hartland
Development Director
McColl
London

Franca Invernizzi
Client Services Director
JWT Milan

Ann Tritton
Production & Office Manager
The Henley Centre
London

Edwin Chan
Managing Director
JWT Hong Kong

Georgette Boehm
Administrative Assistant to CEO
HLS CORP
New Jersey

Sheri Silver
Assistant Media Planner
JWT Entertainment
Los Angeles

Penny Painting
Accountant
Business Design Group
Bristol

Tony Abraham
Chairman and
Creative Director
LandsdownEuro
London

Ron K Dandridge
Reader
VAP Group
Kidlington

Gene Agins
Director
Financial Services Retailing
Walker Group/CNI
New York

Steven D Silva
Account Director
Thompson Recruitment
Advertising
Waltham

Dr Angelo Forte
Regional Manager – Europe
Carl Byoir & Associates
Rome

Dianne Worvell
Production Supervisor
Mando Marketing Ltd
Aylesbury

John Florida
President & CEO
JWT Brazil

Jill McLean
Receptionist
MetroVideo
London

Christina Newman
Personnel Administrator
SBG Partners
San Francisco

Marilyn Thalmayr
Executive Assistant
Carl Byoir & Associates
New York

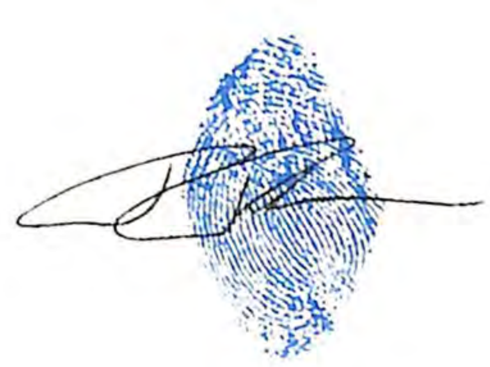
Matthew Phillips
Hire Department
Client Contact
MetroVideo
London

Cindy Granata
Administrative Assistant
JWT Entertainment
Los Angeles

Billy Marshall
Designer and
Finished Artist
Scott Stern Associates
Glasgow

John Nelson
Design Director
Scott Stern Associates
Glasgow

Karen M Arnao
Controller
Anspach Grossman
Portugal Inc
New York



Philip Parkinson
Video Editor
The Mighty Movie Co
London

Teresa Parker
Tele-sales Manager
Grass Roots Group
Tring

George Vlachopoulos
General Manager
Conquest Europe
Athens

MEDIA ADVERTISING 1909

On the occasion of the 125th Anniversary of J Walter Thompson Company it may be appropriate to reflect on today's role of media advertising by reviewing the definition that James Walter Thompson himself included in his 1909 'Blue Book'.

A careful review shows that the "Commodore" anticipated the implications of clients' geographic and functional expansion, the inter-relationship of marketing services and the significance of media buying.

New York Boston Cleveland — J. Walter Thompson Company — Chicago Cincinnati Detroit

Advertising as a Selling Force

Seest thou a man diligent in his business? He shall stand before kings; he shall not stand before mean men.—Proverbs.

THE only man whose business does not need advertising is the man who does not want to sell anything.

¶No matter what you are selling, or how your business is carried on, or what conditions surround it, the right kind of advertising would be profitable to you. It may be difficult to discover just what kind of advertising you ought to do, and how much of it to do—but the difficulty of doing a thing right doesn't prove that the thing ought not to be done.

¶In answer to this, you may say: "My business has been established for twenty years. I have always sold my goods without advertising and have made money; and I am selling them now and making money. Why should I advertise?"

¶If that is your point of view, stop and think of this:

> ¶In the last eighteen years the population of the United States has increased 30 per cent. Has the number of your customers grown proportionately?
>
> ¶In the last eighteen years the total wealth of the United States has increased about 50 per cent. Has the value of your business increased in the same proportion?
>
> ¶You have competitors who advertise—very likely. Their business is younger than yours, and is growing. Where does their trade come from, and why didn't it come to you?

¶These remarks apply with as much force to a man who does a local business. Study the population and the growth of your locality, see what your competitors are doing, and then look yourself straight in the face and answer this question: "Am I keeping up with the procession or not?"

¶Advertising not only creates business, but holds it.

¶If the world was at a standstill there would be no need of advertising, or much effort of any kind. But the swift current of life keeps moving, and you must move with it all the time, or be left far behind.

1

New York Boston Cleveland — J. Walter Thompson Company — Chicago Cincinnati Detroit

¶Advertising is simply news about your goods. This being the case, it is a fair assumption that if your customers do not see any news from you for a long time, they will get into the habit, after a while, of thinking of you as some one they "used to know."

Advertising as an Economic Force

¶If you had lived in the days of Alexander Hamilton the only goods you could have purchased at a store would have been staple merchandise, like sugar or salt, or cloth in the bolt. The village shoemaker would have made your shoes, and you would have ordered your hats made by a hatter. The prices would have been ridiculously high compared to those of to-day. In the next town goods might have cost more, or less, according to circumstances. There was no uniformity of price or quality, or of supply or demand.

¶This was before the Industrial Revolution—a term that economists have created to denote the epoch of concentrated factory production that followed the invention of Watt's steam engine and other labor-saving devices.

¶But commerce, in all its phases, was on the verge of a momentous change. The echoes of Napoleon's final smash-up died away among the whir of looms and the clank of machinery.

¶The rustic shoemaker closed his shop and got a job in a shoe factory. Immense plants, driven by steam, arose wherever water power, or coal, could be found. Workmen, engaged in highly specialized labors, were employed for their whole time. Raw materials were purchased in large quantities, and the swiftest machinery was devised to do what men once did with their hands.

¶The result was an immediate and unparalleled growth of industry, a tremendous reduction in primary costs, and an immense increase in the production of manufactured articles.

¶But—

¶While this solved the vast economic problem of production it left the other side of the question unsettled. What was the use of manufacturing a hundred thousand hats every year in a village that could not afford to buy more than three thousand?

2

New York Boston Cleveland — J. Walter Thompson Company — Chicago Cincinnati Detroit

¶Out of the condition of concentrated production grew the big and brand new problem of distribution. How was a hat manufacturer in Connecticut going to tell the people of Ohio that his hats were the best for the money? What miracle of commerce could span a thousand miles?

¶For two generations after the manufacture of goods on a large scale had begun, their distribution was a haphazard affair. The manufacturer had to depend entirely on the country storekeeper and the equally uninterested proprietor of the city shop. His name did not reach the consumer; he was always in danger of losing his entire trade in a single year; he lived in the shadow of the nightmare of cut-throat competition.

¶Another economic force was needed—a force, or an idea—that would effect a revolution in selling in the same way that Watt's steam engine revolutionized manufacturing.

¶That force was Advertising.

¶Advertising was not invented like a patented clock—nor is it a scheme, like a plan to raise money for a college or a church. It is the permanent result of an economic revolution which brought it to the surface after centuries of ferment. It sprang into existence in a hundred places, and in a hundred different ways at once. It is a part of the existing commercial universe. It could not be abolished or reduced to any noticeable degree without changing the entire economic aspect of life.

¶We take the space to say all this—in a somewhat parenthetical way—for the benefit of the man, to be met here and there, who still believes all advertising to be a sheer waste. If you have anything worth advertising, and do not advertise it, you are simply keeping yourself out of touch with the world's progress. It is an essential part of business—and if you leave off that essential, the world, with all its hum and stir, will pass you by.

¶(Another parenthesis—and the last one—

¶It costs two dollars to go on the train from New York to Philadelphia and it takes two hours. It costs nothing to walk, and it takes about three days. The man who walks can jingle two silver dollars in his pocket and say to himself: "Well, I've saved two dollars that I might have thrown away on railroad fare." And the merchant who doesn't advertise can look over his bank account and say: "I might have thrown away a lot of money on advertising, but I didn't.")

3

New York Boston Cleveland — J. Walter Thompson Company — Chicago Cincinnati Detroit

¶It's an impressive thought that the vast fabric of publicity, woven into the flesh and bones of commercial life, had its beginning less than fifty years ago. It could not have developed to such gigantic proportions in a few decades unless it had met with a tremendous public response.

¶The proof of the value of advertising lies in its august history. Its growth is unparalleled in the annals of commerce. The impulse that gave it impetus and momentum came not from one man, nor from a dozen men, but from tens of thousands.

¶It is an evolution as natural as the growth of democracy throughout the world.

¶If you are interested in the small beginnings of great things, turn to a file of *Harper's Weekly*, or some other periodical of the late sixties, and you will see a thin and trickling stream of advertising running through their pages. These advertisements were small and crude. They were characterized either by a furtive timidity—like that of a gangling country youth of sixteen—or by a brazen and clamorous effrontery that would abash a lightning-rod agent.

¶The magazines and weeklies of that day did not care for advertising—for it was merely an annoyance—and no journalistic eye was sufficiently prophetic to look into the misty future, around 1890 or 1900, and see the advertising pages running a contest, for points of interest, with the text.

¶At the present time there are perhaps 24,000 newspapers and other periodicals in the United States and practically every one carries all the advertising it can get—while the combined expenditure for publicity annually put out by American advertisers runs into many millions of dollars. This large outlay is augmented by the millions invested in billboard space and car cards.

¶Having followed the development of advertising thus far, we may pertinently inquire: What is the secret of its vigor? Why did this method of selling goods, unknown to our fathers, grow to such gigantic proportions in a single generation?

¶The answer is this: Advertising draws a straight line from the manufacturer to the consumer. These are the two points that limit the problem of production and consumption, and advertising is the shortest line between them. It has made the hit-or-miss selling methods of sixty years ago as obsolete as the Edict of Nantes.

4

New York Boston Cleveland — J. Walter Thompson Company — Chicago Cincinnati Detroit

The Advertising Field is Broadening

¶Advertising as a selling force is yet in its infancy. Many possibilities are yet undeveloped. The surface of the soil has been only scratched.

¶Remember—advertising not only places the seller in touch with the consumer for the purpose of satisfying a demand already existing, but it creates new demands. The force of publicity turns the luxury of to-day into the necessity of to-morrow.

¶Advertising has a tendency to broaden in scope. In fact, its history might be graphically illustrated by a series of widening circles. The first advertisers were local merchants, but after the trade of a locality was secured, it was only another step to go after the trade of the surrounding territory, and then the trade of the nation.

¶Twenty years ago it was thought that the possibilities of advertising were limited to the exploitation of a few products, and it was predicted that the first man who advertised men's clothing nationally would fail. Now we are accustomed to see men's suits advertised in almost every periodical, and to the long list of advertised articles there have been added collars, dress linings, collar buttons, suspenders, cement, rugs, slate roofing, lands for colonists, rubber heels, writing paper, telephone and telegraph service—and innumerable commodities intended to satisfy almost every human want.

¶You may be producing an article that has never been advertised, but do not infer from this that it cannot be advertised profitably. The fact that you are selling it indicates that it fills a need. The right kind of advertising is certain to find new avenues of sale.

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1988 Report and Accounts

BOARD OF DIRECTORS AND ADVISERS

WPP Group plc
J R Symonds *Chairman*
J J D Bullmore
S H M King
R E Lerwill
J A Quelch
G C Sampson
M S Sorrell

D D Cheesman
C J Coles
R Day
R P Emmins
P A Forman
S L Galpert
M W Hoban
M E Howe
P Law-Gisiko
F McEwan
S R Mitchell
D M Roberts
M Rosen
C F Schulten
D Stevens *Secretary*
D P Tinkelman
L J Trencher

Head Office
27 Farm Street
London
W1X 6RD

Registered Office
Industrial Estate
Hythe
Kent
CT21 6PE

Auditors
Arthur Andersen & Co.
1 Surrey Street
London
WC2R 2PS

Bankers
Midland Bank plc
Poultry
London
EC2P 2BX

J P Morgan
PO Box 161
1 Angel Court
London
EC2R 7AE

Merchant Bankers
Samuel Montagu & Co. Limited
10 Lower Thames Street
London
EC3R 6AE

Wasserstein Perella & Co. Inc.
27th Floor
31 West 52 Street
New York
NY 10019

Wertheim Schroder & Co. Inc.
200 Park Avenue
New York
NY 10166

Stockbrokers
Panmure Gordon & Co. Limited
9 Moorfield Highwalk
London
EC2Y 9DS

Solicitors
Calow Easton
18/19 Southampton Place
London
WC1A 2AJ

Davis & Gilbert
850 Third Avenue
New York
NY 10022

Fried, Frank, Harris, Schriver & Jacobson
1 New York Plaza
New York
NY 10004

Property Advisers
James Andrew Badger
11 Waterloo Place
London
SW1Y 4AU

Registrars
National Westminster Bank PLC
PO Box No. 82
Caxton House
Redcliffe Way
Bristol
BS99 7NH

Access Symbols
TOPIC *Page 48020*
Reuters *LJHO*
NASDAQ *WPPGY*

BOARDS AND CLIENT SERVICE GROUPS

Rasor Communications Limited

C F Ash
G H A Brown
P J Christey
P A Dexter
R P Emmins
D W Evans
P G Flook
T H Jones
B P Key
R E Lerwill
J S McColl
M Millward
L A Morgan
G P Oakley
D J Pacy
G C Sampson
M Sampson
C F Schulten
H F Scott
A Selby
M S Sorrell
R Stern
J S Thomas
S P Todd
R J Tyrrell
T J Tyrrell
E J Wright
D R J Young

Rasor Communications Inc.

P J Anstatt
M F Bagley
E F Calesa
R E Dillon
P A Forman
D M Geliebter
F M Gomez
E J Grossman
R E Lerwill
K D Love
T A Maurer
J K McElnea
D Morris
R A Nulman
J B Portugal
L C Pounian
J Roher
N Sidjakov
M S Sorrell
D P Tinkelman
L Trencher
M Trombone
K H Walker

Client Service Co-ordination Groups

B J Manning
R L Dilenschneider
F Stanton
plus the directors of Rasor Communications Limited and Rasor Communications Inc.

A Clark
T C Elliott
J W Wardell
R L Dilenschneider
F Stanton
plus the directors of Rasor Communications Limited and Rasor Communications Inc.

Wire & Plastic Products Limited

G C Sampson
Chairman
R E Lerwill
B J Simpkin
M S Sorrell

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report, together with the audited accounts for the year ended 31 December 1988.

Profits and Dividends

The profit on ordinary activities before tax for the year was £40,318,000 (1987: £14,117,000).

The directors recommend a final dividend of 12.4p net per share which, together with the interim dividend of 5.4p net per share, makes a total of 17.8p net per share (1987: 6.4p).

The retained profit of £14,089,000 is carried to reserves.

Review of the Group

The Company is a holding company.

The principal activity of the Group is the provision of marketing services worldwide. The Group expanded during the last year by completing ten acquisitions of which five were in Europe and five were in the United States.

A full review of the Group's activities during the year may be found elsewhere in this document.

The consolidated balance sheet includes a conservative valuation of certain corporate brand names. Details of this and other movements in fixed assets are set out in notes 10 to 12 to the accounts.

Directors

The directors' interests, including family holdings, in the Company's share capital held beneficially were as follows:

	Ordinary Shares		
	9 May 1989	*31 December 1988*	*1 January 1988*
J R Symonds	12,547	12,547	12,547
J J D Bullmore	3,000	3,000	3,000
S H M King	–	–	–
R E Lerwill	20,075	20,075	20,075
J A Quelch	400	400	–
G C Sampson	289,515	289,515	289,515
M S Sorrell	930,287	930,287	930,287

Mr R E Lerwill has been granted options under the Executive Share Option Scheme in respect of a total of 115,888 Ordinary shares.

Mr J J D Bullmore retires by rotation and, being eligible, offers himself for re-election.

Mr S H M King was appointed to the board on 1 January 1989. He therefore retires and, being eligible, offers himself for re-election.

Neither Mr Bullmore nor Mr King have service contracts which exceed one year in duration.

No director had any interest in a contract of significance with the Group during the year.

DIRECTORS' REPORT

Non-Executive Directors

John Symonds has been chairman of the WPP Group for the past eight years. A solicitor, he has been a partner in a legal practice in Kent for 33 years, the last three as senior partner.

Jeremy Bullmore took up his post of non-executive director in 1988 after 31 years at J Walter Thompson, London, the last 11 as chairman. From 1981 to 1987 he was chairman of the Advertising Association. He has written prolifically and lectured extensively on marketing and advertising. In 1985, he received the CBE.

Stephen King was appointed non-executive director on 1 January 1989 after 31 years at J Walter Thompson, ultimately as Research and Planning Director. A founding father of the agency planning function in advertising agencies, he is author of the standard text, Developing New Brands, as well as authoritative articles on branding. He is currently Visiting Professor of Marketing Communications at the Cranfield School of Management.

Professor John Quelch, who became a non-executive director in 1987, is professor of business administration at Harvard University Graduate School of Business Administration. An established writer on marketing issues and public policy issues, he is also author of many books on marketing management.

Substantial Shareholdings

The Company is not aware of any interest representing 5 per cent or more of the existing issued share capital of the Company.

Close Company Status

The directors have been advised that the Company is not a close company within the meaning of the terms of the Income and Corporation Taxes Act 1988.

Share Capital

The number of Ordinary shares in issue increased during the year from 36,669,696 to 39,707,643. The increase is accounted for by shares issued as part consideration for acquisitions. Full details of all share movements during the year are given in note 19 to the accounts.

Subsequent Events

Three acquisitions in the areas of public affairs and sales promotion have been completed subsequent to 31 December 1988. On 29 March 1989 the Group also announced agreed terms for a recommended offer for a UK quoted market research company. These events are described in note 22 to the accounts.

DIRECTORS' REPORT

Disabled Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee Consultation and Involvement

The Group places considerable importance on the contributions to be made by all employees to the progress of the Group through their respective companies, and aims to keep them informed on matters affecting them as employees and on developments within the Group. This is achieved by formal and informal meetings at the individual company level, and distribution of the Annual Report and Accounts throughout the Group.

The Executive Share Option Scheme is available to all full-time employees of the Group nominated by the directors of each company within the Group. Options have currently been granted to a total of 330 (1987: 242) employees over a total of 2,486,277 (1987: 1,560,943) 10p Ordinary shares of the Company. The exercise of these options is generally conditional on the profit performance of the employee's company.

Charitable and Political Contributions

The Group contributed £49,767 to UK charities and £500 to the Conservative Party in 1988.

Auditors

The directors will place a resolution before the Annual General Meeting to re-appoint Arthur Andersen & Co. as auditors for the ensuing year.

By order of the Board

D J Stevens
Secretary

9 May 1989

STATEMENT OF ACCOUNTING POLICIES

A summary of the principal Group accounting policies, all of which have been applied consistently throughout the year and with the preceding year, with the exception of accounting for intangible fixed assets, is set out below.

Basis of Accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of land and buildings and corporate brand names. The consolidated accounts include the results of the Company and all its subsidiaries made up to the same accounting date. The results of subsidiaries acquired during the year are included from the date of completion of the acquisition.

Goodwill

Goodwill represents the excess of the cost or value attributed to investments in businesses or subsidiaries over the fair value of the underlying net assets at the date of their acquisition. Goodwill arising on consolidation is written off against reserves in the year in which it arises.

Intangible Fixed Assets

Intangible fixed assets comprise certain acquired separable corporate brand names. These are shown at a valuation of the incremental earnings expected to arise from the ownership of brands. The valuations have been based on the present value of notional royalty savings arising from the ownership of those brands and on estimates of profits attributable to brand loyalty.

The valuations, which this year represent a change in accounting principles, are subject to annual review and are accounted for through a revaluation reserve. No depreciation is provided since, in the opinion of the directors, the brands do not have a finite useful economic life.

Tangible Fixed Assets

Tangible fixed assets are shown at cost or valuation less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset on a straight-line basis over the estimated useful life, as follows:

Freehold buildings	– 2%
Leasehold land and buildings	– over the term of the lease
Plant and machinery	– 20% or 25%
Fixtures and fittings	– 10% to 25%
Motor vehicles	– 25% or 33⅓%

Surpluses arising on the revaluation of tangible fixed assets are credited to a non-distributable revaluation reserve. On the disposal of a revalued fixed asset the revaluation surplus is transferred to distributable reserves.

Investments

Investments in subsidiaries are stated in the Company's accounts at cost less amounts written off for permanent diminution in value.

Stocks and Work in Progress

Work in progress is valued at cost which comprises outlays incurred on behalf of clients, or the value of work performed on uncompleted assignments or products. Provision is made for non-recoverable costs where appropriate. Stocks are stated at the lower of cost and net realisable value.

STATEMENT OF ACCOUNTING POLICIES

Debtors
Debtors are stated net of provisions for bad and doubtful debts.

Taxation
UK Corporation tax, US Federal, state and local taxes are payable on taxable profits at the current rates prevailing.

Deferred taxation is calculated under the liability method and provision is made for all timing differences which are expected to reverse, at the rates of tax expected to be in force at the time of the reversal.

Pension Costs
The companies within the Group operate several contributory and non-contributory pension schemes. The scheme funds are administered by Trustees and are independent of the Group's finances. Actuarial valuations of the schemes are carried out at various dates in accordance with the terms of their respective Trust Deeds or more frequently as deemed appropriate. Contributions are paid to the schemes in accordance with the recommendations of independent actuaries to enable the Trustees to meet from the schemes the benefits accruing in respect of current and future service. The Group's contributions are charged against profits in the year in which contributions are made.

Turnover and Revenue
Turnover comprises the gross amounts billed to clients in respect of commission based income together with the total of other fees earned. Revenue comprises commissions and fees earned in respect of turnover.

Turnover and revenue are stated exclusive of VAT, sales taxes and trade discounts.

Translation of Foreign Currencies
Foreign currency transactions arising from normal trading activities are recorded in local currency at current exchange rates. Monetary assets and liabilities denominated in foreign currencies at the year-end are translated at the year-end exchange rate. Foreign currency gains and losses are credited or charged to the profit and loss account as they arise.

The profit and loss accounts of overseas subsidiaries are translated into pounds sterling at average exchange rates and the net investments in these companies are translated at year-end exchange rates. Exchange differences arising from the retranslation at year-end exchange rates of the opening net investments and results for the year are dealt with as movements in reserves.

Loan Notes with Detachable Warrants
The net proceeds from the sale of loan notes with detachable warrants are allocated between loans and capital reserves based upon the relative fair values of the notes and the warrants. Any resulting loan discount is amortised over the loan term as interest expense.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1988

Notes		1988 £000	1987 £000	1988 $000	1987 $000
	Turnover	**2,251,306**	1,097,775	**4,010,702**	1,844,262
1	**Revenue**	**547,129**	284,082	**974,710**	477,258
	Cost of sales	**(105,313)**	(65,160)	**(187,615)**	(109,469)
	Gross Profit	**441,816**	218,922	**787,095**	367,789
2	Other operating expenses (net)	**(390,380)**	(197,468)	**(695,462)**	(331,746)
	Operating Profit	**51,436**	21,454	**91,633**	36,043
	Interest receivable	**7,926**	3,739	**14,120**	6,282
3	Interest payable and similar charges	**(19,044)**	(11,076)	**(33,926)**	(18,608)
4	**Profit on Ordinary Activities before Taxation**	**40,318**	14,117	**71,827**	23,717
6	Tax on profit on ordinary activities	**(18,930)**	(6,810)	**(33,724)**	(11,441)
	Profit on Ordinary Activities after Taxation	**21,388**	7,307	**38,103**	12,276
	Minority interests	**(266)**	(222)	**(474)**	(373)
	Profit for the Financial Year	**21,122**	7,085	**37,629**	11,903
7	Dividends paid and proposed	**(7,033)**	(2,337)	**(12,529)**	(3,926)
20	**Retained Profit for the Year**	**14,089**	4,748	**25,100**	7,977
8	Earnings per share	**55.0p**	32.1p	**$0.98**	$0.54

The main reporting currency of the Group is the pound sterling and the accounts have been prepared on this basis. Solely for convenience, the accounts set out on pages 65 to 69 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1988: $1.7815=£1, 1987: $1.6800=£1), the rate in effect on 31 December for the balance sheets (1988: $1.8090=£1, 1987: $1.8785=£1), and a combination of these for the statement of source and application of funds. This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rate indicated.

The accompanying notes form an integral part of this profit and loss account.

CONSOLIDATED BALANCE SHEET

as at 31 December 1988

Notes		1988 £000	1987 £000	1988 $000	1987 $000
	Fixed Assets				
10	Intangible assets	**175,000**	-	**316,575**	-
11	Tangible assets	**86,378**	79,184	**156,258**	148,747
12	Investments	**4,678**	3,464	**8,463**	6,507
		266,056	82,648	**481,296**	155,254
	Current Assets				
13	Stocks and work in progress	**34,340**	37,920	**62,121**	71,233
14	Debtors	**266,405**	247,836	**481,927**	465,560
15	Investments and assets held for resale	**13,912**	115,273	**25,167**	216,540
	Cash at bank and in hand	**92,591**	72,616	**167,497**	136,409
		407,248	473,645	**736,712**	889,742
16	**Creditors:** amounts falling due within one year	**(437,079)**	(454,733)	**(790,676)**	(854,216)
	Net Current Assets (Liabilities)	**(29,831)**	18,912	**(53,964)**	35,526
	Total Assets less Current Liabilities	**236,225**	101,560	**427,332**	190,780
17	**Creditors:** amounts falling due after more than one year	**(140,761)**	(91,333)	**(254,637)**	(171,568)
18	**Provisions for Liabilities and Charges**	**(34,603)**	(74,719)	**(62,597)**	(140,360)
	Net Assets (Liabilities)	**60,861**	(64,492)	**110,098**	(121,148)
	Capital and Reserves				
19	Called up share capital	**3,973**	3,670	**7,187**	6,894
20	Merger reserve	**(150,603)**	(89,423)	**(272,441)**	(167,981)
20	Other reserves	**185,259**	13,233	**335,134**	24,858
20	Profit and loss account	**21,052**	6,963	**38,083**	13,080
	Shareholders' Funds	**59,681**	(65,557)	**107,963**	(123,149)
	Minority interests	**1,180**	1,065	**2,135**	2,001
	Total Capital Employed	**60,861**	(64,492)	**110,098**	(121,148)

Signed on behalf of the Board on 9 May 1989

Directors

R E Lerwill

M S Sorrell

The main reporting currency of the Group is the pound sterling and the accounts have been prepared on this basis. Solely for convenience, the accounts set out on pages 65 to 69 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1988: $1.7815=£1, 1987: $1.6800=£1), the rate in effect on 31 December for the balance sheets (1988: $1.8090=£1, 1987: $1.8785=£1), and a combination of these for the statement of source and application of funds. This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rate indicated.

The accompanying notes form an integral part of this balance sheet.

COMPANY BALANCE SHEET

as at 31 December 1988

Notes		1988 £000	1987 £000	1988 $000	1987 $000
	Fixed Assets				
11	Tangible assets	665	221	1,203	415
12	Investments	249,956	224,372	452,170	421,483
		250,621	224,593	453,373	421,898
	Current Assets				
14	Debtors	17,974	17,062	32,515	32,051
	Cash at bank and in hand	2,650	1,577	4,794	2,962
		20,624	18,639	37,309	35,013
16	**Creditors:** amounts falling due within one year	(13,579)	(5,892)	(24,564)	(11,069)
	Net Current Assets	7,045	12,747	12,745	23,944
	Total Assets less Current Liabilities	257,666	237,340	466,118	445,842
17	**Creditors:** amounts falling due after more than one year	-	(1,700)	-	(3,193)
18	**Provisions for Liabilities and Charges**	(6,619)	(55)	(11,974)	(103)
	Net Assets	251,047	235,585	454,144	442,546
	Capital and Reserves				
19	Called up share capital	3,973	3,670	7,187	6,894
20	Merger reserve	246,119	231,827	445,229	435,487
20	Profit and loss account	955	88	1,728	165
	Total Capital Employed	251,047	235,585	454,144	442,546

Signed on behalf of the Board on 9 May 1989

Directors

R E Lerwill

M S Sorrell

The main reporting currency of the Group is the pound sterling and the accounts have been prepared on this basis. Solely for convenience, the accounts set out on pages 65 to 69 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1988: \$1.7815=£1, 1987: \$1.6800=£1), the rate in effect on 31 December for the balance sheets (1988: \$1.8090=£1, 1987: \$1.8785=£1), and a combination of these for the statement of source and application of funds. This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rate indicated.

The accompanying notes form an integral part of this balance sheet.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended 31 December 1988

	1988 £000	1987 £000	1988 $000	1987 $000
Source of Funds				
Profit before tax for the financial year	**40,318**	14,117	**71,827**	23,717
Add items not involving the movement of funds:				
Depreciation	**11,619**	6,825	**20,699**	11,466
Increase in other provisions	**1,962**	2,419	**3,495**	4,544
Profit on disposal of tangible fixed assets	**(468)**	(189)	**(834)**	(318)
Minority interest in retained profit for the year	**(266)**	(222)	**(474)**	(373)
Total funds from operations	**53,165**	22,950	**94,713**	39,036
Funds from other sources:				
Increase in creditors due after more than one year*	**49,428**	88,608	**89,415**	166,450
Increase in minority interests*	**115**	363	**208**	682
Increase in deferred taxation and other provisions*	**3,197**	78,898	**5,783**	148,210
Proceeds from refinancing of long term debt	**10,665**	–	**19,000**	–
Proceeds from issues of ordinary shares	**–**	205,155	**–**	344,660
Proceeds from sale of tangible fixed assets	**11,303**	1,874	**20,136**	3,148
Sale of freehold property	**110,496**	–	**196,849**	–
Value of warrants attached to loan notes	**359**	1,488	**640**	2,500
Exchange movements	**(11,182)**	19,004	**(19,816)**	2,504
Shares issued as part consideration of the acquisition of subsidiaries*	**14,596**	2,860	**26,003**	4,805
	242,142	421,200	**432,931**	711,995
Application of Funds				
Dividends paid	**2,337**	317	**4,163**	532
Taxation paid	**16,230**	11,272	**28,914**	18,937
Repayment of loans	**68,546**	–	**122,115**	–
Purchase of tangible fixed assets*	**21,800**	90,168	**38,837**	151,482
Purchase of fixed asset investments*	**1,214**	3,464	**2,163**	5,820
Goodwill arising on acquisitions of subsidiaries*	**75,472**	293,915	**134,453**	493,777
	185,599	399,136	**330,645**	670,548
Net Source of Funds	**56,543**	22,064	**102,286**	41,447

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended 31 December 1988

	1988 £000	1987 £000	1988 $000	1987 $000
Increase (decrease) in net current assets:*				
Stocks and work in progress	**(3,580)**	36,110	**(6,476)**	67,833
Debtors	**18,569**	235,984	**33,591**	443,296
Investments and assets held for resale	**9,135**	114,233	**16,525**	214,587
Creditors: amounts falling due within one year	**3,926**	(331,388)	**7,102**	(622,513)
	28,050	54,939	**50,742**	103,203
Movements in net liquid funds:				
Cash at bank	**19,975**	64,062	**36,135**	120,340
Bank loans and overdrafts	**8,518**	(96,937)	**15,409**	(182,096)
	56,543	22,064	**102,286**	41,447

*The effect of the acquisition of subsidiaries on the above statement was as follows:

Net Assets Acquired:	1988 £000	1988 $000	Discharged by:	1988 £000	1988 $000
Tangible fixed assets	**4,785**	8,524	Shares	**14,596**	26,003
Goodwill	**75,472**	134,453	Cash	**63,154**	112,508
Investments	**413**	736			
Net current assets	**(1,803)**	(3,212)			
Creditors: due after one year	**(608)**	(1,083)			
Provisions for liabilities and charges	**(443)**	(789)			
Minority interests	**(66)**	(118)			
	77,750	138,511		**77,750**	138,511

The main reporting currency of the Group is the pound sterling and the accounts have been prepared on this basis. Solely for convenience, the accounts set out on pages 65 to 69 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1988: $1.7815=£1, 1987: $1.6800=£1), the rate in effect on 31 December for the balance sheets (1988: $1.8090=£1, 1987: $1.8785=£1), and a combination of these for the statement of source and application of funds. This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rate indicated.

The accompanying notes form an integral part of this statement.

1 Segment Information

The Group provides marketing services both on a national and a multi-national basis. Contributions to Group revenue by geographical area were as follows:

	1988	1987
	£000	£000
United Kingdom	132,910	74,184
North America	288,347	144,729
Rest of the World	125,872	65,169
	547,129	284,082

Substantially all the North American revenue arises in the United States of America.

2 Other Operating Expenses (net)

Administration and other operating expenses	391,150	198,268
Other operating income	(770)	(800)
	390,380	197,468

3 Interest Payable and Similar Charges

On bank loans and overdrafts, and other loans:		
- repayable within five years, by instalments	395	246
- repayable within five years, not by instalments	8,554	9,701
	8,949	9,947
On all other loans	10,095	1,129
	19,044	11,076

Included in the above is the interest element of charges payable under finance leases (and hire purchase contracts) amounting to £176,000 (1987: £335,000).

4 Profit on Ordinary Activities before Taxation

Profit on ordinary activities before taxation is stated after charging:

Depreciation of and amounts written off		
- owned tangible fixed assets	10,857	6,039
- assets held under finance leases and hire purchase contracts	762	786
Operating lease rentals		
- plant and machinery	3,710	2,299
- property	31,077	16,556
Hire of plant and machinery	450	261
Staff costs (see note 5)	237,251	125,228
Auditors' remuneration	1,365	834

5 Staff Costs

(a) Particulars of employees (including executive directors) are shown below:

	1988	1987
	£000	£000
Employee costs during the year amounted to:		
Wages and salaries	207,405	110,698
Social security costs	18,726	8,891
Other pension costs	11,120	5,639
	237,251	125,228

The average weekly number of persons employed by the Group during the year was as follows:

	1988	1987
	Number	Number
United Kingdom	2,221	1,200
Overseas	8,222	4,166
	10,443	5,366

(b) Directors' remuneration:

Directors of the Company received the following remuneration:

	1988	1987
	£000	£000
Emoluments (including pension contributions)	833	393

The directors' remuneration shown above (excluding pensions and pension contributions) included:

Chairman	Nil	Nil
Highest paid director	505	241

Other directors based in the United Kingdom received emoluments (excluding pensions and pension contributions) in the following ranges:

	1988	1987
	Number	Number
Nil	–	1
£30,001 to £35,000	–	1
£35,001 to £40,000	1	–
£75,001 to £80,000	1	–
£95,001 to £100,000	–	1
£160,000 to £165,000	1	–

5 Staff Costs *continued*

(c) Higher-paid employees:

The number of employees of the Company whose remuneration fell in the following ranges was:

	1988 Number	1987 Number
£30,001 to £35,000	1	1
£35,001 to £40,000	2	–
£45,001 to £50,000	3	1
£60,001 to £65,000	2	–
£65,001 to £70,000	1	–
£70,001 to £75,000	2	–

6 Tax on Profit on Ordinary Activities

	1988 £000	1987 £000
The tax charge is based on the profit for the year and comprises:		
Corporation tax at 35% (1987: 35%)	3,892	2,649
Deferred taxation	(44,833)	(7,340)
Overseas taxation	59,871	11,501
	18,930	6,810

The Group's effective rate of tax is greater than the United Kingdom Corporate tax rate of 35% due to the significant level of overseas income.

7 Dividends Paid and Proposed	1988 £000	1987 £000
Interim payable of 5.4p per share (1987: 1.5p)	2,106	548
Final proposed of 12.4p per share (1987: 4.9p)	4,927	1,789
	7,033	2,337

8 Earnings per Share

The calculation of earnings per share is based on the profit attributable to shareholders of £21,122,000 (1987: £7,085,000) and the weighted average number of Ordinary shares in issue during the year of 38,425,272 (1987: 22,083,714 shares).

9 Contributions to Consolidated Profit

The Company has taken advantage of the exemption in the Companies Act 1985 s.228 not to present its own profit and loss account. £7,900,000 (1987: £1,629,000) of the consolidated profit after tax has been dealt with in the accounts of the Company. Additionally, the consolidated profit before tax includes £4,600,000 contributed by companies acquired during the year.

10 Intangible Fixed Assets

	1988 £000	1987 £000
Corporate brand names	175,000	-

Corporate brand names represent the directors' valuation of the brand names J Walter Thompson and Hill and Knowlton which were acquired in 1987 as part of JWT Group, Inc. These assets have been valued under the Alternative Accounting Rules of the Companies Act 1985 in accordance with the Group's accounting policy for intangible fixed assets. The directors in the course of their valuation have consulted their advisers Samuel Montagu & Co. Limited.

11 Tangible Fixed Assets

(a) Group

The movement in the year was as follows:

	Land and Buildings Freehold £000	Long Leasehold £000	Short Leasehold £000	Plant & Machinery £000	Fixtures & Fittings £000	Motor Vehicles £000	Total £000
Cost or valuation:							
Beginning of year	12,686	4,231	36,511	3,670	26,071	2,647	85,816
New subsidiaries	1,099	163	507	719	1,856	441	4,785
Reclassification	-	(2,523)	2,523	-	-	-	-
Additions	2,122	325	1,776	1,493	8,244	3,055	17,015
Disposals	(5,732)	(26)	(2,022)	(1,274)	(2,188)	(990)	(12,232)
Exchange adjustments	649	494	2,117	185	1,435	52	4,932
Revaluation	3,202	-	1,350	-	-	-	4,552
End of year	14,026	2,664	42,762	4,793	35,418	5,205	104,868
Depreciation:							
Beginning of year	-	379	1,279	1,472	3,020	482	6,632
Charge	275	154	3,896	599	5,572	1,123	11,619
Disposals	(204)	(20)	(42)	(208)	(521)	(402)	(1,397)
Exchange adjustments	40	31	677	110	760	18	1,636
End of year	111	544	5,810	1,973	8,831	1,221	18,490
Net book value:							
31 December 1988	13,915	2,120	36,952	2,820	26,587	3,984	86,378
31 December 1987	12,686	3,852	35,232	2,198	23,051	2,165	79,184

Leased assets (other than leasehold property) included above have a net book value of £1,373,000 (1987: £322,000).

Basis of valuation: Plant and machinery (including fixtures and fittings) are shown at cost. Land and buildings include certain properties professionally revalued during 1987 and 1988, by James Andrew Badger (Surveyors & Valuers), on an open market, existing use basis. The historic net book value of such land and buildings is £6,511,000 (1987: £1,859,000).

11 Tangible Fixed Assets *continued*

(b) Company

The movement in the year was as follows:

	Land and Buildings Freehold £000	Short Leasehold £000	Fixtures & Fittings £000	Motor Vehicles £000	Total £000
Cost or valuation:					
Beginning of year	–	29	109	163	301
Additions	287	205	244	168	904
Disposals	(287)	–	–	(9)	(296)
End of year	–	234	353	322	909
Depreciation:					
Beginning of year	–	29	21	30	80
Charge	–	22	69	79	170
Disposals	–	–	–	(6)	(6)
End of year	–	51	90	103	244
Net book value:					
31 December 1988	–	183	263	219	665
31 December 1987	–	–	88	133	221

12 Fixed Asset Investments

The following investments are included in the net book value of fixed asset investments:

(a) Group

	1988 £000	1987 £000
Investment in related companies	3,170	1,607
Other investments	1,508	1,857
	4,678	3,464

	1988 £000	1987 £000
(b) Company		
Subsidiaries at cost:		
Beginning of year	224,372	21,176
Additions	25,584	203,196
End of year	249,956	224,372

At 31 December 1988 the Company directly or indirectly held 100% (except where indicated) of each class of the issued shares of the following subsidiaries. Companies or divisions marked with an * were acquired or commenced operations during the year. The activity and country of operation and registration of the principal subsidiaries or divisions is given below:

Company	Activity	Country
Strategic Marketing Services		
The Henley Centre for Forecasting Limited*	Strategic Marketing Consultancy	England
Media Advertising		
J Walter Thompson Company	Media Advertising	USA
Lord, Geller, Federico, Einstein, Inc.	Media Advertising	USA
Conquest Europe*	Media Advertising	Europe
Public Relations		
Hill and Knowlton, Inc.	Public Relations	USA
Carl Byoir*	Public Relations	USA
Market Research		
MRB Group, Inc.	Market Research	USA
Non-Media Advertising		
Business Design Group Limited	Graphics and Design	England
Greaves Hall Limited	Graphics and Design	England
Oakley Young Associates Limited	Graphics and Design	England
Sampson Tyrrell Limited	Graphics and Design	England
SBG Partners	Graphics and Design	USA
Stewart McColl Associates plc*	Graphics and Design	England
The Walker Group/CNI Inc.	Graphics and Design	USA
VAP Group Limited	Graphics and Design	England
The Grass Roots Group PLC (50% owned)	Incentive and Motivation	England
P&L International Vacationers Limited	Incentive and Motivation	England
Mando Marketing Limited	Sales Promotion	England
Scott Stern Associates Limited	Sales Promotion	Scotland
Einson Freeman, Inc.*	Sales Promotion	USA
MetroVideo Limited	Audio Visual products/services	England
The Mighty Movie Company Limited	Film and Video production	England

12 Fixed Asset Investments *continued*

Company	Activity	Country
Specialist Communications		
Anspach Grossman Portugal Inc.*	Corporate Identity	USA
Brouillard Communications, Inc.	Business to Business Advertising	USA
The Entertainment Group	Entertainment Industry Advertising	USA
EWA Limited*	Database Marketing	England
Harvard Capital Group, Inc.	Financial Services Marketing	USA
Hispania Advertising, Inc.	Hispanic Advertising	USA
J Walter Thompson Direct	Direct Advertising	USA
J Walter Thompson Healthcare	Healthcare Advertising	USA
HLS Corp.*	Specialist Healthcare Advertising	USA
Mendoza, Dillon & Asociados, Inc.	Hispanic Advertising	USA
Pace Communications Inc.	Real Estate Marketing	USA
Reese Communications Inc.	Public Affairs	USA
Targeting Systems Inc.	Direct Marketing	USA
Thompson Recruitment Advertising, Inc.	Recruitment Advertising	USA
Donahue & Associates Advertising, Inc.*	Recruitment Advertising	USA
Tromson Monroe Advertsing, Inc.	Travel Industry Public Relations	USA
Manufacturing		
Alton Wire Products Limited	Manufacture of wire products	England
North Kent Plastic Cages Limited	Manufacture of wire and sheet metal products	England
Staffordshire Holloware Limited	Manufacture of aluminium products	England
Refrigeration (Bournemouth) Limited	Sale and installation of shopfitting equipment	England
Holding Companies		
Rasor Communications Inc.	Holding company for US services companies	USA
Rasor Communications Limited	Holding company for UK services companies	England
Wire and Plastic Products Limited	Holding company for UK manufacturing companies	England

13 Stocks and Work in Progress

The following are included in the net book value of stocks and work in progress:

	Group	
	1988	1987
	£000	£000
Raw materials and consumables	**360**	398
Work in progress	**32,425**	36,247
Finished goods and goods for resale	**1,555**	1,275
	34,340	37,920

14 Debtors

The following are included in the net book value of debtors:

Amounts falling due within one year:

	Group		Company	
	1988	1987	**1988**	1987
	£000	£000	**£000**	£000
Trade debtors	**217,204**	207,863	**–**	–
ACT recoverable	**2,649**	1,270	**2,418**	1,049
Corporate income taxes recoverable	**7,133**	7,444	**2,773**	–
VAT and sales taxes recoverable	**3,863**	2,508	**125**	138
Other debtors	**11,931**	8,224	**839**	130
Prepayments and accrued income	**9,346**	6,962	**71**	2
Amounts owed by subsidiaries	**–**	–	**11,748**	15,743
	252,126	234,271	**17,974**	17,062

Amounts falling due after more than one year:

	Group		Company	
	1988	1987	**1988**	1987
	£000	£000	**£000**	£000
Corporate income taxes recoverable	**198**	543	**–**	–
Other debtors	**5,419**	5,228	**–**	–
Prepayments and accrued income	**8,662**	7,794	**–**	–
	14,279	13,565	**–**	–
Total debtors	**266,405**	247,836	**17,974**	17,062

15 Investments and Assets held for resale

The following amounts are included in the net book value of investments and assets held for resale:

	Group	
	1988	1987
	£000	£000
Treasury bonds listed overseas, at cost	**3,714**	3,153
Investment listed in the UK and overseas, at cost	**9,140**	-
Unlisted investments, at cost	**1,058**	1,624
Freehold property held for resale, at market valuation	**-**	110,496
	13,912	115,273

The investment listed in the UK and overseas represents common stock of The Ogilvy Group, Inc. There is no material difference between the cost and market value at 31 December 1988 of the listed investments.

16 Creditors – Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	Group		Company	
	1988	1987	**1988**	1987
	£000	£000	**£000**	£000
Bank loans and overdrafts	**32,597**	98,996	**-**	-
Obligations under finance leases and hire purchase contracts	**677**	388	**-**	-
Trade creditors	**243,790**	228,974	**-**	-
Taxation and social security	**53,804**	6,271	**2,286**	780
Due to vendors of acquired companies	**9,108**	5,145	**1,700**	-
Dividends payable and proposed	**7,033**	2,337	**7,033**	2,337
Deferred income	**14,636**	10,259	**-**	-
Other creditors and accruals	**75,434**	102,363	**2,560**	2,775
	437,079	454,733	**13,579**	5,892

17 Creditors – Amounts falling due after more than one year

The following amounts are included in creditors falling due after more than one year:

	Group		Company	
	1988	1987	**1988**	1987
	£000	£000	**£000**	£000
Bank loans	**92,257**	72,982	**-**	-
Loan notes with detachable warrants	**6,855**	6,497	**-**	-
Obligations under finance leases and hire purchase contracts	**856**	418	**-**	-
Trade creditors	**-**	1,564	**-**	-
Corporate income taxes payable	**22,499**	1,044	**-**	-
Due to vendors of acquired companies	**1,039**	1,700	**-**	1,700
Deferred income	**-**	1,048	**-**	-
Other creditors and accruals	**17,255**	6,080	**-**	-
	140,761	91,333	**-**	1,700

Bank loans payable at 31 December 1988 include the outstanding balance on US$160 million of debt assumed on the acquisition of JWT Group, Inc. in 1987. This debt has since been refinanced through a seven year unsecured multicurrency facility, repayable in 14 equal semi-annual instalments commencing on 29 July 1988. Interest is payable at a variable rate linked to Libor.

The loan notes with detachable warrants are repayable in equal annual instalments between 16 April 1993 and 16 April 1997. Alternatively, under certain circumstances, at the option of Rasor Communications Inc. (a wholly owned subsidiary of the Company), they may be repaid at any time after 16 April 1992. The loan notes are unsecured and bear interest at the rate of 8.75% per annum until the date of repayment. Each note carries a warrant to subscribe for Ordinary shares of the Company to the principal amount of the note. The warrants will be exercisable at a price of 1038p per share. The total number of WPP Group plc Ordinary shares in respect of which warrants have been issued is 875,000.

Analysis of loans, finance leases and hire purchase contracts:

		Group	
		1988	1987
		£000	£000
Borrowings are repayable by instalments as follows:			
Within 1 year	– bank loans	**21,414**	25,116
	– leases and hire purchase	**677**	388
Within 1-2 years	– banks loans	**34,862**	13,544
	– leases and hire purchase	**464**	271
Within 2-5 years	– bank loans	**25,578**	37,216
	– leases and hire purchase	**392**	147
	– loan notes with detachable warrants	**1,658**	-
Over 5 years	– bank loans	**31,818**	22,222
	– loan notes with detachable warrants	**5,197**	6,497
		122,060	105,401

18 Provisions for Liabilities and Charges

Provisions for liabilities and charges comprise:

	Group		Company	
	1988	1987	**1988**	1987
	£000	£000	**£000**	£000
Deferred taxation	**12,105**	54,903	**6,619**	55
Pension and other provisions	**22,498**	19,816	**-**	-
	34,603	74,719	**6,619**	55

Deferred tax has been provided to the extent that the directors have concluded, on the basis of reasonable assumptions and the intentions of management, that it is probable that liabilities will crystallise. No provision is made for tax that would arise on the remittance of overseas earnings.

18 Provisions for Liabilities and Charges *continued*

The movement in the year on Group and Company provisions comprises:

	Group		Company
	Deferred taxation 1988 £000	Pension and other provisions 1988 £000	Deferred taxation 1988 £000
Beginning of year	54,903	19,816	55
Balances assumed on acquisition of subsidiaries	111	332	–
Charged (credited) to profit and loss account	(44,833)	1,962	6,564
Transferred to creditors falling due within one year	–	(442)	–
Exchange adjustments	1,924	830	–
End of year	12,105	22,498	6,619

19 Called-up Share Capital

	1988 £	1987 £
Authorised:		
44,800,000 (1987:44,800,000) Ordinary shares of 10p each	**4,480,000**	4,480,000
200 (1987:300) Deferred Redeemable Convertible shares of £1 each	**200**	300
10,000 (1987:20,000) "A" Ordinary Convertible shares of 10p each	**1,000**	2,000
10,075 (1987:14,000) "B" Ordinary Convertible shares of 10p each	**1,007**	1,400
100,000 (1987:Nil) "C" Ordinary Convertible shares of 10p each	**10,000**	–
	4,492,207	4,483,700
Allotted, called-up and fully-paid:		
39,707,643 (1987:36,669,696) Ordinary shares of 10p each	**3,970,764**	3,666,970
200 (1987:300) Deferred Redeemable Convertible shares of £1 each	**200**	300
10,000 (1987:15,000) "A" Ordinary Convertible shares of 10p each	**1,000**	1,500
10,075 (1987:14,000) "B" Ordinary Convertible shares of 10p each	**1,007**	1,400
	3,972,971	3,670,170

During the year the Company allotted 3,037,947 Ordinary shares with a nominal value of £303,794 and at a premium of £14,291,979 in consideration for the acquisition of subsidiaries, in certain cases through the conversion of Convertible shares.

The Deferred and Convertible shares were issued to the vendors of certain companies acquired during 1986 and 1987 and are convertible to Ordinary shares of the Company in the period up to 31 May 1992. The number of Ordinary shares into which the Deferred or Convertible shares may be converted is dependent upon the level of future profitability of the company acquired.

Options have been granted under the WPP Group plc Executive Share Option Scheme over a total of 2,486,277 (1987: 1,560,943) 10p Ordinary Shares, exercisable between 1989 and 1999 at prices per share ranging from 390p to 823p.

20 Reserves

(a) Group

Movements during the year were as follows:

	Merger Reserve £000	Capital Reserve £000	Revaluation Reserve £000	Currency Translation Reserve £000	Profit and Loss Account £000
Balance at beginning of year	(89,423)	1,488	1,533	10,212	6,963
Premium on shares issued during the year for acquisitions (note 19)	14,292	-	-	-	-
Goodwill arising on consolidation written off	(75,472)	-	-	-	-
Revaluation of tangible and intangible assets	-	-	179,270	-	-
Provision for rights attaching to warrants	-	359	-	-	-
Exchange revaluation	-	-	-	(7,603)	-
Retained profit for the year	-	-	-	-	14,089
Balance at end of year	(150,603)	1,847	180,803	2,609	21,052

(b) Company

Movements during the year were as follows:

	Merger Reserve £000	Profit and Loss Account £000
Balance at beginning of year	231,827	88
Premium on shares issued during the year for acquisitions (note 19)	14,292	-
Profit for the year	-	7,900
Dividends paid and proposed	-	(7,033)
Balance at end of year	246,119	955

In the 1987 accounts, and under court sanction, the balance on the share premium account amounting to £211,090,000 was cancelled and transferred to a non-distributable special reserve. For convenience this reserve has been disclosed above with the merger reserve. Goodwill arising on acquisition has been written off against the merger reserve in the consolidated accounts.

21 Guarantees and other Financial Commitments

(a) Capital commitments

At the end of the year, capital commitments were:

	Group		Company	
	1988	1987	**1988**	1987
	£000	£000	**£000**	£000
Contracted for but not provided for	**1,730**	1,258	**–**	–
Authorised but not contracted for	**226**	1,173	**–**	–
	1,956	2,431	**–**	–

(b) Contingent liabilities

Further consideration amounts, payable in cash and Ordinary shares of the Company, may become due to the vendors of certain companies dependent upon the level of profitability of those companies over various periods up to 31 January 1994. The quantification of these future payments is dealt with in note 22.

(c) Lease commitments

The Group has entered into non-cancellable leases in respect of plant and machinery. The total annual rental (including interest) for 1988 was £3,713,000 (1987: £2,048,000). The lease agreements provide that the Group will pay all insurance, maintenance and repairs. The Group may continue, at its option, to use the plant and machinery after the expiration of the initial lease period at a nominal rental.

In addition, the Group leases certain land and buildings on short term and long term leases. The annual rental on these leases for 1988 was £31,077,000 (1987: £16,556,000). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays all insurance, maintenance and repairs of these properties.

The minimum annual rentals payable in 1989 under the foregoing leases are as follows:

	Group	
	Plant and Machinery	Property
	£000	£000
In respect of operating leases which expire:		
– within 1 year	498	1,161
– within 2-5 years	2,182	10,695
– after 5 years	310	20,878
	2,990	32,734

(d) Legal proceedings
The Owl Group, Inc. and Lord, Geller, Federico, Einstein, Inc. ("Lord Geller"), subsidiaries of the Company, (together "the Plaintiffs"), commenced an action in the New York Supreme Court on 22 March 1988 against former officers and directors of Lord Geller ("the Defendants") for, *inter alia*, breaches of fiduciary duty and the Plaintiffs have also claimed substantial damages. The action also seeks to enjoin the new agency established by the Defendants, Lord, Einstein, O'Neill & Partners, and Young & Rubicam, Inc. The Court issued an interim injunction in this action in favour of the Plaintiffs against the Defendants and the new agency. On 18 October 1988 the Defendants and Lord, Einstein, O'Neill & Partners advised the Court that they will not do business with existing Lord Geller clients pending the Court's decision on Lord Geller's motion for a preliminary injunction and thus the interim injunction was vacated upon the consent of the parties.

Some of the Defendants have filed counter claims against, *inter alia*, the Plaintiffs and the Company seeking damages and injunctive relief. The Plaintiffs and the Company have been advised by their lawyers in the United States that there is no substance or merit in the counter claims and they intend to contest them vigorously.

(e) Pension arrangements
Several pension schemes are operated by the companies within the Group. Actuarial reviews of all material schemes were undertaken following the acquisition of JWT Group, Inc. in the second half of 1987 and appropriate provision made for underprovided costs.

22 Subsequent Events

(a) On 20 January 1989 the Group acquired, for an initial payment in cash and shares totalling US$6,000,000, the entire issued share capital of Timmons and Co. Inc., a Washington based lobbying and government relations company.

On 27 February 1989 the Group acquired, for an initial payment in cash of C$12,000,000, the entire issued share capital of Public Affairs Resource Group, a Canadian public affairs consulting and public opinion research company.

On 26 April 1989 the Group acquired, for an initial payment in cash and shares totalling £1,935,000, the entire issued share capital of The Marketing Consultancy Limited, a UK based sales promotion company.

The acquisitions referred to above together with earlier acquisitions (excluding JWT Group, Inc.) may give rise to further consideration amounts resulting in goodwill, in addition to the initial payments referred to above. Any further payments will be payable in cash and Ordinary shares of the Company dependent upon the level of profitability of these acquired entities over various periods up to 31 January 1994. It is not practicable to estimate with any reasonable degree of certainty the total additional consideration to be paid. However, the directors estimate that the maximum additional payments which may be payable in respect of all subsidiaries (including those referred to above) would amount to:

	£000
Within one year from 31 December 1988	13,117
Within two to five years	122,966
Over five years	14,069
	150,152

On the assumption that the vendors choose cash rather than shares where the option exists, the future consideration payable would include a minimum of £57,670,000 in shares, which generally will be retained by the vendors for a minimum period of three years. Taking into account only profits from those companies entitled to receive future payments, there would be no reduction in the net assets of the Group over this period.

The Group's cashflow projections for the same period indicate a net cash generation after taxation and dividends considerably in excess of these maximum contingent cash payments.

(b) On 29 March 1989 the Group announced that it had reached agreement on terms of a recommended offer for Millward Brown Plc, the quoted UK based market research company. Under the announced terms, Millward Brown shareholders will be able to choose between a cash offer valuing the company at £14.1 million or an Earnings Related Alternative valuing the company at up to £28.4 million.

At the time of the announcement the Group had received irrevocable undertakings to accept the offer in respect of approximately 62.9% of the issued share capital of Millward Brown; 58.5% of these acceptances have elected for the Earnings Related Alternative.

AUDITORS' REPORT

To the members of WPP Group plc:

We have audited the accounts set out on pages 63 to 84 in accordance with approved Auditing Standards.

In our opinion, the accounts, which have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and corporate brand names, give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1988 and of the Group profit and source and application of funds for the year then ended, and comply with the Companies Act 1985.

Arthur Andersen & Co. London

9 May 1989

FINANCIAL CALENDAR

Interim Statements for half-years ending 30 June are issued in August.

Preliminary Announcements of results for financial years ending 31 December are issued in March.

Annual Reports are posted to shareholders in May.

Annual General Meetings are held in London in June.

Interim Dividends on Ordinary shares are paid in January.

Final Dividends on Ordinary shares are paid in July.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the eighteenth Annual General Meeting of the members of WPP Group plc will be held at The Savoy Hotel, Strand, London WC2 on 26 June 1989 at 12.00 noon when the following Ordinary business will be transacted:

1 To receive and, if approved, adopt the directors' report and audited statement of accounts for the year ended 31 December 1988.

2 To declare the dividend recommended by the directors.

3 To re-elect
  a) Mr S H M King
  b) Mr J J D Bullmore

4 To re-appoint Messrs Arthur Andersen & Co as auditors of the Company and to authorise the directors to fix their remuneration.

5 To transact any other business proper to an Annual General Meeting.

By Order of the Board
D J Stevens
Secretary

Industrial Estate
Hythe, Kent CT21 6PE
9 May 1989

Notes

A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not also be a member.

To be valid the form of proxy and the power of attorney or other authority, if any, under which it is signed or notarially certified or office copy of such power or authority, should reach the offices of the Registrars of the Company at least forty-eight hours before the time appointed for holding the meeting or any adjournment thereof.

The following documents will be available at the registered office of the Company on any weekday except Saturday during normal business hours and at the place of the meeting for a period of fifteen minutes before and during the meeting:

1 A statement of the transactions of each director and his family interests in the shares of the Company.

2 A copy of the Company's contracts of service pertaining to Mr G C Sampson, Mr R E Lerwill, and Mr M S Sorrell. There are no other written directors' service contracts of more than one year's duration.

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