

CHAPTER 1



THE ORIGINS OF THE DENTSU WAY



Dentsu Inc., founded in 1901, is the largest advertising company brand and the fifth largest marketing and communications organization in the world. With overseas branches and subsidiaries on four continents, whether measured as a single agency brand or as a holding company, Dentsu routinely ranks among the top companies of the world in terms of revenue. For the fiscal year ended March 31, 2010, Dentsu's consolidated net sales totaled \$18,041,897,000 (US \$). These figures will be explored further in Chapter 2. We are the largest advertising agency in Japan, the world's second-largest advertising market after the United States. Our share of the mass media (newspaper, magazine, radio and television) advertising market is around 22 percent, almost twice that of our nearest competitor. Dentsu operates in 27 countries worldwide, and our portfolio of more than 6,000 clients includes

multinationals in established markets such as the United States and the countries of Europe, as well as companies from the emerging economies in Asia and South Africa. That said, less than 10 percent of Dentsu's revenue comes from outside Japan. In fact, only \$363,070,000 (US \$), or 2 percent of Dentsu's total revenue for fiscal 2009, came from the United States.

Not only does one marvel at Dentsu's size, but also the breadth and depth of our offering. As mentioned in the Introduction, we operate within a framework of "Integrated Communication Design," which extends beyond the traditional parameters of the advertising business. Beyond the core of print and broadcast media advertising, the company does market research, branding, corporate image design, new product planning, publicity, and even major event planning and design for sports and expositions. We have traded on the Tokyo Stock Exchange since 2001. Chapter 2 will also examine some of the services and "Business Domains" in which Dentsu operates.

The company has undergone a major strategic transformation under the policy of "Good Innovation." toward digital marketing and to Integrated Communication Design. This strategic shift is targeted to help us grow in pace with—really ahead of the pace of—the digital world. It is also aimed to strengthen the offering, and bring growth, outside of Japan; that in fact is a lot of what *The Dentsu Way* is all about.

We have kept our traditional values, based on our long history, but on the other hand, we also have the most innovative minds and technology at the same time. This is just like the beauty of Japan, which has traditional values, represented by Kyoto and many other historical centers of culture, and also has one of the most high-tech industries in the world at the same time.

So how did we get so big? How did we start? Where are we going? This chapter tells the story.

The Early Story: 1901–1945

Most view the United States as the birthplace of advertising, and it is still the leader, both in size and development, of the advertising and marketing industry. While the United States leads the way, Asian advertising and marketing practices have not been far behind and, in fact, have tended to keep up well with the development of the industry in their societies.

Japan was hardly considered an industrialized country in 1901 when a journalist by the name of Hoshiro Mitsunaga, shown in Figure 1.1, set up a news agency called “Dempo Tsushin-Sha,” or “Telegraphic Service Company,” and an advertising firm called “Nippon Kou-ko-ku KK,” or “Japan Advertising Ltd.” He no doubt had a vision at the time to create and distribute the news and advertising to go with it.



Figure 1.1 First president Hoshiro Mitsunaga.

The Merger: An Early Innovation

Five years later Hoshiro Mitsunaga merged the two companies into one and called it “Nihon Dempo Tsushin-Sha,” which translates to “Japan Telegraphic Communication Co. Ltd.” The rather long title was abbreviated to “Dentsu” combining the “Dem” (but pronounced as “Den”) and the “Tsu,” in casual conversation, although the name of the emerging company didn’t officially become Dentsu until 1955. The full name was actually “Dentsu Advertising Ltd.” in 1955. The company changed its name to “Dentsu Incorporated” in April 1978, and then to “Dentsu Inc.,” its current name, in September 1987.

The Playing Field Changes

The Japan Telegraphic Communication Co. Ltd, or Dentsu, enjoyed a prosperous existence for almost 20 years. Then, in 1932, the Japanese government called on all the news services to merge into a single national government-operated news agency called “Domei Tsushinsha.” In 1936, Dentsu was ordered to transition its wire service to this new mandated organization. This led the company to reinvent itself as a specialized advertising agency.

Becoming a Media Powerhouse: 1946–1960

World War II was disruptive, to say the least, to Japanese business, and was not a time of prosperity for Dentsu. Hoshiro Mitsunaga, the founder, passed away in 1945. After two presidents, the fourth, and perhaps the most famous of all Dentsu company presidents, Hideo Yoshida, shown in Figure 1.2, took control in 1947.

To say the least, Yoshida was an interesting and dynamic leader. He was known as—depending on how you translate it from Japanese—“the big demon,” or “the devil of advertising” due



Figure 1.2 Fourth President Hideo Yoshida.

to his aggressive leadership style. For example, executives were required to report to work one hour before the rest of the staff, and department heads were required to submit daily written reports of their activities.

Expanding the Meaning of “Agency”

Yoshida not only ran a tight ship, but he also made many significant changes to the Dentsu business and is credited with setting the course of advertising in Japan into a modern, prosperous industry. He created new departments devoted to activities beyond advertising and creative activity itself, including market research, audience samplings and ratings, publications of advertising statistics, and public relations. Yoshida also brought new focus to what was then the new media of the day: radio and, especially, broadcast television.

The practice of market research and analysis was quite progressive for the day. Dentsu introduced random audience samp-

lings, first by polling movie theater audiences as early as 1948, and then by conducting surveys, initially for the pharmaceutical industry. These activities not only increased understanding of customers to make advertising more effective, but they also helped establish solid relationships and credibility with both clients and media outlets.

Yoshida's vision was to consolidate the functions of advertising and marketing into a single agency, delivering a more complete service and making commission structures more favorable. Essentially this was a "win-win" for clients and the agency—better, more complete, and comprehensive services for clients and more revenue and margin generated for the agency. Yoshida extended this vision beyond the agency itself into the media, and he played a big role in the establishment of the first commercial radio stations and, later in the 1950s, television.

Yoshida believed that advertising was an "integration of science and arts" and worked hard to develop the quality of creative activity at Dentsu while at the same time incorporating the latest advertising and marketing theories and measurements. His work went beyond elevating the quality of advertising at Dentsu; he set out to improve the industry as a whole. In 1948, he started the annual "Dentsu Advertising Awards" for advertisements with outstanding creative quality. He created advertising trade organizations to measure audience size and behavior, and to measure advertising activity and quality itself. He contributed to the initiation of the Japan Audit Bureau of Circulation Association and the establishment of the Japanese Advertising Association in 1950, a predecessor of the Japan Advertising Agency Association.

Not surprisingly, Yoshida is credited with turning the traditional Mount Fuji climb, which had first started in 1925, into a venerable Dentsu institution. He set the trip, an overnight ascent of the 12,388-foot peak, not only as a yearly test of staff strength and commitment but also as a show of his leadership skills.

MOUNT FUJI: A SPECIAL SYMBOL

Completed in 2002, the new Dentsu Corporate Headquarters is an impressive skyscraper, located in the heart of Tokyo. On one of the upper floors, in the lobby among conference rooms, a visitor's eyes would turn instantly toward a painting in vivid colors of Mount Fuji done by a Japanese artist.

It isn't just another pretty picture. Mount Fuji has a special meaning for most Japanese, but for Dentsu, it has an even greater meaning, not just as a mountain to look at and marvel at, but as a mountain to climb. For Dentsu, the climbing of Mount Fuji signifies a journey toward a high goal, not easily attainable, and to instill a fighting spirit in the hearts of the company's employees.

And so each year, since 1925, over 500 Dentsu employees make the two-day adventure to climb the mountain. All participants try to reach the peak by the dawn of the next morning to watch the sunrise. At the summit of the mountain the employees pray at Sengen Shrine for business growth and their clients' prosperity, as well as mail postcards containing summer greetings; there is a post office at the summit of Mount Fuji. The postcards also serve as a reminder of the strengths and solidarity of Dentsu and the importance of taking a 360-degree view of our clients and client needs.

Accessing the Power of Radio and Television

Yoshida recognized that private-sector broadcasting was vital not only for Dentsu but for the advertising industry as a whole. Dentsu devoted a lot of energy to the rise of the broadcast media. From that effort, Japan's first commercial station was launched in 1951.

As a result, Dentsu became a big part of the history of Japanese broadcast media. See Figure 1.3.

Seeing the potential of television, Dentsu helped the fledgling television stations and networks find advertising sponsors. The company also created a special group within Dentsu to make the best use of the medium. Dentsu created the first television commercial ever shown in Japan; it was for Seiko Ltd.

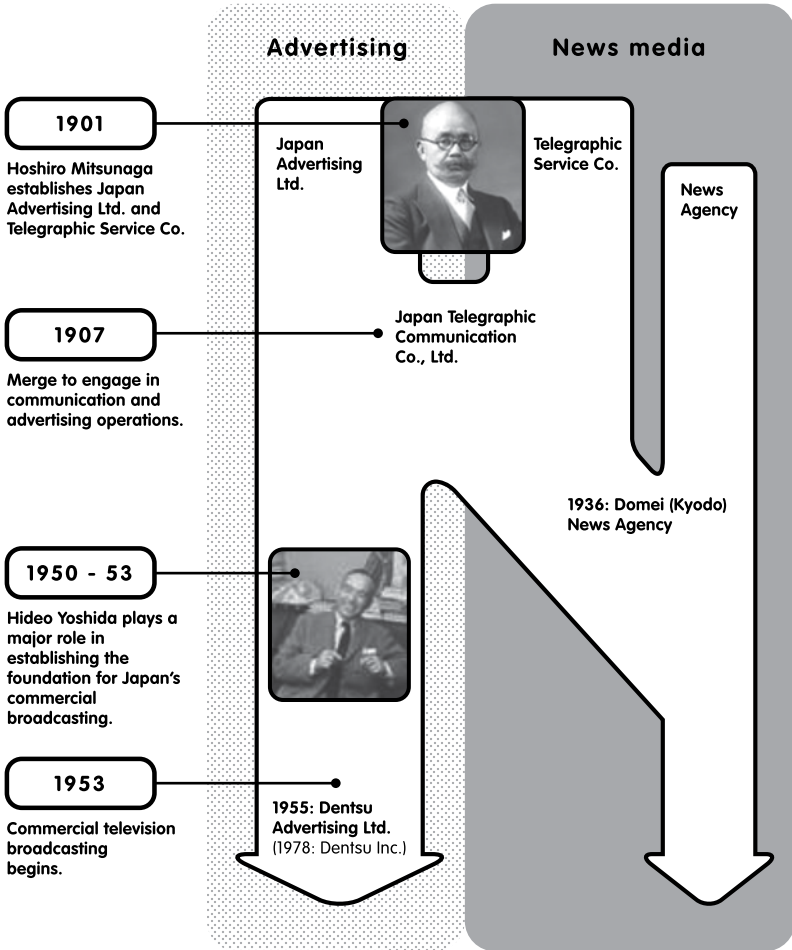


Figure 1.3 Dentsu's enduring relationship with the media.

In 1961, Hideo Yoshida became the “Man of the Year” of the International Advertising Association (IAA) for his outstanding contribution to the international development of advertising. See Figure 1.4. While still active with the company, he died in January 1963 at the age of 59. He was conferred Japan’s “Order of the Sacred Treasure” posthumously, and there is a prominent bronze statue of Yoshida at the Dentsu headquarters building in Tokyo.

Yoshida not only achieved acclaim in Japan as a genius of advertising, but he also was famous for his stringent business ethics, which ultimately were compiled as President Yoshida’s Ten Spartan Rules.



Figure 1.4 President Yoshida (on right) receiving the IAA “Man of the Year” award.

PRESIDENT YOSHIDA'S TEN SPARTAN RULES

Hideo Yoshida's quest for management excellence was no doubt driven by his visions for Japanese marketing and media, but also by an overall worry about Japan's economic prospects after World War II. As a result, he developed a set of business and work principles, or rules, which he called the "Ten Spartan Rules":

1. Initiate projects on your own instead of waiting for work to be assigned.
2. Take an active role in all your endeavors, not a passive one.
3. Search for large and complex challenges.
4. Welcome difficult assignments. Progress lies in accomplishing difficult work.
5. Once you begin a task, complete it. Never give up.
6. Lead and set an example for your fellow workers.
7. Set goals for yourself to ensure a constant sense of purpose.
8. Move with confidence. It gives your work force and substance.
9. At all times, challenge yourself to think creatively and find new solutions.
10. When confrontation is necessary, don't shy away from it. Confrontation is often necessary to achieve progress.

These traditional work rules still guide Dentsu's employees, and are carried around in their notebooks.

Multimedia and Multinational: Dentsu in the 1960–1990 Period

In 1959 Dentsu started an international expansion, first by establishing an office in New York, and then by establishing branch offices and subsidiaries in London, Paris, Moscow, Taipei, and Beijing. The goal was to help the by-then-booming Japanese companies deploy their business in these countries.

With the growth of the Japanese economy in the 1960s and 1970s, Dentsu expanded from a mere advertising agency into a major communications powerhouse. We continued to maintain strong relationships with the media as well as with sports and entertainment organizations. The 1964 Tokyo Olympic Games was a fusion of sports and media, and a great momentum builder for Dentsu to expand its business. See Figure 1.5.

At the same time, the Japanese economy was growing in double digits through the 1960s and 1970s, and Dentsu rode the tide. By 1968, Dentsu's billings were just behind the leading American firms. By then the company had 5,000 accounts, including not only many of the biggest Japanese firms but also the business of some large American companies marketing in Japan.



Figure 1.5 The 1964 Tokyo Olympic Games.

Becoming #1: 1973

In most global markets it is considered unethical for a firm to handle the accounts of two competitors. In the worldwide model the two accounts are often handled through separate subsidiaries. Dentsu, on the other hand, made it standard practice to accept competitor accounts, for example, multiple automobile companies. Where possible, these accounts were handled in separate buildings or on separate floors if necessary. We also had many strict security policies for information control. The arrangement worked well in Japan and helped Dentsu obtain greater dominance of the local industry. By 1973, Dentsu had become the largest advertising agency in the world.

Total Communication Services

Gohei Kogure became the new president of Dentsu in 1985. He reaffirmed the company's commitment to gain an international presence, but he also served up a new philosophy and slogan to communicate Dentsu's position as a total communications supplier: "Communications Excellence Dentsu." This slogan can also be translated as "Total Communications Services," which is what it became better known as later on.

The Total Communications Services idea followed some of the early philosophies of founder Mitsunaga and President Yoshida, and was created to convey the fact that Dentsu combined all the key elements of marketing communications services under a single roof. Those elements included strategic planning, branding, market research, traditional media advertising, media buying and planning, creative design, marketing analytics, sales promotion, public relations, and database marketing. The company also blended in a few nontraditional services, like sports marketing and event planning. The upshot was that a client could get any necessary mix of services created and delivered in a neutral manner (not favoring one service or platform over another) and uniquely

tailored to the client’s needs and the market. It was “total” in the sense that it covered the breadth of marketing services; it was “communications” because it transcended the limits of traditional mass advertising; the word “services” is self-explanatory.

Kogure reiterated the positioning difference between Dentsu and most worldwide agencies, which specialized in mass-media advertising only. This “breadth” strategy became a good foundation, especially with new forms of digital marketing to arrive later, for the “depth” strategy—deeper levels of involvement with consumers leading to greater action and interaction between them and the client. Here, the foundation was laid for the later “Integrated Communication Services” strategy and the “Cross Switch” application of “Cross Communication,” a Core Idea of The Dentsu Way and the subject of this book from Chapter 3 onward.

The 1990s: Globalization and Digitization

The expansion of consumer economies in Asia shifted Dentsu’s expansion plans toward Asia. Dentsu expanded its presence in Asia by expanding its own offices and by buying Asian advertising agencies.

Dentsu had always viewed China as a growth opportunity, even back in the days when few others did. In 1994 the company formed a joint venture with two Chinese advertising agencies and called it “Beijing Dentsu.” In 1996, as part of Dentsu’s 95th anniversary activities, the company launched a special “Japan-China Advertisement Education Exchange Project,” which focused on the mutual development of advertising education in both countries.

Expanding Total Communications Services

In 1993 Yutaka Narita became the ninth president of Dentsu. Narita’s primary contribution was to more firmly establish the positioning of Dentsu’s services as “Total Communications

Services,” while also undertaking to enrich the company’s offering through the adoption of investment in new technologies, most particularly the Internet.

As Narita put it, “The progress of technology will make human communication of the utmost importance. If people communicate better they can reach a higher level of mutual understanding and get one step closer to happiness. In this sense, Dentsu is positioned on the right track.”

Dentsu Enters the Technology and Digital Age

Besides looking to Asia for new growth, Dentsu turned to new technologies as a source of future income. In 1996, Dentsu launched a new Japanese venture called “Dentsu Tec Inc.,” with the “Tec” standing for “Technology for Exciting Communication.” Dentsu Tec’s mission was to “perform integrated sales promotional services and product planning based on marketing ability, creativity, and technology.” The focus was using new technologies of the time for sales promotions. Later, Dentsu Tec would use new digital, networking, and Internet technologies to expand marketing and develop new promotional opportunities.

At almost the same time, Dentsu also founded another Internet advertising joint venture with Tokyo’s Softbank Corporation, called “Cyber Communications, Inc.,” or CCI. CCI was Japan’s first firm to specialize exclusively in advertising on the Internet, not only developing and expanding the use of the technology but also buying and selling advertising space on the Internet in the style of the early Dentsu days.

2000s: Moving Outward and Upward

The technology boom of the late 1990s and the steady march of globalization were thought of as a revolution in Dentsu’s collective mind. Dentsu continued to move forward to stay at the cutting

edge of not only communications methods, but also communications strategies, to make the best use of them. Indeed the world had become much more complex and required a deeper understanding and deeper approach to communications management. With so many more ways to touch the consumer and so many more ways for the consumer to tune out your touch, it became imperative to take a more “holistic” and “technical” view of the customer communication process.

As President Narita put it at the turn of the millennium: “The years to come are expected to see revolutions of both technology and globalization. Dentsu will continue to be on the cutting edge of communication, providing innovative solutions around the globe,” and, “Nowadays much effort is being made toward pursuing, fostering, obtaining, and investing in digital expertise in order to react and respond to the flood of new technology, including the Internet.”

As early as 1998, the company declared its intention to “go public” (it was a closely held company at the time) and list its shares on the Tokyo Stock Exchange. On November 30, 2001, the shares were listed on the First Section, which is reserved for the largest Japanese companies.

Global Commitment: Bcom3 Group and Publicis Groupe

Dentsu didn’t waste much time ringing in the new millennium with change. In March 2000, Dentsu made official its investment and participation in the Bcom3 Group, which had a total of 520 offices in 90 countries; this was Dentsu’s biggest venture yet toward achieving global reach. Bcom3 was itself a combination of well-known and recently merged agencies—Leo Burnett, MacManus, and D’Arcy Marius Benton & Bowles—and it was the seventh-largest company in its space in the world at the time.

In 2002, the relationship with the Bcom3 Group was supplemented by another new relationship with France’s Publicis Groupe. Dentsu gained another alliance with which Dentsu could

grow internationally and especially in Europe. This alliance gave Dentsu vast opportunities to provide the best integrated communications services to its clients in global markets through strong global networks in Japan, the United States, and Europe, which were made possible by the partnerships with the Bcom3 Group and the Publicis Groupe.

Polishing the Corporate Image

In 2002, Tateo Mataki became the tenth president of Dentsu. He started with extending our corporate image by finishing our new world headquarters in the posh Shiodome district of downtown Tokyo, and he also created a new logo. See Figure 1.6.

The biggest success of the Mataki era was that Dentsu surpassed 2 billion yen in net sales for the first time in Dentsu's history.

Digitalization and Globalization Take Shape

In 2007, Tatsuyoshi Takashima, shown in Figure 1.7, became Dentsu's eleventh president.



Figure 1.6 Dentsu headquarters, a new corporate logo, and hundred-color business card.



Figure 1.7 Eleventh President Tatsuyoshi Takashima.

At the ceremony marking the 106th anniversary of the founding of the company, Takashima stressed the need to adapt to today's changing digital market and the needs of globalization. He announced the intent to integrate and unify management of digital businesses at Dentsu and the Dentsu Group, and to achieve even higher quality one-stop solutions. To this end, on January 1, 2010, we established an internal "Digital Business Division" and the business management company called "Dentsu Digital Holdings" to integrate digital-related businesses.

Under Takashima, our globalization strategy evolved considerably, especially in the Americas. In 2009, Takashima also presented the "Good Innovation." philosophy, previously discussed in the Introduction. This was a big step forward in identifying Dentsu as a creative and entrepreneurial leader, as well as a force in innovative marketing processes and integrated solutions.

We expanded our international presence, especially in the Americas, with the hiring of Tim Andree and with several key

acquisitions to expand our skills, client base, and overall presence in the region. Andree's mission was to help achieve the vision held by Takashima, and many before him, to globalize the Dentsu model and to help clients take advantage of Dentsu's integrated approach.

Andree was instrumental in helping our management team in recasting and restructuring the existing Dentsu offices in the region, and in making three compelling acquisitions to bolster the Dentsu offerings outside Japan and particularly in the United States.

The ATTIK Acquisition

One of the first acquisitions targeted the creative and digital agency ATTIK, a San Francisco and UK-based agency, known for its edgy and youth-oriented campaigns. ATTIK and Dentsu had already worked together on the U.S. campaign for Toyota's Scion brand, paving the way for the relationship.

The acquisition was considered a win-win: Dentsu gained greater U.S. presence and access to digital and youth-oriented marketing talent, while ATTIK gained from being able to apply its talents to Dentsu's client base. ATTIK had been looking for a merger partner to expand its client base for some time, claiming that it was “. . . too small for big clients and too big for small clients.” The ATTIK acquisition also brought important new clients, including Coca-Cola Co. and Lexus, as well as solidifying the Scion AOR to the Dentsu roster. Scion was the beneficiary of one of Dentsu's first Cross Switch campaigns in the United States, which is presented as an example in Chapter 6.

Old World, New World: McGarryBowen

In late 2008, Dentsu announced the acquisition of the relatively new advertising firm McGarryBowen.

McGarryBowen had been founded in 2002 by John McGarry, a former Young & Rubicam executive and the mastermind and CEO; Gordon Bowen, the chief creative officer; and Stewart Owen, the chief strategic officer. By 2008, the company had grown to become the largest *independent* agency in New York and the tenth-largest in the United States. The company was widely recognized in the industry for combining good old-fashioned Old World client-centric service and modern, digital New World creative and technical expertise, delivered with what one client called an “open and refreshing” transparency and collaboration. This combination naturally fit well into the Dentsu portfolio; both companies recognized this from the beginning.

The result of the acquisition must be considered one of the most successful in industry history. McGarryBowen not only brought a strong tradition to Dentsu, it was also very successful in winning new business during tough times. While most agencies were chasing shrinking slices of accounts to stay afloat in the bad economy, McGarryBowen was grabbing large chunks of blue-chip business in 2009. While best known for sentimental television commercials for Disney, Marriott, and others, McGarryBowen also took on leading-edge technology products like Verizon’s Droid. McGarryBowen’s clients also included Chevron, JP Morgan Chase, Crayola, Kraft, and Pfizer.

McGarryBowen helped Dentsu gain access to key U.S. accounts. More visibly, the company won *Advertising Age’s* prestigious “Agency of the Year” award in 2009 for the following reasons:

1. McGarryBowen’s unwavering focus on clients and relationships
2. The agency’s record year in 2009, with 10 new business wins and a 25-percent increase in revenue
3. The dramatic results the agency delivered for its clients’ businesses in 2009, despite the challenging economic climate

It marked Dentsu's position on the U.S. and worldwide marketing map much more clearly.

Acquiring a Digital Powerhouse: Innovation Interactive

While the previous two acquisitions bolstered Dentsu's digital capability and brought other new assets both in the form of creative skills and client lists, Innovation Interactive was a large, award-winning, and wholly digital shop strong in search marketing, social media, and audience targeting. Like McGarryBowen, the agency was relatively new, founded in 2002, and had 300 people in nine offices in four countries. Innovation Interactive had three operating units:

- 360i, an award-winning digital marketing agency
- SearchIgnite, a leading paid search management technology
- Netmining, an audience optimization platform

Like the other acquisitions; this combination gave Dentsu access to leading technologies to build into its integrated marketing solutions, while giving Innovation Interactive access to a wide base of global clients, including Kraft and Coca-Cola (once again) but also Adidas and H&R Block.

Among other things, the acquisition of Innovation Interactive was really a play on the rapid expansion of social networking and search engine marketing in the business space. According to a University of Massachusetts survey in January 2010, 80 percent of the "Inc. 500" companies make use of social media platforms for marketing and general business, and some 87 percent of those report success with those platforms. Innovation Interactive put Dentsu squarely in line with and even out in front of this important trend.

Takashima explained it this way: “This acquisition is continuing evidence of our determined pursuit of innovation in the digital and global arenas.” Indeed, the acquisitions of ATTIK, McGarryBowen, and Innovation Interactive really moved Dentsu forward toward building a competitive global operation and applying Dentsu methods and the “Good Innovation.” policy for clients anywhere—all in the interest of winning global business.

From TCS to ICD: 2009 and Beyond

In 2009, we repositioned the long-standing “Total Communications Services” (TCS) moniker to “Integrated Communication Design” (ICD), in the policy of “Good Innovation.”

In an excerpt from the corporate philosophy shared in this book’s Introduction, our President and CEO Tatsuyoshi Takashima summed it up this way:

Up until now, we have defined our business domain as “Total Communications Services.” However, we must now have keener insight into the essence of changes in consumer behavior and branding challenges so that we can offer high-quality services which are integrated and concrete. We believe that the phrase “Integrated Communication Design” best expresses the current business domain and the strength of the Dentsu Group. We aim to evolve into a Group that as a whole is capable of designing, proposing, and implementing communications that provide true solutions in an integrated way.

We believe that the Internet is now fully integrated into the Dentsu offering. While other global agencies operated with separate units for digital and Internet marketing, Dentsu bundled it together with other media. This approach offers not only a

better and easier experience for clients, but it also creates accountability: “If the Internet and mass media are handled separately, you cannot measure the effectiveness . . . this approach makes AISAS possible, as well as integrated planning and Plan, Do, Check, Act, or PDCA.”

This is how The Dentsu Way has evolved into the year 2010. With this background in mind, it makes sense now to move to Chapter 2 to further explain our current capabilities and reach. From there, Parts 2 and 3 examine the Cross Switch implementation of Cross Communication, the cornerstone product of The Dentsu Way.