Conceptualizing a Business Model Innovation Framework for Advertising Agencies in the Digital Disruption Era

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Abstract

The advertising industry continues to evolve in accordance with changing factors in terms of trends, times and, in this case, technological advances and digitalization, which affect core elements of the advertising industry. Marketers, especially disruptors, now build brands and communicate with consumers as the media landscape evolves by creating new, unexpected rivals. This means that advertising agencies must change their roles as intermediaries by altering, adapting, and/ or disrupting to survive. Thus, advertising agencies should be revisiting their culture, structure, policies, resources, talents, and processes as well as their business and revenue, or overall business models to embrace digitalization (Bloom, 2019). The challenges for advertising agencies' business models remain the same as they primarily depend on a commission system for their earnings, i.e., revenue based on a markup of production and media costs (Sharma, 2017). To provide insight for business models of advertising agencies in the future, this article examines various models such as Fixed-fee method, Fee-commission combination, Cost-plus agreement, Incentive-based compensation and then will conceptualize a business model innovation framework for advertising agencies, especially in the Thai market in the digital disruption era.

Keywords: Advertising Agencies, Business Model, Business Model Innovation, Digital Disruption

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Introduction

Digital disruption has created both direct and indirect impacts to different organizations, including advertising agencies. Inevitably, they often experience challenges when pursuing new technology and are forced to evolve, or reinvent themselves to survive (Sharma, 2017). (Media Marketing, 2018) reported that the digital revolution and new technology have disrupted advertising agencies and forced them to embrace challenges that lead to changes and transformations.

A lot of research studies focusing on manufacturing and hi-tech industry have been conducted (Miles & Green, 2008). Studies, for example, Crosier, Grant, and Gilmore (2003) on Account planning in Scottish advertising agencies: a discipline in transition, and Sheiner and Earon (2019) on Disruptions of Account Planning in the Digital Age, of ad agencies' specific units and/or departments such as account planning, along with the transformation of advertising industry as it reacts to digital disruption. However, rather than innovate processes and products in an organization, fifty-four percent of more than 4,000 senior managers in a 2018 global survey by the Economist Intelligence Unit found that new business models are preferred over new products and services as a source of future competitive advantage (Economist, 2018).

Saur-Amaral, Soares, and Proença (2018) say, "Business models may be defined as a group of elements that allow the configuration of a firm's business, while Business Model Innovation (BMI) implies performing changes in those elements or in the used combination of elements so as to increase the value created by the firm." Business models, as an object of innovation, have become significantly important as a new unit of study (Amit & Zott, 2012).

To better understand the current situation facing advertising agencies, this paper reviews relevant concepts, theories, and published studies on: (1) the Advertising Industry; (2) Changes of Core Elements Impacting Advertising; (3) Digital Disruption Concepts; (4) Competitive Force and Competitive Analysis and (5) Business Model and Business Model Innovation to help conceptualize a business model innovation framework for advertising agencies in the digital disruption era.

The Advertising Industry

It is undeniable that the advertising industry has evolved from its early stages up to this current digital disruption era. This section provides an overview of this evolution.

Advertising agencies grew over time to become 'full service' agencies, offering four core service areas to clients: Initially these included account services, creative execution, and media planning (de Gregorio, Cheong, & Kim, 2012). Account planning was later added to core service area (Crosier et al., 2003).

Though each advertising agency might have its own operational procedures, most have followed a similar approach in terms of steps, processes, and involvement. The following model (figure 1), originally developed by Edwin Burgeon in 2009, illustrates how an advertising agency develops an advertising campaign. From the start to completion, the key task of each ad agency is to develop creative advertisement (Burgoyne, 2013) and revenue generation through markup on labor and overhead costs for strategy, content and creative development as well as a commission based on the costs for both traditional and digital media buying (Sharma, 2017).

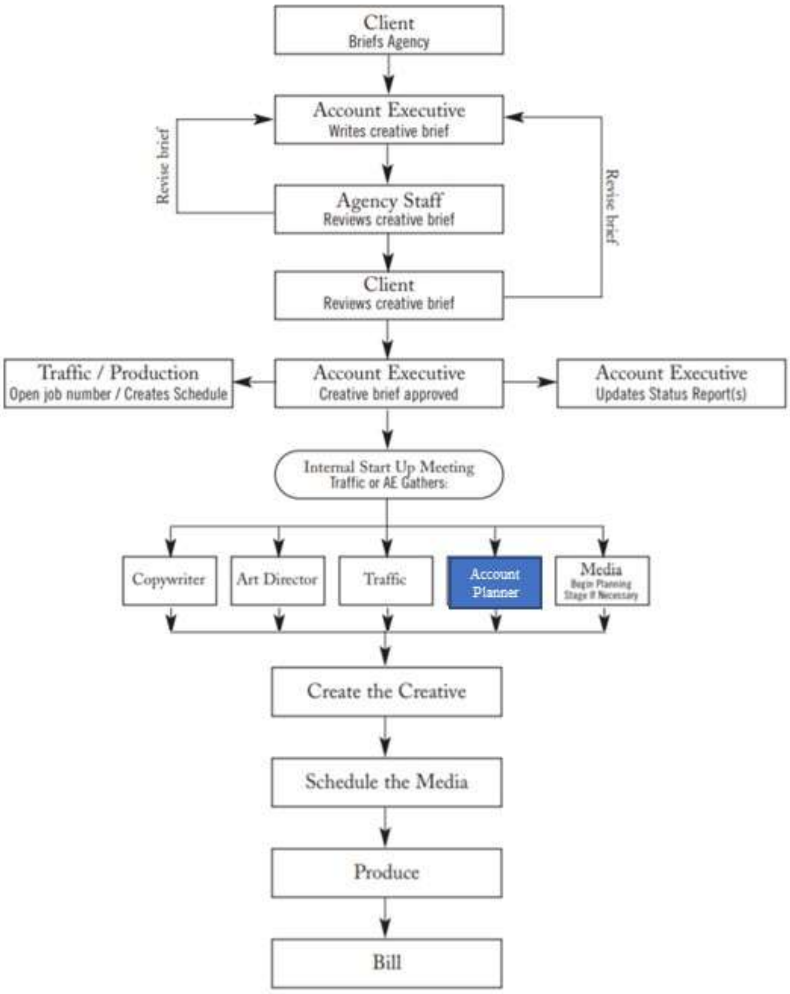

Figure 1. The Stages of Developing an Advertising Project

Source: Adapted from (Burgoyne, 2009)

In summary, traditional advertising agencies have the following departments and responsibilities:

a. **Account service** interacts with both the agency and its clients for the advertiser's marketing needs, interprets them, and coordinates to agency personnel and presents agency recommendations for clients' approval (Belch & Belch, 2003).

b. **Account planning** is responsible for advertising and consumer research to identify consumer insight (Hackley, 2003) and a significant input into (Crosier et al., 2003) the development process of creative work.

c. **Creative** creates ideas and produces materials such as ads and campaigns emphasizing on brand messaging result. According to Vinit Suraphongchai, chairman of Adfest and the Asia Pacific Advertising Association, creative will continue to be a core strength of advertising agencies (Leesa-nguansuk, 2019).

d. **Media planning and buying** consists of media planners, who develop and effective plan, and media buyers, whose role is to overlook cost-effectiveness of media space and time (Horsky, 2001).

In the 1960s, agencies began to 'unbundle' or restructure, during which media departments spun off to set up its own entity and advertising agencies focused on creative development and execution as they had little or insufficient expertise in media planning and buying (Horsky, 2001). This evolution was due to demands of both the client and agency. Because of the recession and hardship following the stock market crash in 1987, client demand for clearer accountability and transparency in terms of billing and renumeration grew, introducing the era of accountability. The attitudes at that time were that the advertising agency wanted to spend on creative execution while clients typically wanted to allocate a much higher portion of their advertising budget to media planning and buying, even though creative work is typically at the front in recognition. However, mass media had been evolving leading to greater demand for specialized skills, resulting in a shift of power to media side.

The split enabled media departments to properly form their own operation to facilitate media landscape change, which later led to the era of the 'media specialist' or 'media independent' (Powell & Brierley, 2009). Along with media split, the practice of charging 15 percent of a client's expenditure on media has also gone, and the independent media agency such as Carat Worldwide, which is the only true media independent as it is not affiliated with any advertising agency network, turned to be more creative with media and offer integrated marketing campaign to its advertisers. This phenomenon intensifies and posts challenges for advertising agencies: loss in media commission and new rivals (Cappo, 2003).

After the unbundling period, there emerged two types of advertising agencies: the global ad agency network, formed through merges and acquisitions of other agencies such as WPP, and independent specialist agencies, which do not belong to a global network and provide services that are alternative to those offered by a global entity (Powell & Brierley, 2009). The big four global agency networks are: Publicis Groupe, Omnicom Group, Inter-public Group of Companies and WPP Group (Cappo, 2003). However, not all projects and assignments are given to global network agencies, as many of the biggest advertisers still work with smaller independent agencies referred to as creative boutiques (Cappo, 2003).

Changes of Core Elements Impacting Advertising Agency

The field of advertising has always evolved in accordance with various changing factors in terms of trends, times and, in this case, technological advances and digitalization. These have created an interrelated effect on the core elements of the advertising industry. Shields (2017a) provided the following examples:

1. Marketers set up an in-house unit to manage data-driven, transaction-oriented ad buying.
2. Some brands such as Pepsi, employ their own creative unit and occasionally outsource the making of their ads to smaller agencies.

3. Consultant firms have now entered the advertising sector.

4. Facebook and Google have introduced platforms and built more agency-like functionality.

5. News and entertainment digital media companies produce content and distribute this work for marketers.

The above trends illustrate the effect of technology on advertising agencies as Rust and Oliver (1994) said these technologies were forming new advertising skeletons. Thus, the way marketers build brands, how brands are understood by consumers, changes in media landscape and unexpected new actors in advertising have emerged due to technological advancements, and all these changes have an impact on advertising agencies, which forces them to re-configure themselves, as summarized below:

Empowered consumers

The producers who control products, sales promotion and communication in the past required the support of advertising agencies that controlled the mass media, but with technological advances, consumers have now become much more informationally- empowered (Rust & Oliver, 1994). Kumar and Gupta (2016) talked about how consumers are now in control of how, when and where they would like to communicate and/ or connect with a brand. With digitalization and increasing penetration of devices such as smartphones and tablets, consumers have gone digital. As a result, consumers can interact with a brand and, to some extent, take control of the conversation with a brand. This has resulted in greater consumer empowerment, meaning that through digital media consumers have the power to choose what they want to see and read as well as share with others (Deighton & Kornfeld, 2009).

Data-driven disrupter brand marketers

Digital consumers are gaining access to ever more data that are beneficial for a brand, making this data a new marketing currency. It is inevitable that consumer databases have become richer so that data-driven marketing and advertising have become brand marketers' new normal channels for two reasons: better interaction with customers and higher return on investments (ROI). As a result, marketing firms are spending more to gain relevant customer data and data analytics, and this amount will eventually surpass the budgets for traditional advertising (Kumar & Gupta, 2016).

All forms of online advertising have become much more efficient as marketers are gaining access to, collecting, and analyzing these expanded data to gain greater consumer insight on a continual basis. Marketers are also finding more channels to communicate with consumers and build brand awareness, identity and loyalty. For instance, according to Shields (2017a), Netflix and L'Oréal have seen enormous growth in their in-house ad buying. However, even while there are still many traditional marketers, different brands called disrupter brands such as Airbnb and Netflix, are offering new perspectives of brand building. For these disrupter brands, outcome-based advertising is crucial (Shields, 2017b).

Media convergence and fragmentation

Technological changes facilitate the integration of media with different industries and technologies such as telecommunication and computer, which has resulted in a variety of new media that has led to media fragmentation (Kumar & Gupta, 2016; Rust & Oliver, 1994). Media platform boundaries have become blurred as they form a unified digital form, the World Wide Web, with the digitization of media content during convergence (Kumar & Gupta, 2016). Moreover, technological changes also facilitate ordinary people, who can take advantage of the new technology and digital media to themselves become content creators such as online bloggers, reviewers, and influencers (Eckhardt & Arvidsson, 2016). Convergence facilitates various media channels to synergize, which creates new opportunities not previously provided by traditional media; therefore, this has an inevitable impact on advertising (Kumar & Gupta, 2016).

Many more new rivals

For at least 70 years, marketers have relied on advertising agencies to handle their communication, but now marketers have turned to technology and technology consulting companies to provide IT solutions. According to Deighton (2017), the WPP 2012 Annual Report states:

> *"We are applying more and more technology to our business, along with big data. (...) we go head-to-head not only with advertising and market research groups as Omnicom, IPG, Publicis, Dentsu, Havas, Nielsen, Ipsos, and GFK, but also new technology companies- such as Google, Facebook, Twitter, Apple and Amazon - and then with technology consulting companies such as Infosys, Wipro, Accenture and Deloitte."*

In addition to technology and consulting companies, advertising agencies are encountering growing competition from other sectors as well. Shields (2016) explains in his article, "Vice, BuzzFeed Tread on Madison Avenue's Turf", the following:

> *"Vice is one of a growing number of media companies – including digital players like BuzzFeed and Mic and traditional companies like Condé Nast and Turner – that have built teams, or full divisions, designed to make video and editorial content for marketers. They promise brands the ability to develop content that flows with these media companies' unique points of view and matches the general look and feel of their media properties."*

Digital Disruption Concepts

Digital technology and disruption are major topics of discussion in current media studies. The debate continues as to whether the technology is the agent of change or vice versa (Niculescu, 2016). It is fair to say that people experience the role technology plays in social change on a daily basis and those experiences thus support the argument that technology somehow contributes to the change according to Thorstein Veblen, who coined the term 'technological determinism' based on the proposition that technology is viewed as a driving force of culture that can also influence the course of history (Communicationtheory.org). In citing Akrich & Latour (1992), Christensen (1997), Christensen (2003), Gassmann (2006) and Zeleny (2009), Utesheva, Simpson, and Cecez-Kecmanovic (2016) summarized technology as disruptive as it meets the following criteria: (1) replaces earlier technologies, (2) modifies an established market and value network, (3) revolutionizes organizations' business models and (4) encourages radical organizational structural change.

The development of digital technologies such as the computer, the microprocessor, and the internet has drastically altered the process of human interaction in many ways and disrupted more industries by digital technologies (Andreessen, 2011). For example, Utesheva et al. (2016) found that emerging digital technologies caused disruptions that altered organizations such as a newspapers, leading to different human (e.g., editors, readers and developers) and non-human (e.g., newspaper products, media, and company) changes. The traditional role of advertising agencies, which Cronin (2004) refers to as intermediaries, therefore, must also be altered, adapted, and/ or disrupted to survive. Technological disruption is thus of interest to both practitioners and academics as technological changes impact an organization inside and out (Utesheva et al., 2016).

Digital transformation is defined as the use or application of digital technology to radically improve business performance and fundamentally impact society (Gruman, 2016; Westerman, Bonnet, & McAfee, 2014). The analysis of Westerman et al. (2014) shows clear patterns that "executives are digitally transforming three key areas of their enterprises: customer experience, operational processes and business models." Gruman (2016) adds that digital transformation is not only about digital products and services, but also about the process of creating, enabling, managing, and delivering them. In the process of digital transformation, however, companies must face four different challenges: (1) people (employees and customers) (2) organization (3) technology platforms and (4) business models (Kerschberg, 2017; Panetta, 2016; Tiersky, 2017; Westerman et al., 2014).

Competitive Force and Competitive Analysis

Both internal and external factors affect organizations. Therefore, it is impossible for organizations such as brand marketing and communication marketing firms to avoid these, especially external factors like macro factors in the present and future to minimize the organizational risk. Macro environment is defined as the wider and broader set of economic conditions that comprise political, social, technological, and legal factors as well as economic cycles and inflation (Farooq, 2019). Macro environmental factors that in the past were considered less relevant to a business have therefore become increasingly crucial today, as they affect overall business operation (Yüksel, 2012). Hence, companies must pay attention to and analyze macro environmental changes to stay relevant and competitive.

As competition has increasingly intensified, globally and locally, advertising agencies must assess macro factors to broaden their perspective to maximize opportunities. Yüksel (2012) pointed out that a company should consider internal factors that involve their resources and capabilities as well as external environment, including macro and sectoral environments. In citing Ülgen & Mirze (2007), Yüksel (2012) refers to a sectoral environment as an environment where the company supplies inputs, sells its customers the goods and services it produces as well as competes with rivals who produce similar goods. According to Farooq (2019), there are many tools, such as Porter's 5 Forces and PEST, that can be applied to analyze, process, and assess macro environmental factors.

One of the best ways to identify and address organizational threats is to analyze the competition to know who they are and how their actions will affect an organization in terms of bottom line and future planning. One renowned tool to analyze the competition is Porter's Five Forces model (figure 2), which was developed by Michael E. Porter in 1979. The model is divided into five distinct categories, designed to reveal insights after determining whether a business can be profitable when compared to other companies in the industry.

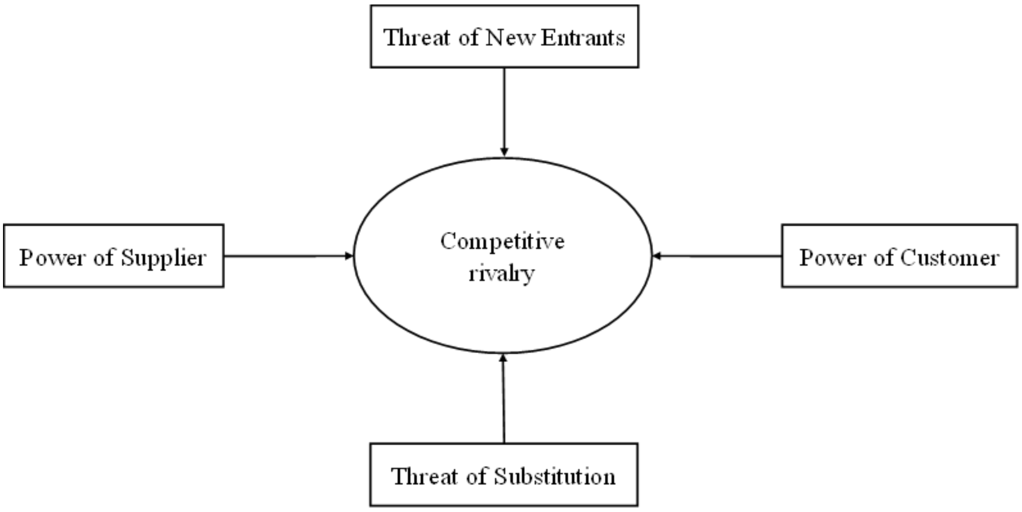

Figure 2. Porter's Model for Competitive Structural Analysis by Porter (2008)

However, Porter's model apparently shows problems in analyzing some industries such as the tour-operating industry as Dale (2000) argues, saying that Porter's model can be weakened by two concerns: (1) an organization viewed to operate in a bounded context; and (2) failure to recognize external environmental dynamic forces.

Apparently, the advertising industry, and specifically in this case, the Thai advertising industry, operates in an un-bounded context and dynamic external environment. Therefore, it can certainly be affected by many political, economic, social, and technological (PEST) changes that can create an impact on the advertising industry. For this case Thailand is used as an example to develop PEST. Table 1 illustrates the PEST factors that might have an impact on the Thai advertising industry in the future.

Table 1. PEST Analysis of Factors Influencing the Advertising Industry of Thailand

Political	*Economic*
Political unrest and uncertainty	Global capitalism and support from global network ad agency
Regulations and taxes imposed that affect the advertising industry	Economic decline during the pandemic
	Government subsidies scheme to promote national spending 5% projected Ad spending

Social	*Technological*
Demographic changes — Digital savvy consumers	New and emerging channels of distribution — Internet and digital media — Increasing penetration of smart devices
Change in consumer behavior during C	Media fragmentation caused by technological advances

In addition, Dale (2000) reports that Thurlby found Porter's competitive analysis model is insufficient in explaining current market forces, namely regulations, new entrants, customer expectations, improved digital information, synergism alliances and organization reinvention using the electronics industry for contextual discussion. Dale (2000) adds alternative threats that can be applicable to the advertising industry as described in the previous section. To make it more relevant to the advertising industry in Thailand, however, customer expectations can be divided into brand marketer expectations and consumer expectations. This will expand external forces to be applied for analysis of the advertising industry to include Political, Economic, Socio-cultural, Technological, Environment and Legal factors, to form the PESTEL model.

However, Yüksel (2012) argues that although PESTEL requires more integrative factors for an in-depth analysis compared to those of Porter's Five Force analysis. Thus, the technical framework of PESTEL still does not fully support an integrated approach, as it only provides a general impression of the macro environmental conditions and company situation.

Based on reviews of Dale (2000) and Yüksel (2012) as mentioned above, each model shows strengths and weaknesses as Porter's competitive analysis model is insufficient in explaining current and especially dynamic forces (Dale, 2000), while the PESTEL framework is not supportive of an integrated approach due to its provision of a general impression of the macro environments and different companies' situations only. Therefore, the competitive structure of the un-bounded nature of the advertising industry must include Thurlby's competitive forces with the following factors: brand marketers, consumers, media channels, new entrants, technological advances, alternatives, and organization reinvention as a proposed framework, as shown in figure 3.

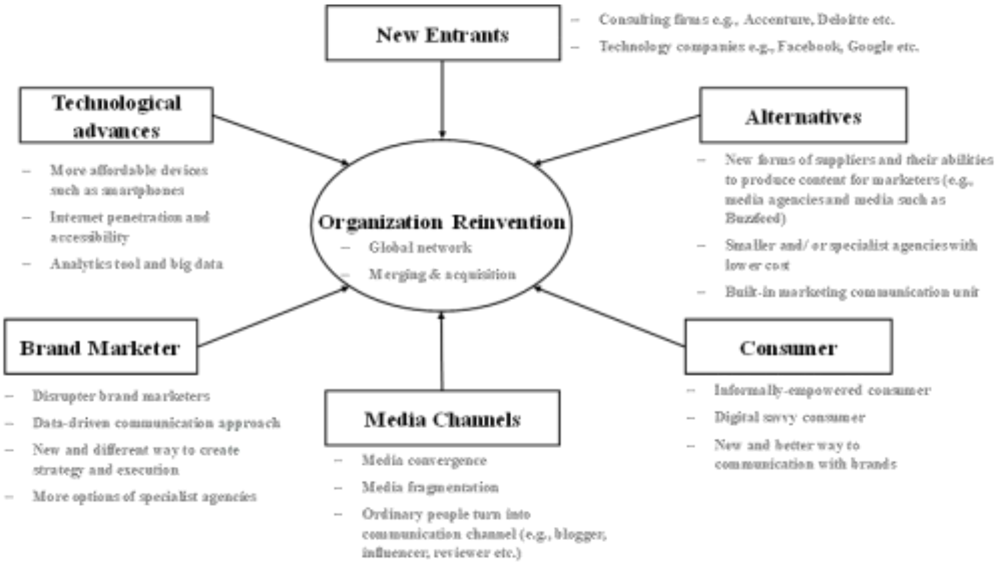

Figure 3. Competitive Analysis Framework Adapted from Porter's and Thurlby's models

Business Model and Business Model Innovation

In the past, advertising agencies generated their revenue by collecting a commission (usually 15 percent) from a client's expenditure on media to earn income. Over time, as the industry became more competitive, agencies offered different commission structures, e.g. reduced percentage rates, variable commission rates, etc. (Belch & Belch, 2003). Once advertising space was purchased, ad agencies would help clients produce copy and graphics for their advertisements free-of-charge, but they received commissions based on the amount spent on media in return.

The above practice has become increasingly profitable for ad agencies as mass media grew and proliferated, particularly radio in the1930s and '40s and television in the 1950s and beyond. Up to the last decade of the last century, the 1990s, agencies were still earning primarily from the commission system, although clients were already negotiating for lower commission rates. Agencies were also earning revenue from the markup of production costs, especially for television commercials. Therefore, the initial revenue generation of ad agencies combined commissions and production mark-up costs (Cappo, 2003).

As communication contexts have changed due to digitalization, marketers are less reliant on traditional media advertising and as a result, there have been changes to the way ad agencies choose to be compensated (Belch & Belch, 2003). According to Belch & Belch, an Association of National

Advertisers (ANA) survey (2000) found that almost fifty percent of advertisers had made significant changes to their compensation plans during a three-year period while 21 percent planned for additional changes.

The following section will now provide a better understanding of the compensation methods now being employed by ad agencies.

An ad agency assists major companies, which is referred as its clients, in developing, preparing, and executing their promotional programs, and its main services are planning and executing advertising programs in exchange for revenue. Ad agencies are compensated in three major ways: commissions, some type of fee arrangement or percentage charges, as shown in table 2 (Belch & Belch, 2003).

Table 2. Ad Agency Compensation by Belch and Belch (2003)

Ad Agency Compensation	Explanation
Commission from media	Agency receives a specified commission (usually 15 percent) from the client's media spend
Fixed-fee method	Agency and client agree on the specific work to be done and the amount of fee to be paid in exchange for services
Fee-commission combination	Agency receives commissions, which can be credited against or made up to cover the fee. If the agency does much work for the client in non-commissionable media, the fee may be charged over and above the commissions received.
Cost-plus agreement	Agency get a fee paid based on costs (personnel time and out-of-pocket expenses) plus an allocation for overhead and a markup for profits determine the amount the agency bills the client
Incentive-based compensation	The agency's ultimate compensation level will depend on how well it meets predetermined performance goals. Agency compensation can be through media commissions, fees, bonuses, or some combination of these methods.
Percentage charges	Agency adds a markup of percentage (17.65 to 20 percent) charges to various services the agency purchases from outside providers.

R3Worldwide (2016) provides a quick guide to compensation methods by agency type, which is presented in table 3.

Table 3. Quick Guide to Compensation Methods by Agency Type

	Creative Agency	Digital Agency	Media Agency	PR Agency
Commission	Limited application for modern day for both agencies since paid / owned / earned media models overtake pure pay advertising media spending		Most likely agency type to be paid on commission. Marketers are increasingly moving to fee- based arrangement	Not typically used
Labor-based	Most common when agency services revolve around strategic partnering whether its consumer insights, customer journeys or media planning services			Most common method for PR, as agency services at different times can carry high value, such as for crisis communications
Output-based	Works well for project fees and deliverables where consistent and well-known processes are followed, and output speed and quality can be anticipated and replicated such as retail/BTL deliverables		Not typically used	Less typical as the 'output' is less quantifiable and efficiencies are not driven by volume of deliverables
Value-based	Can be applied to any type of agency, as the methodology for arriving at value is independent of agency input costs and instead arrived at based on business value drives as determined by marketer			
Performance-based	Can be applied across creative, digital & media agencies with a balanced score card approach that measures agencies on brand, business, and marketing metrics as well as qualitative agency performance results			Until such time as PR influence can be more closely tied to business results, performance-based model opportunities are limited, or tied wholly to agency performance

Other than the above reviews that show common models that remain in the ad industry, Ronald (2008) offers a 'sliding scale' based on client expenditure, meaning the ad agency and its client may negotiate a fee arrangement based on client costs. The ad agency models, which include processes, payment structures and relationship, have evolved due to changes in the marketing ecosystem driven by technological advancements. Bloom (2019) argues that traditional ad agency models have been challenged due to digitalization such as digital ads and marketing as well as data-driven tools; therefore, most ad agencies are in stages of revisiting their culture, structure, policies, resources, talents, processes and business and revenue models to embrace the power of digitalization.

According to Faull (2019) although there remain several more business models that ad agencies are presently using, marketers, especially disruptors, have come up with alternatives to pay their ad agencies and pushed them for alternative contracts. Eighty percent of marketers increasingly plan to exercise performance-based remuneration contracts with their ad agencies. For example, Airbnb paid its former creative shop TBWA on a "per night" basis, meaning that the agency earned revenue per every sale. In addition, O'Reilly (2016) reported McDonald's, the fast-food chain, reportedly asked their ad agency, DDB, to operate at cost with all the agency's profits earned through rewards tied to McDonald's business and brand performance, referred to as a "pay-per-performance" based contract. Even with an increase in popularity, debate continues about the effectiveness of this kind of model. Some argue this approach is good because it incentivizes agencies to create work that will impact a client's business while others say it can be difficult to directly correlate advertising impact on a brand's performance (O'Reilly, 2016). There are as yet no actual industry norms for ad agency business models since the days of the standard 15 percent commission model (MarketingMath, 2016).

The business model concept has gained popularity among both academics and practitioners (Klang, Wallnöfer, & Hacklin, 2014; Lambert & Davidson, 2013). There are a number of accepted definitions for the term business model that cover how an organization creates, delivers, and captures value for its customer and itself (Emprechtinger, 2018; Hedman & Kalling, 2003; Osterwalder & Pigneur, 2010). A business model comprises key components of a business (Hedman & Kalling, 2003) and illustrates business logic, making the business model visible, assessable and subsequently changeable (Emprechtinger, 2018). Therefore, when a company employs a business model as an analytical unit to systematically identify the starting point for innovation, they may change parts of their business model to create an advantage over their competitors (Emprechtinger, 2018).

In this digital disruptive era, many established industries, including advertising, have struggled to grow their revenue and maintain or improve profit margin while relying on a current business model. There are those that have introduced innovations to their processes and products without any certainties for results; therefore, they are exploring business model innovation as an alternative or complement to product and process innovation (Amit & Zott, 2012). Their implementations have been found to have a broad impact on companies in the industrial and service sectors (Saur-Amaral et al., 2018). A recent global survey by the Economist Intelligence Unit found that fifty-four percent of more than 4,000 senior managers preferred new business models over new products and services as a source of future competitive advantage (Amit & Zott, 2012). Gebauer, Haldimann, and Saul (2017) argue that business models and business model innovations can create business opportunities by converting new products, services, and technologies. In addition, business models, as an object of innovation, have become significantly important as a new unit of study (Amit & Zott, 2012).

The relationship of Business Model and Business Model Innovation has been explained by Saur-Amaral et al. (2018), saying:

> *"Business models may be defined as a group of elements that allow configuration of a firm's business, while Business Model Innovation (BMI) implies performing changes in those elements or in the used combination of elements so as to increase the value created by the firm."*

The term 'business model' has become widely used in different types of industry (Baden-Fuller & Morgan, 2010), both traditional and information/ internet industries (Teece, 2010). Business models have been a key strategic management tool for visualizing the interconnected components of an organization over the past decades (Wirtz, Pistoia, Ullrich, & Göttel, 2016). They are fundamentally associated with an organization's competitive advantages (Johnson, Christensen, & Kagermann, 2008; Magretta, 2002). Chesbrough (2010) suggests a business model fulfills the following functions:

- *Articulates the value proposition (i.e., the value created for users);*
- *Identifies a market segment and specifies the revenue generation mechanism;*
- *Defines the structure of the value chain required to create and distribute the offering and complementary assets needed to support position in the chain;*
- *Details the revenue mechanism(s) by which the firm will be paid for the offering;*
- *Estimates the cost structure and profit potential;*
- *Describes the position of the firm within the value network linking suppliers and customers (incl. identifying potential complementors and competitors); and*
- *Formulates the competitive strategy by which the innovating firm will gain and hold advantage over rivals.*

With today's changing business environment, technological advances, market shifts and globalization are forcing firms to revisit their value changes and make major business model changes to stay current and to generate better results, companies, like Uber and Airbnb, have not revolutionized products and services but rather business model innovation (Verma & Bashir, 2017). They have disrupted their respective industries by rethinking their business models and the basic building blocks. According to Osterwalder and Pigneur (2010), there are nine basic building blocks for a Business Model Canvas, which is a framework for developing a business model. The Business Model Canvas comprises nine basic building blocks as follows: 1) Key partners; 2) Key activities; 3) Key resources; 4) Value proposition; 5) Customer relationships; 6) Customer segments; 7) Channels; 8) Cost structure and 9) Revenue streams.

In addition to the Business Model Canvas, the definition for a business model stems from Markides (2000), who said a firm needs to position itself appropriately in a three-dimensional strategic map comprising who, what and why. The "who" element addresses the target customer for the business. Once it is clearly identified, the firm can build the next components of the business model such as value proposition, the breadth and the depth of the offering that address the "what" aspect of a business model followed by the "how" dimension, which concerns the operational aspects of the business or the value delivery system. Both the Business Model Canvas and Markides' definition of business model create a framework, as illustrated in figure 4.

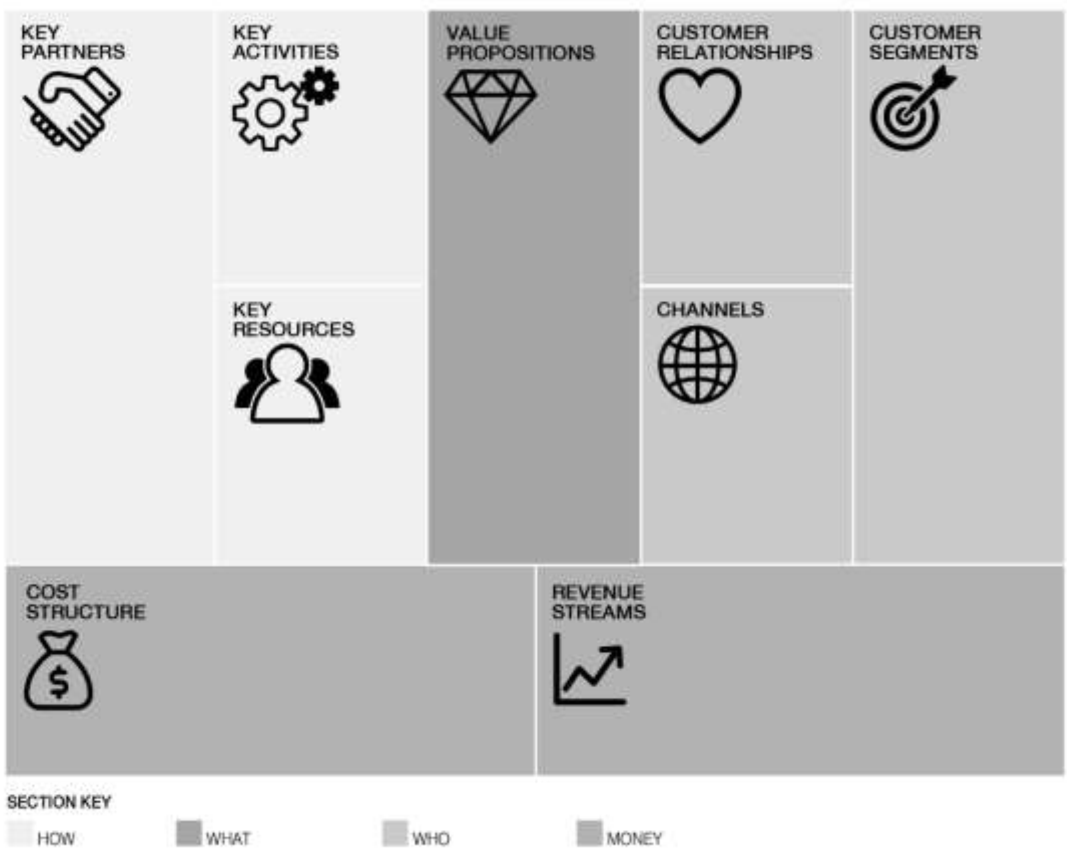

Figure 4. Framework of Business Model Adapted from Business Model Canvas and Markides' definition of business model

Furthermore, a study by Mahadevan (2004), as illustrated in figure 5. presents different contexts for analysis to identify business model innovation and/or value creation strategies. A company such as Starbucks and its response to the growing demand for "café community", a relatively unmet consumer lifestyle desire at the time, created a value through its unique value proposition of high-quality yet affordable luxury coffeehouse. His study also reveals a pattern in the process that drives a business model innovation, starting from a firm's experience in value shrinkage due to existing market conditions, especially from homogeneity of the business models in the sector of the industry and changing customer needs. Based on this model, some firms such as Southwest Airlines and Dell, which responded to regulatory and new technology changes, respectively, have shown exploited opportunities that enabled them to develop value creation strategies and/or business model innovation.

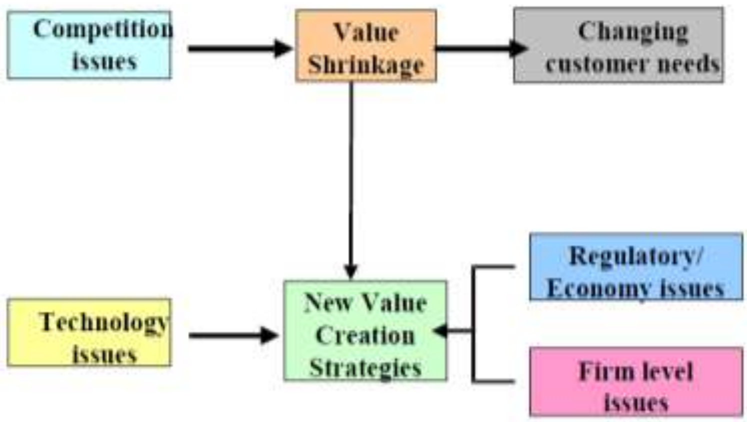

Figure 5. An Analysis of the Contexts for Business Model Innovation by Mahadevan

Basing on the synthesis of the above, a Conceptual Framework for Business Model Innovation of an Advertising Agency (BMIAA) presented in figure 6 is proposed for further study focusing on the nine basic building blocks of the Business Model Canvas proposed by Osterwalder & Pigneur (2010), which is categorized in a three-dimensional strategic map of Markides (2000) along with the study by Mahadevan (2004) that takes both internal and external changes into different firms' consideration as contexts to configure Business Model Innovation. Therefore, the proposed conceptual framework with the above key models combined intentionally aims to guide a rethinking and potentially reveal a Business Model Innovation and/ or value creation strategies for the advertising industry of Thailand.

Conceptual Framework for Business Model Innovation of an Advertising Agency (BMIAA) contains two main parts, which are the contexts of Business Model Innovation Affected by Digital Disruption and Building Blocks of a Business Model. The first part comprises competition, changing customer needs, regulation & economy, firm level issues and technology, while the latter has the nine building blocks categorized in who, what, how and money sections. The nine basic building blocks can be additionally explained as follows:

— Key Activities: The activities necessary to execute a company's business model

— Key Resources: The resources necessary to create value for the customer

— Partner Network: The business alliances that complement other aspects of the business model

— Value Proposition: The products and services a business offers

— Customer Segments: The target audience for a business' products and services

— Channels: The means by which a company delivers products and services to customers, which includes a company's marketing and distribution strategy

— Customer Relationship: The links a company establishes between itself and its different customer segments and its customer relationship management

— Cost Structure: The monetary consequences of the means employed in the business model

— Revenue Streams: A company's income, or the way it makes money through a variety of revenue flows

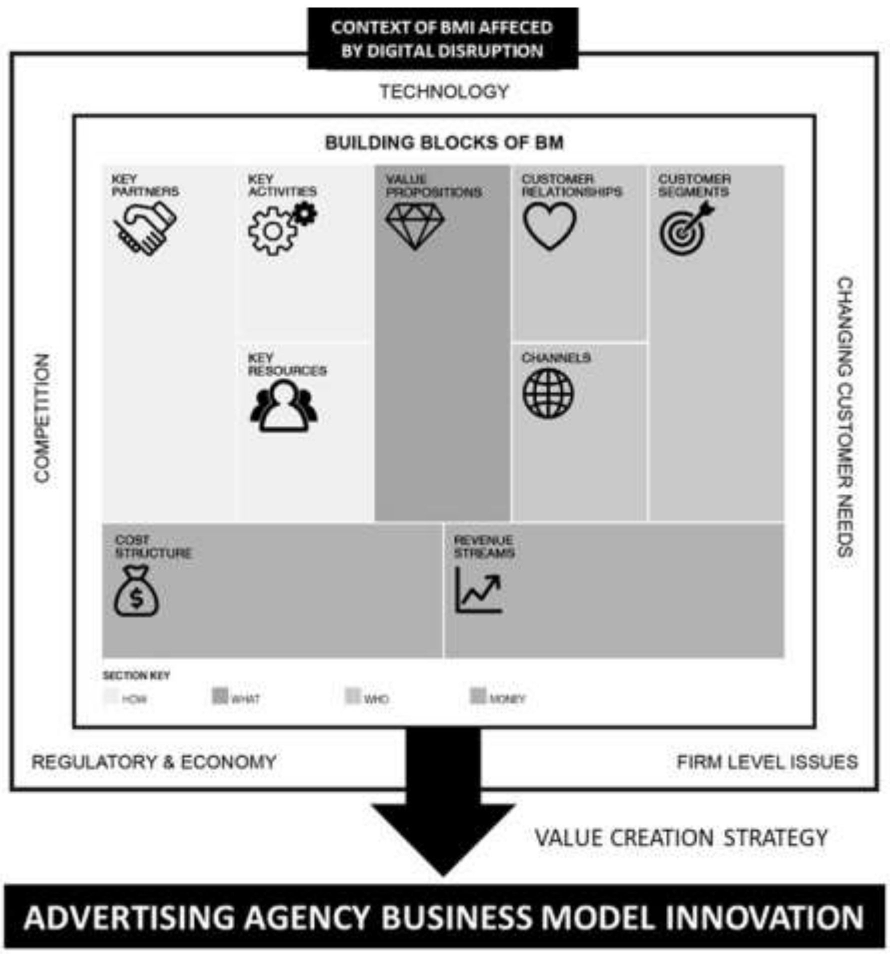

Figure 6. Conceptual Framework for Business Model Innovation of an Advertising Agency (BMIAA)

Conclusion

Digital disruption affects how an organization operates through its business model to generate revenue. This is evident in earlier discussion of disruptor brands, e.g. Airbnb and Netflix. However, traditional organizations such as advertising agencies have also been impacted by technological advances and, thus, have struggled to find new avenues to generate their declining revenue stream, as has been experienced by WPP, for example, and its subsidiaries and associated companies. Though advertising agencies have long existed, their business models have mostly remained unchanged, earning primarily through commission and markup of production costs. A study by Jensen and Sund (2017) shows emerging digital technologies have caused disruptions that have altered organizations, like newspapers, leading to changes that involve an entire entity and its assets, both human and non-human. Therefore, advertising agencies should also examine their culture, structure, policies, resources, talents, processes and business and revenue models to embrace the power of digitalization.

Through this Conceptual Framework for Business Model Innovation of an Advertising Agency (BMIAA) presented at the end of the previous section, this study requires considerable future research with two main research questions: 1) How does digital disruption affect current business models, and what changes are anticipated or being implemented? and 2) How can elements in BMIAA be deployed to develop value creation strategy and/ or Business Model Innovation for advertising agencies in the digital era? This is because digital technology and disruption are a major topic of discussion in current media studies and of interest among academics and practitioners to determine and see how they impact different advertising agencies. It is hoped that this further study can provide an empirical verification that reveals additional knowledge, insights and/or implications that directly benefit academics and practitioners such as executives in the advertising industry and related fields, who plan to develop and/or innovate new business models that fit this digital disruption era.

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