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Subject: B-M 50th Anniversary - Twelfth of a Series by Harold Burson

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Twelfth of a 50th Anniversary Series

Summing Up:
My Thirty-five Years as CEO

Most likely, I may not have made it as CEO of the Burson-Marsteller of the 21st Century. For all the thirty-five years (1953-1988) I was Chief Executive Officer I lived with the naive notion that doing good work for clients in a happy work environment would deliver the wherewithal to reward and retain our people, grow the business and provide an acceptable profit to our employee-shareowners. While that simple formula worked for me, I know, that alone would not work today.

The public relations consulting business has changed since I was CEO ? starting about the time Jim Dowling succeeded me in 1989. The business environment is harsher, more competitive ? one which most likely would not nurture a repetition of the Burson-Marsteller story. The fact is, I have often thought how lucky I was from a timing standpoint ? setting up a public relations firm after World War II. The years that followed were glory years for the business, for Burson-Marsteller and for me.

As I wrote in an early installment, I believe Burson-Marsteller's single most defining moment was launching an office in Europe in 1961 with the intent of eventually establishing a global presence. At the time, Hill & Knowlton was the only U.S. agency with overseas capability. An Australian firm, Eric White & Associates, acquired by H&K in the early 70s, had an Asian network and an office in London, but was unknown in the U.S. For three decades, Hill & Knowlton and Burson-Marsteller had minimal big league competition outside the United States (the UK, Canada and Australia were exceptions). It was a time when American companies were becoming aware of the need for public relations to establish themselves in new markets where they were often totally unknown. As we had hoped when deciding to go to Europe, numerous overseas clients later engaged us in the United States. Moreover, despite the startup costs launching new offices, our overseas operations were profitable and growing rapidly.

That economic nirvana (for us and H&K) began to change in the late 80s as large advertising agencies began to acquire public relations firms. The first was in 1978 when Foote Cone & Belding bought Carl Byoir Associates, the third largest firm, behind H&K and B-M. It should be noted that this transaction represented the second round of interest in public relations by the large advertising agencies. Shortly after World War II, Foote Cone went into public relations in a big way (for that time), followed by McCann-Erickson with its Infoplan international public relations subsidiary; and Benton and Bowles with General Public Relations. In the early 60s, these advertising agencies abandoned their public relations units because they were unable to operate them profitably and, on several

occasions, unsatisfactory public relations performance put major advertising accounts at risk.

I think I am on solid ground in observing that Burson-Marsteller played a major role in renewing the ad agencies' interest in public relations. Our relationship with Marsteller Advertising demonstrated that an advertising agency (at its peak, Marsteller was the eighteenth largest) and a public relations firm could productively coexist. And, second, that a public relations business could be sizeable as well as profitable (in 1979 our fee income was \$28 million and our margins were in the high teens even after contributing to a profit-sharing retirement trust). In the 60s and 70s I regularly attended the annual meetings of the American Association of Advertising Agencies with Bill Marsteller. The heads of all the large agencies were there, and year-after-year one or more took Bill and me aside to talk merger, their main objective being to establish a strong foothold in public relations. Of the ten largest agencies of that era, nine wanted to acquire us.

In 1979, the year that Bill Marsteller had repeatedly said he would retire, I thought the time was right for the combined Marsteller Advertising/Burson-Marsteller to join up with one of the major agencies. In this, I was encouraged by two of our independent board members, Joe Wilkerson, a Young & Rubicam retiree, and Bill McNeill, our long-time legal counsel. There were three reasons. First, I thought a big agency could hasten the transformation of Marsteller Advertising into a consumer agency, a goal that eluded us for more than a decade despite effective work for major clients (including two commercials that are in the Museum of Television and Radio all-time top fifty). Second, I was concerned our existing business would not generate enough cash to finance Burson-Marsteller's rapid expansion. And third, as our public relations business overtook the advertising agency in income and profits, tensions among senior officers of both businesses began to develop? that was a problem I did not want to deal with after Bill Marsteller's retirement.

Shortly after the start of the new year, I told Bill I thought the business would be best served by being acquired by one of our suitors. I wanted the transaction to be completed before he retired. He said he thought it would be the wrong way to go. He asked me to think about it for sixty days and we would talk again. Meanwhile, he spoke with Joe Wilkerson and Bill O'Neill. They knew our business and our people and Bill regarded them highly. In early March I told Bill I had not changed my mind. While he still had reservations, he said he would support my proposal to team up with a suitable partner. My choice of that partner had been made long before I raised the issue with him. At that time I was much closer to the advertising business than in recent years and knew the senior officers of almost all the big agencies? in my book, Y&R was at the top of the heap. Moreover, Y&R's CEO, Ed Ney, had aggressively pursued us for almost ten years.

Bill wisely noted we would lose negotiating leverage if Y&R knew we were talking only with them. He suggested we identify another potential purchaser and negotiate with the two simultaneously. We chose the second agency by each writing a name on a sheet of paper, a practice we had followed in resolving a number of issues. We both wrote "Ogilvy & Mather," in large part because we admired Jock Elliott, O&M's CEO, and knew the next two ranking officers. For the next ten weeks or so, we met many times with Ed Ney and his cohorts and with Jock Elliott and his team. Both were intensely interested in acquiring us. Our goal was to get the best deal for our shareholders (though I continued to prefer Y&R as a future partner). We were seeking cash and stock (cash for retiring shareholders

and other employee/owners who wanted cash and shares for those who wanted a tax-free exchange). Ogilvy, already a listed company on the New York Stock Exchange, had recently acquired a "hot" mid-sized agency, Scali Sloves McCabe, and was cash short and their stock offer didn't meet our expectations. In July, we and Y&R jointly announced our merger effective October 1, 1979. Bill Marsteller retired December 31 and was succeeded by Dick Christian, his long-time number two in our advertising business. From that point onward, Marsteller Advertising and Burson-Marsteller began to emerge as two distinct entities. Burson-Marsteller revenues for 1979, the last year we were independent, were \$28.3 million; in 1983, the year we became the world's largest public relations firm, our revenues were \$63.8 million.

The news that Young & Rubicam acquired Burson-Marsteller energized other big agencies to follow suit. In May 1980, J. Walter Thompson ? which had long offered product publicity services, notably in New York and London ? acquired Hill & Knowlton. Ogilvy, which had committed to public relations by acquiring a boutique public utility specialist firm prior to our talks, began to build a broader public relations presence. Barely a decade later, nine of the top ten public relations firms were owned by advertising agencies or large communications groups. Of the major public relations firms, only Edelman and Ruder-Finn have remained privately owned.

One fallout of the takeovers by big ad agencies was that these once U.S.-centered public relations firms began to expand overseas ? seemingly wherever B-M and H&K had dots on the map. Bankrolled by their new owners, they embarked on buying binges to establish themselves in Europe, Asia, Australia and Latin America (what Australia needed least was more public relations firms!). At the same time, an entrepreneurial Brit named Peter Gummer began assembling a global public relations giant named Shandwick, later acquired by Interpublic, the last of the communications giants to embrace public relations. The effect of this expansion was quickly intensified competition for new business, with reduced fees often the deciding factor. Also, competition for qualified staff grew as these newcomers sought to upgrade service to satisfy multinational clients. It was only natural for them to turn to Burson-Marsteller and Hill & Knowlton for safe hires. The result has been profit erosion in most overseas markets. A good example is Singapore, one our most consistently high margin offices when a single international firm was our main competitor. With a half dozen major firms now chasing business in a relatively static market, profits are not nearly as robust.

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During my final year as CEO, we brought together members of Burson-Marsteller's senior management team, about seventy-five men (mostly) and women representing our operations on five continents. About three-fourths were at Burson-Marsteller for more than fifteen years. Few of them had been with B-M less than five years. Today, the same kind of meeting, whether ours or a meeting of a principal competitor, would be peopled with managers with considerably less tenure. The fact is, young people entering the professional services work force no longer commit themselves to lifetime employment with a single firm. People like Elias Buchwald with fifty years, Bob Leaf and Al Smith with forty years, Claude Marshall and Chris Fisher with thirty-five years, Jim Dowling and John LaSage with thirty years, Martin Langford with thirty years at four offices, Peter Walford with twenty-five years at four offices -? that kind of commitment to one company is increasingly a relic of the past. A staff comprising so many talented individuals, working together decade after decade, was a critical component of Burson-Marsteller's success. We knew

one another's strengths; we knew one another's weaknesses. We became better together than we were one-by-one.

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The nature of the relationship between a client and its public relations firm has changed (the same applies equally to law firms). While I was CEO the client-agency relationship, especially among FORTUNE 500-size companies, was based mainly on trust and the close personal association of the client's chief executive officer and most senior public relations officer with the agency's top people. Admittedly, the larger public relations firms were then much smaller than their counterparts today and so were typical client companies. Once selected as "agency of record," a public relations firm could expect to provide all services the client required under the rubric of public relations. As corporations decentralized and established multiple well-defined profit centers, that model changed. Increasingly, profit center managers chose public relations firms of their choice. Indeed, at some major consumer product and pharmaceutical companies, individual brand managers select public relations firms. It is not unusual for a large multinational firm to employ a dozen or more public relations firms around the world ? or even in the United States alone. In our early days it would have been "bad form" for a retainer client to seek proposals from other public relations firms for specific projects. In fact, there was a time if a client had asked us to compete with a competitor for a project, we may have resigned the business.

Still another change involves what I call "the work flow." In days past, we and our clients jointly prepared an annual public relations program ? strategies and initiatives that supported CEO business objectives, short-term and long-term. We addressed the client's weaknesses with initiatives aimed to gain more favorable public understanding and reinforce client strengths. We were fully informed of major new product introductions, changes in marketing strategy, potential acquisitions and divestitures, changes in management structure or personnel and other matters likely to impact public reputation and perception. Plans responding to all such issues were incorporated in the annual program we usually started preparing in October for review and acceptance before the end of the calendar year. An annual budget covering service fees and out-of-pocket expenses was an important element of the planning process and enabled us to know with a fairly high degree of certitude our income for the next year. The approved budget was usually the minimum revenue we could expect from a client. Unplanned events called for monies in addition to budget. During business downturns, however, we could expect budget reductions although business-to-business clients often reduced their much larger advertising expenditures and increased public relations.

Nowadays, a significant fraction of the revenue of most large public relations firms comes from ad hoc projects for which they are hired to implement as the year unfolds. It is, therefore, more difficult to forecast annual income. Most of the larger firms derive most of their income from hourly charges for specified units of work. The result is that the larger firms especially expend more effort and money chasing new business. This not only diverts staff from servicing clients, but also eats into profits. At the start of the calendar year, a firm like Burson-Marsteller will usually have commitments for about two-thirds of their budgeted revenue at the start of their fiscal year. The remainder, which would represent the total income of a top ten agency, must be sold as the year progresses.

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A pressure I never encountered as CEO was managing a significant business unit of a company whose shares were publicly traded. I view myself as having been blessed for being a member of a management that could set and live with its own financial expectations. Today's model for the large public relations firms and their parent communication groups calls for producing financial results that accord with stock market expectations. The punishment for failing to reach goals can be severe.

This does not mean that we were financially undisciplined during the twenty-six years we and Marsteller Advertising did business in tandem or the eighteen "pre-going-public" years we were a member of the Young & Rubicam family. As part of Marsteller, we had a rather simplistic financial objective we called "the rule of fifteen." It was Bill Marsteller's idea and it sounded good to me when I first learned about it. Moreover, it worked! Our objective was to grow fifteen percent a year and earn an after-tax profit that returned fifteen percent on equity after paying fifteen percent of covered salaries into a profit-sharing retirement fund. We measured our results on a five-year rolling average and were never below target.

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The years have reaffirmed to me how valuable people are to a service business like public relations. From the beginning, I hoped that people we hired would make Burson-Marsteller their lifetime career destination and many did just that. But if I had the luxury of reliving my business life, I would pay even more attention to recruiting, training and development, motivating and rewarding our people ? even though I suspect we did about as good a job at it as anyone in our line of business.

During our first fifteen years when we served mainly business-to-business clients, our "ideal hire" was a graduate engineer with journalism experience, invariably a white male. We mined the good trade magazines ? published by McGraw-Hill, Chilton, Penton and Cahners ? and a few business-to-business corporations like General Electric and Union Carbide which had strong internal public relations departments and good training programs. Frequently, one hire would lead to numerous others like when Bill Noonan joined us from Union Carbide in the early 60s and was soon followed by Sam McCracken, Claude Marshall and Don Jeka, all of whom stayed with us more than twenty years. Our first female hire for a professional position, Lynn Waplington, was in 1968. Lynn majored in chemistry and worked for one of the large chemical companies. We had won the Enjay Chemical account (Exxon's chemical subsidiary) and needed account people with chemical experience. Hiring a woman staffer was not only a rarity at Burson-Marsteller but for all public relations firms and corporate departments other than those engaged in food, fashion, cosmetics or houseware publicity. Our original intent was to utilize Lynn's talents for "inside" tasks like writing, editing, programming and, perhaps, placing articles in the trade press. The press of work for Enjay, however, soon had Lynn not only calling on the client but also visiting client customers seeking case history material for articles in chemical magazines. Lynn was a productive member of the Burson-Marsteller staff for twenty years and left to head public relations for the Christian Science Church in Boston.

Having Burson-Marsteller on a resume is arguably the best credential a candidate for a public relations position can hope for. We laid the groundwork for that reputation early on. For fifteen years, Buck Buchwald and I shared responsibility for hiring new people. We both interviewed just about every professional staffer. As in other aspects of the

business, I was the "good cop" and Buck was the "bad cop." But we were usually single-minded on staff performance: our people were either making it or not; there was seldom any middle ground. Later we often joked about what we thought was our sure-fire way of predicting whether a new hire would "make it." We stood unseen close to the open office door of the newly employed person and listened to the cadence of the typewriter keys. When we heard a steady clackety-clack, we knew we had a winner. When the cadence was belabored, one stroke at a time, we had reason for concern. After a few months, recently-hired employees were told whether or not they were succeeding. Those not working to our standard were advised to seek other employment. It didn't take long for the buzz to get around that Burson-Marsteller "blew a fast whistle." That, I believe, accounted in great measure for our popularity with search firms as a fertile recruiting source. It has become almost axiomatic, even to the present day, that a person who has worked three or four years at Burson-Marsteller must be good; otherwise, they would not have lasted that long.

Until the end of the decade of the '80s, many, if not most, of our people were recruited from the media. Nowadays, few, other than those from television news, have had media experience. Two reasons account for the change. Public relations firms no longer offer journalists enough of a salary differential. When people of my generation left a newspaper or magazine for a public relations job, either agency or corporate, they could expect an income boost of thirty percent or more (my salary doubled when I moved from a newspaper job to public relations ? \$25 to \$50 a week!). Newspapers, magazines and press associations now pay as well or better than public relations firms at lower and mid-staff levels. A second reason is today's journalists seem to believe working for the media carries with it a purity that's compromised in public relations. Accordingly, few working journalists now actively seek public relations jobs. But because working with media to place and develop stories is so central to public relations, this presents a problem for our business. It accounts to some considerable extent for the complaint often voiced by reporters and editors of a lack of understanding of the news media and the news process by public relations people. Since these complaints have escalated in recent years, it is reasonable to assume that one cause is the declining number of former journalists now engaged in public relations.

As conditions in the marketplace and employee attitudes have changed, I have marveled at how intensely former employees remain committed to Burson-Marsteller even after having departed many years earlier. It's difficult to point to any one factor that accounts for this continued loyalty. Primary among them, however, is that almost from the beginning, and certainly starting in the '60s, Burson-Marsteller has been an exciting place to work. Not only did we grow rapidly, we had an early start accumulating a blue chip client list of pace-setting companies committed to public relations. For decades, hardly a day passes in any part of the world that a Burson-Marsteller client is not in the news. For those B-Mers who demonstrated they could take on more responsibility, promotions came fast and so did increased salaries and bonuses. In reality, when a public relations firm, in fact any service business, grows at double digit rates, high profitability is almost inevitable. It's simply not possible to hire staff fast enough to service the incoming flow of new business. What happens is that existing staff is forced to work, nights, weekends and holidays ? and the irony is, they invariably love it. The excitement of being part of a successful enterprise seems to compensate for intrusions in time that would be devoted to personal or family matters. Admittedly, we made mistakes promoting some people to jobs which they were not capable of handling. When that happened, we usually created another job for the person who didn't make it, a practice that caught up with us when forced to reduce

overhead by the industry-wide recession in the early '90s. Many of those "other" jobs were largely "make work" positions we could afford during our growth surge. We considered the cost minimal when measured against the cultural environment we sought to foster.

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My view on new business has always been rather simplistic. Nothing attracts new business faster than being able to offer a client superior talent. Existing clients are the first to respond. It never fails that they broaden the relationship with new projects. Subsequently, non-clients learn of the good work either by word-of-mouth (which is epidemic throughout the public relations community) and by observation (they see it in print or on the electronic media). Through the years I have observed that the really effective "hires" are soon discovered ? first by their co-workers and later by clients. Regardless of their position in the organizational hierarchy, they soon become fully billable. In truth, sad to say, those possessing "star" quality are limited in any organization, profit or not-for-profit, client or agency, service business or otherwise. But I have always felt that we at Burson-Marsteller had more than our share of them as compared to our competitors.

Burson-Marsteller had a consistent low key new business program when I was CEO, our first ten years or so excepted. During that first decade when we were almost literally starting our business from ground zero, we systematically talked with most Marsteller Advertising clients. Other than Rockwell or Clark, clients before Burson-Marsteller became a formal entity, about a dozen signed on with us, generally at our minimum fee of \$1000/month with the proviso that time costs in excess of that amount would be billed to the client. More often than not with Marsteller's mid-sized advertising clients, hiring a public relations firm was a new experience. Our presentations explained the role of public relations in the marketing mix as well as our special credentials. Probably because of our links to an advertising agency, B-M presentations were usually more sprightly than those of competitors. For example, we were early users of Carousel projectors and had a case history library of 35-mm slides. Early on we set a minimum annual growth goal of fifteen percent with half derived from increased client budgets and the remainder from new clients. For the three decades-plus, we exceeded our objective. At internal management and training meetings, expanding existing client budgets was always a priority agenda subject and client budget growth was recognized and applauded.

Among our most productive new business people were hands-on middle managers leading accounts day-to-day. They carried the title, Client Service Manager, and were one of three or four others with the same title who reported to a Group Manager (a title somewhat equivalent with today's office Practice Leader). Our New York office, always our largest, had eight to twelve groups of thirty to sixty people in the '70s and '80s, while Chicago, then our second largest office, had four to six groups. Client Service Managers were evaluated on their ability to "sell" clients new projects or new services producing increased revenue. Some of them ? Larry Snoddon (Merrill Lynch), Tom Mosser (Burger King), Jim Dowling and Bill Noonan (Owens-Corning) ? made their reputations doing this. Clients like Merrill Lynch and Owens-Corning started at the hundred thousand dollar level and grew into multi-million dollar accounts (for many years, Merrill Lynch and Owens-Corning alternated as our largest single client with budgets in the three to four million dollar range).

General Managers were responsible for "growing" their offices ? which translated into bringing in new business and growing budgets of existing

clients. They were assisted by an informal cadre of specialists that included the likes of Buck Buchwald and Tony Hughes when having an engineer or a financial specialist on the new business team was needed to prove to a potential client that we knew his business. For years, hardly a month passed without my participation in a new business presentation assuring the prospect that his/her business was important to Burson-Marsteller. John La Sage, long-time B-M General Manager in Chicago who devoted a large part of his time to new business, was especially adept at utilizing our widespread resources cultivating and winning new business. His example was emulated in other offices in the United States and in Europe and in Asia. But the reality is that in the two decades starting with the '70s, more new business came to us because of our reputation than from our prospecting.

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The public relations "grapevine" was well-wired long before the advent of the Internet and E-Mail. Reputations of individuals as well as firms ? good, bad and mediocre ? are quickly established and communicated throughout the relatively small but compact public relations community. We worked hard at establishing an identity with audiences we wanted to reach ? corporations and the media. For the better part of twenty years our half-column ad appeared in the weekly newsletter of New York's Overseas Press Club, a now defunct organization that was once an active gathering point for reporters and editors and some public relations leaders in New York. Each ad featured a Burson-Marsteller client with a brief description of the client's business and a tag line that Burson-Marsteller provided public relations services to that organization as well as other leading corporations and business entities.

But our principal promotional vehicle was a distinctively-designed four page quarterly letter titled "The Burson-Marsteller Report" that made its debut in 1965. Our purpose in publishing it was to inform the business community that Burson-Marsteller was more than a business-to-business industrial publicity firm. Although I cannot remember ever hearing the term back then, we were beginning the process of repositioning ourselves. The content consisted of one lengthy article on a topical issue and a half dozen shorter items of significance to CEOs and public relations executives. Early representative titles of lead articles were: "The Student Rebellion - Who Speaks for Business on the Campus?"; "Problems in Prosperity - How to Protect the Consumer Without Punishing the Producer"; "Pollution in Paradise - The Time Has Come for Industry to Make its Position Clear"; "Big Government vs. Big Business - How to Keep the Powers in Balance"; "Keeping Company Secrets - Questions for Management."

The Burson-Marsteller Report appeared for almost twenty years and developed readership in the public relations community that elicited up to twenty letters after each issue. Four thousand copies were sent to CEOs and public relations executives, mainly the FORTUNE 500 list, as well as editors, government officials and other influentials. The publication's popularity was largely a factor of its superb writing by Richard L. Bode, a B-M account executive who later authored several novels. The content came from input from Buck Buchwald, Dick Bode and me. Each of us was on the lookout for our next lead topic, and we met a couple of times before each issue for up to four hours fleshing out the lead article. Shorter items were usually inspired by an article one of us had seen in another publication. I believe our reputation for being "strategic" was strongly reinforced by the "The Burson-Marsteller Report". We discontinued the

publication after Dick Bode left to join the Reader's Digest as a staff writer. Four issues appeared following his departure, each by a different writer. None in my view were up to Bode's standard and I thought it better to stop publishing.

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This is my final installment of this series on Burson-Marsteller as it was during the thirty-five years I headed the organization. It coincides with the completion of our 50th Anniversary Year. If you have been a careful reader, you may have observed that my ruminations have included little about the company since 1988 other than the new offices we opened. I have purposely avoided commenting on or second-guessing my successors as CEO.

Essentially, my objective has been to make this a personal memoir in which the pronoun "I" has, for me, been used rather profusely, for which you have my apology. However, I am quick to make clear that I fully acknowledge that the Burson-Marsteller I described reflects the efforts, intelligence and commitment of literally hundred and hundreds of men and women in some forty countries on five continents. For many of them, Burson-Marsteller was central to their professional lives and I will be eternally grateful to them for their commitment. Having my name "in front of the hyphen" has brought me both pride and satisfaction. Based on your response over the past year, mainly in the form of e-mails after each of the installments, it is gratifying indeed to know that so many of you share that pride and satisfaction. That is the richest of all rewards.

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