

Innovate to Grow

How Magnum Intergrafiks, a Small Town Ad Agency,
is Riding the Wave of Globalization

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Introduction

Most businesses that begin in small towns and cities stay small. They suffer from 'locational hazard'. They define their boundaries even before starting their business and stay within those boundaries. Being initiators they may be lucky and stay ahead of the competition within the defined parameters. But Magnum was different. It established itself at a different level beyond the limits set by the local competition and built a market around itself by creating value for the customer.

From the beginning Magnum Intergrafiks (MI) believed in innovation. MI was the first agency in Mangalore to invest in the latest technology whether it was a fax machine or computers. MI was the first agency to provide complete communications solution to customers under one roof. It was the first agency to have a customer focus rather than an agency focus. MI provided its employees a totally flexible organizational climate and empowered them to try out new ideas. In Mangalore, MI established benchmarks for others to follow right from initiation. It set its target on growing beyond boundaries rather than staying a single office, one town agency. It became a leader rather than a follower.

The Genesis

Magnum began with a seed capital of Rs. 10,000/- in the basement shed of an apartment building. Once, way back in 1988, while perusing through the Planning Commission document on the five year plans, the current chairman, who is one of the

founders of the firm, understood that there would be a boom in the service sector in the near future. His search for the ideal business took him to the U.S. in 1989. Having studied the type and scale of businesses in the US, he identified four suitable ones which had large potential in India that he could possibly start. They were (1) Credit card services, (2) General Insurance, (3) Television channels and (4) Advertising agency. He realized that he could start an ad agency and provide related services with the least investment compared to other businesses.

Keeping this in mind he went about looking for people with a lot of initiative and drive. In 1992, computers were a rarity in the advertising field and a lot depended on personal service. A company called Magnum Advertising & Marketing Services was formed with a team of five, including a receptionist and an errand boy. The business began with a fax machine when no other agency used one. This enabled the firm to service its first assignment, which was for the daily release of single number lottery results in the regional newspaper, "Udayavani".

Ad agency business typically requires large amount of creative input. Due to this, a firm called Intergrafiks, which was known for its creative work became an outsourcing unit for Magnum. In 1993, Magnum and Intergrafiks decided to join together to provide better integrated services to the customer. As a result a new firm called Magnum Intergrafiks Pvt. Ltd. was born.

What began in 1992 with a seed capital of Rs. 10000/-, a team of five and a Rs.17.77 lakhs (Rs.1.8 Million) turnover at the end of the first year, now has 14 branches across India, one in Sharjah, almost 200 employees and a turnover of Rs.60.53 crores (Rs.605 million) in 2007. It has set a target turnover of Rs.100 crores (Rs. 1 billion) for the year 2008. When the average industry growth has ranged between 10% and 20%, MI has grown by 37% from 2004 to 2005, 64% from 2005 to 2006 and 67% from 2006 to 2007. It is the No.1 Ad Agency in Mangalore, Mysore, North Karnataka and Goa and is ranked among the top 40 agencies in India during the last 2 years.

Chart 1 : Total Turnover growth from 1996 to 2007

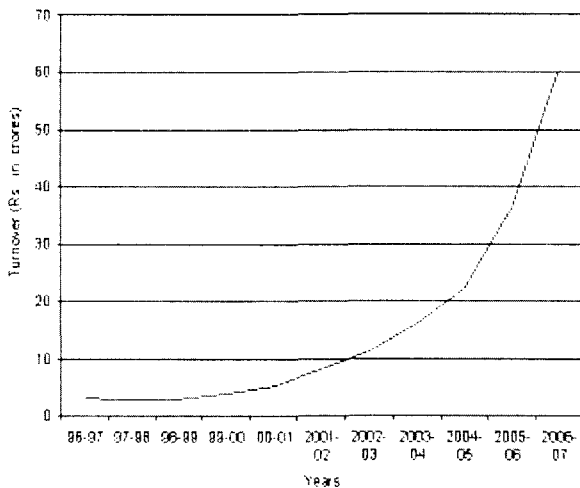
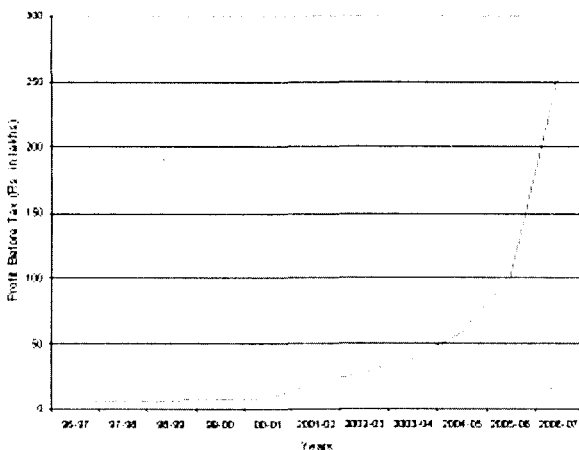


Chart 2: Profit Before Tax from 1996 to 2007



During the late 80s and early 90s, Mangalore was still a sleepy town with businesses that were mostly small in size and family owned. Media was also in its nascent stage with newspapers dominating the scene. Most advertisements were black and white and the creative requirements of customers were not much. Way back in 1992, there were about 15 ad agencies in Mangalore but the top 4 held 80% of the business. Again, only one agency had the accreditation from the Indian Newspaper Society.

When Magnum opened in 1992, they applied for the INS accreditation immediately. Initially the firm received provisional accreditation, which was followed by permanent accreditation in 1995. This benefited the firm greatly because now it could target corporate clients and also avail of 60 days credit with any publication in India. During the year 1992-93, most of the business came from newspaper ads and a small part came from design and printing. In the 2nd year a large part of the business came from design and printing and Magnum became a name to reckon with due to its superior quality of work. Being a member of the Advertising Agencies Association of India and the Audit Bureau of Circulation helped MI to work out a good strategy for the customers. These credentials also helped in getting larger and corporate clients.

Right from the time it started Magnum gave customers an entire package – a 360 degree communications approach unlike the other agencies. Magnum sold the concept of building a brand to its customers rather than provide just what the customer asked for. This was an innovative idea at the time and Magnum’s Unique Selling Proposition (USP). It became a one stop shop for all who required varied services. In fact, many clients who were not aware of their communications requirements gained exposure to these through their interactions with Magnum.

Crisis and Learning

Initially when MI began in the city of Mangalore, it built its portfolio around the real estate business. During the mid nineties the real estate business fell upon bad times, and Magnum suffered heavy losses due to default in the payments. There was recession in the economy and the real estate sector collapsed. During the years 96 to 2000, Magnum went through a financial crisis. It was a period of learning for the organization and a lot happened during this time. The organization performed a SWOT analysis and realized that innovative practices and a strategic shift in mind-set could help it overcome the current problem and grow into a much larger company.

The company first concentrated on collection of defaulted payments slowly yet steadily. Although the cash inflow was slow, it eventually stabilized. This problem led the company to develop a more efficient system of account receivables collection. Yet another lesson that the company learnt was to diversify. Magnum found new customers among banks, educational institutions, hospitals, hotels and so on.

The growth of the company was gradual. After facing a crisis during 1996, Magnum realized the importance of expansion. Along with geographical expansion, they also initiated lateral expansion with the existing customers. They began providing services like event management, publicity and brand building. Since the focus was the customer, once his needs were identified, it was easy to expand laterally. This made competition irrelevant.

One unique experience of this company is that even during the crisis period, the company had the goodwill of all its customers and the media because, while customers failed to pay, the company borrowed money and met its financial commitments. There were no payments due to the media. A few employees,

left the company thinking that the future would be bleak. Others who shared the vision of the company stayed on. The Board of Directors successfully steered the company from the brink of failure to the path of a global company with the logic of value innovation.

The company has put the systems in place for establishing a global company. Being influenced by Thomas Friedman's 'The Lexus and the Olive Tree' and Bill Gates' biography 'Business @ the Speed of Thought', the Management wants to take the company global. They have developed a vision on the inspiration of these books and realized that this company could also tread the global path with the help of technology like a lot of multinational companies. They realized that the influence of technology is such that one can't stay small, but one can hold on to his roots and build a larger entity. That is exactly what MI is upto these days. There is no locational hazard as it has employed technology to overcome this limitation.

On the contrary, it's location in a small city like Mangalore seems to be a distinct advantage. Due to this, its overheads are much lower than the larger agencies located in Metropolitan cities and the investment requirement is also much smaller. Again being in a city like Mangalore, it has access to a large pool of highly skilled labour. This has enabled MI to position itself competitively and provide international quality service to the customer at a cheaper cost.

Today the capabilities of MI are much better. MI has the resources and the inputs. They continuously analyse the trends in the industry and cater to all kinds of businesses. MI is capable of providing a proposition to any business of any size located anywhere in India. The range of customers is wide and hence the business cycle doesn't really affect the business of MI.

Branches

Table 1: Years during which the various branches were opened

Year	Location
1992	Mangalore
1995	Bangalore
1998	Hubli
1998	Mumbai
1999	Mysore
2001	New Delhi
2001	Goa
2001	Chennai
2002	Hyderabad
2003	Belgaum
2005	Kochi
2005	Kolkatta
2006	Pune
2006	Guwahati
2007	Sharjah

In the year 1995 Magnum opened its office in Bangalore, and in 1998 in Hubli and Mumbai. Expansion into new geographical areas would reduce its exposure to a single geographical area and thus minimise its risks. Opening of new branches assured the employees too that the firm was on a growth track and kept them excited and something to look forward to. Again Magnum's plan was to expand into tier II and tier III cities where it could create a new paradigm of competition and also to have a presence in the metros. The smaller cities like Mangalore had ad agencies that had limited focus. They identified the gaps left by the smaller agencies and the bigger ad firms and cashed in on those. The bigger firms are concentrated in the metros and the small firms have restricted focus. It

was easier to create a niche for itself because it provided what the customer needed quickly and efficiently. It was a big agency for a small town yet more approachable from the customer's point of view.

Retail Boom

Ever since the retail boom began during the late 90s, it has benefited Magnum tremendously. Due to Magnum's presence in different geographical areas, it has been able to cash in on this development. Again the retail boom in India, has taken place largely in tier II and tier III cities and towns. The large agencies do not have much of a presence in these cities and the smaller agencies are unable to provide world class services that too at the minimum cost. This is the niche that Magnum has created for itself. For instance, Sony brand of television, wanted to have advertisements, events and road shows of the same format all over Karnataka. Who best could do it but Magnum due to their presence in 5 locations, i.e. Mangalore, Mysore, Bangalore, Hubli and Belgaum. Recently, Corporation Bank wanted hundreds of banners of the same kind with the same message displayed in prominent cities all over India on the same day. With Magnum having 14 owned branches across India the job was done within a day. The design for the banner was made in Mangalore and sent to all the branches instantaneously. The delivery mechanism is expeditious due to the presence of internet and intranet services. A clear case of business at the speed of thought!

National Level Presence

Any business that requires national level publicity could approach Magnum because of their national presence and in-house capabilities. With their presence in metros and tier II and tier III cities, it is ideal for small, medium or large business houses. Due to Magnum's national presence, today they understand local communication needs.

Adoption of Technology

Table 2: Chronological Adoption of Technology at Magnum

Year	Technology
1992	Fax Machine
1993	Computer
1994	Scanner + Design software + Printer
1997	Pager Service
1998	Mobile Phone Service
1998	Internet Service
1998	Anywhere Banking service
2000	Accounting Software
2002-05	ERP Software
2005	Broadband Service
2005	Intranet Service

Technology was never a deterrent for MI. A company like Magnum harnessed new technology to ride over the wave of globalization. When most people thought that globalization was going to destroy them, Magnum saw an occasion to grow. While globalization brought in competition, it also fetched new customers from different locations. As technology advanced in the advertising field, Magnum seized the opportunity and capitalized on it.

When computers first made inroads during the early 90s, Magnum was the first agency in Mangalore to invest in a computer, required software and a printer and scanner for the purpose of creative work. Computers facilitate speed and ability to deal with a wide variety of complex activities. Prior to computers, every design of an ad had to be manually done. If the customer wanted different color combinations, then one had to make a fresh design with a different colour scheme each time. This was tedious and time

consuming. With the computer and the design software, the creative work is done much more easily and faster. One could keep changing the design on the computer until the customer was satisfied. What took hours earlier took minutes now. Computers have enabled people to achieve higher levels of productivity than otherwise. This helped the company increase turnover by about 4 times. Then there was no looking back.

The turning point of the business was when the organization developed customized accounting software in the year 2000 to manage its accounts and also that of its branches. Initially the accounting software was introduced in order to reduce the burden of accounting work on the existing staff. But this software helped in building an efficient Management Information System in the organization and augmented the business to an extent the management hadn't thought of. The software cost the company Rs.40 lakhs. A large investment of this kind i.e. about 6.5 times the size of the operating profits for the previous year 1998-99 of Rs. 6,09,000, at the time appeared too substantial to many. Yet the management went ahead with it, taking a risk, and it opened the doors to the company to go global. The foundation for large scale operations had been laid.

During 1998, a lot a positive changes occurred in the Indian economy. Communication became much cheaper than it was before. Telephone calls became cheaper, internet was introduced, and computers became cheaper. All these factors enabled Magnum to perform its activities more efficiently and effectively. It boosted the confidence of the organization and increased the speed of service. Adopting the latest technology much faster than other agencies, helped Magnum develop a clear edge over them in providing additional and speedy services. Embracing technology was another innovation and it helped the organization grow to a much larger size. It

also helped the management develop the vision of building a global company in this sleepy little town of Mangalore. Expansion became much easier and managing branches wasn't difficult once internet became the order of the day.

In the year 1998, internet first became popular in Mangalore. This is when Global Trust Bank (presently taken over by Oriental Bank of Commerce) first introduced 'Anywhere Banking'. Being passionate about technology, Magnum became one of the first customers of the bank to use this facility. This helped Magnum to speed up their float time, reduce their transaction costs and improved the security of transactions. For instance, if Magnum had to pay a certain amount of money to its Mumbai office, it did not require purchasing DDs now. It could deposit a cheque at the Mangalore branch of Global Trust Bank into the account of its Mumbai branch and within a few minutes the money would be credited to the respective branch account. Again, information about the crediting and debiting of the accounts was available immediately. The bank account could be operated from Mangalore and cheques could be issued at par to any place in India.

Later, between the years of 2002 to 2005 the company put an Enterprise Resource Planning Software in place. This helped the company network better because the branches were better connected now. Broadband services were available in Mangalore from 2005 onwards. This enabled the company to develop its intranet facility across its branches and helped in speeding up business for Magnum. With the introduction of broadband, the ERP software that Magnum had developed could be used better. Knowledge software which was the prerogative of a few earlier became available to everyone at the time of being launched itself. One didn't have to wait for years or

months now. Graphical and Photography Design software like Adobe Photoshop were available easily and to everyone without discrimination.

When an organization grows to a larger size, accounts have to be prepared in minute detail. Again there is growth in the media sector with the introduction of newer newspapers and television channels. Rates of media change from day to day, edition to edition, between editions, between supplements and between channels. The accounts department has to work out the combination rates since advertisement release orders for 8 to 10 advertisements are given at the same time in different media, in different supplements, in different editions and so on. But the bill for the customer has to be split and this involves tedious work. The ERP software enables the media planning and accounts departments to work out the combination and splitting of bills easily. The availability of so many varieties of media including niche magazines, has given rise to a specialist job called the media planning dept. which is yet another innovation.

The ERP software has a publication module to serve the needs of the media dept. right from release order to billing. As soon as one clicks on the release order, one gets a pop-up menu with the list of media and their editions. Depending on the geographical location, the size of the advertisement, and the time at which the ad has to be released, one could select a media. Once the size of the ad is selected, one gets the amount to be charged to the customer along with the tax. One can also know the branch from which the ad has been released.

The accounts module serves the needs of the accounting dept. At any given moment, one can know what amount is due to the firm, and from the firm, what amount is due to others and due from others during the next

one month or longer. The accounts dept. can also track the expenses and if there is any drastic increase in certain expenditure, they will immediately bring it to the notice of the management. The HR module serves the requirements of the HR dept. At present there is no full fledged HR dept. though. A MIS software developed on the dotnet framework of Microsoft helps in generating reports and the final accounts of each branch on a daily basis and also a consolidated one of the company from the above mentioned softwares. As can be seen in Chart 1, the company has grown from 3.89 crores in 2000 to 60.53 crores in 2007. This kind of growth could be made possible only because of the use of technology. Technology has erased geographical barriers and made the company more efficient. It has also enabled the company to have its numbers literally at its fingertips and thus respond immediately to the requirements of the market.

The ERP software that Magnum has developed is so user friendly that a computer illiterate could also learn to use it within a matter of few hours. Most office staff was provided training on the job. Since it was customized and was extremely user friendly, none of the employees had a problem using the technology.

Human Resource

The company at present doesn't have a rigid HR policy. But this has worked to its advantage. This is because there are just three levels in the hierarchy and bureaucracy is absent. The atmosphere could be referred to as extremely amiable. The flat hierarchy and the cordial environment facilitate management-employee discussions and quick response to unforeseen events.

The company's policy has been such that 'each individual to his own needs'. There is enormous amount of flexibility in the organization. An individual can choose his

area of specialization according to his need. For instance, a candidate with an accounting background, after having joined the accounts dept., realizes that his true aptitude lies in creative work, he could change to the creative dept.

Employees, if they have any innovative ideas are given the freedom to try out the same. To try out new ideas, the employees have access to information, resources and support. There is a library and internet access free of cost 24X7. They need not get approval from their bosses. If the idea fails, the employee can just move on to the next. There is no reprimand for failure or trying out new ideas. Employees feel empowered because they can take many decisions on their own and carve their growth path along with the company's. Due to such a flexible and comfortable atmosphere, the attrition rate is quite low. A short exit interview is conducted to find out why the employee is leaving.

The company has been in the forefront in using technology and the employees are allowed to make full use of the technology that is available. Even when mobile phones first came into the market, and each outgoing call was costing Rs.16/- and incoming calls also were charged, all client service executives were given mobile phones with all bills paid by the company because this facility increased business immensely. As the customer could now contact the account executive directly instead of routing the call through the office, it helped in improving responsiveness and cycle time performance. Employee productivity increased greatly. Employees in Magnum are tuned to new technology. Today no one says that they cannot or don't know, they just learn. The atmosphere is one of continuous learning.

The following table shows that the employee productivity has almost doubled during the last 4 years with a 40% increase in the last one year alone.

**Table 3: Turnover per employee
from 2003 to 2007**

Year	No. of Employees	Total Turnover	Turnover per employee
2003-04	94	16,18,03,000	17,21,309
2004-05	111	22,12,06,000	19,92,847
2005-06	155	36,32,36,000	23,43,458
2006-07	184	60,52,99,000	32,89,668

New Opportunities and Innovation

Small opportunities are often the beginning of great enterprises. The Management never fails to identify opportunities and exploits every opportunity available to the maximum. It has always believed in incremental innovation rather than dramatic innovation. It believes in retaining the existing customers by providing value added services and then targeting new ones. Innovation has always been done with the market place in mind and with the best use of the latest technology and harnessing the innovative skills of the employees.

Liberalization of the economy has made air travel extremely cheap. E-ticketing, introduced recently has added to the convenience. Due to this it is possible to have three meetings packed in a day at three different locations like Mumbai, Kolkatta and Guwahati and fly back to Mumbai, covering a distance of as much as 7000 kms or more. Cheap and frequent air travel service has reduced costs in terms of staying at these locations overnight which one need not do now. As soon as the meeting is over one could fly to another destination. A believer in technology, the chairman carries a blackberry to be accessible not only on phone but on mail too, whenever he is on the move which is quite often. Therefore managing branches and their businesses personally is easy today.

The growth in the Small & Medium Enterprises (SME) sector created a need to take the products and services of this sector to the markets. The SME sector could not hire larger ad agencies due to resource constraint

and smaller agencies specialized in providing limited services. Magnum was capable of providing the entire gamut of services right from advertising to publicity to branding and design development, and also across geographical regions. Magnum seemed the ideal ad agency for the SMEs. They could avail the best services at the most reasonable rates and at the right place and time. The growth of the SME sector has created the greatest competitive advantage for Magnum.

A superior case of brand building planned by Magnum is that of Ideal ice-cream from Mangalore. At one time Ideal ice-cream was the market leader. The company didn't believe in advertising. Slowly national brands like Amul and Kwality Walls and other local brands began to make a foray into Mangalore and Ideal was threatened by competition. But they successfully faced the competition with the help of Magnum and their market share improved. Magnum helped Ideal ice-cream right from product development and design development to brand building. Ideal today has brought out newer types of ice-creams along with their age-old 'Gadbad' which is still very popular. Ideal ice-cream today boasts of being the largest ice cream parlour in India with a 750 seating capacity and is ideal for the maximum proportionate student population that Mangalore has. Ideal has increased the market share and continues to be the no. 1 ice-cream brand in Mangalore.

Conclusion

Globalization is a fact. Anybody who has a computer, an electrical connection and internet facility is a global citizen. He can reach or be reached by adopting the appropriate communication and technology platform. Magnum has recognized this and is expanding horizons by continuously acquiring and upgrading its knowledge and skills in communication using technology. This agency is unique because it is a medium sized firm that has redefined its boundaries by adopting and using technology. Its

networking software is similar to the software used by the new age banks. This has enabled the company to improve its efficiency and effectively become a much larger and flexible organization with a number of branches.

Like Thomas Friedman says in his book 'The Lexus and the Olive Tree', innovation takes you out of your secure and familiar environment and throws you open into an uncertain world where you have to run a 100 metre race not once but everyday. Today magnum is continuously innovating and running the 100 metre race everyday. It will not be a surprise if Magnum could be a global force to reckon with in the near future because of its 'Never say Die' attitude.

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