



Japan Business

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International Business

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Discussion

## The Transformation “Phase 2” of the Dentsu Group

Head of the Japanese Business, Hiroshi Igarashi and Head of the International Business, DAN CEO, Tim Andree, discuss changes and issues in the business environment surrounding the Dentsu Group, as well as the Group’s purpose and future prospects.

### Reasons why we need to pursue further transformation

**Igarashi:** We have learned much from the business conducted by Dentsu Aegis Network (DAN) in the six years since its establishment in 2013. While engaging in many targeted M&A deals, you have also scaled your operations to cover more than 145 markets. Early proactive efforts toward the achievement of your goal of becoming a 100% digital economy business by 2020 have resulted in over 60% of your revenue coming from the digital domain.

You enhanced your data marketing capabilities with the acquisition of the Merkle Group Inc., and are further developing the business with industry leading digital products and services. These are all outstanding achievements, giving me an even stronger

sense of the potential for expansion in the Japan business as well as DAN.

**Andree:** DAN has certainly delivered tremendous growth during the past six years. We generate more than 60% of the Dentsu Group revenue, completed more than 150 M&As and we have over 44,000 people in DAN. But our journey does not end here and I think there are still many areas where we can evolve. Some of them are strengthening our creative capabilities, diversifying our income source and building our sports and content businesses. These are all areas where we can learn from the know-how of the Japan business and we consider it to be a huge opportunity. In addition to establishing robust lines of business we will continue to work to build deep, long-term relationships with clients and to deliver an integrated, holistic approach. Again these are also areas in which DAN can learn from Dentsu.

**Igarashi:** The need for further transformation is the same in the Japan business. At present, our business environment is undergoing substantial changes. How we respond to these changes—and transform them into opportunities—will determine the future success of the Dentsu Group.



**Andree:** Clients are increasingly challenged by new market entrants, disruptors, technological evolution and changing consumer needs. As clients' needs change, agencies need to be more focused on long term, sustainable growth and the role of marketing as a driver of business value and transformation. In turn, we are compelled to rethink our marketing approach. If we are able to sufficiently prepare, quickly evolve and respond, I am confident that we can transform these changes into opportunities.

**Igarashi:** This is exactly why we are promoting business transformation. We must value our uniqueness, strengths and DNA cultivated in Japan, but be careful not to adhere to these so much so that we hinder the pace of change. In areas where we think we are not as competitive, or still in the process of overcoming challenges, we need to address them with maximum speed. We are now engaged in business transformation with the determination to drive change in all areas boldly and quickly, no matter the conditions with which we are faced.

## Transformation: Phase 2

**Andree:** Clients want new capabilities to drive innovation in their own businesses and there is a desire for integrated capabilities and holistic solutions.

We are transforming ourselves – simplifying our model - to become integrated by design and organized around our clients to deliver these integrated brand solutions.

DAN has acquired high-level digital capabilities, mainly through acquisitions. To help our clients win, keep & grow their best customers, and to become their most trusted partner, we need to have a strong footprint and ensure we are ideas-led, data-driven and tech-enabled. We are also investing internally to make sure our operations are efficient and effective so that we can consistently provide the highest level of service in all global markets.

These are some of the directions and initiatives that we are working on in DAN but I understand the Japanese business is also working towards a new focus.

**Igarashi:** Yes, we aim to transform ourselves from an "Advertising Agency" to a "business producing



company". We are expanding in business domains where we are able to commit to all client marketing activities and have launched numerous initiatives aimed at becoming an organization that generates a wide-range of innovation and value.

**Andree:** The DAN executive team recognize that continual innovation will strengthen our specialties, allowing us to become a high performing organization that is focused on relentlessly delivering value for our clients.

**Igarashi:** The cornerstone of our business is providing a quality of service unmatched by any other company. Thus, we aim to become a company that is not only able to enhance each of our specialties but also able to integrate those specialties offerings into a single solution for our clients.

**Andree:** We have exactly the same idea. Up to now, with sufficient level of collaboration, we have been able to meet client needs. However, going forward, services designed to be more organized and integrated will be the foundation of proposals delivering client success within an increasingly complex business environment.

Dentsu is the only Asia-based global marketing communications agency and continues to demonstrate client-centricity focused on the long term.

Over the past six years, the Dentsu Group have worked to establish robust businesses in Japan and throughout the world with the aim of delivering consistent, high quality service to our clients, globally. Through this process, the domestic and international business have collaborated and created various levels of business synergies.

I believe now is the time for us to decide how best to integrate our respective businesses even further. Greater integration will result in applying the best practices of the global companies we have acquired, to client work in Japan - while utilizing the outstanding innovation and expertise cultivated in Japan, for client work overseas. These are the new and exciting opportunities we see before us.

### Expectations for One Dentsu

**Andree:** In January 2020, we plan to transition to a new holding company structure, and I have huge expectations for the changes this will bring. Becoming “One Dentsu” means increased integration and synergy between Japan and Dentsu Aegis Network, built around a shared passion for clients, innovation and creativity. If we can collaborate around these shared passion points, our potential is unmatched.

As a result, the organization will be more agile and efficient. And, the holding company will focus on the future of the overall Group and indicate the direction in which we should be headed. This will enable Dentsu in Japan and DAN to move forward together along the same trajectory. This is an incredibly important point.

**Igarashi:** I also have high expectations. One thing that is worth commenting is that it is not our intention to create an ordinary holding company structure.

The holding company structure Dentsu will take is not the typical controlling, top-down hierarchical organization, but rather, will play a supporting role in creating a foundation that enables each operating company to operate more easily.

One Dentsu will be a flat organization comprising operating companies that connect organically. We will create an environment in which collaboration and innovation can be generated by any one of our 60,000+ Group employees — otherwise called as the “Teaming Platform.”

**Andree:** Yes, it will be a flexible organization with a team structure. I don't think there are many companies structured this way and it will enable us to promote the digital economy while navigating uncertainties and complexities we may face.

**Igarashi:** It is an already-known fact that we cannot achieve this by simply following a method whereby only “the person who makes the decision is solely responsible for making changes.”

This is why we will have employees with individual expertise working together across the Teaming Platform to expand business with a strong desire to create

new value. The Teaming Platform will encourage our employees to create new value and expand our business by collaborating seamlessly with people both internally and externally.

This is the true meaning behind our transition to a holding company structure. It is our responsibility as management to make sure everyone understands our commitment to creating a new Group.

### Beyond One Dentsu

**Igarashi:** At present, society is entering a period of complexity that can be phrased as a certain chaos. To resolve the social issues within elements of society, I think it is natural that corporations should utilize their resources in ways that can contribute to society in resolving these issues.

**Andree:** I completely agree. We have a responsibility to the rest of the world and we must contribute to a sustainable future. We are leading various projects to promote education, entrepreneurship and reducing our carbon footprint but we also partner with organizations such as Malaria No More to fulfill the commitment we have made with the United Nations Sustainable Development Goals.

**Igarashi:** I agree. However, if we are simply saying we exist only to resolve social issues, then I think we are missing Dentsu's uniqueness.

Our goal is not to eliminate the negative, but to turn negatives into positives—Dentsu's uniqueness as a company is to make the world more interesting and to transform it. We at Dentsu are in a position to play an active role in this endeavor.

**Andree:** Ultimately, we believe in sustainable growth. Our ambitions must be supported by our own organizational behavior. It is important for our employees to feel inspired and empowered to take part in creating a better future.. Furthermore, through this, we will ultimately create value for our shareholders, too.

**Igarashi:** Our business activities contribute not only to

improving society with unique solutions, but also to realizing a society comprising corporate citizens and consumers that is interesting and enjoyable for everyone. If this were not the case, then there would be no reason for Dentsu to exist. We must strive to achieve this goal.

**Andree:** I echo the idea of creating a better society for everyone. Digital societies in particular, experience dramatic changes, and disparities are increasing. Some people have access, while others do not, and the gap between rich and poor is growing ever wider.

There are difficult decisions involved in reducing

disparities and striking an appropriate balance with regard to sustainable growth and performance in both the short and long term. However, I believe that DAN, as a pioneer in the digital revolution, will be able to build a digital society for all.

**Igarashi:** The advancement of digitization impacts all of our clients. Dentsu believes there is an opportunity to engage in social transformation through our business and contribute to the realization of a sustainable society.

