

Nolej Studios: Growing a Creativity-Based Business

On a picturesque New York City fall afternoon in September 2007, Alejandro Crawford got a phone call offering what every growing business wants—potential new business. Strangely enough, as CEO and co-founder of the digital advertising firm Nolej Studios (Nolej), Crawford wasn't sure if he should be excited. After struggling for four years to get his interactive advertising agency off the ground, the company was now starting to gain momentum and presence in the industry. The potential client, an interactive toy company, approached Nolej with specific service needs that lay outside of the services that Nolej had provided in the past. Nolej had focused on delivering brand image elements, brochures, websites, and online interactive demos for clients. However, the toy company was requesting character creation, business model development, and user-experience design—all new service areas for Nolej. If they provided these services, Nolej would begin to look more like a full-service agency and less like a niche player. This change in focus could open up new market opportunities, but could also open Nolej up to more competition.

Complicating this decision was an internal debate among Nolej management as to whether they could provide the additional services at a high level of quality and creativity. The toy industry was outside their usual target audience, and Nolej's limited experience in that made some unsure that the completed project would meet Nolej's high standards. Crawford wanted to be sure the client would be satisfied, but also wanted the work to reflect favorably on Nolej, in the hopes it would attract new business. Furthermore, the client's desired level of control over specific details of the project was stronger than that of most of Nolej's previous clients. Several of the design staff thought that the level of specificity was too confining, and that they needed to be given more creative space to provide top-notch service innovation and value. Finally, taking on a project of this relative magnitude would require Crawford to hire more employees or contract more freelance workers to meet the deadlines.

Crawford had told the potential client he would get back to them by the next day on the details of the proposed project. As he leaned back in his chair, he laughed at the thought that he might turn down lucrative work—but he was seriously considering it.

This case was written by Center for Digital Strategies MBA Fellow Ashley Martin and Professor Alva Taylor of the Tuck School of Business at Dartmouth, with guidance from Professor Hans Brechbühl. It was written as a basis for class discussion and not to illustrate effective or ineffective management practices. Version: May 5, 2008.

Firm History

Nolej is a privately held interactive advertising agency headquartered in New York, New York. Crawford wrote the business plan while an MBA student at the Tuck School of Business at Dartmouth, and launched the business following his graduation in 2003. Originally a music and film production company, the current interactive advertising agency model was implemented in 2005. Their first project was creating electronic press kits for IMG Artists, a talent agency promoting performance groups Cirque du Soleil and Antigravity; IMG Artists is still a client today. In 2007, Nolej had eight full-time employees and was turning \$150,000 in quarterly revenues, with projected annual revenues of \$1 million by the end of 2008¹ (see Exhibits 2, 3).

Competing in the interactive agency space, Nolej prides itself on its outstanding creative talents and excellent project management. Crawford said, “To hold the attention of consumers, we must earn it. To do this requires that we replace what we have known as advertising with a different beast. . . . We achieve this by developing truly cool ideas—ideas so vital, they intensify as consumers interact with them.” Because of their track record for trendy, edgy brand messaging that engages consumers, Nolej attracts lifestyle brands in the apparel, media, spirits, and health and sports industries, as well as B2B companies in the creative arts space. Projects that Nolej has done in the past usually revolve around website design, web experience creation, logos and brand image, and viral video creation.

Overview of the Advertising Industry

Advertising is marketing communications designed to deliver a message to current and potential customers. An advertising agency is a firm that participates in any part of that message’s strategy, creation, and distribution.

The advertising industry is characterized by three main types of agencies: full service agencies, general agencies, and boutique agencies. A full service agency is usually a holding company comprised of many subsidiary operating companies. Each operating company specializes in one or more parts of the campaign creation process, so the agency will distribute the client work across the organization, and coordinate centrally. Full service agencies offer a broad selection of services, including brand strategy consulting, creative, digital media, account management, media planning and buying, and post-campaign research. General agencies can be conglomerates like full service agencies or they can be independent, and focus on planning and developing marketing campaigns for placement in an assortment of channels. They offer market research, account services, design, production and media planning and buying. Boutique agencies are usually independent and specialize in one or more specific aspects of marketing services, such as a particular segment, industry or channel. Interactive agencies, a subset of boutique agencies, usually focus on digital channels. Their services often include website design, viral videos and rich media creation, search engine advertising, programming and hosting, web application development, and interactive marketing and brand strategy.

¹ Source: Company estimates.

The advertising industry has a reputation for volatility. The success of the industry is tied to the business cycle, and levels of spending usually conform to the health of the economy. Furthermore, turnover of clients is higher than in other corporate support industries. If a campaign is deemed unsuccessful, the agency is usually fired, even if bad strategy or product design from the client firm is responsible. This generates a great deal of competition among firms to attract and retain clients.

When a project begins, advertising agencies can get involved at any point in the process of developing and marketing a product, service, or identity. Usually, the client firm approaches the agency when it wants a campaign created, so they bring their product, marketing strategy, and business model to the agency to develop the campaign strategy, design the creative, and distribute it to the appropriate channels. However, consulting services exist for market opportunity identification, segmentation and positioning analysis, business model development, and product and packaging design, in addition to traditional communications. Once the creative work is done, it is pushed out through the various channels appropriate to the target audience. The distribution itself is fairly commoditized.

The eight largest international full-service advertising companies are Omnicom Group, WPP Group, Interpublic Group of Companies, Publicis Groupe, Dentsu, Havas, Aegis Group, and Hakuhodo DY Holdings. These eight firms control 27% of the global advertising market (see Exhibit 1). The remainder is a very fragmented mix of hundreds of small- and medium-sized firms and a network of thousands of freelancers. In 2007, overall U.S. ad spend reached \$153.7 billion,² and worldwide ad spend was estimated at \$385 billion with anticipated growth to \$500 billion by 2010.³

Major Changes in the Ad Industry

Prior to 1995, the primary advertising mediums were print ads (newspaper and magazines), television (broadcast and cable), radio, outdoor, and direct mail. With the broad consumer acceptance of the internet in the mid 1990s, ad agencies began to look into new ways to reach consumers. This gave rise to company websites, and e-commerce and passive online advertising mediums like banner ads, pop ups, and direct email. These digital mediums have steadily taken a share of company advertising budgets from TV and print ads, especially newspapers, which have experienced dramatic declines in circulation in the digital age. Print-ad revenues are down 9.4% to \$42 billion in 2007 and analysts expect the decline to continue into the near future.⁴

The popularity of digital video recorders (DVRs) in the early 2000s further eroded the share of TV ad spend, as it was now easier for consumers to skip commercials on recorded or live broadcasts on all networks. Combined with the trends of Web 2.0—such as viral video,

² Source: TNS Media Intelligence, <http://www.tns-mi.com/news/01082007.htm> (accessed April 1, 2008).

³ Source: PricewaterhouseCoopers, <http://www.pwc.com/extweb/pwcpublishations.nsf/docid/5AC172F2C9DED8F5852570210044EEA7?opendocument&vendor=none> (accessed March 30, 2008).

⁴ Source: *Wall Street Journal*, <http://online.wsj.com/article/SB120693514347376439.html> (accessed: April 13, 2008).

consumer-generated content, and social networking—digital advertising has reached a higher portion of company ad spend than ever before. Analysts expect U.S. interactive ad spend to grow from \$47.2 billion in 2006 to \$78.4 billion by 2011, an average of 10.7 percent CAGR.

One of the primary benefits of digital advertising is that it lends itself to quantitative analysis. Companies can easily track ad impressions, click-throughs, unique visits, and time spent on each page.⁵ Drawbacks of online advertising are that its many consumers ignore passive ads, in part because these often have had no relevance to what the consumer was viewing. In response, Google's contextual ad placement technology, introduced in 2003, made distributing banner ads relevant to the content on the webpage faster, easier, and cheaper, while increasing the likelihood of a click-through.

Companies now demand these services be offered by their ad agency. Many smaller agencies position themselves as interactive advertising agencies, focused on providing advertising and marketing services within the digital space. The amount of choice over exposure to ads that the consumer now has is increasing the need for more engaging, experience-oriented ad content creation on the web. Viewing large traditional full service agencies as out of touch, sometimes firms look to boutique agencies closer to the target consumer group, for a hip campaign that communicates brand messaging that resonates. Not to be outdone, full service agencies have begun acquiring boutique firms that can execute these types of campaigns.

Nolej earns under \$1 million in revenue, placing it among the many small boutique firms servicing the interactive advertising niche. Functionality, technology, and idea generation are common skill sets across this sector, so Nolej differentiates itself by its ability to manage the creative process and by its understanding of the target audience. Crawford also says that to create and maintain that edge, he has to hire and retain the best talent and stay in front of the trends.

Keeping up with the Trends: Culture at Nolej

Next to their competence in managing creative talent, Nolej considers their culture one of their most important assets. To attract and retain the best creative talent and to attract clients who don't want a traditional agency, Nolej avoids feeling "corporate." The company's history in music and film lends it an authenticity within the artist communities in New York. The firm stays connected to real arts and creativity outside of Nolej by encouraging its staff to attend local arts events and by allowing self expression in terms of dress. To keep the staff motivated and directed, management instituted a strict discipline of hard deadlines, but celebrates with drinks as a team after projects are completed. Crawford calls this "the structure that inspires creativity".⁶ Nolej's President and Chief Creative Officer (CCO), who goes by the singular moniker Nevaris, describes the communication style he uses with his staff as not condescending, and built on mutual respect, which reflects the style of thought at

⁵ An *ad impression* is counted when an ad appears on a page a user loads. *Click-throughs* are counted when a user actually clicks on the ad.

⁶ Source: Interview with Alejandro Crawford on April 15, 2008.

the firm.⁷ All new ideas are taken seriously, regardless of who among the team generates them.

Crawford is adamant that his firm benefits from its small size because the different functional teams work in close proximity:

The accessibility of creative tools creates a swell of people who want to be able to link their own sense of creative identity with a viable commercial career. That's what we're building on to [develop] the people who are good at the strategy, technical, and creative—and knowing how to talk all those languages—developing skills that traditional siloed environments can't develop. This culture is powerful enough to lure good talent away from the big corporate jobs that pay more.

In order to maintain and grow their marketshare, Nolej must take advantage of the adaptability and maneuverability their small size gives them, compared to larger firms. In order to accomplish this, Crawford and his leadership hold roundtables with other firms to discuss the evolving nature of the industry, write internal and external blogs to attract and retain clients and staff, and maintain an RSS feed⁸ of things they see other firms doing that they like. By staying abreast of what others are doing, thinking, and examining, Nolej can keep ahead of the trends.

Project Organization

Nolej follows a general project plan whenever starting a new client project. After a lead is generated and qualified, Nolej holds a free consultation with Chief Operations Officer (COO) Shane O'Boyle and CCO Nevaris to outline the project and examine vendors to determine technical feasibility. The most important part of any engagement is Nolej's management of the creative and the process, guiding the client, based on the client's goals. If those goals are not clear, the client has the option to enter extended paid consultation to complete the strategy and business model as necessary; clarity here is necessary before the interactive program can be designed. Nolej focuses their clients on consumer decision processes rather than product details to define how the project should be structured.

After the strategy is set, the creative process begins. Nolej will analyze the target market and competitive landscape of the product or service to generate the creative brief. Once accepted, Nolej builds the teams to execute the project. They look first for capacity and skills in house, then solicit bids from vendors to put together a team of freelancers. A strict schedule is set. There are three ideas created to display to the client: "A" concepts—simple, to-the-point and tried-and-true ideas; "B" concepts—ideas that push the envelope, often going further than the client had considered, but still reasonable and realistic; and "C" concepts—the big, wild, crazy, off-the-wall ideas that assume everything and anything is possible.

⁷ Source: Interview with Nevaris on March 27, 2008.

⁸ An RSS (really simple syndication) feed is an aggregated list of links to external websites such as articles, videos, or blog entries.

Once the concepts are complete, the internal team presents them to the client for selection. When the client is satisfied with the execution, Nolej works with partner organizations to host or distribute the project to the correct channels, depending on the nature of the job. Figure 1 below describes this process graphically.

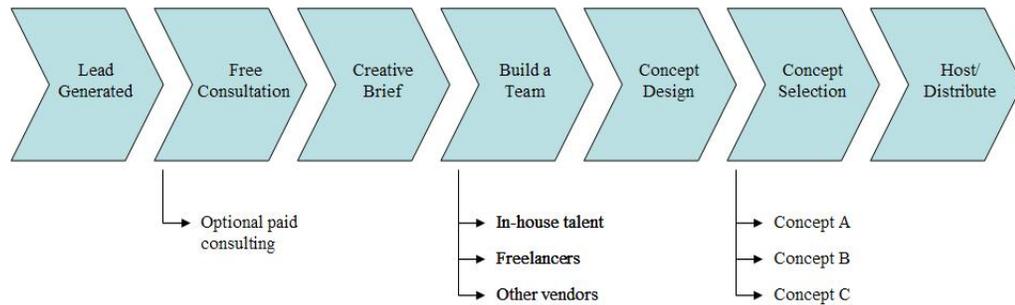


Figure 1: Nolej Work Process Flow (Source: Interview with Nevaris on March 27, 2008, case writer analysis.)

Building the Project Team

With only eight full-time employees, Nolej often uses its network of freelancers and vendors to fully staff a project. Freelancers are project-specific contract employees, who are independent or affiliated with a larger group of other free lance workers. The nature of this distributed team approach is that work must often be done independently of the rest of the team, because they do not share an office. The lead designer must decompose the work of a project in such a way that isolates some of the high creative ‘core’ content that a person can work on autonomously, while still fitting the work into the overall creative mission of the project and the image that Nolej as a firm is crafting in the marketplace.

Nolej employees often do the core design work for the front end,⁹ whereas freelancers provide the back end.¹⁰ When specific skills are needed that lay outside the arsenal of present staff, freelancers can fill holes in front-end skills on an “as needed” basis. The result of this staffing strategy is a test bed for new specific skill sets that could be added on a permanent basis by creating a pipeline for full-time employment. Furthermore, it decreases the likelihood that Nolej will become rooted in technology-specific skills sets that could easily become outdated.

⁹ The front end of a software or web application is the graphical user interface used to collect data from the user and create the experience.

¹⁰ The back end of a software or web application is the storage and manipulation of data collected through the front end. The back end is hidden from the user.

The primary drawback to using freelancers is that it allows for much less control and guidance than with internal workers. The freelancers do not sit in the office, and can sometimes be difficult to contact. This can be disastrous if the designer is unreachable close to deadlines when the client may be asking for final, small changes that need to be made immediately. Furthermore, some freelancers do not manage their own time well, which can put project delivery at risk. Additionally, by not being trained and indoctrinated in the expectations of Nolej, the freelancers can sometimes provide solutions that are quite different than expected.

Previous Clients

Because advertising is a reputation-based business, previous work is often the largest generator of new client leads for smaller firms like Nolej. Here are two of the clients who made a significant impact on Nolej's profile

Emergen-C

Perhaps Nolej's biggest success was repositioning vitamin supplement Emergen-C's web presence in summer 2007. Consumers often associated Emergen-C as a product to take when sick, but the firm wanted to re-position the product as a supplement for people with active lifestyles. To accomplish this, Nolej created a specific segmentation and targeting strategy, and designed an interactive website. The new site used bright colors, casual language, and animated silhouettes of trim people doing both gymnastics and everyday activities with energy and enthusiasm, to create a hip, vital image. Unique visitors to the site grew by 700% in the four months following the launch¹¹ (see Exhibit 4 for a sample of the campaign).

Semerad

Semerad, a video post-production house, was looking to stand out in their industry, so they turned to Nolej to create a completely original website to showcase their work, attract clients, and anchor their image transformation. Nolej was given a great deal of creative freedom in designing the concept, which the creative staff enjoyed. Nevaris said that the staff really liked working on an open-ended project for a cool brand within the arts space. The resulting website featured an industrial-looking cluster out of which all the website's elements emerged. Nolej took some creative risks, but the client was extremely pleased with the results and has adopted the "Semerad cluster" as its official brand logo.

Nolej also had the opportunity to do a second project for Semerad. This project created a special 'clients only' section of the website which Semerad can use to facilitate two-way file sharing. Nolej is planning to reuse the back-end of this design for their own website in the near future (see Exhibit 5 for a snapshot of the website design).

The Present Challenge

Despite these recent successes, Nolej must now decide whether to take on this new client, the interactive toy company. As with most start up businesses, cash management issues are very

¹¹ Source: Company files.

important. Crawford noted that “it can be difficult to turn down clients who don’t suit your mission or values when you have checks to write.”¹² But with new deals being so dependent on previous work, Nolej must carefully consider the impact this client could have on their image in the industry.

The client is asking for brand strategy and a website, but they might need much more than that; their business model isn’t well formulated and Nolej’s lead designer wants to go back to the drawing board with the product prototype. The client needs fast turnaround and Crawford could tell from preliminary meetings that they would be a high-touch client requiring more of his personal time than usual, and requiring a level of control over details that the design team finds stifling to their creativity. He must decide if now is the time to grow Nolej into more of a full-service branding house, potentially entering new competitive waters. The product is an interactive child’s toy; the staff hasn’t worked in that industry, so results could be lower than the usual high quality ideas Nolej generates. If the project is a flop, it would be a setback for the revenue growth goals, which could affect Nolej’s ability to attract external investment. If it’s a success, it could generate several new business leads in new industries and services, and might even attract external investment.

With the team already busy with other projects, taking this client would mean reprioritizing existing work agreements or hiring more staff. COO Shane O’Boyle has just sourced another potential project for a music video production company that wants a new website. Should Nolej choose that project instead? If they took both the toy company and the music video production company on top of their current load, they could risk disappointing and angering both clients and severely damaging their reputation.

¹² Source: Interview with Alejandro Crawford on March 27, 2008.

Sources:

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http://info.wfa.be/WFA_Annual_Report_2007.pdf (acc: 3/31/08)

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Nolej company files.

The Online Advertising Playbook: Proven Strategies and Tested Tactics from The Advertising Research Foundation by Joseph Plummer; Steve Rappaport; Taddy Hall; Robert Barocci (see link: <http://proquest.safaribooksonline.com/9780470051054>, acc: April 1, 2008).

Interviews with Alejandro Crawford on February 19, 2008, March 27, 2008, and April 15, 2008.

Interview with Alex Barnes on February 19, 2008.

Interview with Nevaris on March 27, 2008.

Exhibit 1: Top Global Advertising Agencies by Revenue

Rank	Agency	2006 Revenues in US\$ millions	HQ
1	Omnicom Group	11,376.90	New York
2	WPP Group	10,819.60	London
3	Interpublic Group of Cos.	6,190.80	New York
4	Publicis Groupe	5,872.00	Paris
5	Dentsu	2,950.70	Tokyo
6	Havas	1,841.00	Suresnes, France
7	Aegis Group	1,825.80	London
8	Hakuhodo DY Holdings	1,337.00	Tokyo

Source: <http://adage.com/images/random/agencyprofilesyearbook07.pdf>

Exhibit 2: Pro Forma Income Statement

(All currency in \$000's)	Actual 2006	Actual 2007	Projected 2008	Projected 2009	Projected 2010	Projected 2011	Projected 2012
Revenue							
Average Price per job unit	4	7	12	15	16	16	16
Total job units per period	43	56	115	282	767	1,410	2,659
Total Revenue	161	376	1,339	4,237	12,506	23,063	43,542
Yearly Revenue Growth		134%	256%	216%	195%	84%	89%
		0.30	1.06	1.44	1.72	10.37	15.50
Cost of labor							
Total production personnel	2	4	8	19	54	54	54
Total Creative Mngmt personnel	1	1	1	3	9	9	9
Total Gen management personnel	3	3	4	5	8	8	8
Admin Personnel	1	1	2	4	9	9	9
Total employees	6	9	14	30	80	80	80
		44%	62%	113%	167%	110%	65%
Direct Labor Cost	54	168	298	743	2,064	3,798	7,165
Creative Mgmt Cost	24	28	44	120	370	683	1,290
Total Labor Cost	78	196	342	863	2,434	4,481	8,455
		151%	74%	152%	182%	1057%	1565%
Cost of Sales							
COSR- Other	15	34	128	379	1,107	2,037	3,844
Sales Booked	0	0	670	1,271	3,127	5,766	10,885
Commission on sales booked	0	0	74	191	469	865	1,633
Total Cost of Sales	15	34	202	570	1,576	2,902	5,477
Total COGS	93	230	543	1,433	4,010	7,384	13,932
Gross Profit	68	146	796	2,804	8,496	15,680	29,610
Operating Costs							
Selling and Marketing	40	33	193	306	885	1,631	3,079
Overhead (facilities & infrastructure)	47	55	81	158	394	722	1,361
Gen Mgmt Cost	26	56	134	184	285	512	959
Admin Personnel Cost	3	12	38	112	372	689	1,304
Professional Fees	5	29	150	209	616	1,170	2,109
Total Operating Costs	121	186	597	969	2,552	4,725	8,812
EBIT	(53)	(39)	199	1,835	5,944	10,955	20,798
Net Interest Expense	23	24	21	5	21	37	68
EBT	(76)	(63)	178	1,829	5,923	10,918	20,730
Taxes	0	0	62	640	2,073	3,821	7,255
Net Income	(76)	(63)	116	1,189	3,850	7,097	13,474
Effective Tax Rate	0%	0%	35%	35%	35%	35%	35%

Exhibit 3: Pro Forma Balance Sheet

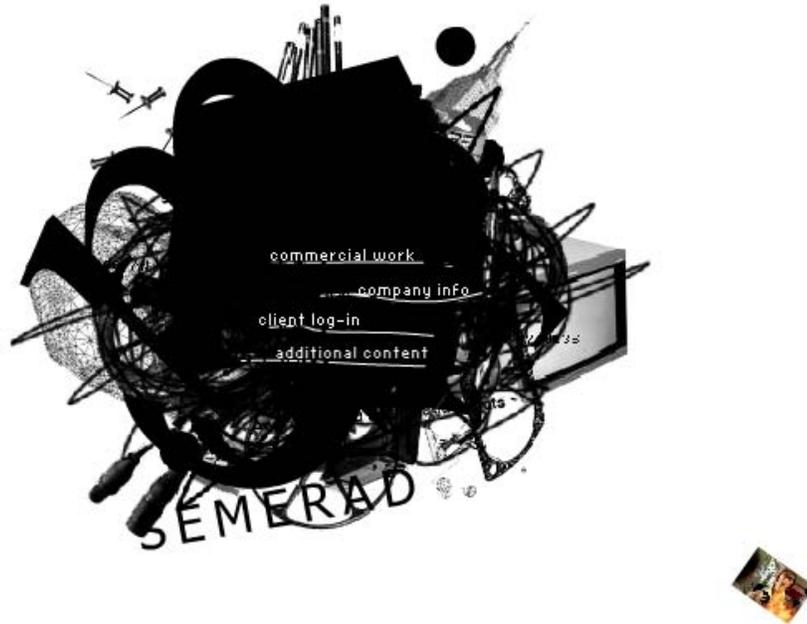
(All currency in \$000's)	2006 A	2007 A	2008 E	2009 E	2010 E
Cash	5	11	387	729	1,965
Accounts Receivable	15	39	58	154	477
Work-in-Progress	0	13	0	0	0
Total Current Assets	20	64	445	884	2,442
Prop., Plant, Equip.	32	63	156	282	575
Other Assets	7	13	31	56	115
Less: Accumulated Depreciation	(6)	(9)	(23)	(42)	(86)
Total Non-Current Assets	32	66	164	296	604
Total Assets	52	130	609	1,180	3,046
Liabilities					
Accounts Payable	7	30	45	118	364
Other Current Liabilities	54	68	71	75	79
Unearned Revenue	5	25	83	221	682
Total Curr. Liabilities	66	123	199	413	1,124
Long Term Debt	130	150	100	100	100
Total LT Liabilities	130	150	100	100	100
Total Liabilities	196	273	299	513	1,224
Shareholders Equity	(144)	(143)	323	680	1,835
Total Liab. & Sh. Eq.	52	130	622	1,193	3,059

Exhibit 4: Emergen-C Interactive Website Screenshots



Source: Company files.

Exhibit 5: Semerad Logo



Source: Company files.