WPP Group plc

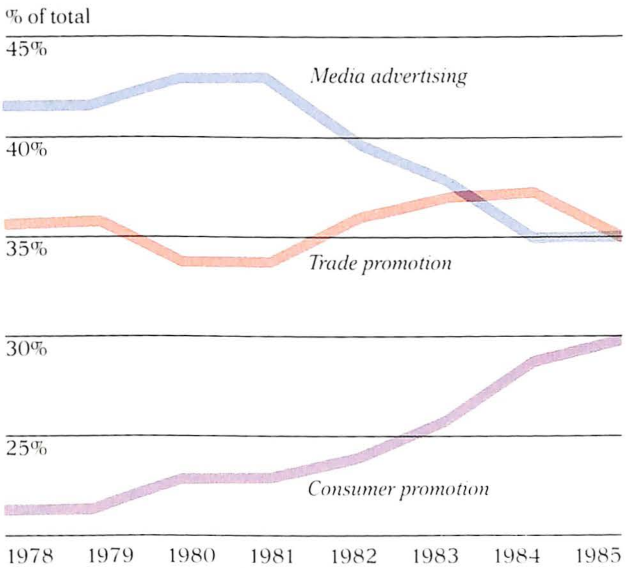
ANNUAL REPORT

AND ACCOUNTS FOR 1986

"O'Reilly (President and Chief Executive Officer, H.J. Heinz Company) is convinced, though, that an 'unconscious conspiracy' exists between brand groups and advertising agencies, and it begins and ends with a single imperative: spend – spend at a level consistent with market share, spend more to defend market share, and spend that amount squared to increase it. 'I'll be goddamned if I'm going to take last year and add 10%' he says. He has warned the company's marketers that he will cut their budget first if profits begin to lag."

Fortune Magazine 1985

U.S. advertising and promotional expenditure



Source: Donnelley Marketing.

"If television and magazines are both suffering, where is advertising money going? Some of it, to old friends – promotion, direct mail and product publicity. They are being called 'non-traditional advertising.' Industry figures tell the story. Advertising spending grew 7.9% in 1985 and is on a 7.6% growth track for 1986. This follows years of 10 to 15% growth. By contrast, many agencies report the non-traditional areas are growing by 20% or more, and may ultimately account for as much as 50% of revenue.
I think the trend reflects far more the disenchantment with traditional advertising. Companies are turning to new avenues because, for the most part, they work.
For the future, I see only growth for the non-traditional areas. I tend to agree with statements that this growth reflects a change in the structure of advertising . . . they deliver segments, and that, of course, is quickly becoming the name of the game."

J. Tylee Wilson (Chairman, RJR Nabisco) at the Association of National Advertisers, 1986.

CORPORATE STRATEGY

Professional strategy
To become a major multi-national marketing services company in order to service the increasingly complex and international needs of our clients – the major national and multi-national companies.

Initially, by building a dominant position in the United Kingdom in "below-the-line" activities such as graphics and design, sales promotion, incentive and motivation, audio-visual and video communications, and specialist communications, both organically and by acquisition .

Then, by developing a similar position in the same areas in the United States, which account for approximately half of world-wide expenditure in all such categories.

By achieving this, to provide stimulating career opportunities for young energetic and talented professionals in all these areas who are primarily concerned with the qualitative aspects of their work. At the same time, to seek to provide incentive and financial reward and minimise the separation between ownership and control by encouraging as many as possible to own a significant share of the company.

Financial strategy
To increase earnings per share by at least 20% per annum through organic growth, including improvement in market share and profit margins. To enhance this growth by acquiring companies that fit our professional strategy and that can be acquired on financial terms that significantly enhance earnings per share. To pay out, in the long term, one-third of after-tax earnings in dividends to shareholders.

GROUP SERVICES

GRAPHICS & DESIGN

(United Kingdom and United States)

- Architectural services
- Corporate identity and name development
- Educational, technical and promotional material
- Exhibition and display
- Facilities management, space analysis and space planning
- Furniture, industrial and product design
- Interior design and installation
- Merchandising, point-of-sale and promotional premium
- Packaging
- Retail and leisure

INCENTIVE & MOTIVATION

(United Kingdom)

- Corporate seminars
- Incentive and conference travel
- Incentive programmes
- Roadshows and special events
- Training and recruitment
- Travel based promotions
- Video
- Voucher programmes

SALES PROMOTION

(United Kingdom)

- Consultancy
- Coupon redemption
- On-pack offers
- Merchandising and point-of-sale
- Premium schemes
- Self-liquidating promotions
- Trade promotions

AUDIO-VISUAL & VIDEO COMMUNICATIONS

(United Kingdom)

- Advertising
- Demonstrations, exhibitions and conferences
- Installation, servicing and hire
- Presentations, product launches and trade shows
- Production, editing and standard transfer
- Training and recruitment

SPECIALIST COMMUNICATIONS

(United States)

- Annual reports
- Capability brochures
- Copywriting, media buying, graphics, brochure design and production of promotional material for financial institutions, and residential and commercial real estate companies
- Investor communications
- Media advertising

WPP Group plc

PARTIAL CLIENT LIST

Allied Lyons
American Express
American Finance Group
Amersham International
Anheuser-Busch
Argyll Group
Arthur Andersen & Co
Asda
Audi-Volkswagen
Austin Rover
Avis
Bang & Olufsen
Barclays Bank
Barker & Dobson
Bass Charrington
BASF
Bear Stearns & Company
Beatrice/Hunt-Wesson Foods
Black & Decker
Bloomingdale's
BOC
Boots
British Airways
British Gas
British Petroleum
BP Chemicals
British Steel
British Telecom
Burdine's
Burton Group
Calton Homes
Carnation
Charles H. Shaw Company
Ciba Consumer Pharmaceuticals
Citicorp
Citizen Europe
Cliffords Dairies Products
Coca-Cola
Colgate-Palmolive
County Dairies
CPC
Currys
Cussons
The Daily Record & Sunday Mail
Daiwa Securities
DEC - Digital Equipment Company
Dellwood Foods
Del Monte
Drexel Burnham Lambert
Duckhams Company
Dulux
Dunlop
EF Hutton & Company
EftPos UK
Ernst & Whinney
Esso
Eurocheque International
FAO Schwartz
Ford
FPA Corporation
Frito-Lay
FW Woolworth
Galeries Lafayette
General Foods
General Mills
General Motors of Canada
Gilbert, Charles, Beylen
Gillette
Glaxo
Goodstein Management
Guinness
Haft-Gaines, Developers
Hallmark
Harrods
Healey & Baker
Heinz
Hewlett Packard
Hillier Parker
Hogg Robinson
House of Fraser
HP Foods
Hovnanian Enterprises
IBM
ICI
IPC Magazines
I Magnin
Izod
JC Penney
John Lees & Company
John Lewis Partnership
Kenner Parker
KMPG Peat Marwick McLintock
Kodak
Kraft Foods
Legal & General Assurance Society
Letraset
Lever Brothers
Levi-Strauss
Liberty Mutual Insurance
London International
LWT
Macy's
Marks & Spencer
Mars
Merrill Lynch
Metropolitan Life
Midland Bank
Miller Brewing
MJ Raynes
Moulinex
National Audit Office
NCR
National Westminster Bank
Nestlé
Okajima
Olivetti
Orleans Builders and Developers
Oxford Instruments Group
Oxford University Press
Paine Webber
Pillsbury
Polaroid
Projectlink
Prudential
Prudential-Bache Securities
Quaker Oats Company
Rank Xerox
Reuters
Rolls-Royce Motors
Rose Associates
Rowntree Mackintosh
Safeway Food Stores
Sainsbury
Schwarzkopf
Scottish & Newcastle Breweries
Saks Fifth Avenue
Sealink
Security Pacific/Hoare Govett
Seven-Up
Shearson Lehman Brothers
Social Surveys (Gallup Poll)
Solomon Equities
South of Scotland Electricity Board
Standard Life Assurance
Superdrug
Tesco
The New England
The Post Office
Thomson Holidays
Trafalgar House Developments
United Biscuits
United Rum Merchants
Vauxhall-Opel
Vileda Organisation
Vine Products
Visa International
Volvo
Weetabix
Wiggins Teape
Whyte & Mackay
Yardley of London
Zeckendorf

CLIENTS

Thirty clients work with two or more divisions in the UK.

With four divisions

BRITISH GAS	BRITISH TELECOM	ESSO

With three divisions

AUSTIN ROVER	BOOTS	BURTON GROUP
	KODAK	

With two divisions

ALLIED LYONS	BRITISH HOME STORES	BP
COLGATE-PALMOLIVE	DUNLOP	GRANADA
GRAND METROPOLITAN	IMPERIAL GROUP	MARKS & SPENCER
MARS	OLIVETTI	PHILIP MORRIS
POST OFFICE	PRUDENTIAL	RECKITT & COLMAN
REUTERS	ROWNTREE MACKINTOSH	SAINSBURY
SCHWARZKOPF	THOMAS COOK	UNILEVER
VAUXHALL		YOUNG & RUBICAM

Seven clients work with divisions in both the UK and the US

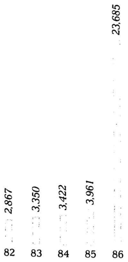
CITICORP	GENERAL FOODS	LEVI-STRAUSS
NABISCO	QUAKER	WEETABIX
	XEROX	

RESULTS IN BRIEF

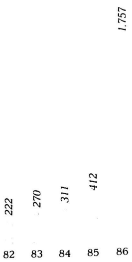
	1986 £000	1985 £000	% increase
Turnover	**23,685**	3,961	**498%**
Operating Profit	**1,422**	342	**316%**
Profit before taxation	**1,757**	412	**326%**
Profit after taxation	**1,144**	260	**340%**
Profit attributable to the shareholders	**1,101**	260	**323%**
Earnings per 10p Ordinary share	**13.34p**	5.73p	**133%**
Dividend per 10p Ordinary share	**3.20p**	2.64p	**21%**
Operating Margins*	**6.0%**	2.3%	**161%**
Pre-tax Margins*	**7.4%**	2.4%	**208%**

* 1985 figures on historic pro-forma basis

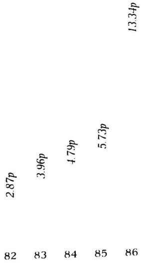
Turnover
£000



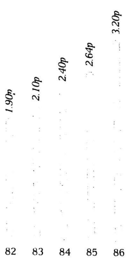
Profits Before Tax
£000



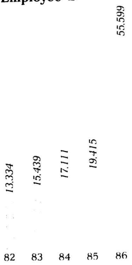
Earnings Per Share
(adjusted for effect of rights issue in August 1986)



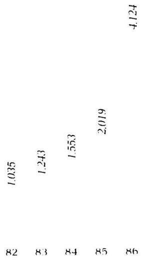
Dividends Per Share
(net)



Revenue Per Employee £



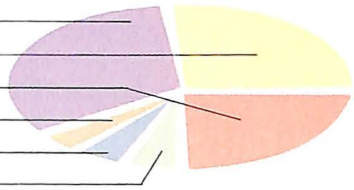
Profit Per Employee
(before tax) £



FINANCIAL HIGHLIGHTS

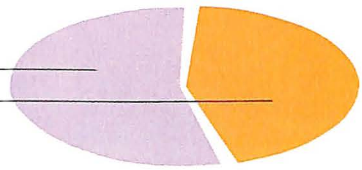
Sales by Activity*

Graphics & Design 30%
Incentive & Motivation 25%
Specialist Communications 28%
Audio Visual & Video Communications 4%
Manufacturing 6%
Sales Promotion 7%



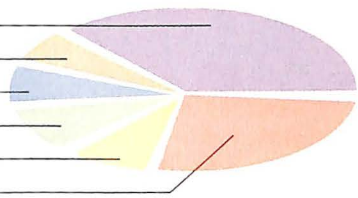
Sales by Geography*

United Kingdom 58%
United States 42%



Profit by Activity*

Graphics & Design 34%
Audio Visual & Video Communications 7%
Manufacturing 8%
Sales Promotion 10%
Incentive & Motivation 12%
Specialist Communications 29%



Profit by Geography*

United Kingdom 58%
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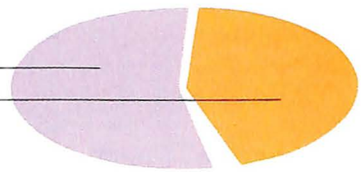
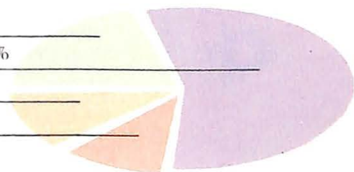


* pro-forma basis

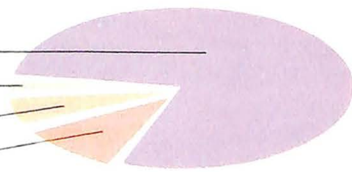
Shareholders by Type

Employees 23%
Pension funds, insurance and investment companies 57%
Individuals 10%
Others 10%

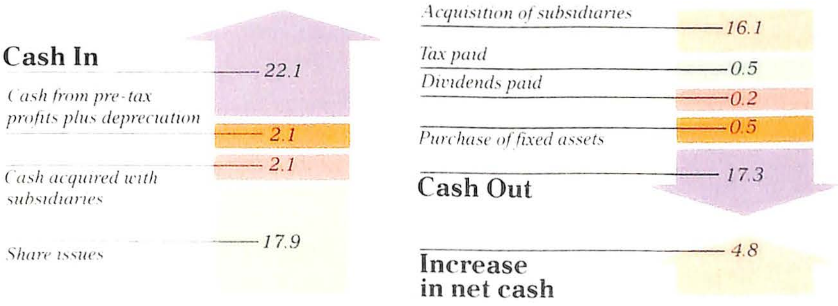


Shareholders by Country

United Kingdom 83%
Other 1%
United States 6%
Europe 10%



1986 Cashflow by Item (£M)



Results
I am happy to report that 1986 was the fourth successive year of growth. In 1986, sales rose from £4 million to £23.7 million. Profit before tax rose by more than four times to £1,757,000, and earnings per share by 133% from 5.73p to 13.34p (after adjusting for the rights issue in August 1986). The Directors are recommending a final dividend of 1.95p, making a total for the year of 3.20p, up 21% on last year.

On a directly comparable basis, operating margins have improved from 2.3% to 6.0% reflecting an improvement in the operating efficiency of marketing services. On the same basis, pre-tax margins rose from 2.4% to 7.4% reflecting improved liquidity, and at the year end the Group had net cash balances of £5.8 million.

These results reflect organic growth of 20% in marketing services and 10% in manufacturing, and a first time contribution from a series of acquisitions in the last year which have established the Company as the second largest marketing services company in the United Kingdom, and a significant factor in specialist communications in the United States. The Company is now the largest incentive and motivation business in the United Kingdom, the second largest in graphics and design, in the top three companies in industrial audio-visual and video communications, and in the top ten in sales promotion.

Strategy
These results are also an indication of the potential benefits from achieving the Group's strategic objective of becoming a major multinational marketing services company, by identifying sectors in "below-the-line" or non-traditional areas of advertising that are large, growing more rapidly than media advertising, fragmented offering opportunities for growth through acquisition, and overlooked by competitors.

The four areas already identified in the United Kingdom fit these criteria – the incentive and motivation market is worth approximately £225 million and is growing at between 25% and 35% per annum; graphics and design (including interior design) is worth approximately £400-£500 million and growing at 25% per annum; industrial audio-visual and video communications is worth approximately £100 million and growing at 15-20% per annum; sales promotion is worth approximately £5.5 billion (more than media advertising) and has grown at 20% per annum for the last ten years.

All these markets are more than eight times larger in the United States, and therefore offer significant opportunities for overseas expansion once a considerable base has been established in the United Kingdom. The areas of specialist communications already identified in the United States have similar characteristics – the real estate advertising and promotional market is worth $750 million, and has grown at between 25% and 35% per annum for the last three years; the financial communications market is worth $850 million and has doubled between 1980 and 1985, and, over the same period, spending within this category by stockbrokers has quadrupled to $100 million. Even media spending by financial institutions was up by almost 60% in the first nine months of 1986, against 6-7% for overall media expenditure.

New business
Amongst new assignments won last year in each division were:

Graphics and Design – Amersham International, Audi-Volkswagen, Beecham, Esso, Marks & Spencer, Reckitt & Colman, Rowntree Mackintosh, United Biscuits and Xerox.

Incentive and Motivation – Boots, British Oxygen, British Gas, British Telecom, Cellnet, Citibank, Dunlop, Dupont, Ford, Grand Metropolitan, Kodak, Mercedes, Olivetti, Paine Webber, Standard Life, United Biscuits and Whitbread.

Sales Promotion – Beecham, British Gas, British Oxygen, Cadbury-Schweppes, Comet, Debenhams, Johnson's Wax, Rowntree Mackintosh, Sainsbury and Weetabix.

Audio-Visual & Video Communications – Allied Lyons, Lloyds Bank, Reuters, United Biscuits, Unilever and Whitbread.

Recent developments
Since the year end the Group has continued to implement its strategic plan.

In February, the Group's sales promotion and design capabilities were strengthened by the acquisition of Scott Stern Associates Limited, the largest sales promotion and design group in Scotland.

In April, Business Design Group Limited, a leading UK design company providing design services including design management, space analysis, space planning, interior design, furniture and product design, graphic design, supply and installation and facilities management, joined the Group.

In April and May, the Group entered the $9.5 billion design industry in the United States through two acquisitions – one on the West Coast, Sidjakov Berman Gomez & Partners, the fastest growing US corporate identity and packaging design company; and one on the East Coast, Walker Group/CNI Incorporated, the largest retail design firm in the United States.

These last two acquisitions were particularly important as they were in line with the Group's strategic objective of establishing a dominant position in the United Kingdom market and then entering the United States market on a substantial scale.

Not only were these two transactions important strategically, but also financially. They were funded by a placing of $15 million of 8.75% Loan Notes issued by Rasor Communications Incorporated, our United States holding company, with detachable warrants for WPP Ordinary Shares exercisable at 1136 pence per share (representing a premium of over 20% above the then market price). These Loan Notes and warrants have been placed with the General Electric Master Retirement Trust, a $20 billion, major United States pension fund. This method of funding has several attractions including utilising future cash flow from the proposed acquisitions, minimising dilution for existing shareholders, issuing equity at a premium, and developing further major institutional relationships for the Group with United States investors.

Following these acquisitions, on a historic pro-forma basis, 94% of Group sales and 92% of pre-tax profits are now represented by marketing services. Graphics & design represents 30% and 34%, incentive & motivation 25% and 12%, sales promotion 7% and 10%, audio-visual and video communications 4% and 7%, and specialist communications 28% and 29%. US operations account for 42% in both cases.

The Group now works with over thirty major national or multinational clients in two or more of its services, as opposed to only ten in October of last year, reflecting the opportunities for cross-fertilisation between activities nationally and, in the future, internationally.

These clients include Allied Lyons, Austin Rover, British Gas, British Telecom, Esso, Kodak, Mars, Philip Morris, Prudential, Reuters and Unilever. In addition, the Group will now work for several multi-national clients on both sides of the Atlantic, including Citicorp, General Foods, Levi-Strauss, Nabisco, Quaker, Weetabix and Xerox.

The potential for cross-referral of business and the actual penetration achieved is indicative of the differences between "above-the-line" and "below-the-line" agencies. "Above-the-line" agencies can be compared to brands that compete against one another offering the same full-service to their clients, whereas "below-the-line" agencies tend to complement one-another because their tasks are more integrative thus offering co-operative opportunities. For example, to ensure the success of a consumer sales promotion, an incentive scheme for salesmen or dealers to encourage the widest possible product distribution may be necessary. At the same time a co-ordinated design for packaging or identity may be required together with audio-visual and video support to communicate the promotion's objectives internally to employees and/or externally to customers.

Having taken its first steps in establishing one of its core United Kingdom activities in the United States, the Group is well placed to both broaden its activities in the United Kingdom, and develop other core activities in the United States.

Structure
In order to manage and co-ordinate this expansion, and develop the Group's organisational structure in both the United Kingdom and United States, three divisional holding companies have been formed – Rasor Communications Limited, Rasor Communications Incorporated and Wire & Plastic Products Limited.

Rasor Communications Limited and Rasor Communications Incorporated will co-ordinate and develop the Group's marketing services activities in the United Kingdom and United States respectively. The Chief Executives of all the marketing services companies in the Group have been appointed to these Boards in the appropriate country, where their key objective is to encourage cross-referral between Group companies and their clients.

This structure responds to the increasingly sophisticated and geographical demands placed on the Group by its clients. Although some argue that global demand for, and delivery of, marketing services may not yet be significant, there is no doubt that the operations of most of the Group's clients have become increasingly complex and international over the last ten years and that this has had a significant impact on the nature of their demands made on their service companies. The importance of this structure is indicated by the increasing number of clients serviced by the Group in two or more marketing services areas or countries.

The third divisional company, Wire & Plastic Products Limited, is responsible for co-ordinating the Group's traditional manufacturing activities.

This structure also responds to the challenge of monitoring a multi-national operation from one side of the Atlantic. As Sir Gordon White, Chairman of Hanson Industries Inc., put it "I don't believe you can run a major US company from abroad. George III tried to run the United States from Britain, and look what happened to him!" By relying more on national management in each country, a stronger organisation will be built.

The public company board will continue to develop and implement the financial strategy of the Group thus maintaining an appropriate distinction between the skills and resources needed to manage the professional or craft side of the business and those needed to manage the financial side. This approach maintains a separation between the professional and financial aspects of the business that has proven to be a major attraction to many of the companies that have joined the Group this year. In addition, it enables the Group to emphasise what Michael Porter of the Harvard Business School, in analysing successful competitive strategies, terms "transfer of skills" and "share activities" amongst its portfolio of companies.

Incentive and motivation
One of your Board's key concerns is not only to stimulate the highest professional standards in order to attract the highest quality specialists in all areas of its operation, but also to see that they are appropriately rewarded. To this end the Group has already introduced two schemes, a stock option plan and a share purchase plan. It is intended to introduce at least three further schemes with similar objectives - a profit sharing plan, an option plan specifically designed for United States executives and a SAYE plan. Total separation of the ownership and the control of a company may well have a negative effect on performance - indeed recent academic research by such bodies as the Industrial Participation Association and Hay Group Inc. suggests that this is so. Your Board intends to continue to develop further ideas to see that staff and shareholders have common financial goals in improving profit performance.

The Group continues to trade satisfactorily, and the Board is delighted to report that we anticipate that 1987 will be another record year, well up to the expectations of those both inside and outside the company.

J.R. Symonds
Chairman

Rasor Communications Limited

Co-ordinates and develops marketing services for clients in the United Kingdom.

GRAPHICS & DESIGN

INCENTIVE & MOTIVATION

SALES PROMOTION

AUDIO-VISUAL & VIDEO COMMUNICATIONS

Rasor Communications Inc

Co-ordinates and develops marketing services for clients in the United States.

GRAPHICS & DESIGN

SPECIALIST COMMUNICATIONS

Wire & Plastic Products Limited

Co-ordinates manufacturing activities.

COMMERCIAL INDUSTRIAL AND DOMESTIC WIRE PRODUCTS

THE CASE FOR SERVICES – A GROWTH INDUSTRY

Institutional attitude

Investment institutions have historically been somewhat restrained in committing significant funds to service businesses, particularly as the assets "go up and down in the lift" and "in and out of the door each day."

This concern has been exacerbated by the fact that accounting concepts do not permit companies to value their brands or patents or trademarks in their balance sheets, by the levels of purchased goodwill carried in service companies' balance sheets and by the accounting standards imposed upon them in amortising any such purchased goodwill.

Warren Buffet, the outstandingly successful US investor, has both practically and theoretically undermined this suspicion – practically, by making a considerable fortune through investment in service companies (he realised that investing in Interpublic Group, for example, was really investing in a royalty on the growth of marketing expenditures by its key clients such as Coca-Cola, Exxon and General Motors); and theoretically, in the Annual Reports of Berkshire Hathaway Inc., his US investment vehicle. In his Chairman's thoughts of 1984, after outlining the inadequacies of goodwill accounting, and underlining that, especially in inflationary times, "Goodwill is the gift that keeps giving", he left managers and investors with two thoughts:

"We believe managers and investors alike should view intangible assets from two perspectives:

1. In analysis of operating results – that is, in evaluating the underlying economics of a business unit – amortization charges should be ignored. What a business can be expected to earn on unleveraged net tangible assets excluding any charges against earnings for amortization of Goodwill, is the best guide to the economic attractiveness of the operation. It is also the best guide to the current value of the operation's economic Goodwill.

2. In evaluating the wisdom of business acquisitions, amortization charges should be ignored also. They should be deducted neither from earnings nor from the cost of the business. This means forever viewing purchased Goodwill at its full cost, before any amortization. Furthermore, cost should be defined as including the full intrinsic business value – not just the recorded accounting value – of all consideration given, irrespective of market prices of the securities involved at the time of merger and irrespective of whether pooling treatment was allowed."

High growth

Despite this institutional reluctance, service sectors have become significantly more important economically particularly in the more developed economies of the world.

James Heskett, a Professor at the Harvard Business School, points out that services "account for nearly three-quarters of non-farm employment in America, while manufacturing accounts for 20%. Since 1955, the number of jobs in services has increased by 141%; the number of manufacturing jobs has gone up by only 15%. Of the 44 million new (non-farm) jobs created in the United States in the 30 years to 1983, 90% were in services."

American jobs

	% of non-farm jobs 1955	% of non-farm jobs 1985	% growth in jobs 1955-1985
In services			
Miscellaneous services*	12.4	22.4	+250
State and local government	9.3	13.9	+188
Finance, insurance and property	4.6	6.0	+154
Retail trade	15.3	17.8	+125
Wholesale trade	5.5	5.9	+106
Federal government	4.3	2.9	+ 31
Transport and public utilities	8.2	5.4	+ 28
Total	59.6	74.3	+141
In producing goods			
Construction	5.5	4.8	+ 66
Mining	1.6	1.0	+ 22
Manufacturing	33.3	19.9	+ 15
Total	40.4	25.7	+ 22
Total jobs (millions)	**50.7**	**97.8**	**+ 93**

*Includes education, health, food and lodgings, and others.
Source: US Department of Labour.

Such has been the development of services in the UK over the last few years that Michael Prowse of the Financial Times felt,

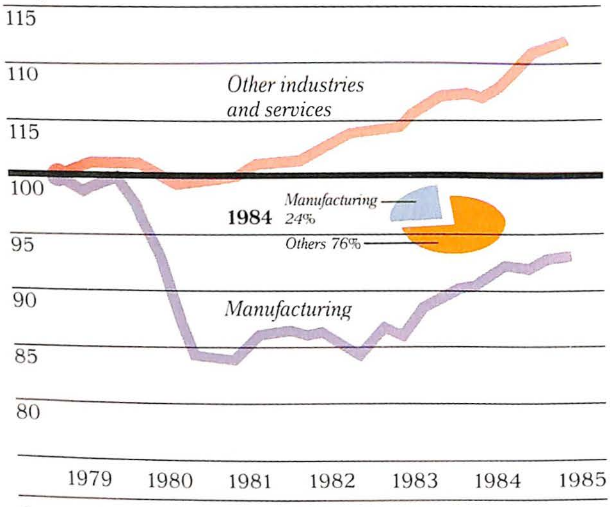
"It is hardly an exaggeration to say that there now seems to be two quite separate UK economies: a service-based economy which flourishes in London and the South East and a production-based economy which languishes in the Midlands and the North . . . There are those who talk airily of a new 'post industrial society', a bustling and vibrant information-based service economy which is perhaps best symbolised by the frenetic activity in financial markets or the apparently non-stop growth of business services such as management consultancy."

Whether the distinction is geographical or not, it certainly has created a tale of two economies.

The increase in the output of services in the decade to 1984 was equivalent to about 80 per cent or more of the total increase in Gross Domestic Product. The contribution of services to the overall increase in Gross Domestic Product between 1979 and 1984 was even more significant. In this period, the increase in the output of service industries was apparently close to 150% of the rise in total Gross Domestic Product. Why was the services economy able to contribute to such a large proportion of recent Gross Domestic Product growth? – by growing faster than the rest of the economy. In the decade to 1984, service output grew by 21% in real terms – seven percentage points more than the economy as a whole.

A tale of two economies

Output First half, 1979 = 100. constant prices



Source: CSO

More employment

The distinction was reinforced by employment statistics – over the decade to 1984, 2.7 million jobs were lost in manufacturing and construction, whilst 1.2 million were created in services. Our experience was matched elsewhere. Over the same period, West German manufacturing employment fell by 17.9%, whilst services rose by 10%. In the United States, manufacturing fell by 7.9%, while services rose by 30%.

In 1983, according to James Heskett, between 60% and 80% of jobs in Australia, Canada, Japan and every leading West European country, as well as in Russia and Czechoslovakia, were in services.

In Britain services now account for two out of every three jobs and more than half of total Gross Domestic Product. During the past 35 years, service employment has jumped from 43% to 65% of the total workforce: the proportion in manufacturing has fallen from 40% to 25%. In the US, services accounted for 75% of jobs in 1985 versus 64% in 1965.

SERVICES (1974-84)

	Total output growth (%)	Employment change ('000s)
Financial services	+73	+ 387
Communication	+37	– 18
Personal services	+32	+ 371
Distribution, hotels, catering etc	+ 4	+ 372
Non-traded public sector	+10	+ 259
Total*	+21	+1208

*Includes other sectors such as transport

PRODUCTION (1974-84)

	Total output growth (%)	Employment change ('000s)
Manufacturing	– 11	–2390
Construction	– 7	– 287
Energy and water	+110	– 88
Agriculture, forestry and fishing	+ 34	– 76
Total	+ 5	–2841

Source: Financial Times

Higher levels of income, more services

The economists' justification for this has tended to be because the demand for services is relatively "income elastic" – as economies grow richer , people spend a smaller proportion of their income on food and durable goods and develop new tastes for services.

Also there is a link between a country's income per head and the size of its service sector. In 1983, in America, 69% of all jobs were in services, versus 25% in Turkey.

Services growth softens the manufacturing recession

This growth in service industries has been responsible for softening the impact on the overall economy of what would have been an even deeper manufacturing recession.

% Change in payrolls in the United States.

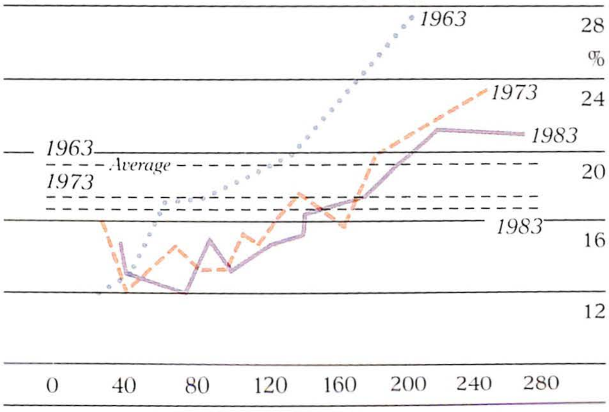
Recession	Manufacturing	Services
1981-82	– 11.2	+0.6
1973-75	– 11.9	+3.3
1969-70	– 7.3	+3.1
1960-61	– 6.4	+0.9
1957-58	– 10.0	+0.1

Service companies growing faster and more profitably

It is not surprising, therefore, that service companies are growing faster. In 1984, amongst the 1,000 fastest-growing private companies in the United Kingdom, 503 were service companies against 411 the previous year. They also made more money – an average of £603,000 versus £460,000 for manufacturing companies.

The self-service economy

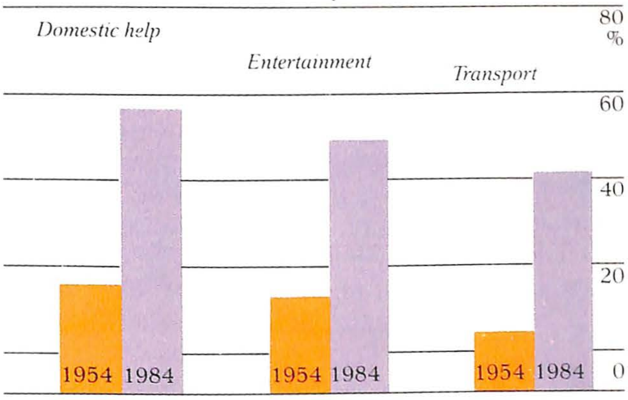
Expenditure on services by size of family budget



Weekly family budget. 1980 Price (£).

Source: Bank of England. 'After Industrial Society'. J. I. Gershuny.

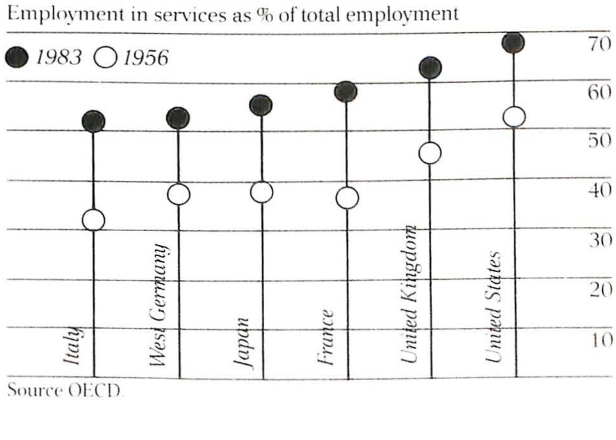
Services as % of total household expenditure on:



Source: Bank of England. 'After Industrial Society'. J. I. Gershuny.

The world service

Employment in services as % of total employment



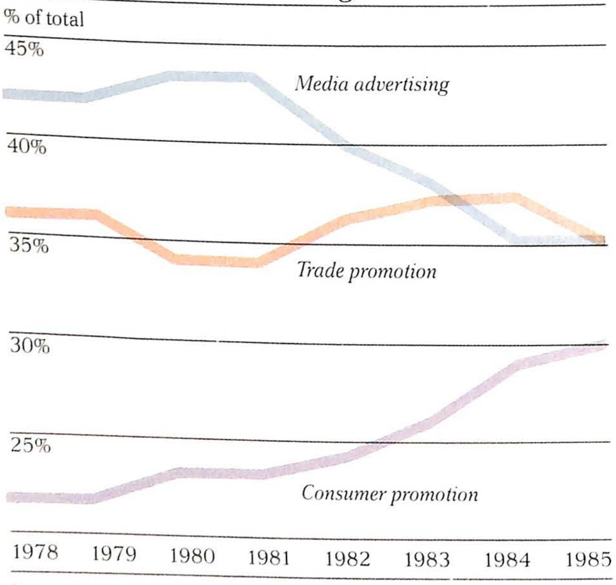
Source OECD

THE CASE FOR INVESTMENT IN THE MARKETING SERVICES INDUSTRY

Growth in overall expenditure
Advertising and promotional expenditure has grown by over 18% per annum to approximately £10 billion over the last ten years in the United Kingdom and by more than 10% per annum to approximately $300 billion over the last 10 years in the United States.

Faster growth below-the-line
Whilst this overall growth has been impressive, these figures disguise a significant recent slowdown in the growth of advertising expenditure and a shift that has been taking place between "above" and "below-the-line" activities. In the United States, in 1985 and 1986, advertising expenditure grew by only 6-8% per annum and is projected to grow at only 7-8% this year. Whereas ten years ago promotional expenditure in the United Kingdom was 47% of total advertising and promotional expenditure, it now accounts for over 55%. In the United States the same applies – in 1978 media advertising accounted for 42% of total advertising and promotional expenditure, whereas by 1985 it accounted for 35%.

Where the promotion dollars go



Source: Donelley Marketing

Moreover, not only has sales promotional expenditure been growing faster than media expenditure. Even in the United Kingdom, public relations and design expenditure have grown by 15-25% per annum over the last five years, against approximately 11% for media advertising. Only direct marketing expenditures have lagged media expenditure at just over 9% per annum, and this may be due to the imprecision of the statistical base.

In December of last year, J. Tylee Wilson, then Chairman of RJR Nabisco summed up these major shifts in advertising and promotional expenditure from the client's point of view:

"If television and magazines are both suffering, where is advertising money going? Some of it to old friends – promotion, direct mail and product publicity. They are being called "non-traditional advertising." Industry figures tell the story. Advertising spending grew 7.9% in 1985 and is on a 7.6% growth track for 1986. This follows years of 10% to 15% growth. By contrast, many agencies report the non-traditional areas are growing by 20% or more, and may ultimately account for as much as 50% of revenue".

Short-term factors behind "below-the-line" growth
It is true to say that some of the reasons for this decline in media advertising's share and shift in expenditure are short-term.

Low inflation
Particularly, in recent years low inflation rates have made it difficult for companies to pass on cost increases through price increases to the consumer – so they have looked for more direct and self-liquidating ways of selling their products.

Agency megamergers
Further agency megamergers have, for practical and emotional reasons, encouraged client managements to concentrate on the value they are receiving.

Again J. Tylee Wilson expressed the client's view: "With very few exceptions, the wave of mergers has benefited the shareholders and management of the agencies – and believe me, I am very happy for them. But I'm the client – and I'm selfish. Show me how the merger will improve service. Show me how it will improve creativity. And show me why I should not be concerned about conflicts".

However, as inflation rates rise and as clients realise and recognise the benefits of agency megamergers in terms of added resources and geographical coverage, the impact of these short-term factors may diminish.

Long-term factors behind "below-the-line" growth
But, there are two major long-term factors that are unlikely to diminish, and may well increase in importance.

Measurement of advertising

Firstly, the measurement of advertising and promotional expenditure has always been difficult. "I know I waste half my advertising budget, but I don't know which half" is a common complaint, but there have been very few technological developments that have enabled advertisers to effectively measure the results of their expenditure.

This problem has been emphasised by the increasing cost per thousand of television advertising as media rates have risen faster than the rate of inflation and network audiences have declined. In the United Kingdom in 1986, the cost of TV air-time was 24% up on the retail price index, while audience levels were 5% down. In 1987, rates were again up by over 25% and ITV's share slipped by 3% in the first calendar quarter.

At the same time, less expensive alternatives such as cable (46% penetration in the US) and satellite television have proliferated. Moreover, the viewing habits of the "flipper", "zipper" or "zapper" may have reduced the effectiveness of advertising. Research has shown that 9% zap and 34% flip or zip TV ads, and that 46% of US homes have electronic selection. At the Television '87 Conference in Copenhagen the managing directors of Ford Motor Company and Smith's Crisps warned that television media inflation was forcing them to reconsider their commitment to television advertising and examine more creative ways to spend their budgets. In addition, the effectiveness of newspapers and magazines has declined. In the United States since 1977, newspapers and magazines have doubled their charges for reaching 1000 readers. In newspapers 30 out of the top 100 advertisers spent less in 1985 than in 1984.

Even where technological developments have been effective in measuring the potency of advertising expenditure, such as the single-source data provided by companies like Information Resources, A.C. Neilsen & Co or Arbitron/SAMI, sometimes the results have been disturbing leading to the conclusion that increased expenditure does not necessarily lead to increased sales. According to some of the tests performed by these companies, even doubling TV spending from say $5 million to $10 million a year may not pay.

"It's frightening," admitted Ronald Kaatz, director of media concepts at J Walter Thompson USA, "but brands double their ad budgets in most of these tests, and nothing happens to sales. That says there have to be a lot of other variables out there."

Moreover developments in retail stores such as Electronic Point of Sale (EPOS) and Electronic Funds Transfer at Point of Sale (EFTPOS) will actually make the measurement of promotional activity even easier.

As Fortune magazine expressed it in June 1986, "The growth of promotion probably mirrors the infusion of calculators into the hands of corporate management because in a 'Scientific' environment that which is measurable is often valued more highly than that which is not". The results of sales promotion are fast and quantifiable.

Media fragmentation

Secondly, technological developments such as in computing, in satellites, and in audio-visual and video communications have enabled marketeers to more accurately define their target markets, and employ a "rifle" approach rather than a "blunderbuss" approach.

Peter J. Spengler, a vice president at Bristol-Myers Co., naming two competitors, said "I could isolate L'Oreal users or Anadin users. This didn't exist five years ago. The ability to reach millions of your [competitors' customers] in a very personal way has people looking at this technique much more aggressively." He added that Bristol-Myers planned to test some direct-marketing programmes.

Procter & Gamble, H. J. Heinz Company, Hiram Walker, Quaker Oats, and Miller Brewing have recently admitted similar experiences. Jay Neidenberg, group product director at Miller Brewing said, "You can't just try to reach the masses with one over-all approach. That approach traditionally meant advertising. No longer can you say, 'Here's a national consumer promotion' and expect that it's going to apply to everyone. You have to develop a variety of programs that fit the various needs of the marketplace."

These ways of reaching the consumer, sometimes confusingly termed "media fragmentation", "micro marketing", "maxi-marketing" or "narrowcasting" have directly contributed to the growth of specialist "below-the-line" skills such as direct mail, direct marketing, public relations, sales promotion, incentives, graphics and design, audio-visual and video communications, and specialist communications.

Stan Rapp and Thomas Collins the founders of one of the most successful direct-marketing firms summed up the opportunity:

"In this new land, you will know the name and address of the end-user of your products, regardless of share or how the purchase is made. Your advertising will be linked directly to measurable sales. You will hunt down users of competing brands and lure them away with a dazzling array of value in added services."

Feona McEwan, in reviewing Rapp and Collins' thoughts, wrote in the Financial Times:

"Radical changes in the marketing landscape, largely the result of computer technology, are revolutionising marketing techniques and practices, they say. The mass marketing of the 1950s and 1960s has given way to segmentation of defined consumer groups in the 1970s which continue to be refined by the niche marketing of the 1980s.

Once there was one Coke for the thirsty, one Clairol hair dye for colouring treatments and one type of Holiday Inn for travellers.

By the mid-1980s Robitussin was offering four kinds of medicine in the US for four kinds of cough. Bristol-Myers was selling eight kinds of Clairol in lotion, gel, mousse, etc and Holiday Inns and Hilton both offered choice of luxury or budget accommodation. Coke is now available in many forms, Cherry, New Coke, Coca-Cola Classic, Fresca, Tab, Caffeine-Free Coke and who knows what more."

Underlying reasons are demographic and habitual

The underlying trends behind these shifts in expenditure patterns are deeply ingrained in the demographic and marketing statistics in the United States and the United Kingdom. Consider these facts from the POPAI/Du Pont Consumer Buying Habits Survey (all American but all, if available, similarly reflected in Britain):

- In 1986 over 80% of every dollar spent resulted from In-Store decisions versus 65% in 1977.
- In 1986 60% of consumers surveyed bought items they did not set out to buy.
- 16% of consumers entered the store intending to purchase an item in a certain category, but without a specific brand in mind.
- Another 5% of consumers switched the brand they planned to buy once they were in the store.
- The three networks combined share of audience at prime-time has shrunk from 89% in 1978/9 to 73% in 1984/5.
- In 1985 71% of women were working versus 39% in 1970.
- The average supermarket has increased by almost two and one-half times in size from 13,000 square feet in 1974 to 30,000 square feet in 1985.
- There has been a steady increase in the number of products on supermarket shelves (now 15,000-25,000).
- 46% more new products were introduced to supermarkets in 1985 versus 1982.
- 70% of all products in supermarkets were introduced since 1975.
- The average length of a shopping trip shrunk from just under 30 minutes in 1975 to just over 20 minutes in 1985.

In reviewing these trends, Joseph Laird, an investment analyst at Hambrecht & Quist, commented – "My unmistakable conclusion –traditional advertising vehicles basically stink –it's not the shortsightedness of brand managers that has caused promotions spending to explode, it's effectiveness and accountability which leads us to technology."

In other words the consumer is spending less time at home watching television *and* less time shopping in a bigger store, whilst being confronted with a wider and more rapidly changing array of products which are technologically less differentiated. The consumer battle-ground has therefore shifted significantly from the home to in-store and to dominating channels of distribution particularly when retailers' own label and generic products offer additional competition.

As John Quelch and Kristina Cannon-Bonventre wrote in 1983 in the Harvard Business Review: "Retail stores have become the newest battleground in the war of consumer goods manufacturers to win customers. As advertising costs soar, retail sales efforts deteriorate, and consumers become more discriminating, manufacturers are discovering the need to reach potential buyers directly at the time and place at which the buying decision is made - the point of purchase. Manufacturers are finding that such tools as well-designed displays, distinctive packaging, price and sample promotions, and in-store advertising can provide them with a competitive edge."

Fortune magazine recently reviewed the new age of high-tech supermarket shopping, where a computer changes the price tags, video display terminals offer recipes and recommend wines, other machines spit out coupons and still others point out which aisle has the Charmin.

These trends enhance the importance of integrating and co-ordinating marketing skills such as promotions, premiums, salesforce incentive schemes, packaging, point-of-sale material and in-store advertising, and present the opportunity for developing "below-the-line" consultancy services.

For example, as Richard Williams of Allied International Designers Ltd wrote in Marketing Week, in September of last year, "Innovation in packaging is one tactic which manufacturers have almost entirely overlooked in the battle for supermarket shelf space. And yet physical pack innovation offers the opportunity to create winning products in three ways. First, by improving pack performance significantly in terms of ease of use. Second, by creating a new approach to existing products which matches them more closely to consumer aspirations and lifestyles. And finally, by harnessing developments in packaging technology to create totally new product offers .... It is one of the few areas of opportunity still available to manufacturers in the increasingly one-sided battle with the grocery retailers."

The potential success of this approach was illustrated in 1979 by Nabisco when the Company standardised the package design of its chocolate covered cookies and the market share rose from 24% to 34% by 1981.

A Wealth Warning

However, as "below-the-line's" share of total advertising expenditure grows, clients will increasingly focus on the effectiveness of their expenditure. This will require more creative breakthroughs, new executions, new graphics, and "new approaches to the motivation of Yuppiedom." Without these breakthroughs the growth of below-the-line may be fleeting, and it is to meet this challenge that the WPP Group has been created and will be developed.

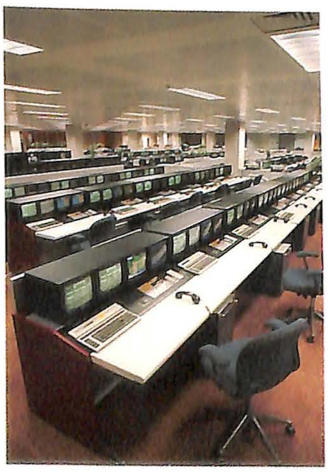
Size and growth rates of United Kingdom marketing services over the last ten years.

	Sales Promotion		Advertising		Public Relations		Direct Marketing	
	£B	%+/(-)	£B	%+/(-)	£M	%+/(-)	£M	%+/(-)
1985	5.50	10.0	4.44	9.4	600	20.0	470	9.3
1984	5.00	25.0	4.06	13.4	500	16.3	430	6.2
1983	4.00	14.3	3.58	14.4	430	22.9	405	9.5
1982	3.50	16.7	3.13	11.0	350	27.3	370	19.4
1981	3.00	10.7	2.82	10.2	275	37.5	310	3.3
1980	2.71	11.5	2.56	19.6	200	23.5	300	15.4
1979	2.43	13.6	2.14	16.9	162	14.1	260	18.2
1978	2.14	15.7	1.83	22.8	142	11.8	220	29.4
1977	1.85	55.5	1.49	21.1	127	10.4	170	30.8
1976	1.19	36.8	1.23	26.8	115	15.0	130	18.2
Ten year growth rate	20.2		16.3		19.6		15.6	
Five year growth rate	15.2		11.3		24.5		9.4	

Sources: Advertising Association, Post Office, Keynote, DMPA, ISP, Hollis, IPR, PRCA.

Business Design Group Limited

Services:
Founded in 1962, the Business Design Group provides design services, including design management, space analysis, space planning, interior design, furniture and product design, graphic design, supply and installation and facilities management.



Principals:
Brian Key
Chairman & Chief Executive
Jeremy Rewse-Davies
Design Director
Stephen Todd *Sales Director*
Brian Thorn *Finance Director*
Derek McConnell
Marketing Director
Andrew Howard
Design Sales Director
Stephen Hitchins
Graphics Director

Partial Client List:
American Express
Arthur Andersen & Co
Avis
Barclays Bank
Black & Decker
The Boots Company
BOC
BP
Guinness
Hewlett Packard
John Lewis Partnership
London International
KPMG Peat Marwick McLintock
Security Pacific/Hoare Govett
Volvo

Head Office:
The Meeting House
Lewins Mead
Bristol BS1 2NN
Tel (0272) 279137

Other Offices:
6 Mercer Street
Covent Garden
London WC2H 9QG

9 Heneage Street
London E1 5LJ

Kennet House
80 Kings Road
Reading RG1 1BU

371 Millbrook Road West
Southampton SO1 0HW

Euroway Industrial Park
Swindon SN5 8YW

Oakley Young Associates Limited

Services:
Founded in 1974, Oakley Young Associates is a design consultancy specialising in corporate graphics, including packaging, corporate identity and promotional literature; interior design for the retail and leisure industries; and the design and production of merchandising and point-of-purchase material, and of promotional premiums.

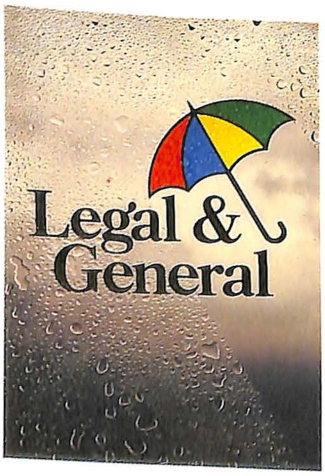
Principals:
Paul Oakley
Joint Managing Director
David Young
Joint Managing Director
Alan Taylor *Creative Director*
Gary Simmonds *Sales Director*
Mark Simmonds
Managing Director, OYA Projects
Robin Spence
Managing Director,
OYA Fourth Dimension

Partial Client List:
Allied Lyons
Bass Charrington
The Boots Company
Burton Group
Currys
HP Foods
Kenner Parker
The Post Office
Rowntree Mackintosh
J Sainsbury
Yardley of London

Head Office:
Blaby Hall
Blaby
Leicester LE8 3FA
Tel (0533) 770511

Sampson/ Tyrrell Limited

Services:
Founded in 1976, Sampson/Tyrrell is a graphic design company specialising in marketing and corporate communications, including corporate identity and design for consumer, industrial, property and insurance companies.



Principals:
Martin Sampson
Design Director and Joint Chief Executive
Terry Tyrrell
Design Director and Joint Chief Executive
Peter Widdup *Design Director*
Dave Allen
Head of Marketing Communications
Donough O'Brien
Head of Corporate Communications
Mike Selway
Head of Corporate Identity
Peter Gomme *Financial Control*

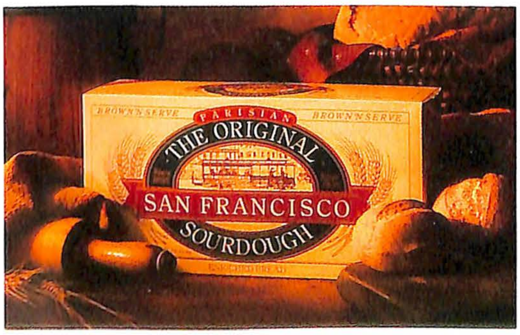
Partial Client List:
British Gas
BP
British Telecom
Citizen Europe
DEC – Digital Equipment Corporation
Daiwa Securities
EftPos UK
Ernst and Whinney
Eurocheque International
Healey & Baker
Hillier Parker
Kodak
Legal & General Group
National Audit Office
Trafalgar House Developments

Head Office:
The Carriage Hall
29 Floral Street
London WC2E 9DB
Tel (01) 379 7124

Other Office:
39 King Street
London WC2E 8JS

Sidjakov Berman Gomez & Partners

Services:
Founded in 1981, Sidjakov Berman Gomez & Partners is a unique marketing communications firm specialising in total communications planning for corporations in all types of industries. It provides interrelated expertise with special emphasis on package design, corporate identification, retail facilities design, and name development.



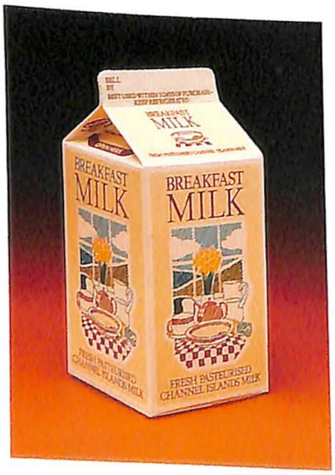
Principals:
Nicolas Sidjakov *Creative Director*
Jerry Berman *Creative Director*
Flavio Gomez *Director, Account Management*
Michael Purvis *Account Director*
Larry Roellig *Account Director*
Jeffrey Ivarson *Account Director*
Barbara Vick *Design Director*
Courtney Reeser *Design Director*

Partial Client List:
Anheuser-Busch
Beatrice/Hunt-Wesson Foods
Carnation
Citicorp
Del Monte
Frito-Lay
General Foods
General Mills
Kraft Foods
Levi-Strauss
Miller Brewing
Nestlé
Pillsbury
The Quaker Oats Company
Weetabix

Head Office:
3727 Buchanan Street
San Francisco
California
CA 94123
Tel (415) 931 7500

VAP Group Limited

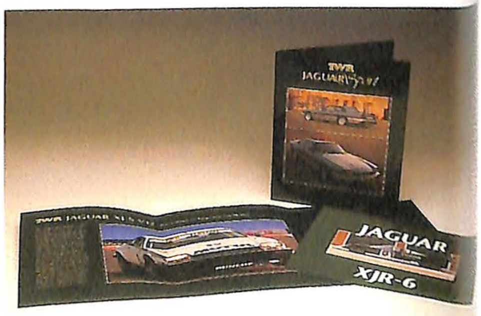
Services:
Founded in 1969, VAP is a graphic design company specialising in packaging and promotional, technical and educational material, and also provides a related and integrated above-the-line agency service.



Principals:
Phillip Flook *Chairman*
Trevor Jones *Managing Director*
Charles Day *Marketing Director*
Andy Cooke
Client Services Director
Brian Evans *Account Director*
Frank Harte *Resource Director*

Partial Client List:
Amersham International
Austin Rover
Black & Decker
Cliffords Dairies Products
County Dairies
General Foods
Marks & Spencer
Oxford Instruments Group
Oxford University Press
Rank Xerox
Social Surveys (Gallup Poll)
Unipart Group
Vauxhall-Opel

Head Office:
VAP House
Langford Lane
Kidlington
Oxfordshire OX5 1LL
Tel (08675) 5461/2/3



Walker Group/CNI Inc

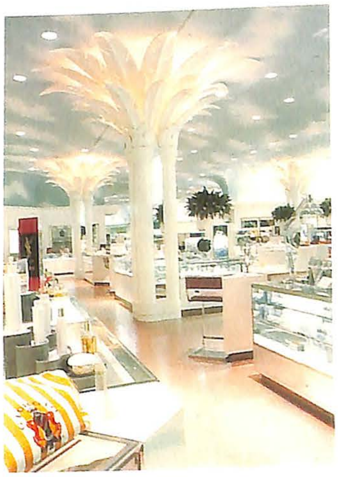
Services:
Founded in 1970, Walker Group/CNI is a multi-discipline design company encompassing the services of architecture, interior, graphic and industrial design, and is the premier retail design specialist in North America.

Principals:
Kenneth Walker *President*
Lawrence Israel *Chairman*
Mark Pucci *Principal-in-Charge*
Joe Roher
Vice President & Chief Operating Officer
Robert Carullo *Vice President*
Martin Jerry *Vice President*
Anthony LoGrande
Vice President
David Wales *Vice President*

Partial Client List:
Bloomingdale's
Burdine's
Citibank
Coca-Cola
FAO Schwarz
Galeries Lafayette
Hallmark
Harrods
I Magnin
Izod
J C Penney
Macy's
Okajima
Saks Fifth Avenue
Xerox

Head Office:
320 West 13th Street
New York
NY 10014
Tel (212) 206 0444

Other Office:
801 South Flower Street
Los Angeles
California
CA 90017



Grass Roots Group

Services:
Founded in 1980, the Grass Roots Group offers individually designed incentive programmes to motivate clients' sales teams and work forces, and offers travel-based promotions and incentive programmes for clients' products using travel and other vouchers.

Principals:
David Evans
Chairman and Chief Executive
Frank Baillie *Director*
Rik Burrage *Director*
Rob Darcus *Director*
John Doe *Director*
Terry Hayes *Director*
Julie Hewer *Director*
Roger Kilner *Director*
James White *Director*
Ray Wood *Director*
Warren Ross *Company Secretary*

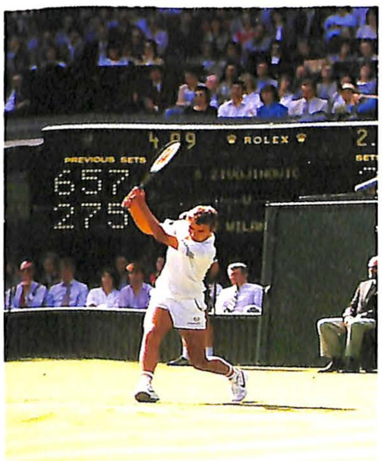
Partial Client List:
Allied Lyons
Audi-Volkswagen
The Boots Company
British Gas
British Telecom
Citicorp
Colgate
Epson Computers
Ford
Heinz
Marks & Spencer
Mars
Olivetti
Prudential Assurance
Rowntree Mackintosh
J Sainsbury
United Biscuits
Vauxhall-Opel

Head Office:
Pendley Manor
Tring
Hertfordshire HP23 5QZ
Tel (044282) 6674

Other Office:
77 Brook Street
London W1Y 1YE

P&L International Vacationers Ltd

Services:
Founded in 1976, P&L International Vacationers is a destination management consultant specialising in the organisation of incentive and conference travel, motivational packages, business entertainment, corporate seminars and the travel requirements of special interest groups.



Principals:
Philip Christey *Chairman*
Laura Morgan *Managing Director*
Veronica Bliss
Director of Operations
Helen Barnes *Account Director*
Elizabeth Drake
Operations Manager

Partial Client List:
Bang & Olufsen
BASF
Bass
Ciba Consumer Pharmaceuticals
General Motors of Canada
Gillette
IBM
Paine Webber
Rolls-Royce Motors
Sealink
Standard Life Assurance
United Rum Merchants
Wiggins Teape

Head Office:
1 Sherwood Street
Piccadilly Circus
London W1V 7RA
Tel (01) 437 9915

Mando Photo Company (UK) Limited

Services:
Founded in 1977, Mando Photo is a below-the-line marketing and sales promotion company specialising in the creation, design and execution of sales promotions and premium offers.

Principals:
Cliff Ash *Joint Managing Director*
Alan Selby
Joint Managing Director
Paul Sanchez
Group Financial Director
Brian Gibb *Director*
Martin Kent *Director*
Graham Filleul *Director*

Partial Client List:
British Gas
BP
Brooke Bond Oxo
Courage
CPC
Cussons
Duckhams Company
Dulux
IPC Magazines
Moulinex UK
National Westminster Bank
Pretty Polly
Quaker
Rothmans International
Van Den Berghs

Head Office:
100 High Street
Waddesdon
Aylesbury
Buckinghamshire HP18 0JP
Tel (0296) 651151

Other Office:
44-50 New Oxford Street
London WC1A 1ES

Scott Stern Associates Limited

Services:
Founded in 1972, Scott Stern is the largest sales promotion and design consultancy in Scotland. It is involved in the development, implementation and co-ordination of all aspects of sales promotion programmes from creative concept to coupon redemption, and the design of packaging and point-of-sale material.

Principals:
Glasgow:
Harry Scott *Director*
Raymond Stern *Director*
William Mather
Associate Director
Gordon McBride
Associate Director
James Waterson
Associate Director

London:
Ian McAllister *Director*

Partial Client List:
Asda
Barker and Dobson
British Gas (Scotland)
British Steel
The Daily Record and Sunday Mail
Guinness
John Lees & Company
Letraset
Lever Brothers
Projectlink
Scottish & Newcastle Breweries
Seven-Up
South of Scotland Electricity Board
Whyte & Mackay

Head Office:
8 Newton Terrace
Glasgow G3 7PY
Tel (041) 221 6882/3/4

Other Office:
60/62 Victoria Road
Surbiton
Surrey KT6 4NW

AUDIO-VISUAL & VIDEO COMMUNICATIONS

Metrovideo Limited

Services:
Founded in 1980, Metrovideo's principal activities are the provision of audio-visual and video equipment and its installation, servicing and hire, primarily for presentations, product launches and trade shows, demonstrations, exhibitions and conferences. The company also provides equipment for advertising, training and recruitment and offers production, editing and standards conversion facilities.

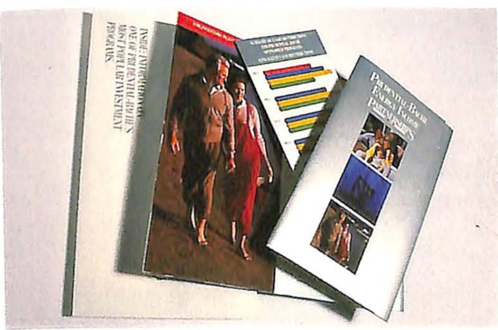
Principals:
David Pacy *Managing Director*
Paul Jackman *Director*
Geraldine Scher
Marketing Director
Ian Taylor *Financial Director*

Partial Client List:
British Airways
British Gas
BP
British Telecom
Esso
Legal and General
LWT
NCR
The Post Office
Prudential
Reuters
Visa International
Eighteen of the top twenty
United Kingdom advertising
agencies

Head Office:
The Old Bacon Factory
57-59 Great Suffolk Street
London SE1 0BS
Tel (01) 928 2088

Harvard Capital Group Inc

Services:
Founded in 1982, Harvard Capital Group is a financial communications company. It provides marketing services including design, copywriting, media buying, graphics and the production of promotional material, marketing consultancy and support services for the placement of new debt and equity issues, such as initial public offerings, mutual funds and limited partnerships. It also provides related services such as investor communications, media advertising and the design of annual reports and capability brochures.



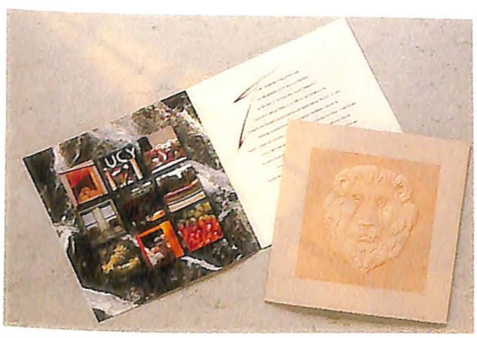
Principals:
David Geliebter *President*
Katy Munger
Director of Creative Services
Peter Wong *Design Director*

Partial Client List:
American Finance Group
Bear Stearns & Company
Drexel Burnham Lambert
E F Hutton & Company
Liberty Mutual Insurance Company
Merrill Lynch & Company
Metropolitan Life
The New England (formerly New England Life)
Prudential-Bache Securities
Shearson Lehman Brothers

Head Office:
40 Exchange Place
Suite 605
New York
NY 10005
Tel (212) 514 8760

Pace Communications Inc

Services:
Founded in 1949, Pace Communications is a full-service advertising agency serving clients principally in the marketing of commercial and residential property. Services provided include brochure design, copy writing, media buying, graphics and the production of promotional material.



Principals:
Milton Bagley
President and Chief Executive Officer
Richard Nulman
Executive Vice President and Chief Operating Officer
John Grimes *Vice President*
Max Weintraub
Secretary-Treasurer
George Neuhaus
Chief Financial Officer
Randall Arthur *Vice President*
Steven Erenberg *Vice President*
Lawrence Turk *Vice President*

Partial Client List:
Calton Homes
Dellwood Foods
F P A Corporation
Gilbert, Charles, Beylen, New York
Goodstein Management Company, New York
Haft-Gaines, Developers
Hovnanian Enterprises
Orleans Builders and Developers
M J Raynes
Rose Associates
Charles H Shaw Company
Solomon Equities
Zeckendorf/World-Wide Realty Corporation

Head Office:
485 Fifth Avenue
New York
NY 10017
USA
Tel (212) 818 0100

Product Range:
Manufacturer of domestic wire-products for the kitchen and bathroom; manufacturers of industrial wire-products for pharmaceutical companies; and manufacture and distribution of commercial wire products and shopfitting equipment for supermarkets.

Directors:
Gordon Sampson
Albert Summerfield
Brian Simpkin
John Forsyth
Robert Beadles
John Boyde
Anthony Stebbing
Desmond Green
Michael Simmonds

Partial Client List:
Argyll Group
ASDA
Fine Fare
Glaxo
Gratton
House of Fraser
I.C.I.
John Lewis Partnership
Marks & Spencer
May & Baker
Safeway Food Stores
Sears
Smith, Kline & French
Superdrug
Tesco
Wellcome
Woolworth

Alton (Coprima) Ltd
Dover Road
Folkestone
Kent CT19 6NR
Tel (0303) 42176

Alton Wire Products Limited
Industrial Estate
Pennypot
Hythe
Kent
CT21 6PE
Tel (0303) 66061

Cortursel Limited
New Road
Swanmore
Southampton
Hampshire
SO3 2RA
Tel (0489) 32198

Newmaid Housewares
Adnitt Road
Northampton NN1 5LD
Tel (0604) 34364

North Kent Plastic Cages Limited
North Kent Engineering Limited
Home Gardens
Dartford
Kent
DA1 1ER
Tel (0322) 21488

Staffordshire Holloware Limited
Histon Evercool Limited
Prospect Road
Burntwood
Walsall
WS7 0AG
Tel (05436) 73831

Refrigeration (Bournemouth) Limited
36 Nuffield Estate
Poole, Dorset
BH17 7RA
Tel (0202) 682861

BOARDS OF DIRECTORS AND ADVISERS

WPP Group plc
J.R. Symonds *(Chairman)*
R.E. Lerwill
P.M.C. Rabl
G.C. Sampson
M.S. Sorrell

C.F. Schulten *(Secretary)*
M.W. Hoban

Rasor Communications Limited
C.F. Ash
P.J. Christey
D. Evans
P.G. Flook
T.H. Jones
B.P. Key
R.E. Lerwill
L.A. Morgan
G.P. Oakley
D. Pacy
P.M.C. Rabl
G.C. Sampson
M. Sampson
C.F. Schulten
H.F. Scott
A. Selby
M.S. Sorrell
R. Stern
S.P. Todd
T. J. Tyrrell
D.R.J. Young

Rasor Communications Inc
M.F. Bagley
J. Berman
D. Geliebter
F.M. Gomez
R.E. Lerwill
D. Morris
R.A. Nulman
N. Sidjakov
M.S. Sorrell
D.P. Tinkelman
K. Walker

Wire & Plastic Products Limited
G.C. Sampson *(Chairman)*
R.E. Lerwill
P.M.C. Rabl
B.J. Simpkin
M.S. Sorrell
A.W. Summerfield

Auditors
Arthur Andersen & Co
1 Surrey Street
London WC2R 2PS

Bankers
Citibank, N.A.
7 Savoy Court East
London WC2R 0EZ

Marine Midland Bank, N.A.
10 East 53rd Street
New York
NY 10022

National Westminster Bank PLC
21 Lombard Street
London EC3P 3AR

Merchant Bankers
Noble Grossart Limited
48 Queen Street
Edinburgh EH2 3NR

Wertheim Schroder
& Co. Incorporated
200 Park Avenue
New York
NY 10166-0090

Stockbrokers
Panmure Gordon
& Co. Limited
9 Moorfields Highwalk
London EC2Y 9DS

Solicitors
Calow Easton
9-10 Sheffield St
London WC2A 2EY

Davis & Gilbert
16th Floor
850 Third Ave
New York
NY10022

Registrars
National Westminster Bank PLC
P.O. Box No. 82
Caxton House
Redcliffe Way
Bristol BS99 7NH

Head Office
The Courtyard
55 Lincoln's Inn Fields
London WC2A 3LJ

Registered Office
Industrial Estate
Hythe
Kent CT21 6PE

The directors have pleasure in presenting their annual report, together with the audited accounts for the year ended 31st December 1986.

Profits and dividends

The profit on ordinary activities before tax for the year was £1,757,000 (1985: £412,000).

The directors recommend a final dividend of 1.95p per share which, together with the interim dividend of 1.25p per share, makes a total of 3.20p per share (1985: 2.64p).

The retained profit of £749,000 is carried to reserves.

Review of the Group

The Company is a holding company. The principal activity of the Group is the provision of marketing services in the United Kingdom and the United States. The Group entered these areas during the last year by completing eleven acquisitions of which nine were in the United Kingdom and two in the United States. The previous principal activity of manufacturing commercial, industrial and domestic wire products continues to be a significant area of activity for the Group.

A full review of the business and future development of the Group is given in the Chairman's Statement.

There have been no significant changes in fixed assets during the year other than those arising from the acquisitions referred to in the Chairman's Statement and set out in Note 11 to the accounts.

Directors

The directors' interests, including family holdings, in the Company's share capital held beneficially were as follows:

	Ordinary Shares		
	29 April 1987	31 December 1986	1 January 1986
J.R. Symonds	12,500	12,500	10,000
R.E. Lerwill	20,000	20,000	–
P.M.C. Rabl	682,650	682,650	678,500
G.C. Sampson	288,733	290,258	360,298
M.S. Sorrell	916,833	916,833	818,500

Mr R E Lerwill was appointed a director on 25th March 1986 and has been granted options under the Executive Share Option Scheme in respect of a total of 51,740 10p Ordinary shares.

Mr A W Sparkes and Mr A W Summerfield both resigned from the board on 12th August 1986 following the creation of a new wholly-owned subsidiary holding company Wire & Plastic Products Limited, formed to co-ordinate and manage the manufacturing activities of the Group.

Mr J R Symonds retires by rotation and, being eligible, offers himself for re-election.

No director had any interest in a contract of significance with the Group during the year.

Principal shareholdings

Other than holdings of directors, the only shareholding in excess of 5 per cent which had been notified to the Company as at the date of this report was that of Saatchi & Saatchi Company PLC who held 840,500 Ordinary shares, representing 6.91% of the total in issue.

Close company status

The directors have been advised that the Company is not a close company within the meaning of the terms of the Income and Corporation Taxes Act 1970, as amended.

Share capital

The authorised Ordinary share capital of the Company was increased during the year from £600,000 to £1,400,000 in Ordinary shares of 10p each, following approval by the shareholders in General Meetings. A subsequent General Meeting held on 15th April 1987 approved a further increase to £1,600,000.

The number of Ordinary shares in issue increased during the year from 5,000,000 to 11,390,698. The increase is accounted for by shares issued as part consideration for acquisitions, placings for cash and, in August 1986, the issue of 1,881,863 shares to existing shareholders through a rights issue.

Full details of all share movements during the year may be found in Note 19 to the accounts.

DIRECTORS' REPORT

Continued

At an Extraordinary General Meeting of the Company held on 15th April 1987, the shareholders approved a resolution empowering the directors to allot shares to a maximum nominal value of £80,000 without seeking further express approval. A resolution requesting shareholders to renew such approval will be put to the Annual General Meeting.

Subsequent events
Four acquisitions in the areas of sales promotion and graphics and design in the United Kingdom and graphics and design in the United States, have been completed subsequent to 31st December 1986. These are described in the Chairman's Statement together with details of the placing of an issue of US $15 million in loan notes, with detachable warrants for WPP Group plc 10p Ordinary shares, by the Group's US holding company, Rasor Communications Inc. Further information can be found in Note 23 to the accounts.

Disabled employees
Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation
The Group places considerable importance on the contributions to be made by all employees to the progress of the Group through their respective companies, and aims to keep them informed on matters affecting them as employees and on developments within the Group.

This is achieved by formal and informal meetings at the individual company level, and distribution of the annual report and accounts throughout the Group. The Executive Share Option Scheme is available to all full-time employees of the Group nominated by the directors of each company within the Group, and options have currently been granted to a total of 48 employees over a total of 338,765 10p Ordinary shares of the Company. The exercise of these options is generally conditional on the profit performance of the employee's company.

Auditors
The directors will place a resolution before the Annual General Meeting to re-appoint Arthur Andersen & Co as auditors for the ensuing year.

By Order of the Board

C.F. Schulten
Secretary
29th April, 1987

STATEMENT OF ACCOUNTING POLICIES

A summary of the principal Group accounting policies, all of which have been applied consistently throughout the year and with the preceding year, is set out below.

1. Basis of accounting
The accounts are prepared under the historical cost convention, modified to include the revaluation of land and buildings. The consolidated accounts include the results of the Company and all its subsidiaries made up to the same accounting date. The results of subsidiaries acquired during the year are included from the date of completion of the acquisition.

2. Tangible fixed assets
Tangible fixed assets are shown at cost or valuation less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset on a straight-line basis over its estimated useful life, as follows:

Freehold buildings	– 2%
Leasehold land and buildings	– over the term of the lease
Plant and machinery	– 20% or 25%
Fixtures and fittings	– 10% to 25%
Motor vehicles	– 25% or 33⅓%

Surpluses arising on the revaluation of tangible fixed assets are credited to a non-distributable revaluation reserve. On the disposal of a revalued fixed asset the revaluation surplus is transferred to the profit and loss account.

3. Stocks
Stocks are stated at the lower of cost and net realisable value. Work-in-progress is valued at the cost of direct materials and labour plus appropriate overheads. Net realisable value is based on estimated normal invoice value less costs expected to be incurred to completion. Provision is made for obsolete, slow-moving or defective items where appropriate.

4. Debtors
Debtors are stated net of provisions for bad and doubtful debts.

5. Taxation
UK Corporation tax, US Federal, state and local taxes are provided on taxable profits at the current rates prevailing.

Deferred taxation is calculated under the liability method and provision is made for all timing differences which are expected to reverse, at the rates of tax expected to be in force at the time of the reversal.

6. Pension costs
It is the general policy of the Group to provide for and fund pension liabilities on a going concern basis.

Payments made to various pension schemes operated by Group companies are charged to the profit and loss account.

7. Turnover
Turnover comprises the value of sales (excluding VAT, sales taxes and trade discounts) of goods and services in the normal course of business.

8. Goodwill
Goodwill represents the excess of the cost or value attributed to investments in businesses or subsidiaries over the fair value of the underlying net assets at the date of their acquisition. Goodwill arising on consolidation is written off against reserves in the year in which it arises.

9. Investments
Investments in subsidiaries are stated in the Company's accounts at cost less amounts written off for permanent diminution in value.

10. Translation of foreign currencies
Foreign currency transactions arising from normal trading activities are recorded in local currency at current exchange rates. Monetary assets and liabilities denominated in foreign currencies at the year-end are retranslated at the year-end exchange rate. Foreign currency gains and losses are credited or charged to the profit and loss account as they arise.

The profit and loss accounts of overseas subsidiaries are translated into pounds sterling at average exchange rates and the net investments in these companies are translated at year-end exchange rates. Exchange differences arising from the retranslation of the opening net investments and the results for the year are dealt with as movement in reserves.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December 1986

	Notes	1986 £000	1985 £000
Turnover	2	**23,685**	3,961
Cost of sales		**(17,761)**	(2,855)
Gross profit		**5,924**	1,106
Other operating expenses	3	**(4,502)**	(764)
Operating profit		**1,422**	342
Interest receivable		**530**	76
Interest payable	4	**(195)**	(6)
Profit on ordinary activities before taxation	5	**1,757**	412
Tax on profit on ordinary activities	7	**(613)**	(152)
Profit on ordinary activities after taxation		**1,144**	260
Minority interests		**(75)**	–
Profit before extraordinary items		**1,069**	260
Extraordinary items less taxation and minority interests	8	**32**	–
Profit for the financial year		**1,101**	260
Dividends paid and proposed	9	**(352)**	(133)
Retained profit for the year	20	**749**	127
Earnings per share	10	**13.34p**	5.73p

The accompanying notes form an integral part of this profit and loss account.

WPP Group plc

CONSOLIDATED
BALANCE SHEET

As at 31st December 1986

	Notes	1986 £000	1985 £000
Fixed Assets			
Tangible assets	11	**4,801**	1,079
Current assets			
Stocks	13	**1,810**	659
Debtors	14	**11,852**	961
Investments	15	**1,040**	–
Cash at bank and in hand	16	**8,554**	1,119
		23,256	2,739
Creditors: Amounts falling due within one year	16	**(21,510)**	(958)
Net current assets		**1,746**	1,781
Total assets less current liabilities		**6,547**	2,860
Creditors: Amounts falling due after more than one year	17	**(2,725)**	(191)
Provisions for liabilities and charges	18	**(300)**	–
Net assets		**3,522**	2,669
Capital and reserves			
Called-up share capital	19	**1,139**	500
Share premium	20	**8,396**	390
Merger reserve	20	**(9,388)**	–
Revaluation reserve	20	**646**	501
Profit and loss account	20	**2,027**	1,278
Shareholders' funds		**2,820**	2,669
Minority interests	21	**702**	–
Total capital employed		**3,522**	2,669

Signed on behalf of the Board on 29th April 1987

R.E. Lerwill
M.S. Sorrell
Directors

The accompanying notes form an integral part of this balance sheet.

BALANCE SHEET

As at 31st December 1986

	Notes	1986 £000	1985 £000
Fixed Assets			
Tangible assets	11	**40**	299
Investments	12	**21,176**	376
		21,216	675
Current assets			
Debtors	14	**9,742**	1,081
Cash at bank and in hand	16	**2,912**	990
		12,654	2,071
Creditors: Amounts falling due within one year	16	**(3,811)**	(785)
Net current assets		**8,843**	1,286
Total assets less current liabilities		**30,059**	1,961
Creditors: Amounts falling due after more than one year	17	**(1,781)**	(35)
Provisions for liabilities and charges	18	**—**	—
Net assets		**28,278**	1,926
Capital and reserves			
Called-up share capital	19	**1,139**	500
Share premium	20	**8,396**	390
Merger reserve	20	**17,947**	—
Revaluation reserve	20	**—**	87
Profit and loss account	20	**796**	949
Total capital employed		**28,278**	1,926

Signed on behalf of the Board on 29th April 1987

R.E. Lerwill
M.S. Sorrell
Directors

The accompanying notes form an integral part of this balance sheet.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended 31st December 1986

	1986 £000	1985 £000
Source of funds		
Profit before extraordinary items	**1,069**	260
Add (deduct) items not involving the movement of funds:		
Depreciation	**366**	51
Increase (decrease) in deferred taxation and other provisions*	**300**	(18)
Total funds from operations	**1,735**	293
Funds from other sources:		
Extraordinary items less taxation	**32**	–
Increase in creditors due after more than one year*	**2,534**	6
Increase in minority interest*	**702**	–
Asset revaluations	**145**	–
Proceeds from issues of ordinary shares	**8,260**	481
Proceeds from sale of tangible fixed assets	**923**	–
Shares issued as part consideration of the acquisition of subsidiaries*	**18,332**	–
	32,663	780
Application of funds		
Dividends paid	**168**	87
Purchase of tangible fixed assets*	**5,011**	48
Goodwill arising on acquisition of subsidiaries*	**27,335**	–
	32,514	135
Net source of funds	**149**	645
Increase (decrease) in net current assets:*		
Stocks	**1,151**	23
Debtors	**10,891**	211
Investments	**1,040**	–
Creditors: due within one year	**(18,323)**	(218)
	(5,241)	16
Movements in net liquid funds:		
Cash at bank	**7,435**	620
Bank loans and overdrafts	**(2,045)**	9
	149	645

* The effect of the acquisition of subsidiaries on the above statement was as follows:

Net assets acquired:	£000	**Discharged by:**	£000
Tangible fixed assets	3,791	Shares issued at a premium	18,332
Goodwill	27,335	Cash	9,625
Investments	399	Loan note	1,700
Net current assets	221		
Creditors: due after one year	(1,352)		
Provisions for liabilities and charges	(696)		
Minority interests	(41)		
	29,657		29,657

NOTES TO THE ACCOUNTS

1. Basis of consolidation

The Company has taken advantage of the exemption in the Companies Act 1985 s228 not to present its own profit and loss account. £112,000 (1985: £162,000) of the consolidated profit for the financial year attributable to the shareholders of the Company has been dealt with in the accounts of the Company.

2. Segment information

Contributions to Group turnover and profit on ordinary activities before taxation were as follows:

	Turnover		Profit before taxation	
	1986	1985	**1986**	1985
	£000	£000	**£000**	£000
By activity:				
Marketing services	**19,517**	–	**1,299**	–
Manufacturing	**4,168**	3,961	**458**	412
	23,685	3,961	**1,757**	412
By geographical area:				
United Kingdom	**17,939**	3,780		
North America	**3,760**	48		
Other	**1,986**	133		
	23,685	3,961		

3. Other operating expenses

	1986	1985
	£000	£000
Administration and other operating expenses	**4,618**	796
Other operating income	**(116)**	(32)
	4,502	764

4. Interest payable and similar charges

	1986 £000	1985 £000
On bank loans and overdrafts, and other loans:		
– repayable within five years, by instalments	**39**	5
– repayable within five years, not by instalments	**120**	1
	159	6
On all other loans	**36**	–
	195	6

Included in the above is the interest element of charges payable under finance leases (and hire purchase contracts) amounting to £33,000 (1985: Nil).

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1986 £000	1985 £000
Depreciation of and amounts written off tangible fixed assets	**366**	51
Operating lease rentals		
–plant and machinery	**212**	4
–other	**170**	–
Staff costs (see note 6)	**4,250**	1,221
Auditors' remuneration	**201**	11

6. Staff costs

a) Employees (including executive directors)

	1986 £000	1985 £000
Employee costs during the year amounted to:		
Wages and salaries	3,764	1,099
Social security costs	353	105
Other pension costs	133	17
	4,250	1,221

The average weekly number of persons employed by the Group during the year was as follows:

	1986 Number	1985 Number
United Kingdom	418	204
Overseas	8	–
	426	204

b) Directors

Directors of the Company received the following remuneration:

	1986 £000	1985 £000
Fees as directors	1	2
Other emoluments (including pension contributions)	87	71
	88	73

The directors' remuneration shown above (excluding pensions and pension contributions) included:

Chairman	Nil	Nil
Highest paid director	34	21

Other directors received emoluments (excluding pensions and pension contributions) in the following ranges:

	1986 Number	1985 Number
Nil	2	2
£10,001 to £15,000	1	–
£15,001 to £20,000	1	1
£20,001 to £25,000	1	1

Emoluments amounting to £5,000 (1985: £6,000) have been waived by two (1985: two) directors.

7. Tax on profit on ordinary activities

	Group 1986 £000	Group 1985 £000
The tax charge is based on the profit for the year and comprises:		
Corporation tax at rates from 35% to 40% (1985: 41.25%)	**718**	166
Deferred taxation	**(216)**	2
Overseas taxation	**106**	–
	608	168
Adjustments in respect of prior years		
—current taxation	**5**	(16)
—deferred taxation	**–**	–
	613	152

8. Extraordinary items

	Group 1986 £000	Group 1985 £000
Net gain from actions taken to rationalise the activities of certain subsidiaries acquired during the year, including a surplus on the disposal of assets not acquired with the intention of resale (amounting to £914,000) and the discontinuance of certain business activities:	**474**	–
Less attributable taxation	**(43)**	–
Extraordinary gain after tax	**431**	–
Minority interest on the above	**(399)**	–
	32	–

9. Dividends

	Group and Company 1986 £000	Group and Company 1985 £000
Interim payable of 1.25p per share (1985: 1.10p)	**95**	55
Final proposed of 1.95p per share (1985: 1.54p)	**222**	78
Payments to holders of shares issued in 1986 and ranking for the 1985 final dividend	**35**	–
	352	133

10. Earnings per share

The calculation of earnings per share is based on the profit before extraordinary items of £1,069,000 (1985: £260,000) and the weighted average number of Ordinary shares in issue during the year of 8,014, 853 (1985: 4,527,713 shares). The weighted average for both years has been adjusted to take account of the rights issue in 1986.

11. Tangible fixed assets

a) Group

The movement in the year was as follows:

	Land and Buildings Freehold £000	Long Leasehold £000	Short Leasehold £000	Plant & Machinery £000	Fixtures & Fittings £000	Motor Vehicles £000	**Total £000**
Cost or valuation:							
Beginning of year	878	3	2	637	22	79	**1,621**
New subsidiaries	1,194	81	941	1,056	1,573	792	**5,637**
Additions	479	4	26	369	118	224	**1,220**
Disposals	(404)	–	(400)	(157)	(98)	(166)	**(1,225)**
End of year (see below)	2,147	88	569	1,905	1,615	929	**7,253**
Depreciation:							
Beginning of year	5	3	2	482	16	34	**542**
New subsidiaries	40	–	133	509	809	355	**1,846**
Charge	6	1	12	146	117	84	**366**
Disposals	(16)	–	(54)	(93)	(51)	(88)	**(302)**
End of year (see below)	35	4	93	1,044	891	385	**2,452**
Net book value:							
31st December 1986	2,112	84	476	861	724	544	**4,801**
31st December 1985	873	–	–	155	6	45	**1,079**
Leased assets included in the above:							
Net book value:							
31st December 1986	–	–	–	–	96	46	**142**
31st December 1985	–	–	–	–	–	–	–

Basis of valuations:
Plant and machinery (including fixtures and fittings) are shown at cost. Land and buildings include properties professionally revalued in 1984 on an open market, existing use basis. The historic gross cost of such land and buildings is £333,000.

b) Company
The movement in the year was as follows:

	Freehold Land and Buildings £000	Fixtures & Fittings £000	Motor Vehicles £000	**Total £000**
Cost or valuation:				
Beginning of year	292	–	12	**304**
Additions	–	14	30	**44**
Disposals - group	(292)	–	(12)	**(304)**
End of year	–	14	30	**44**
Depreciation:				
Beginning of year	–	–	5	**5**
Charge	–	1	3	**4**
Disposals - group	–	–	(5)	**(5)**
End of year	–	1	3	**4**
Net book value:				
31st December 1986	–	13	27	**40**
31st December 1985	292	–	7	**299**

12. Fixed asset investments

The following are included in the net book value of fixed asset investments:

	Company	
	1986 £000	1985 £000
Subsidiaries at cost:		
Beginning of year	**376**	376
Additions	**21,173**	–
Disposals to subsidiary	**(373)**	–
End of year	**21,176**	376

Continued

At 31st December 1986 the Company directly or indirectly owned 100% of each class of the issued shares of the following subsidiaries. The activity and country of operation and registration of the principal subsidiaries is given below:

Company	Activity	Country
VAP Group Limited	Graphics and design	England
Oakley Young Associates Limited	Graphics and design	England
Sampson Tyrrell Limited	Graphics and design	England
P&L International Vacationers Limited	Incentive and motivation	England
Mando Photo Company (UK) Limited	Sales promotion	England
Metrovideo Limited	Audio-visual products/ services	England
Rasor Communications Limited	Holding company for UK services companies	England
Pace Communications Inc.	Specialist communications - real estate	U.S.A.
Harvard Capital Group, Inc.	Specialist communications - financial services	U.S.A.
Rasor Communications Inc.	Holding company for US services companies	U.S.A.
Alton Wire Products Limited	Manufacture of wire products	England
North Kent Plastic Cages Limited	Manufacture of wire and sheet metal products	England
Staffordshire Holloware Limited	Manufacture of aluminium products	England
Refrigeration (Bournemouth) Limited	Sale and installation of shopfitting equipment	England
Wire & Plastic Products Limited	Holding company for UK manufacturing companies	England

The Company directly or indirectly owned fractionally more than 50% of the following subsidiaries:

The Grass Roots Group PLC	Incentive and motivation	England
Bonusbond Holdings PLC	Incentive and motivation	England
The Grass Roots Partnership Limited	Incentive and motivation	England

Since 31st December 1986 the Company has directly or indirectly acquired 100% of each class of the issued shares of the following subsidiaries:

Scott Stern Associates Limited	Sales promotion	Scotland
Business Design Group Limited	Graphics and design	England
Sidjakov Berman Gomez & Partners	Graphics and design	U.S.A.
The Walker Group/CNI Inc.	Graphics and design	U.S.A.

13. Stocks

The following are included in the net book value of stocks:

	Group	
	1986	1985
	£000	£000
Raw materials and consumables	**440**	350
Work in progress	**430**	95
Finished goods and goods for sale	**940**	214
	1,810	659

14. Debtors

The following are included in the net book value of debtors:

Amounts falling due within one year:

	Group		Company	
	1986	1985	**1986**	1985
	£000	£000	**£000**	£000
Trade debtors	**10,201**	868	**–**	–
ACT recoverable	**101**	12	**195**	88
UK corporation tax recoverable	**218**	–	**–**	–
VAT recoverable	**196**	–	**86**	–
Other debtors	**413**	6	**33**	1
Prepayments and accrued income	**364**	75	**4**	18
Amounts owed by subsidiaries	**–**	–	**9,424**	974
	11,493	961	**9,742**	1,081

Amounts falling due after more than one year:

	Group 1986 £000	Group 1985 £000	Company 1986 £000	Company 1985 £000
Trade debtors	**359**	–	**–**	–
Total debtors	**11,852**	961	**9,742**	1,081

15. Current asset investments

	Group	
	1986	1985
	£000	£000
Property held for resale, at market valuation	**1,040**	–

The historic cost of the property at the date of acquisition by the Group was £605,000. The estimated tax liability associated with the anticipated sale has been deducted from the revaluation surplus and is included in the provision for liabilities and charges.

16. Creditors – amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	Group		Company	
	1986	1985	**1986**	1985
	£000	£000	**£000**	£000
Bank loans and overdrafts	**2,059**	14	**–**	14
Obligations under hire purchase contracts	**105**	–	**–**	–
Trade creditors	**5,554**	384	**–**	–
Tax and social security	**3,393**	303	**291**	60
Due to vendors of acquired companies	**3,388**	–	**2,342**	–
Dividends payable and proposed	**317**	133	**317**	133
Deferred income	**735**	–	**–**	–
Other creditors and accruals	**5,959**	124	**791**	86
Amounts owed to subsidiaries	**–**	–	**70**	492
	21,510	958	**3,811**	785

Cash at bank and in hand includes £2,342,000 held in escrow (being equivalent to the amount due by the Company to vendors of acquired companies as shown above).

17. Creditors – amounts falling due after more than one year

The following amounts are included in creditors falling due after more than one year:

	Group		Company	
	1986	1985	**1986**	1985
	£000	£000	**£000**	£000
Bank loans	**673**	35	–	35
Obligations under finance leases and hire purchase contracts	**117**	–	–	–
UK corporation tax payable	**154**	156	–	–
Accruals	**81**	–	**81**	–
Loan note due to vendor of acquired company	**1,700**	–	**1,700**	–
	2,725	191	**1,781**	35

The loan note is repayable between 3rd September 1987 and 31st May 1991, at the option of the holder, and bears interest at the rate of 8.5% per annum until the date of repayment. The holder has indicated that it is not his current intention to seek repayment prior to 1st January 1988.

Analysis of bank loans, finance leases and hire purchase contracts:

		Group		Company	
		1986	1985	**1986**	1985
		£000	£000	**£000**	£000
Borrowings (all secured) are repayable by instalments as follows:					
Within 1 year	– bank loans	**125**	14	–	14
	– leases and hire purchase	**105**	–	–	–
Within 1-2 years	– bank loans	**126**	14	–	14
	– leases and hire purchase	**87**	–	–	–
Within 2-5 years	– bank loans	**379**	21	–	21
	– leases and hire purchase	**30**	–	–	–
Over 5 years	– bank loans	**168**	–	–	–
		1,020	49	–	49

18. Provisions for liabilities and charges

Provisions for liabilities and charges comprise:

	Group		Company	
	1986	1985	**1986**	1985
	£000	£000	**£000**	£000
Deferred taxation	**321**	81	**56**	4
Recoverable ACT	**(321)**	(81)	**(56)**	(4)
Provision for pension liabilities assumed on acquisition of subsidiary	**300**	–	–	–
	300	–	–	–

Deferred tax has been provided to the extent that the directors have concluded, on the basis of reasonable assumptions and the intentions of management, that it is probable that liabilities will crystallise. The only amount not provided is £109,000 which would arise if certain properties were sold at their revalued amounts.

	Group 1986 £000	Group 1985 £000	Company 1986 £000	Company 1985 £000
The movement on deferred taxation comprises:				
Beginning of year	**81**	89	**4**	3
Balances assumed on acquisition of subsidiaries	**396**	–	–	–
Charged (credited) to profit and loss account	**(216)**	2	**52**	1
Tax related to surplus on revaluation of assets	**60**	–	–	–
Adjustment for change in rate of tax	–	(10)	–	–
	321	81	**56**	4

19. Called-up share capital

	1986 £	1985 £
Authorised:		
14,000,000 (1985: 6,000,000) Ordinary shares of 10p each	**1,400,000**	600,000
300 (1985: Nil) Deferred Redeemable Convertible shares of £1 each	**300**	–
	1,400,300	600,000
Allotted, called-up and fully-paid:		
11,390,698 (1985: 5,000,000) Ordinary shares of 10p each	**1,139,069**	500,000
300 (1985: Nil) Deferred Redeemable Convertible shares of £1 each	**300**	–
	1,139,369	500,000

During the year the Company made the following allotments of Ordinary shares:

– 3,852,903 shares with a nominal value of £385,290 and at a premium of £17,947,163 in consideration for the acquisition of subsidiaries.

– 655,932 shares with a nominal value of £65,593 and at a premium of £1,686,906 which were placed for cash pursuant to resolutions of the Company in general meeting.

– 1,881,863 shares with a nominal value of £188,186 and at a premium of £7,151,079 through a rights issue to shareholders.

The Deferred shares were issued to the vendors of a company acquired during the year and are convertible to Ordinary shares of the Company on dates between 30 June 1988 and 30 June 1991. The number of Ordinary shares into which the Deferred Shares may be converted is dependent upon the level of future profitability of the company acquired.

Options have been granted under the Executive Share Option Scheme over a total of 338,765 10p Ordinary shares, exercisable at the following times:

14 April 1989–14 April 1996, options over 96,394 shares at a price of 446p per share.

18 August 1989–18 August 1996, options over 49,063 shares at a price of 446p per share.

7 April 1990–7 April 1997, options over 193,308 shares at a price of 940p per share.

20. Reserves

a) Group

Movements during the year were as follows:

	Share Premium £000	Merger Reserve £000	Revaluation Reserve £000	Profit & Loss Account £000
Balance at beginning of year	390	–	501	1,278
Premium on shares issued during the year (Note 19)				
–for cash	8,838	–	–	–
–for acquisitions	–	17,947	–	–
Expenses of issues of shares	(832)	–	–	–
Goodwill arising on consolidation written off	–	(27,335)	–	–
Unrealised gain arising on revaluation of assets				
–gross	–	–	375	–
–less minority interest	–	–	(187)	–
Foreign currency revaluation	–	–	(43)	–
Retained profit for the year	–	–	–	749
Balance at end of year	8,396	(9,388)	646	2,027

b) Company

Movements during the year were as follows:

	Share Premium £000	Merger Reserve £000	Revaluation Reserve £000	Profit & Loss Account £000
Balance at beginning of year	390	–	87	949
Premium on shares issued during the year (Note 19)				
–for cash	8,838	–	–	–
–for acquisitions	–	17,947	–	–
Expenses of issues of shares	(832)	–	–	–
Realised gain arising on disposal of assets	–	–	(87)	87
Profit for the year	–	–	–	112
Dividends paid and proposed	–	–	–	(352)
Balance at end of year	8,396	17,947	–	796

21. Minority interest

The minority interest represents a holding of fractionally less than 50% of the issued share capital of The Grass Roots Group PLC by the directors of that group.

22. Guarantees and other financial commitments

a) Capital commitments

At the end of the year, capital commitments were:

	Group		Company	
	1986	1985	**1986**	1985
	£000	£000	**£000**	£000
Contracted for but not provided for	**450**	–	**10**	–
Authorised but not contracted for	**40**	–	–	–
	490	–	**10**	–

b) Contingent liabilities

Further consideration amounts, payable in cash and Ordinary shares of the Company, may become due to the vendors of certain companies acquired during the year, dependent upon the level of profitability of those companies over various periods up to 31st March 1992. The quantification of these future payments is dealt with in Note 23.

c) Lease commitments

The Group has entered into non-cancellable leases in respect of plant and machinery, the payments for which extend for a period of up to 5 years from inception. The total annual rental (including interest) for 1986 was £165,000 (1985: Nil). The lease agreements provide that the Group will pay all insurance, maintenance and repairs. The Group may continue, at its option, to use the plant and machinery after the expiration of the initial lease period at a nominal rental.

In addition, the Group leases certain land and buildings on short term and long term leases. The annual rental on these leases was £170,000 (1985: £45,000). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays all insurance, maintenance and repairs of these properties.

The minimum annual rentals payable in 1987 under the foregoing leases are as follows:

	Group	
	Property	Plant and Machinery
	£000	£000
In respect of operating leases which expire:		
—within 1 year	107	58
—within 2–5 years	160	176
—after 5 years	205	–
	472	234

23. Subsequent events

a) On 24th February 1987 the Company acquired, for an initial payment in cash and shares totalling £1,250,000, the whole of the issued share capital of Scott Stern Associates Limited, a London and Glasgow based sales promotion and design company.

b) On 14th April 1987 the Company acquired, for an initial payment in cash and shares totalling £4,700,000, the entire issued share capital of Business Design Group Limited, a company providing an extensive range of design services.

c) On 21st April 1987 the Company acquired, for an initial payment in cash of US $4,200,000, the business of Sidjakov Berman Gomez & Partners, a packaging design and corporate identity business in the United States.

d) On 16th March 1987 it was announced that the Company had conditionally agreed to acquire the entire issued share capital of The Walker Group/CNI Inc., a retail design company based in the United States.

e) The initial payments, totalling approximately US $8,000,000, relating to the two acquisitions referred to in c) and d) above will be met out of the proceeds of the issue on 15th April 1987, by the Company's wholly-owned US subsidiary Rasor Communications Inc., of 8.75% Loan Notes, totalling US $15,000,000 with detachable warrants for 875,000 WPP Ordinary shares at £11.36 per share.

The acquisitions referred to in a), b) and c) above and the proposed acquisition referred to in d) above may give rise to further consideration amounts, resulting in goodwill, in addition to the initial payments referred to above, in cash and Ordinary shares of the Company dependent upon the level of profitability of these acquired entities over various periods up to 31st December 1992. It is not practicable to estimate with any reasonable degree of certainty the total additional consideration to be paid. However, the directors estimate that the maximum additional payments which may be payable in respect of all subsidiaries (including those referred to above) would amount to:

	£000
Within one year from 31st December 1986	1,955
From two to five years	34,383
Over five years	14,662
	51,000

No reduction in the net assets of the Group would arise as a result of the above total payments, which, on the assumption that the vendors choose cash rather than shares where the option exists, would include a minimum of £20,301,000 in shares.

The Group's cashflow projections for the same period, after taking account of (a) to (e) above, indicate a net cash generation after taxation and dividends considerably in excess of these maximum contingent cash payments.

AUDITORS' REPORT

To the members of WPP Group plc:

We have audited the accounts set out on pages 35 to 52 in accordance with approved Auditing Standards.

In our opinion, the accounts, which have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, give a true and fair view of the state of affairs of the Company and of the Group at 31st December 1986 and of the Group profit and source and application of funds for the year then ended, and comply with the Companies Act 1985.

Arthur Andersen & Co.
London

29th April, 1987

FINANCIAL CALENDAR

Interim statements for half-years ending June 30th are issued in August.

Preliminary announcements of results for financial years ending December 31st are issued in March.

Annual Reports are posted to shareholders in May.

Annual General Meetings are held in London in June.

Interim dividends are paid on Ordinary shares in January.

Final dividends on Ordinary shares are paid in July.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the sixteenth Annual General Meeting of the members of WPP Group plc will be held at The Savoy Hotel, Strand, London WC2 on 23rd June 1987 at 12.00 noon when the following Ordinary business will be transacted, viz:

1) To receive and, if approved, adopt the directors' report and audited statement of accounts for the year ended 31st December 1986.

2) To declare the dividend recommended by the directors.

3) To re-elect Mr J R Symonds as a director.

4) To re-appoint Messrs. Arthur Andersen & Co as auditors of the Company and to authorise the directors to fix their remuneration.

And the following Special business, viz:

To consider and if thought fit to pass the following Special Resolution:-

5) To empower the directors pursuant to Section 95 of the Companies Act 1985 to make allotments of equity securities as if sub-section (1) of Section 89 of the Companies Act 1985 did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal value of £80,000 and that this power shall expire at the Annual General Meeting of the Company to be held in 1988 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may notwithstanding such expiry allot securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

6) To transact any other business proper to an Annual General Meeting.

By Order of the Board
C F Schulten
Secretary

Industrial Estate
Hythe, Kent CT21 6PE
22nd May 1987

Notes:
A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not also be a member.

To be valid the form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified or office copy of such power or authority, should reach the offices of the Registrars of the Company at least forty-eight hours before the time appointed for holding the meeting or any adjournment thereof.

The following documents will be available at the registered office of the Company on any weekday except Saturday during normal business hours and at the place of the meeting for a period of fifteen minutes before and during the meeting:

1. A statement of the transactions of each director and his family interests in the shares of the Company.

2. A copy of the contract of service between the Company and Mr G C Sampson. There are no other written directors' service contracts of more than one year's duration.

Designed and Produced by Sampson/Tyrrell Ltd.
Assisted by Beverley Peck of WPP Group Plc.