

# The Locational Characteristics of Agglomeration Areas of Advanced Producer Services in Seoul : Advertising-related Industry

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## 서울시 고차생산자서비스업 집적지의 입지적 특성 : 광고관련산업

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**Abstract :** The aim of this paper is to identify the process of agglomeration formation and the production network of advertising-related industries in Seoul. It is confirmed that the process of service production of advertising-related industries, as advanced producer service, is based on the production network among other related firms. In the contemporary advertising-related industry, production is vertically disintegrated, and production organization can be characterized as flexible specialization. The vertical disintegration that lies behind flexible specialization creates powerful agglomeration tendencies within Seoul metropolitan area. A print advertising-related industry is mainly located at Chungmuro in the existing CBD, and a broadcast advertising-related industry is located at Sinsa-Dong in the non-CBD center. The strength of external economies within the industries is suggested by the agglomeration of smaller firms at intrametropolitan scale.

The advertising agencies are generally in charge of the planning and strategy, and the specialist creative agencies are in charge of actual creative sectors. So, through the spatial division of labor and the production network, advertising service is being produced and the advertising agencies make good use of agglomeration economies. Therefore, through the network between the related firms within agglomeration area, they make good use of the network economies. In the case of firms located in the outside of agglomeration area, they make good use of the network economies through the inter-agglomeration networks, though they are spatially separated.

**Key Words :** advanced producer services, agglomeration, advertising-related industry, production network, external economies

**요약 :** 이 논문은 서울시 광고관련산업의 집적지 형성과정과 생산네트워크의 특성을 밝히고자 한다. 고차생산자서비스로서 광고관련산업의 서비스생산과정에서 관련업체와의 생산네트워크가 중요한 기반임을 확인할 수 있었다. 인쇄광고관련업체와 방송광고관련업체의 집적지가 각각 도심의 충무로와 영동의 신사동지역에 형성되어 있었다. 이러한 집적지의 형성은 광고관련산업의 전반적인 유연적 전문화 과정과 밀접한 연관이 있음을 알 수 있었으며, 관련 전문기능의 집적은 계속 강화되리라 예상된다.

광고회사는 주로 기획과 전략을 담당하고, 실제적인 제작 업무는 전문제작사들이 담당하는 공간적 분업과 생산의 네트워크화를 통해 광고라는 서비스가 생산되고 있었다. 그리고 각 집적지의 이득을 광고회사가 공간적 거리에 상관없이 충분히 활용하고 있었다. 결국 서울이라는 전체 공간이 함께 협력함으로써 서비스가 생산이 되는 모습을 보이고 있다. 이는 각 집적지내에서 관련 기능들이 서로 네트워크를 형성함으로써 네트워크의 이득을 활용하고 있으며, 또한 집적지 외부에 있는 기능이 공간적으로는 떨어져 있으나 다시 각 집적지와 네트워크를 형성함으로써 집적이득을 충분히 이용하는 국지적 집적효과가 아닌 지역적 집적효과를 활용하는 모습을 보이고 있었다.

주요어 : 고차생산자서비스업, 집적, 광고관련산업, 생산네트워크, 외부경제

## 1. Introduction

### 1) The Background and Purpose of the Study

Economic development means a series of

structural changes which reflect the growth and decline in an entire economy. Recently, the increase of employment in service industry and the decrease of employment in manufacturing industry is one of the most remarkable phenomena in the metropolitan economy. Producer services function

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as an intermediate input factor in the production of goods and other services. Recently many scholars and policy makers have recognized the importance of this function in local and national economies. But a number of scholars have kept denying that the giant shift to producer services will change the basic structure of industrial society. They underestimate the importance of service industry, and try to apply the theories or rules of manufacturing industry to service industry, in spite of understanding its importance. But producer services are quite different from manufacturing industry in terms of the production process, the input form of capital and labor, and the relation between production and consumption. Producer services cannot be explained by the theories of manufacturing industry.

New opinion on producer services is accordingly being developed, as service economy is progressing. That is, the function of producer services is not non-basic but basic for economic structure and other industries(Illeris, 1996). The most outstanding feature of producer services is the locational preference for a primary city, although

other functions are decentralized. That means producer services can be the main factor to generate the uneven spatial distribution. Especially advanced producer services, a kind of knowledge-intensive services, have the distinctive characteristics in their location and production process. Advanced producer services are very useful to understand the current of world economy and the structural change in regional economy. Nevertheless, the research on the process and production form of advanced producer services is quite limited.

Therefore this study examines the locational pattern of advanced producer services, especially advertising-related industries, and also analyzes the relation between the process of agglomeration areas formation in Seoul and the flexible specialization due to the change of production process.

## 2) The Method of the Study

The case study of advertising-related service was performed with participant observations and interviews. Participant observations were carried

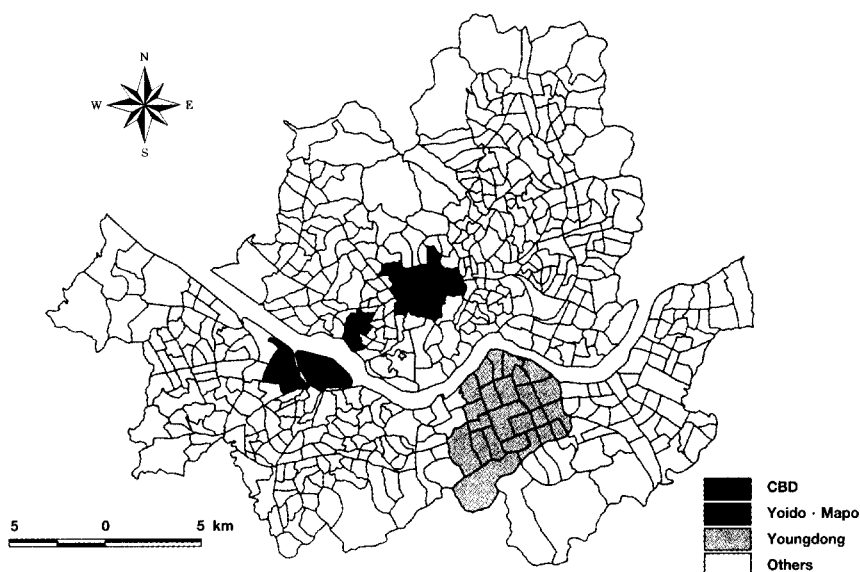


Figure 1. Research Area(Internal structure of Seoul)

out twice, in February and May, 1999. And in this study, advertising-related industries were classified into advertising agencies, print advertising-related firms and broadcast advertising-related firms.

Advertising annual yearbook was used for understanding the distribution change of advertising-related firms. And their general characteristics, locational factors and its production process were analyzed on the basis of interview.

Advertising agencies are the firms which make the strategy and plan for advertising services directly contacting with advertisers. Usually they deal with both print advertising and broadcast advertising. Print advertising-related firms cooperate with advertising agencies for their business of producing. Planning and editing, advertising photo studio, illustration, color reproduction, binding, and printing are in this category. Broadcast advertising-related firms produce advertisements by means of broadcasting or electric waves and give professional help to advertising agencies, keeping the cooperation relation with them. This category includes production, audio studio, postproduction, stage setting, stage lighting and model agency.

### 3) The Theoretical Background of Flexible Specialization

Since the late 1980s, the study of structure and function in spatial economy has focused on the effects of two phenomena: (1) the service industry, especially advanced producer services and (2) the flexible production system. They are closely related to each other. The former is an indispensable element to accomplish the flexible production system, and the latter is the driving force that causes the structural adjustment in spatial economy.

It is said that the flexible specialization theory is a new trend which has such characteristics as flexibility of labor, high technical innovation, vertical disintegration and the revival of small

firms. Piore and Sabel(1984) suggested that because consumers demand much more various kinds of products than before, producers have to respond to their capricious behavior of consumption. In fact, producers are getting consumer-driven. Therefore the demand is an important cause that brings about flexible specialization.

One of the criticisms on flexible specialization is about the fact that demands make the change. There have been the arguments about what the motive of flexible specialization is. Demand or Supply? Pollert(1988) thought that the fragmentation of the demand is not the cause of flexibility and reorganization but the result of marketing and advertising strategy trying to break the demand into fragments to make it easier to predict a market.

On the other hand, Gibbs(1992) suggested that both the demand and the supply are essential for explaining the current reorganization. Advertising industry holds both aspects of the demand and the supply of flexible specialization. Furthermore, flexible specialization also plays one of the most active roles in breaking down the mass production. An advertising agency serves as an intermedium connecting the demand of consumers with that of advertisers.

While many studies about flexibility were focusing on the manufacturing industry, the role of service industry was neglected (Wood, 1991; Lash and Urry, 1994; Storper and Christopherson, 1987). Especially advanced producer services are important to understand the adjustment of demands. They are one of the intermedia organizing and adjusting economic changes. Advertising industry can help to understand the flexible specialization well because it is a kind of producer services, and the medium in production and consumption as well. Advertising industry can be a model for structural adjustment in manufacturing industry and cultural industry such as films, recording and printing (Lash and Urry, 1994).

## 2. The Characteristics and Distribution of the Advertising-related Industry

### 1) The Characteristics of Advertising-related Industry

In terms of function, advertising industry is the business-related services supporting other industries. According to the Korean Standard Classification, miscellaneous business-related services include advertising, consulting (marketing research, management consultant), legal and accountancy, and engineering. Recently, as the world economy goes toward the knowledge-basis economy, producer services or business-related services like advertising, consulting and engineering are growing rapidly.

There are advertisers in the core of advertising industry, and their advertising activities are supported by organizations such as advertising agencies, media and research agencies. At the same time, they interact with markets or consumers. An advertising agency interacts with advertisers and media by purchasing the time and the space of media. And some of advertisers, advertising agencies and media have their own research departments in their organizations, and others use the outside research institutes.

The advertising organization is usually divided into four groups: advertising agencies, advertisers, media and advertising-related agencies. And advertising-related agencies include creative boutiques, art studios and research firms for serving production services and restricted services.

### 2) Distribution Pattern

The distribution of advertising-related industry shows a regional difference. Advertising agencies and broadcast advertising-related firms have the locational preference for Yeongdong area, whereas print advertising-related firms are concentrated in the existing CBD. Especially 80% of broadcast advertising-related firms gathered in Yeongdong area, which means that this area is considerably growing as an agglomeration area. (Figure 2, 3, 4) Comparing 1990 with 1998, advertising increased rapidly. But change of the concentrated regions doesn't take place, and only the growth of Yeongdong is prominent. Generally, the existing CBD, Yeongdong, and Yoeido · Mapo has shown increase, but the growth of Yeongdong is most remarkable. It means that the advertising agency didn't remarkably decrease, and the firms that have opened after 1990 are mostly located in Yeongdong.

In the distribution patterns of print-related advertising firms in 1990 and 1998, Chungmuro agglomeration area continuously maintains. Most of newly opened firms also have located in Chungmuro. It means that newly opened firms are inclined to obtain agglomeration economies or network effects through the location of Chungmuro agglomeration area. And possibility of formation of another agglomeration area shows. Agglomeration areas begin to form in Yeongdong, as Chungmuro and Yeongdong produce print-related advertising through cooperation.

The distribution pattern of broadcast-related advertising firms shifted from the existing CBD to

**Table 1. Distribution of advertising-related industry according to year of foundation**

Year of Foundation \ Region	CBD	Yoeido · Mapo	Yeongdong	others	sum (n=)
1995 after	20.1	4.9	64.4	10.4	100 (164)
1990 - 94	30.5	6.4	54.3	8.9	100 (282)
1985 - 89	58.8	6.2	25.4	9.6	100 (177)
1984 before	61.1	4.9	29.2	4.9	100 (144)

Source : Advertising Annual Yearbook, 1999

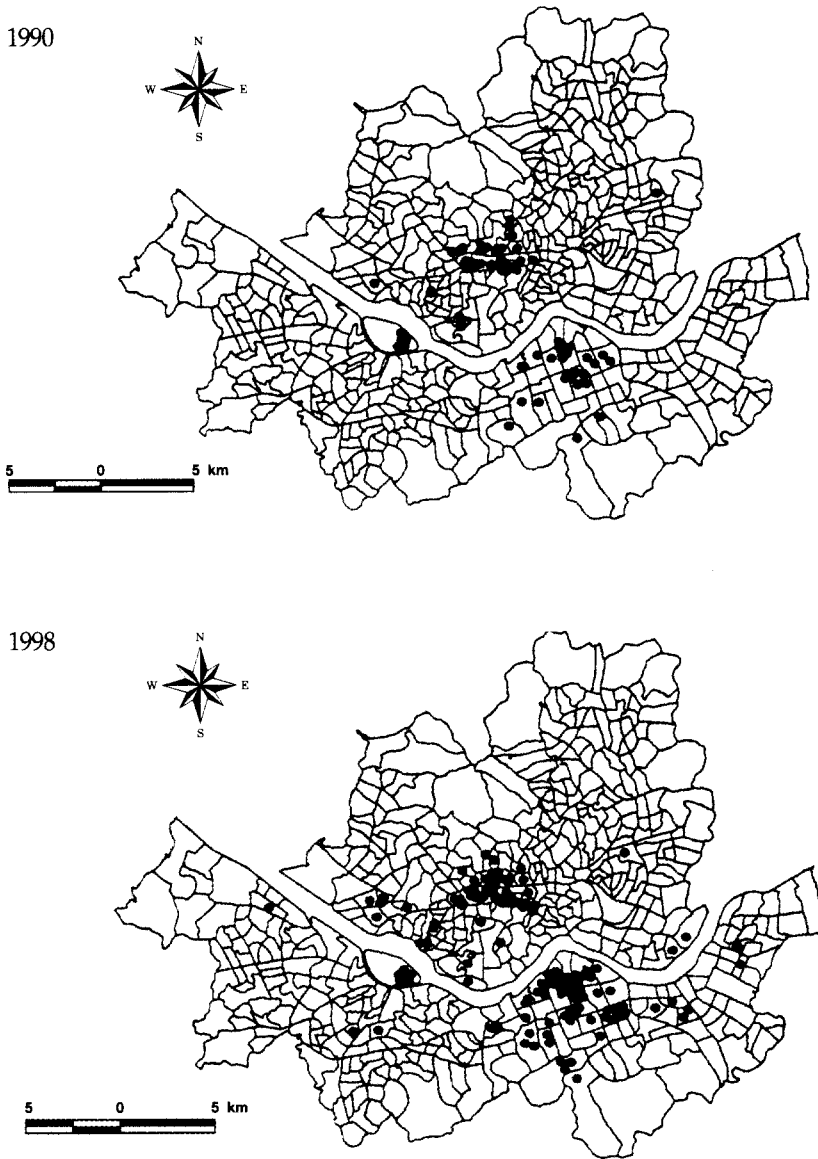


Figure 2. Distribution of advertising agency in Seoul (1990, 1998)

Yeongdong. Most of firms in the existing CBD have moved into Yeongdong. So the formation of a new agglomeration area in Yeongdong has been prominent. Especially, as the firms that have moved from CBD or have opened after 1990 are mostly located in Yeongdong, an agglomeration area forms in Yeongdong.

According to the year of foundation, the firms that have opened after 1990 are mostly located in Yeongdong area, and the firms that started before 1990 are generally distributed in CBD. The firms that opened long before tend to be concentrated in CBD, whereas newly opened firms strongly prefer to be located in Yeongdong area.

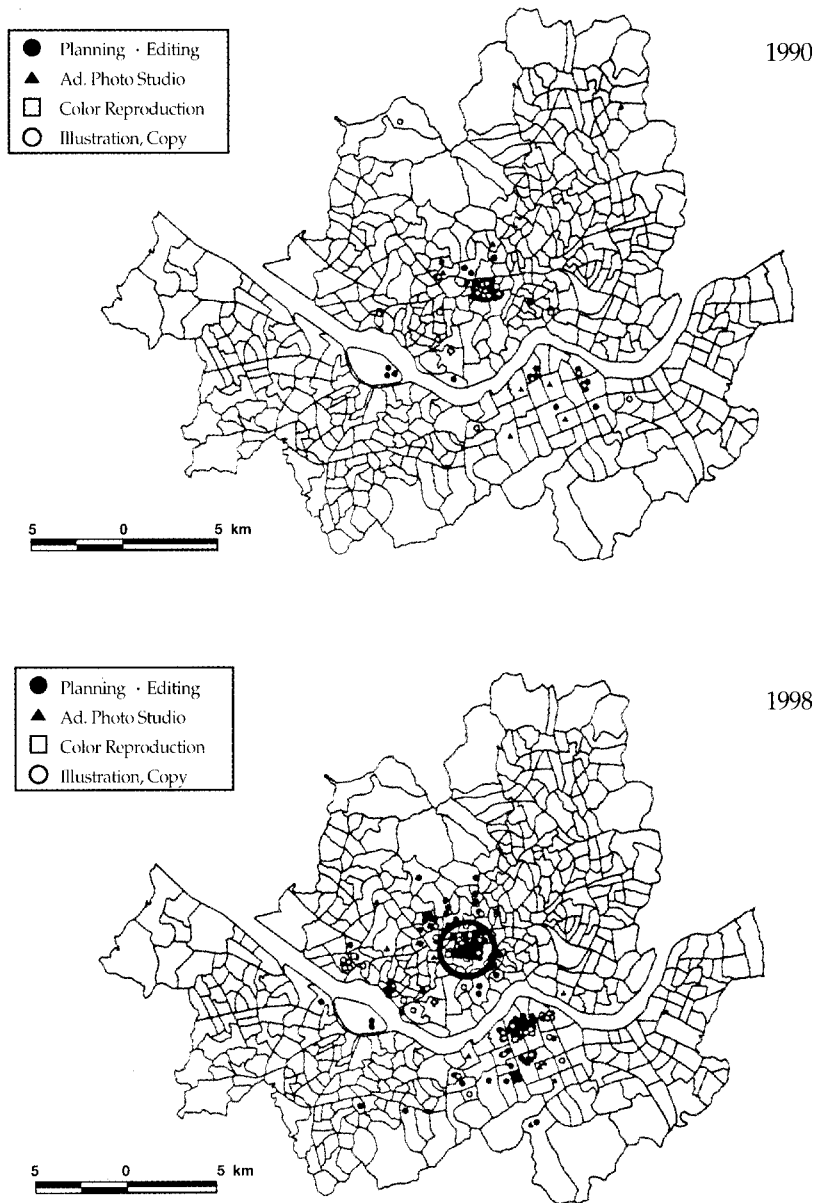


Figure 3. Distribution of print advertising-related firms in Seoul(1990, 1998)

### 3. The Production Process and Flexible Specialization of the Advertising Industry

The tendency toward the specialization is inevitable. As the kind and environment of media

vary, it is without doubt that advertisements become diversified to comply with media, points of time, and brands. An attempt to make creative suitable for each of media needs special help, and this situation is likely to accelerate the tendency of the specialization.

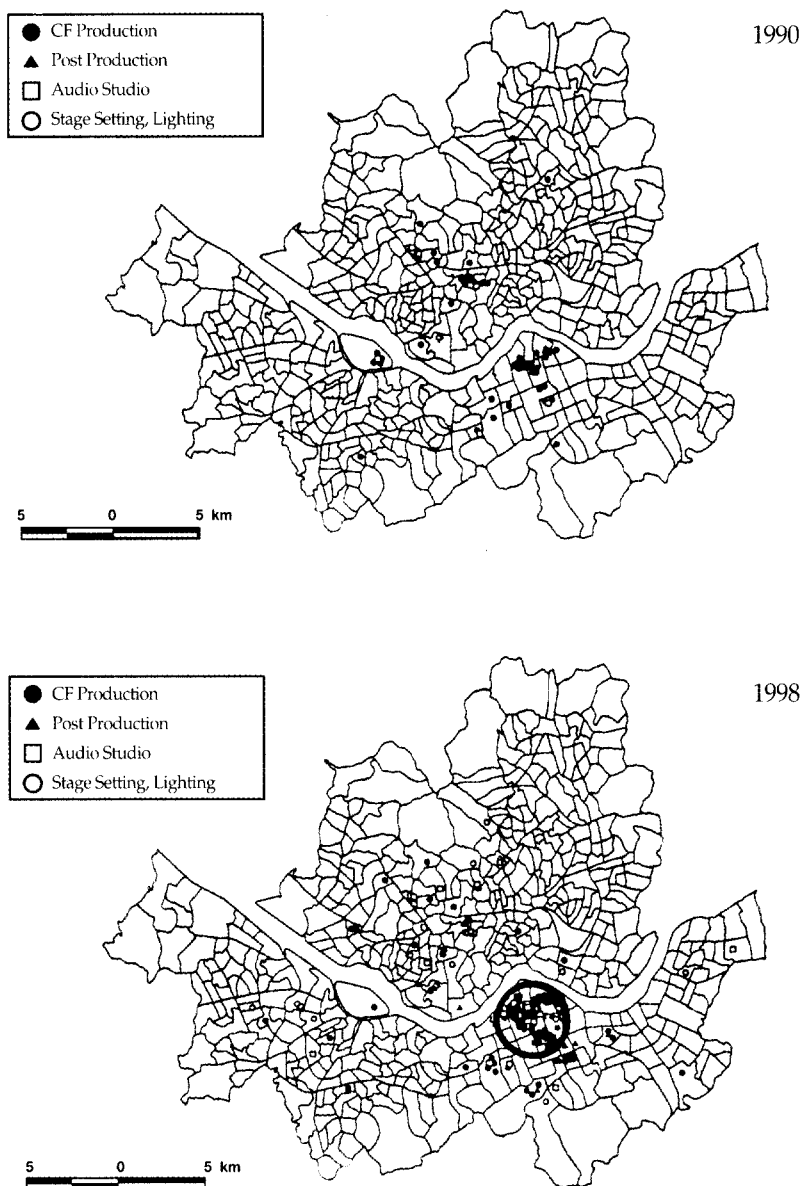


Figure 4. Distribution of broadcast advertising-related firms in Seoul(1990, 1998)

Advertising-related firms can explain the demand and supply of flexible specialization. Advertisers require various creatives that can stimulate fragmented consumers in order to satisfy consumers' demand and fragmentation of markets or diversity. Advertising agencies that used to supply just simple creatives for advertisers come to

have difficulty in making various kinds of creatives in-house. So they very often use special functions from the outside, and eventually advertising agencies subcontract most of production to the specialist creative agencies of outside.

Advertising agencies provide the idea and planning. And specialist agencies are in charge of

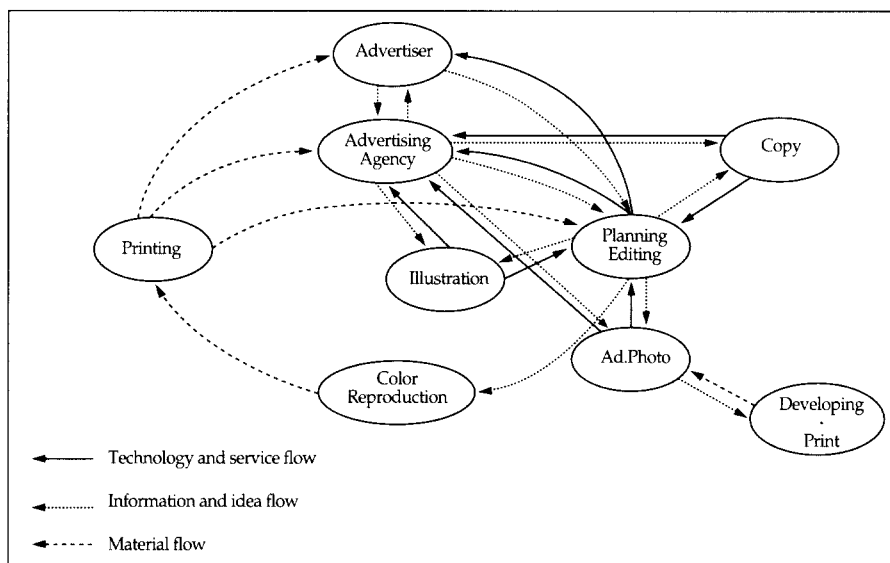


Figure 5. Production process of print-related advertising

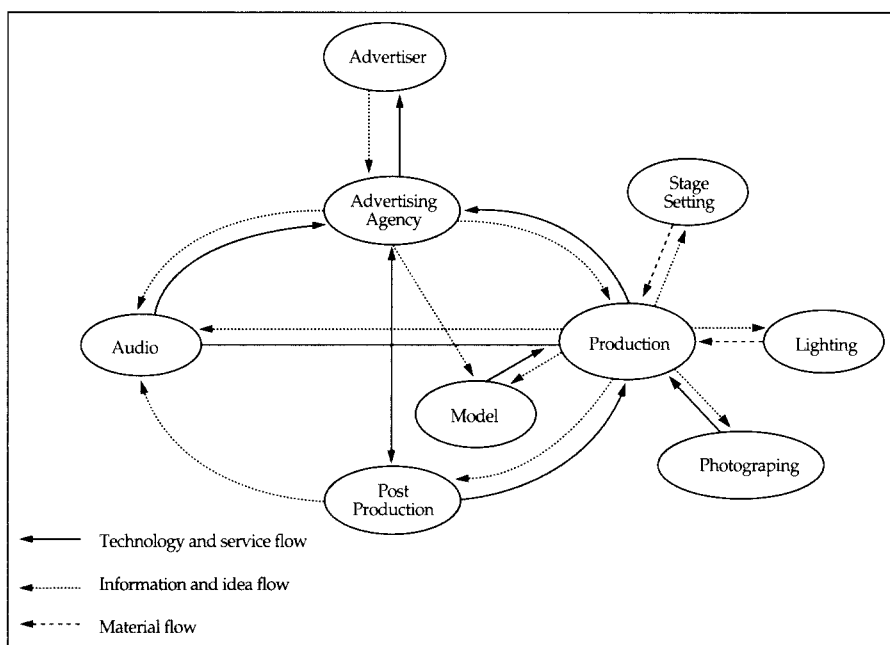


Figure 6. Production process of broadcast-related advertising

actual production. In this process, they are in cooperative relation, which is called production network.

Diversity and technical change of the advertising techniques and variety of advertising media are

also an inducement to flexible specialization. Advertising agencies cannot help using outside specialist production firms to make the efficient advertising services, which brings about cooperative relation through the production



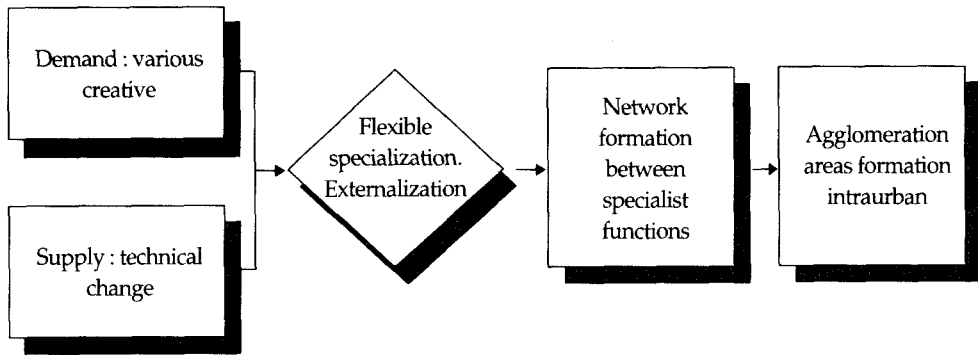


Figure 7. Process of agglomeration area formation of advertising industry

network. And then the firms that consider the production network between special functions as an important locational factor build up an agglomeration area within a city.

#### 4. The Significance of the Formation of Agglomeration in Advertising-related Industry

##### 1) The Features of the Agglomeration Areas in Advertising-related Industry

Print advertising-related firms are agglomerated in Chungmuro 4 ga, 5 ga and Pildong. Compared to Chungmuro, the appearance of buildings in Pildong is much cleaner and the size of firms is bigger (Figure 8).

All processes of print-related business such as planning, design, stereotype, printing and binding can take place in this area, and in many cases, these processes are carried out in the same building. Advertising photo studios are also concentrated in this area, strongly connecting with the firms specialized in developing, printing, and enlargement.

Because most of the businesses in this area require rapidity, they use services supplied by the nearest special agency to minimize the distance of space and time. So delivery business especially

using autobicycles is booming. The firms in this area have unique social ties with one another and can easily gain technology and information through those ties. And the experts in the firms are very intimate with one another and have strong social relation. Therefore it is easy for them to exchange their information and technology.

The agglomeration areas of broadcast advertising-related firms are Sinsadong and Nonhyundong(Figure 9). The appearance of their buildings is clean, but the size of most offices is quite small. The businesses such as postproduction and the production related to broadcast advertising, recording, lighting, art and model are performed in this area. Sometimes these firms are in the same building. These kinds of works need the acquirement of up-to-date information because the technology changes very rapidly. It is not hard for the firms within this area to give and take the newest special technology. In other words, they can easily get the advantages of the technological *pumassi* (which refers to the cooperation based on trust between experts or firms and has no money relationship).

##### 2) The Significance of Agglomeration Formation

This study examines the reason why agglomeration areas are formed and what kind of



Figure 8. Agglomeration area of print advertising-related firms in Seoul

merits which small firms located in these areas have. The examination was done by participant observation and interview.

First, the advantage of agglomeration is the reduction of the transaction cost by maximizing the accessibility to other related firms. The agglomeration of advanced producer services in large cities can help to minimize the transaction cost for the production and distribution of services. Especially the cost for face-to-face contact between producers can be reduced by the spatial agglomeration. Printing advertising-related firms give importance to saving time and full supply of materials, and their production process is highly fragmented. Small sized firms that are not able to internalize all process of the work make good use of

agglomeration economies through the accessibility to demand and the connection to other firms. And small firms that do not have a stable market partially take charge of specific parts of vertically and horizontally fragmented production process, which causes the division of labor. Small firms are agglomerated spatially to reduce the transaction cost with related firms. Generally speaking, the cost for face-to-face contact and exchange of information and network with related firms increases highly in proportion to the distance(Scott, 1988a). Therefore small firms strongly need to concentrate in certain location to minimize the transaction cost. So agglomeration can be one of geographical terminology to express that producers accomplish the external economies. Once vertical

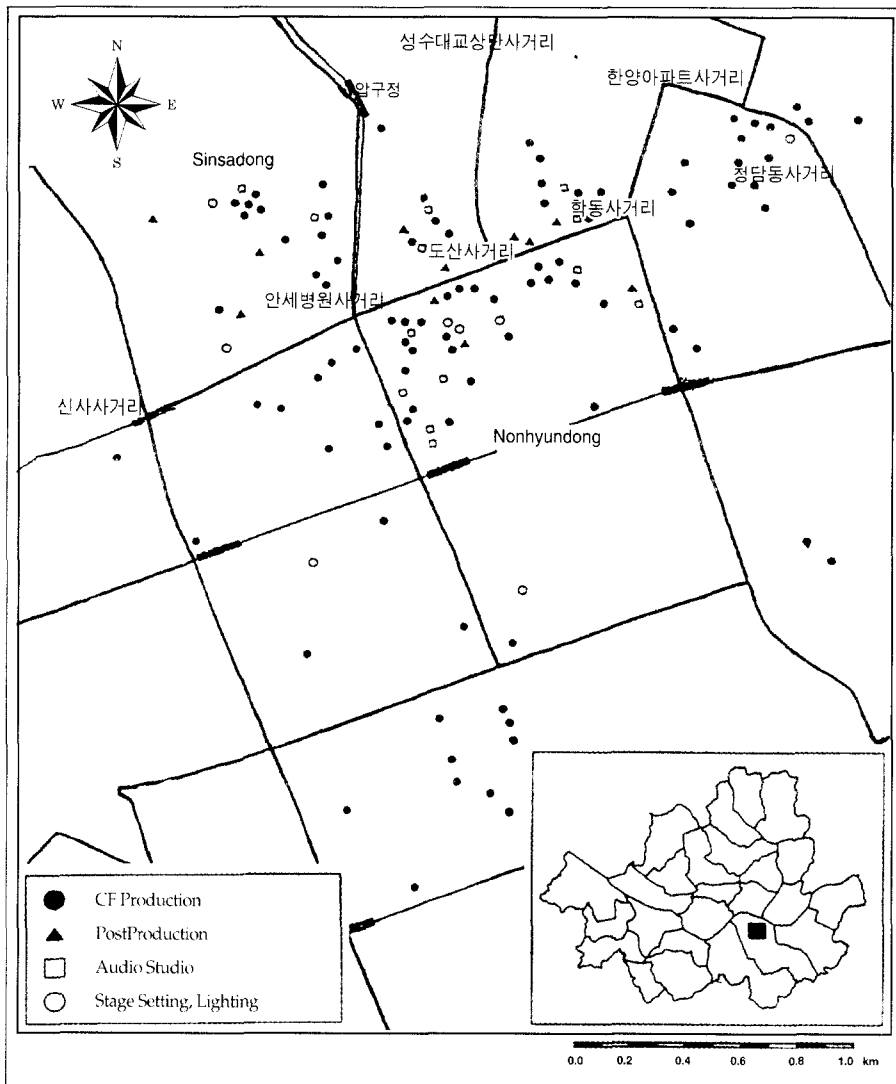


Figure 9. Agglomeration area of broadcast advertising-related firms in Seoul

fragmentation occurs, production network for close relation of cooperation between specialist producers is generated. And the geographical phenomenon of spatially clustering together for reduction of the cost takes place (Appold, 1995).

This phenomenon was seen in Sinsadong, the agglomeration area of broadcast advertising-related firms. Most of advertising business used to be internalized in an advertising agency. Nowadays, however, vertical fragmentation results in the birth

of small firms in charge of specific parts among all production process. Broadcasting advertisements are produced through many kinds of process, and each firm specializes in certain part of them. Each small firm in the agglomeration area specializes in one or some parts of all production process and has the production ability enough to comply with the change of demand in markets. Some of these small firms are connected with several production networks at the same time to reduce the possibility

of risk.

Many related firms gain economic benefits by agglomerating and cooperating with other firms for production. This relation between firms is not subordinate but cooperative (Coffey and Bailly, 1992). Face-to-face contact and mutual confidence are very important in reproducing cooperative relation between firms. In fact, advertisements are produced by personal contact between the owners of firms. So trust plays a leading role in this industry.

Secondly, firms can easily get technology, labors and information when they are agglomerated. It can be called external effect. For small firms, it is the most crucial factor in choosing their location. And in many cases, labor is supplied not by a formal channel but by recommendation of related firms and acquaintances. The main reason why small firms are agglomerated is that they need information and technical assistance. It is absolutely necessary for advanced producer service industry to be located in information-rich environments (Illeris, 1996). Cooperation and technological *pumassi* in an agglomeration area is very helpful for small firms to carry out their business. Technological *pumassi*, a kind of labor exchange, is the interchange of technology based on trust. Whenever small firms need a technology, they give and take technical assistance through it. Sometimes technological *pumassi* is acquired by formal or pecuniary transactions, but mostly it is done by informal transactions.

The concept of technological *pumassi* is similar to 'embeddedness' of Granovetter(1985). Granovetter suggested that most of economic activities lie embedded in the networks between persons. Namely the relation between suppliers and customers is beyond a simple contract, and formal link or trust is more important for it (Harrison, 1992). The concept of 'embeddedness' shows that enterprises' economic activity and its effects are under the influence of social and cultural

characteristics in a region (Grabher, 1993)

Local networks strongly keep forming in Chungmuro and Sinsadong and this feature spatially gives proper benefits by networks to newly established firms. These benefits can be the background to improve technology. Therefore these areas become incubators for advertising-related industries.

Thirdly, the advantage of agglomeration is the sociocultural tie or atmosphere based on social relationship within an agglomeration area. For making networks, the social and cultural factors are as important as economic factors. The study found out that the firms in Chungmuro and Sinsadong had strong social ties with each other, which helped to form trust-based networks in production process. And many firms were participating in informal networks or social gatherings within those areas. They could get new information, new technology, and so on from them.

Intensification of networks between advertising agencies and specialized production firms results in the formation of agglomeration area in a city. Various kinds of specialized firms are involved in producing advertisements and they need the assistance of other special firms functionally. So small firms that require frequent spatial access to each other have to reduce the transaction cost. Therefore the formation of an agglomeration area is a spatial expression of the way to decrease the transaction cost. An agglomeration area makes it easy to use specialized labors and helps small firms to get external effects. And the firms in an agglomeration area create the intimate and unique atmosphere in the region, which can makes technological *pumassi* possible.

## 5. Conclusion

The change of technology and business environments has an significant effect on the

location of advanced producer service industry in two ways. One is relocation from CBD to the outlying places, and the other is the spatial division of organization. Because there is a need to have a face-to-face contact between producers and consumers and mass production is not easy in an advanced producer service industry, it is quite difficult to separate each function of organization spatially. Comparing with manufacturing industry, it is very hard for an advanced producer service industry to gain economies of scale by enlarging its scale. Because the spatial division of organization in an advanced producer service industry gives rise to the rapid increase of expenses, it can obtain a kind of economies of scale with the networks of information, knowledge and technology between related firms. Flexible specialization in production process is the background of forming the agglomeration area of an advanced producer service industry. And it is the typical example of the flexible specialization and the formation of the agglomeration area.

Advertising industry understandably explains the characteristics of spatial structure in the city, Seoul. Making functional networks, many advertising-related firms are producing advertisements efficiently in Chungmuro, the agglomeration area of the print advertising-related firms, and Sinsadong, that of the broadcast advertising-related firms. The advertising agencies in Seoul can indirectly obtain the advantages from these agglomeration areas by making networks with the firms in the agglomeration areas.

Characteristics of the advanced producer service industry make spatial and functional connection more intensified. In some functions, spatial accessibility is no longer important. Therefore the agglomeration effects come to be free from the limitation of physical accessibility. The feature of networks to connect one place to another distant place makes an appearance in the space.

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