PART I

INTRODUCTION

1 THE FIELD OF ADVERTISING MANAGEMENT

> The trade of advertising is now so near to perfection that it is not easy to propose any improvements.
> (Samuel Johnson, 1760)

> The competent advertising man must understand psychology. The more he knows about it the better. He must learn that certain effects lead to certain reactions, and use that knowledge to increase results and avoid mistakes. Human nature is the same today as in the time of Caesar. So the principles of psychology are fixed and enduring. We learn, for instance, that curiosity is one of the strongest of human incentives.
> (Claude Hopkins, Scientific Advertising, 1926)

The field of advertising management is made up of a system of interacting organizations and institutions, all of which play a role in the advertising process. At the core of this system are advertisers, the organizations that provide the financial resources that support advertising. Advertisers are private or public sector organizations that use mass media to accomplish an organizational objective. It is the decision to invest resources in purchasing time or space in such mass media as television, radio, newspapers, or magazines that basically distinguishes advertisers from nonadvertisers. Advertisers make use of mass media. Nonadvertisers do not.

Advertising management is heavily focused on the analysis, planning, control, and decision-making activities of this core institution—the advertiser. The advertiser provides the overall managerial direction and financial support for the development of advertising and the purchase of media time and space, even though many other institutions are involved in the process. A focal point is the development of an advertising program or plan for the advertiser. In cases where several different kinds of products or services are offered by the advertising organization, a separate program may be developed for each. The resulting advertisement is usually aired or placed several times, and the resulting schedule of exposures is referred to as an *advertising campaign*. The development and management of an advertising campaign associated with an advertiser's brand, product, or service is thus a major point of departure for advertising management.

In developing and managing an advertising campaign, the advertiser basically deals with numerous institutions, as Figure 1–1 illustrates. The advertising agency, the media, and the research suppliers are three supporting or *facilitating* institutions external to the advertiser's own organization. The agency and the research suppliers assist the advertiser in analyzing opportunities, creating and testing advertising ideas, and buying media time and space; the media, of course, supply the means by which to advertise. Others are, in effect, *control* institutions that interact with and affect the advertiser's decision-making activities in numerous ways. Government and competition are the two most important external control institutions. Most advertisers are affected by a wide range of government regulations concerning their products, services, and advertising. Direct or indirect competitors are usually present and serve as a major external control. What competitors do and how they react is thus an important part of advertising management.

The markets or consumers the advertiser is attempting to reach through advertising can be thought of as yet another kind of external institution that both facilitates and controls advertising. The concepts of *markets* and *consumers* will be used interchangeably to refer to any classification of individuals, organizations, or groups the advertiser is attempting to reach or "get a message to." Examples could be homemakers; electronic engineers; automobile dealers; voters; hospital patients; government officials; or other industrial, retail, government, or nonprofit organizations. Without an existing or potential target for advertising messages, the rationale for advertising would not exist. The consumer is a controlling force, mainly through a whole range of behavioral possibilities, such as viewing or not viewing, buying or not buying, voting or not voting, and so on. It is the consumer, in this broad sense, to whom advertising campaigns are directed, for whom media

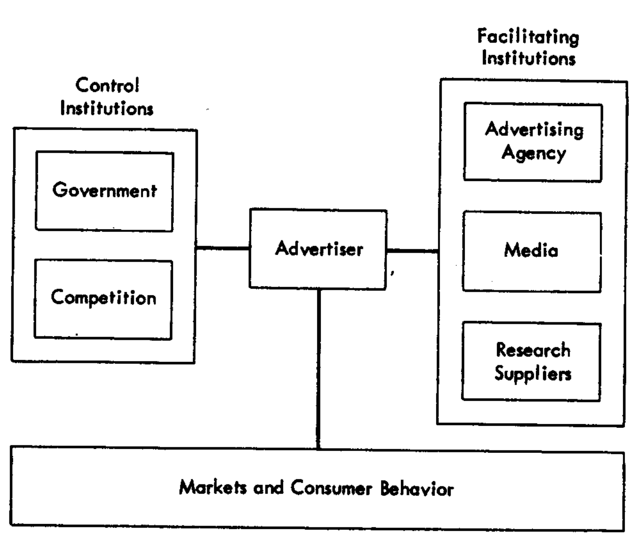

Figure 1–1. Major institutions involved in the field of advertising management.

are used and advertising agencies create copy, and on whom advertising research is done. The identification and understanding of markets and consumer behavior is thus also a vital part of advertising management.

In this chapter, background information is presented on advertisers and on the three major facilitating institutions: advertising agencies, the media, and research suppliers. A discussion of several perspectives on the subject of advertising, including the one adopted in this book, follows. The balance of the book, from the perspectives of Figure 1–1, deals, in one way or another, with advertising planning and decision making in the context of markets, competition, and governmental constraints.

THE ADVERTISER

The advertiser is the core institution of the field of advertising management, and expenditures of advertisers provide the basis for estimates of the size of the advertising industry. Annual expenditures by all advertisers in all media (newspapers, magazines, business papers, television, radio, direct mail, outdoor billboards, and so on) were estimated to be $138 billion in 1993.[1] One estimate is that by the year 2000, annual advertising expenditures in the U.S. will reach $320 billion and will exceed $780 billion worldwide.[2] It has been estimated that the level of annual advertising expenditures in the U.S. has remained stable at about 2.1 to 2.2 percent of gross national product (GNP) for about the last fifty years.[3]

The *Standard Directory of Advertisers*[4] lists 17,000 companies engaged in advertising in a typical year. Most are small, private, or nonprofit organizations utilizing broadcast or print media on a local basis in the immediate region or metropolitan area in which they are located. Even this large figure excludes public service advertisements (PSAs),[5] nonpaid advertisements by nonprofit organizations, and classified advertisements in local newspapers purchased by private citizens. Advertisers utilizing local media, although large in number, do not account for the majority of advertising expenditures. In 1993, for example, local advertising that largely reflects media use by small advertisers accounted for about 42 percent of all advertising expenditures, whereas national advertising, reflecting large-scale users, accounted for the remaining 58 percent.[6]

Small- and large-scale advertisers can be distinguished according to the degree to which they use the facilitating institutions shown in Figure 1–1. Private citizens and many local small-scale advertisers, for example, buy media time or space directly and do not use an advertising agency or the services of a research supplier. The typical large national advertisers will have one or more advertising agencies under contract and will buy numerous types of research services, as well as conduct research on their own. In general, they make full use of the system shown in Figure 1–1, whereas small-scale advertisers, for budgetary reasons, use only parts of the system. Although many of the case examples, models, and research techniques and results presented in this book focus on the full system, and are thus most directly applicable to large-scale advertisers, the underlying principles involved are equally applicable to any advertiser, large or small, profit or nonprofit, and so on.

Advertisers differ according to the markets they serve, the goods and services they produce, and the media they use. In the private sector, advertisers can be distinguished according to whether they are predominantly *consumer, industrial,* or *retail* advertisers. Consumer advertisers are those mainly involved in the manufacture of durable or nondurable goods and services for consumer markets. Industrial advertisers predominantly manufacture and market products for industrial markets, and retailers often advertise locally to attract store patronage. Many large firms, such as General Motors, Kraft General Foods, and Sears, Roebuck service more than one market, which makes attempts to classify advertisers on this basis less meaningful. The media-use distinctions, however, are comparatively clear-cut. Retail advertisers, particularly at the local level, use newspaper advertising extensively. Consumer goods and services advertisers make heavy use of television, radio, and consumer magazines. Industrial advertisers generally make heavy use of trade magazines, business papers, direct mail, and trade shows. The audience for industrial advertising is made up of professionals who are often more willing and able to accept and process detailed information than is an audience made up of members of households.

About 52 percent of all national advertiser expenditures is accounted for by ninety-nine private corporations and the federal government.[7] After a recession-based slump in overall advertising expenditures in 1990 and 1991, the industry rebounded in 1992 and 1993. Table 1–1 shows expenditures for thirty-one product and service categories in 1993, which accounted for a total of over $48 billion. The highest-spending industries were retail, automotive, business and consumer services, entertainment and amusements, foods, toiletries and cosmetics, drugs and remedies, travel, hotels, and resorts, direct response companies, and candy, snacks, and soft drinks. As can be seen, industrial categories spend relatively less on advertising.

The top 10 national advertisers for 1989 and 1993 are shown in Table 1–2. In 1993, they accounted for over $12.2 billion of advertising investment, or more than 31 percent of all expenditures of the leading 100 national advertisers, which were $37.9 billion. Notice that with some exceptions, the same companies tend to appear in the top 10. Procter & Gamble once again regained its position as the nation's leading advertiser, with expenditures of almost $2.4 billion. Philip Morris (including its subsidiary, Kraft General Foods) was the nation's second largest advertiser in 1993, with expenditures of over $1.8 billion (outside the United States, Unilever and Nestlé are the other biggest spenders).[8] These are huge consumer packaged-goods companies, and their brands have huge budgets. Business-to-business marketing companies spend heavily in trade papers and business magazines. Although their advertising expenditures are much less than consumer companies, the expenditures are nevertheless significant. In 1993, for example, the top 5 and their expenditures in millions of dollars were IBM ($96.7), AT&T ($51.2), Microsoft ($45.5), Hewlett-Packard ($44.9), and Digital Equipment Corp. ($44.5)[9].

In many instances, advertising management is done by a brand manager who is responsible for managing all marketing-related aspects of the brand. His or her job has been likened to the president's position in a small company because the amount of money involved in advertising individual brands runs into the millions

Table 1-1. **Product and Service Categories Represented by Top 100 Advertisers, 1993 (millions of dollars)**

Rank	Category	Expenditures
1	Retail	8,082.3
2	Automotive	7,754.5
3	Business & consumer services	5,259.4
4	Entertainment & amusements	3,749.9
5	Foods	3,442.8
6	Toiletries & cosmetics	2,608.4
7	Drugs & remedies	2,294.7
8	Travel, hotels & resorts	2,030.5
9	Direct response companies	1,404.8
10	Candy, snacks & soft drinks	1,286.7
11	Insurance & real estate	1,242.3
12	Apparel	1,090.5
13	Sporting goods, toys & games	990.9
14	Publishing & media	806.6
15	Computers, office equipment	799.8
16	Beer & wine	779.0
17	Household equipment & supplies	696.7
18	Soaps, cleansers & polishes	668.4
19	Electronic equipment	432.4
20	Jewelry & cameras	353.4
21	Cigarettes	340.2
22	Building materials	336.9
23	Gasoline, lubricants & fuels	309.9
24	Household furnishings	301.8
25	Horticulture & farming	229.4
26	Liquor	218.4
27	Pets & pet foods	195.0
28	Freight	148.7
29	Industrial materials	124.0
30	Business propositions	46.6
31	Airplanes (not travel)	18.1
32	Other	308.3
	Total	48,351.2

Table 1-2. Top Ten National Advertisers in 1989 and 1993 (millions of dollars)

	1989			1993	
Rank	Category	Expenditures	Rank	Category	Expenditures
1	Philip Morris	2,072.0	1	Procter & Gamble	2,397.5
2	Procter & Gamble	1,779.3	2	Philip Morris	1,844.3
3	Sears, Roebuck	1,432.1	3	General Motors	1,539.2
4	General Motors	1,363.8	4	Sears, Roebuck	1,310.7
5	Grand Metro PIC	823.3	5	Pepsico	1,038.9
6	Pepsico	786.1	6	Ford	958.3
7	McDonald's	774.4	7	AT&T	812.1
8	Eastman Kodak	718.8	8	Nestle	793.7
9	RJR Nabisco	703.5	9	Johnson & Johnson	762.5
10	Kellogg	611.6	10	Chrysler	761.6
		11,064.9			12,218.8

of dollars. Table 1–3 shows the advertising expenditures of leading brands in various product categories in 1993. In pain relievers, for example, over $91 million was spent on Advil advertising. Nike spent over $132 million, and $75.6 million was spent on advertising for Marlboro cigarettes. Other leading brands in their categories (Folgers coffee, Crest toothpaste, Kleenex, Tylenol pain reliever, and so on), had very large advertising budgets. Shown at the left are brands and companies whose expenditures exceeded $100 million, ranging from AT&T with $511.1 million to Budweiser beer with $113.2 million. The brand managers in charge of Miller beer and Coca-Cola products were responsible for about $217 and $133 million of advertising expenditures, respectively, in 1993. Leading brands in the less-than-$50-million category are shown at the right. Managers of leading brands such as those given in these examples are in charge of significant human and financial resources and have jobs that are not unlike the presidents of similarly-sized corporations.

Since consumer products are bought by virtually every household, most of their budgets are spent on television advertising: over 71 percent of Philip Morris's advertising and almost 83 percent of Procter & Gamble's total measured media budget went into television (national, spot, cable, and syndicated).[10] In contrast, a manufacturer of durable goods will typically be more inclined toward print media than will a manufacturer of packaged goods, because a durable product is more complex and requires longer and more detailed copy. Print advertising, especially newspapers, are also more used by retail advertisers. Sears, Roebuck, the fourth largest advertiser in 1993, spent millions of dollars in newspaper advertising. Whereas national advertising for retailers such as department stores or food chains is the exception, local advertising is vital for these advertisers. Much local retail advertising features item and price listings, but some retailers take a broader view and emphasize store image. John Wanamaker, a retail executive in the early 1900s, was among the first to focus on store image, using such headlines as "The quality is remembered long after the price is forgotten."

Nonprofit organizations, such as schools, colleges, churches, hospitals, and libraries, are increasingly making use of local advertising. They have many of the same problems as business firms. They must identify the groups they serve, determine their needs, develop products and services to satisfy those needs, and communicate with their constituencies. This communication can often be done most effectively by advertising. National advertising is also increasing among nonprofit organizations, particularly for fund-raising or behavior-change efforts by the major medical associations and such groups as the Boy Scouts, Girl Scouts, and the United Way. One of the most dramatic advertising stories of the early 1990s was the use of advertising and mass media by government and nonprofit groups to reduce cigarette consumption in the United States. Consumers were bombarded with a constant stream of antismoking messages which, combined with legislation which banned smoking in many public places, significantly reduced smoking behavior. The federal government was the thirty-eighth largest national advertiser in 1993, spending $304.4 million, a decline from $342.4 million in 1992. The largest governmental advertising effort was for the U.S. Postal Service ($78.6 million), followed by the military, Amtrak, HUD, and Veterans Affairs.[11]

An interesting, unusual form of advertising, called *advocacy advertising*, be-

Table 1–3. **Advertising Expenditures of Some Leading Brands in 1993 (millions of dollars)**

Over $100 Million		$50 to $100		Less Than $50 Million	
AT & T	511.1	Advil	91.7	M& M Candy	27.9
McDonald'S	410.5	American Airlines	91.1	Pampers	27.2
Kelloggs Cereals	382.4	Crest	91.0	Cheerios	21.4
Chevrolet	317.7	Levis	75.8	Pert Plus	29.5
Ford	276.6	Marlboro	75.6	Mennen	20.6
Toyota	258.2	Apple Computer and Software	67.1	Vicks	26.6
Hasbro Toys	217.3	Folgers	65.2	Stouffers	38.0
Miller Beer	216.7	Campbell Soups	62.2	Gillette Razors	34.4
VISA	193.9	Kleenex	61.2	Monistat 7	36.3
Kraft Foods	158.5	Tide	60.8	Dove	21.3
Tylenol	143.8	Kodak Single-Use	54.5	Noxzema	14.0
Coca-Cola	132.9	Purina	53.6	Doritos	15.0
NIKE	132.5	Alka-Seltzer	52.1	Nyquil	41.4
Cadillac	122.0	Oil of Olay	51.1	Hanes	37.4
Pepsi	119.3			Clairol	48.2
L'Oreal Cosmetics	118.1			Clorox	46.5
Wrigley's Gum	117.7			Yoplait	11.7
Budweiser	113.2				

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gan about 1973. Business institutions using this type of advertising take a public position on controversial issues of social importance, aggressively state and defend their own viewpoints, and criticize those of their opponents. Professional groups, like lawyers, are now legally allowed to advertise their services and thus became yet another type of advertiser.

There are thus dozens of different types of advertisers and an equally large number of forms of advertising, including national, local, consumer, industrial, service, comparative, cooperative, corrective, advocacy, counter, and public service advertising. Each is discussed in various sections of this book.

The Role of the Brand Manager

As mentioned earlier, the brand manager, for many large advertisers, both industrial and consumer, is a central figure in the development and management of advertising. The brand manager, either directly or through a staff advertising manager, makes the advertising policy decisions and interacts with the advertising agency. He or she is responsible for all marketing aspects of the brand and, internally, draws upon the full range of line and staff resources of the corporation. This includes such departments as sales, new product planning, marketing research, and so on. In many cases, the advertising budget is the most significant expenditure associated with marketing the brand. The brand manager usually represents the interests of just one corporation brand and oversees the development of the advertising and marketing program for it. Table 1–3 shows advertising expenditures of some leading brands in 1993.

In recent years, some large client companies have moved away from traditional brand management organizational structures. Many companies that market multiple brands within the same product category have introduced a higher-level post of "category manager," a person who is responsible for supervising and coordinating the brand managers for individual brands and making sure that competition between the company's own brands does not become unproductive. In Procter & Gamble, for instance, brand managers for Tide and Cheer and other detergents report (through another organizational layer called ad managers) to the category manager for laundry products. The category managers are charged with overseeing personnel, sales, product development, advertising and promotion of their respective categories.[12] In an effort to cut costs, Procter & Gamble and other companies have also recently begun to reduce the number of organizational layers in their brand management structures.

The brand manager role is particularly important in the study of advertising management, even though it is not the only one for which the materials in this book are relevant. Basically, the concepts, models, and decision aids presented here are completely general, even though they are often presented from the viewpoint of a brand manager in a consumer packaged-goods organization. It should also be emphasized that they apply when the object of the advertisement is other than a packaged consumer product; it may be a service, a political candidate, or a government program. The same concepts apply when the target of the advertising is other than a consumer; for example, an organization, an industrial buyer, a voter, or a client of an organization.

A product or a specific version of a product—a brand—is thus a major reference point for the study of advertising management. We use the term "product" or the term "object" in a general sense throughout the book to refer to the reference point for advertising. It can be something tangible like Green Giant peas, a service like Allstate Insurance, or even an idea like "Just Say No" in an antidrug campaign. As noted, the organizational role most often used to identify the manager of day-to-day advertising operations in a great number of cases is that of the brand manager.

FACILITATING INSTITUTIONS . . . .

All advertisers, by definition, use some form of media to accomplish organizational objectives. Where significant amounts of media expenditures are involved, the advertiser will also use the services of an advertising agency and one or more research suppliers. Together, these three types of institutions make up the primary facilitating institutions of advertising management. In this section, we present an overview of the role, nature, and scope of these three institutions. Much of the organizational dynamics of advertising management is best understood by observing the role of the facilitating institutions in relation to the advertiser, as shown in Figure 1–2.

First, note that the advertising agency is represented in a position "between" the advertiser and the media. A major role of the advertising agency is the purchase of media time and space. The agency, on the one hand, is interacting with the advertiser and, on the other, with one or more media organizations. A second point to note is the role of research. Although not shown explicitly in Figure 1–2, most large firms, at each of the levels of advertiser, agency, and media, will have their own internal research departments, and each will also be purchasing research data externally from some outside research supplier. The research input to the system is a vital aspect on which many of the formal models, theories, and decision aids presented in this book are based.

Another insight from Figure 1–2 is that a typical advertising campaign evolves from the activities of a project or planning group composed of representatives of the advertiser, the agency, and one or more research suppliers. Basically, many meetings of this group will take place over the course of campaign development. Oral presentations of creative ideas and media plans will be made by the agency representatives. Similarly, research suppliers will make oral presentations on the

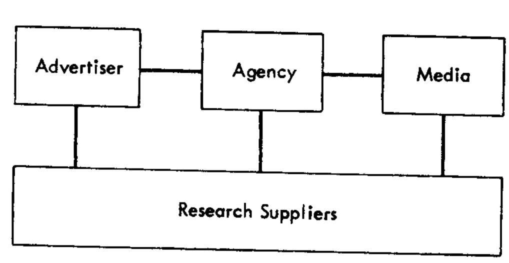

Figure 1–2. Role of facilitating institutions.

results of a consumer survey, a copy test, and so on. Much written and telephone communication also takes place during this process.

In the previous section, it was suggested that the brand manager was the major representative of the advertiser's interests. The analogous positions at each of the three facilitating institution levels are the account executive for the agency, the media representative for media, and the project supervisor for research suppliers. Each level of the system is also represented by a professional trade association. For example, the Association of National Advertisers (ANA) represents advertiser interests; the American Association of Advertising Agencies (AAAA) serves the agency component; and associations like the National Association of Broadcasters (NAB), the American Newspaper Publishers Association (ANPA), the Magazine Publishers Association (MPA), the Direct Marketing Association (DMA), and the Outdoor Advertising Association of America (OAAA) serve the major media. The Advertising Research Foundation (ARF) is heavily concerned with the research aspects of the system.

The Advertising Agency

A unique aspect of advertising is the advertising agency, which, in most cases, makes the creative and media decisions. It also often supplies supportive market research and is even involved in the total marketing plan. In some advertiser-agency relationships, the agency acts quite autonomously in its area of expertise; in others, the advertiser remains involved in the creative and media decisions as the campaign progresses.

The first advertising agent, Volney B. Palmer, established an office in Philadelphia in 1841.[13] He was essentially an agent of the newspapers. For 25 percent of the cost, he sold space to advertisers in the various 1,400 newspapers throughout the country. He made no effort to help advertisers prepare copy, and the service he performed was really one of media selection. His knowledge of and access to the various newspapers were worth something to an advertiser.

Although the nature of an agency has changed considerably since Palmer's day, the fixed-commission method of compensation is still the one used most often. The basic compensation for most agencies is a fixed percentage of advertising billings, 15 percent, which they receive from the media in which the advertisements are placed. On "noncommissionable" (nonmedia) services (such as preparing brochures and collateral materials), an agency usually marks up the supplier's invoice cost by 17.65 percent so that it still keeps 15 percent of the total cost to the client company (of every $100 paid by the client, if the agency keeps $15 and pays $85 to its supplier, it is keeping 17.65 percent of the $85). The fixed-commission system has been criticized because it encourages the agency to recommend higher media budgets than may be appropriate, may not relate to the actual amount of work the agency does for the client, and is not linked to the success of the advertising campaign. Thus, many client companies (including IBM, General Foods, R. J. Reynolds, Nestlé/Carnation, and the German detergent giant Henkel) now either pay their agencies a fixed, negotiated dollar fee or some combination of commission and fee.[14] Many companies now also link the compensation to campaign performance, paying the agency a bonus (or a higher commission rate) if the campaign exceeds agreed-upon communication goals.[15] The subject of how the success or failure of ad campaigns ought to be evaluated is discussed at length in Chapter 3, and agency compensation is discussed in Chapter 14.

By the turn of the century, agencies started to focus their attention on the creation of advertising for clients. Probably the first agency with a reputation for creative work was Lord and Thomas, which was blessed with two remarkable copywriters, John E. Kennedy and Claude Hopkins. Kennedy believed that advertising was "salesmanship in print" and always tried to provide a reason why people should buy the advertised goods. One of Kennedy's first tasks when he joined Lord and Thomas in 1898 was to re-create an advertisement for a new washer that had relied on the headline "Are you chained to the washtub?" appearing over a figure of a worn, disgruntled housewife shackled to a washtub.[16] Kennedy's advertisement showed a woman relaxing in a rocking chair while turning the crank of a washer. The copy emphasized the work of the ball bearings and the time and chapped hands the machine would save. The cost of the resulting inquiries decreased from $20 each to a few pennies.

Claude Hopkins, who joined Lord and Thomas in 1907, was regarded by many as the greatest creator of advertising who ever practiced the art. One year, soon after joining the firm, he made nearly $200,000 just writing copy.[17] He was particularly good at understanding the consumer and at integrating the advertising into the total marketing effort. His first account was Campbell's Pork & Beans.[18] He discovered, using his own research, that 94 percent of American housewives baked their own beans. Yet the advertisers of the day were focusing on the relative advantages of their own brands compared to competitors'. Hopkins's campaign argued against home baking, reminding housewives of the sixteen hours involved in preparing the beans and the probability of ending up with crisp beans on top and mushy beans below. His "primary demand" appeal (getting people to buy the product—any brand) was enormously successful. In response to the competitive reaction, he boldly ran advertisements challenging consumers to "Try Our Rivals Too." He also secured distribution among restaurants and then advertised to the consumers the fact that restaurants had selected the Campbell brand. Hopkins knew the importance of developing an advertising program that was based on consumer desires. In his words, "Argue anything for your own advantage and people will resist to the limit. But seem unselfishly to consider your customers' desires and they will naturally flock to you."[19]

Hopkins also took on the task of advertising the company's evaporated milk, a new product for Campbell.[20] In introducing the brand, Hopkins used a technique on which he often relied. He offered to buy housewives a 10-cent can as an indication of his confidence in the brand. In a single newspaper advertisement that ran in New York for one day only, he inserted a coupon that could be redeemed at a retail store for one can of milk. His idea proved to be brilliant. It provided incentives for people to try the product without tarnishing its image, as a 50-cents-off coupon might have done. More important, it encouraged retailers to stock the brand to satisfy customer demands and to share in the profit represented by the offer. Entering a New York market dominated by another brand, the technique gained for Campbell 97 percent distribution practically overnight. More than 1.46 million customers redeemed the coupon featured in the single New York advertisement. The $175,000 cost of the program was recovered in less than nine months, and Campbell captured the New York market.

The agencies grew in size and influence through the years as they demonstrated an ability to create effective advertising. Lord and Thomas grew from less than $1 million in billings in 1898 to more than $6 million in 1910 and to $14 million in 1924.[21] In 1993, Foote, Cone & Belding, the successor to Lord and Thomas, had worldwide billings of more than $5.33 billion.

Table 1–4 shows the top ten advertising organizations and agency brands in 1993.[22] Because of mergers and acquisitions, many of the largest and well-known agencies are now part of large advertising organizations or groups such as the WPP Group, the Interpublic Group, and the Omnicom Group. In Table 1–4, billings represent media costs, whereas income is the money retained by the agency, generally around 15 percent of billings. The largest agency organization in 1993 was the WPP Group, headquartered in London, England, followed by Interpublic and Omnicom. WPP had billings of about $18.5 billion in that year, an enormous number when you think of this as the amount of money spent on advertising and marketing activities being managed by this one group. Saatchi and Saatchi is another huge British advertising organization headquartered in London, England; in 1995, it changed its name to The Cordiant Group.

Notice in Table 1–4 that the top-ten list of advertising organizations is made up of companies from several different countries and is no longer dominated by U.S. agencies and "Madison Avenue." Using the top-ten criterion, the United States, Britain, Japan, and France are the countries that dominate advertising worldwide. The competition from European and Asian manufacturing companies is, as might be expected, quite well reflected in the top-ten advertising organizations. Note that significant volume in all but the two Japanese agencies represented in the top ten is generated in the United States. The three largest groups derive from 32 percent to 47 percent of total billings from the U.S. In contrast, the two Japanese agencies, Dentsu and Hakuhodo generate only about 1 percent of their volume in the U.S.

Many of the "megagroups" that now exist in advertising are the result of a wave of acquisitions and mergers in the advertising agency business during the 1980s. The WPP group acquired (among many others) the Ogilvy & Mather and J. Walter Thompson advertising agency groups.[23] In addition to its advertising agency group holdings, WPP Group also owns direct marketing agencies, sales promotion agencies, public relations firms, marketing research companies, and specialized companies concentrating on health, entertainment, recruitment, and Yellow Pages advertising. Other leading agency megagroups are Saatchi and Saatchi (which owns that agency, plus Backer Spielvogel Bates), the Interpublic Group (which owns McCann-Erickson, Lintas-Campbell-Ewald, Ammirati and Puris/Lintas, and Lowe and Partners/SMS), and Omnicom (which owns BBDO and DDB Needham). (Changes in ownership and name occur all the time, and those presented here may well be out-of-date by the time you read them.)

There are several reasons for this wave of acquisitions and growth and the consequent building of worldwide agency networks. First, most client companies

Table 1–4. Top Ten Advertising Organizations and Agency Brands, 1993 (millions of dollars)

Rank[a]	Advertising Organization	World Billings	Gross World Income	Agency Brands	World Billings	Gross World Income
1	WPP Group, London	18,485.3	2,633.6	Dentsu Inc.	10,377.6	1,340.9
2	Interpublic Group, New York	13,967.3	2,078.5	Mccann-Erickson Worldwide	6,556.0	982.9
3	Omnicom Group, New York	13,839.1	1,876.0	J. Walter Thompson	5,805.8	835.9
4	Dentsu Inc., Tokyo	10,846.3	1,403.2	Euro RSCG Worldwide	4,938.6	704.6
5	Saatchi & Saatchi Co., London	10,809.6	1,355.1	BBDO Worldwide	5,003.5	688.2
6	Young & Rubicam, New York	7,559.0	1,008.9	Hakuhodo Inc.	4,938.0	667.8
7	Euro RSCG, Neuilly, France	6,508.9	864.8	Grey Advertising	4,438.5	660.6
8	Grey Advertising, New York	5,171.8	765.7	Lintas Worldwide	4,172.9	626.8
9	Hakuhodo, Tokyo	4,938.0	667.8	Leo Burnett Co.	4,223.5	622.4
10	Foote, Cone & Belding, Chicago	5,336.0	633.7	DDB Needham Worldwide	4,342.6	604.1

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[a]*Based on worldwide gross income.*

are themselves merging, and growing substantially outside the United States, thus demanding larger agency office networks worldwide. Procter & Gamble, for example, already gets 40 percent of its business from outside the United States, a figure expected to grow to 60 percent by 2000. This focus on non–U.S. markets is due, in part, to the fact that population—and, thus, market size—is growing more rapidly outside than within the United States and the fact that the effect of advertising on sales is also greater outside the United States.[24] Such globalization is often accompanied by the growth of "global brands" that employ similar ad campaigns worldwide. The campaigns for Marlboro cigarettes and Dewar's Scotch whisky, for example, are very similar in concept around the world.[25] Not all brands and ad campaigns can be so standardized, however, and the reader is cautioned to be somewhat critical of the concept of "global marketing."[26] Chapter 20 discusses this subject in detail.

When companies grow worldwide, the agencies that hope to have a client's business worldwide (or not at all) must therefore create worldwide servicing networks, by owning overseas agencies or creating partnerships with them. McCann-Erickson, for example, now has 144 agencies in 67 countries and used to service Coca-Cola in almost all of these markets. It even has a global account director for Coca-Cola in New York, responsible for the agency's work on that account worldwide. In 1989, almost 39 percent of McCann-Erickson's total billings came from Europe, 13 percent from Asia and the Pacific, and 10 percent from Latin America. It should be noted that in addition to the client-derived "demand" for overseas growth, another reason for the agencies' overseas expansion is simply that advertising spending rates are higher overseas than in the United States, since the per capita base levels are usually lower overseas. The volume of total advertising spending outside the United States now roughly equals that in the United States.[27]

The second major reason for the creation of these megagroups is the realization that ad agencies and media advertising are only one part of a client's total communications and marketing mix, which also includes sales promotions, public relations, direct marketing, marketing to minorities, and so on. Chapter 3 discusses this idea of using "integrated marketing communications." Since many of these other elements of the mix are, in fact, growing faster than advertising (with advertising dollars often being moved to sales promotions or direct marketing), it makes sense for companies to offer clients not simply media advertising capabilities but these other capabilities as well. The claim is that a client's total communications needs can be better coordinated and served if the client has all these different needs serviced by units of the same megagroup, an idea expressed by phrases such as "complete orchestration" or "the whole egg." Not many client companies appear to have bought into this claim, however, and it appears in hindsight that many of these agency megagroups might have overdiversified, leading to financial strains. The Saatchi and Saatchi group, for instance, which pioneered this concept, had to sell off many of its holdings in 1989 and 1990. A schematic of the diversified agency megagroup WPP appears in Figure 1–3.

The third reason for the creation of agency holding groups that own several agency networks is to avoid account conflict. A client will almost never give an account to an agency that also services a competitor. It is hoped, however, that if the

THE WPP GROUP IN MAY 1989

- Ogilvy & Mather Worldwide
  - Ogilvy & Mather Advertising
  - Ogilvy & Mather Direct Response
    - A. Eicoff & Co.
    - Targeted Communications
    - Ogilvy & Mather Yellow Pages
  - Ogilvy Public Relations Group
    - Adams & Rinehart
    - Ogilvy & Mather Public Affairs
    - Charles E. Walker Associates
    - Ogilvy & Mather Public Relations
  - Specialized Services
    - Graphic Services
    - Silver Bullet Productions
    - Speech Dynamics
    - Sussman & Sugar
    - Eyepatch Productions
- Scali, McCabe, Sloves
  - Fallon McElligott
  - Martin Agency
  - Stevens & Buchsbaum
  - Mort Goldberg Inc.
- SAGE Worldwide
  - SAGE Worldwide Retail
    - Interactive Media
  - SAGE Worldwide Promotion
  - Promotion Campaigns
    - PMSI
    - Thomson-Leeds Co.
    - Alert Marketing
- Independent Associated Agencies
  - Cole & Weber
- Research International
  - Decisions Center
  - Cambridge Reports
- Media Advertising
  - J. Walter Thompson Co.
  - Lord, Geller, Federico, Einstein
  - Conquest Europe
- Public Relations
  - Hill & Knowlton
  - Carl Byoir
  - Timmons
- Strategic Marketing Services
  - Henley Centre for Forecasting
- Market Research
  - MRB Group
    - Simmons Market Research Bureau
    - Winona Market Research
    - British Market Research Bureau
    - Mass-Observation
    - MRB International
    - Basisresearch
    - Japan Market Research Bureau
  - Millward Brown
- Non-Media Advertising
  - Graphics & Design
    - Business Design Group
    - OYA Group
    - Sampson/Tyrrell/JST Advertising
    - SBG Partners
    - McColl Group
    - VAP Group/Greaves Hall
    - Walker Group/CNI
  - Incentive & Motivation
    - Grass Roots Group
    - P & L International Vacationers
  - Sales Promotion
    - Einson Freeman
    - Mando Group
    - Scott Stern Associates
    - The Marketing Consultancy
  - Audio Visual & Video Communications
    - MetroVideo/Mighty Movie Co.
- Specialist Communications
  - Anspach Grossman Portugal
  - Brouillard Communications
  - EWA
  - Entertainment Group
  - Harvard Group
  - HLS Corp.
  - J. Walter Thompson Direct
  - J. Walter Thompson Healthcare Group
  - Mendoza Dillon & Asociados
  - Pace Communications
  - Reese Communications/Targeting Systems
  - Thompson Recruitment Advertising
  - Tromson Monroe Advertising

Figure 1–3. The different parts of the WPP agency megagroup in May 1989.

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competitor's account is at one of a megagroup's agencies, a potential client will still consider the group's other agency networks, since the different agency networks are supposedly run autonomously.

Obviously, clients do not pick agencies on the basis of size and servicing capabilities alone. Creative reputations also matter a great deal. A survey of agency reputations was conducted for *Advertising Age* by SRI Research Center in the last quarter of 1984.[28] A random sample of 300 advertising directors of companies with revenues over $25 million per year selling to the top twenty U.S. markets was interviewed. Six attributes of the agency were identified as most important: (1) creativity, (2) account executives, (3) media, (4) top management, (5) marketing, and (6) research. J. Walter Thompson ranked first on five of the attributes, a reputation distinguished by its across-the-board strength. Ogilvy & Mather, Chiat/Day (now part of Omnicom) and Doyle Dane Bernbach (now part of DDB Needham) were perceived as strongest on creativity.

This survey also identified factors considered most important in assessing the strengths of an agency and those on which agencies were perceived as weak. Figure 1–4 shows the results. Creative talent and knowing the client's business were the two most important "necessary strengths" of an advertising agency. Quality of people was also very important. Not knowing client business, inadequate cost estimating, lack of creativity, poor account executives, and misrepresentation were most frequently mentioned as weak spots.

Recent Trends

Some of the key trends have already been mentioned or will be discussed below: the growth of global brands and global agency networks; the shift of marketing dollars away from mass advertising and into sales promotions and direct marketing; the desire for more integrated marketing communications; new developments in the media environment; the change in agency compensation levels and arrangements, and so on.[29]

Possibly the biggest change, however, has been the perception among some leading advertisers that the traditional advertising agency business has not been providing the "creative spark" that some advertisers need. Some advertisers, notably Coca-Cola, have thus begun to "diversify" their sources of creative talent and ideas. In the case of Coca-Cola, many of its ads for the flagship Coca-Cola Classic brand now come not from their long-time ad agency, McCann-Erickson, but instead from a Hollywood talent agency, Creative Artists Agency (CAA). In addition, the Coca-Cola agency has diversified its agency roster by giving assignments to several of the "hot," perceivedly more creative agencies, including Chiat/Day, Fallon McElligot, and Wieden and Kennedy.

Relatedly, more and more large clients are separating the job of media buying from their many different ad agencies and passing that on to the new independent media buying services, consolidating it (often on a media-by-media basis) with one particular agency, or even setting up their own media buying operations. As is discussed below, this leads to greater negotiating clout with the media owners, thus lower media costs.

As a result, many agencies are scrambling to "reinvent" or "reengineer" them-

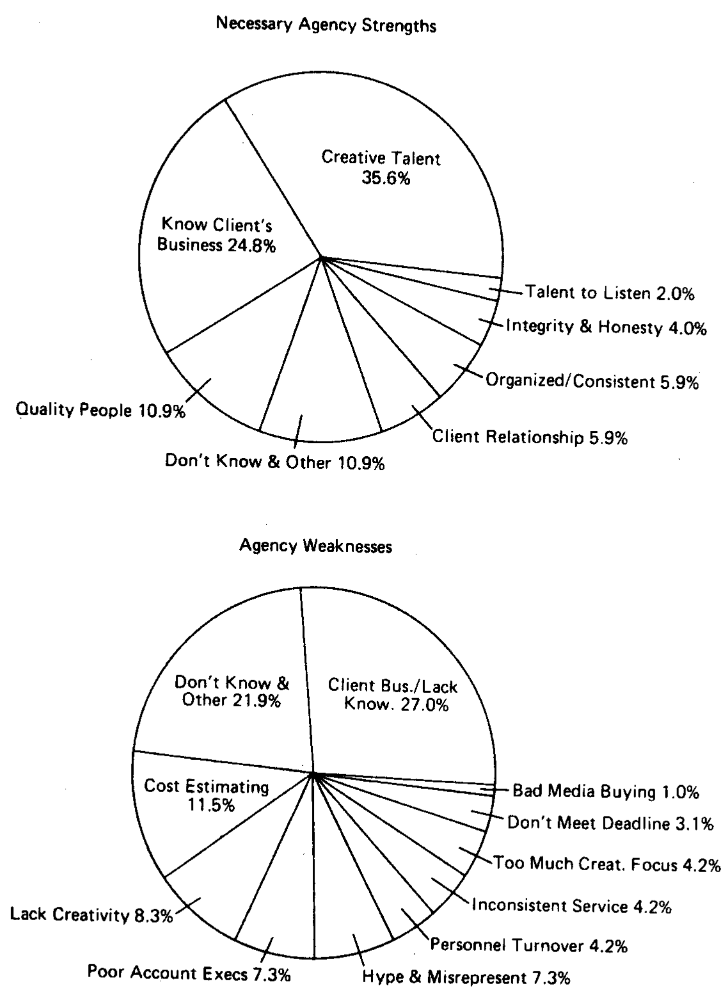

Figure 1–4. Advertising agency strengths and weaknesses.
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selves. As a case in point, the Interpublic Group (the owner of McCann-Erickson, which has part of the Coca-Cola account) has recently (a) acquired several smaller, creative agencies, such as Ammirati and Puris/Lintas and merged them into its networks, (b) "spun off" smaller "creative boutiques" under its umbrella, and (c) acquired Western International Media, one of the leading independent media buying services. In addition, this agency group, like many others, is exploring how best to use the newer media options, including interactive media, for its clients.[30]

Many of these trends, and others, are discussed further in the two readings at the end of this part of the book (after Chapter 2).

Agency Organization

A modern agency employs three different types of people in addition to those handling administration. The first is the creative services group, which includes copywriters, artists, and people concerned with advertising production. This group develops the advertising campaign, prepares the theme, and creates the actual advertisements. The second is the marketing services group, whose responsibility includes media and market research. This group contains the technical specialists—the psychologists who direct market research efforts and the operations researchers who develop the media buying models. The final major group is the client services group, which includes account executives. An account executive is, in many respects, an agency's counterpart to a client's brand manager. An account executive is responsible for contact with the client. One of his or her important functions is to understand and perhaps contribute to the development of the client's advertising objective and then to communicate it to the creative services and marketing service groups. As the advertising campaign is developed, the account executive obtains advice and decisions from the client as they are needed. In addition to these operating groups, there is usually a review board consisting of key agency people who review all campaigns generated within the agency.

In recent years, several agencies have embraced another organizational innovation called "account planning," first developed in the United Kingdom. An account planner is a specialist in consumer attitudes and motivations who relies on qualitative in-depth research and who works with the account and creative teams in ensuring that the campaign is built with a deep and thorough understanding of the consumer's point of view. In the United States, the Chiat/Day agency, which is well known for its creativity, has championed this approach. It is more frequently used (and talked about) by smaller agencies, who wish to show that their creative leaps are also strategically sound. Many of the largest agencies do not have an explicit account planning function, although some of the same work is performed by research specialists who work closely with the account; these people are often called "consumer insights" specialists.[31]

The Full-Service Agency and Alternatives

The dominant type of agency provides a full spectrum of services, including market research, new product introduction plans, creative services, and media purchases, and is termed a *full-service agency.* Alternatives to the full-service agency for large advertisers have recently appeared. Basically, these involve the replacement of the large agency with smaller specialized organizations, perhaps supplemented by a greater in-house client involvement in the process. It is stimulated by the development of organizations that specialize in media purchases (such as Western International Media, or Vitt Media International, which keep about a 3 percent commission) and others that provide only creative services—the "creative boutiques." The perceived need to make advertising and media dollars work harder—by negotiating bigger media discounts by consolidating media buying and by using smaller agencies that are sometimes perceived to be more creative than the larger ones—have led to these developments. Several client companies and advertising agencies have set up subsidiaries through which media buys are consolidated, and thus made more cheaply, while medium-sized advertising agencies often turn to external media buying companies to benefit from the negotiating clout of these companies.[32]

Magnavox is a firm that has had experience with à la carte buying of advertising services. A Magnavox executive explained the reasoning behind the move, pointing out that the new wave of à la carte advertisers seems to be eliminating many costs related to agency middleman functions, such as account management and marketing and research processors. Along with the elimination of the full-service agency's overhead factors, this probably reduces the 15 percent commission that the agency normally collects by at least one-third. The advertiser should be able to obtain the needed services for the remaining 10 percent and, if it does some of the media buying internally, for print, it can come in under 10 percent. The 15 percent agency commission on ad production, research, and other functions that an agency buys outside is also saved.[33]

The American Association of Advertising Agencies has set forth a position paper in which it presents the case for the full-service agency, arguing against "piecemealing." They identified ten advantages of a full-service agency, including centralization of responsibility and accountability, simplified coordination and administration of a client's total advertising program, greater objectivity, sales-oriented creative work, synergistic experience, a stronger pool of talent, and a better working climate.

The Media

The amount of money spent on advertising in the various media from 1935 to 1993 is shown in Table 1–5. Through the years, the largest media category has been newspapers, which carried about 23 percent of all advertising placed in 1993, measured in terms of total client expenditures of $32.03 billion. The second-largest medium in 1993 was television, which was nonexistent until 1945, with $30.6 billion. Direct mail was the third-largest medium, with expenditures of about $27 billion. Thus, direct mail, a medium with low visibility in many respects, garnered almost three times as much advertising revenue as did radio ($9.5 billion). Direct mail has dramatically increased its share of media expenditures in recent years, rising from 14 percent of all media expenditures in 1980 to 19.7 percent in 1993. In contrast, newspapers during the same period dropped from 28.5 percent to 23.2 percent. Television increased in media share from 20.7 percent to 22.2 percent, whereas magazine share dropped from 5.9 percent to 5.3 percent. The strength of direct mail is its potential for pinpointing an audience and its capacity to present large quantities of advertising. It is a rapidly growing medium, and we discuss it in detail in Chapter 3. Business papers are primarily the trade magazines used by industrial advertisers and others who target their advertising to nonconsumer audiences.

Media developments have dramatically influenced the thrust of advertising through the years. Perhaps the most significant contribution to advertising was the development of the printing press by Guttenberg in 1438. Forty years later, in 1478, William Caxton printed the first English language advertisement, a handbill for a book of rules for the clergy at Easter.[34] The printing press, of course, made

Table 1-5. Estimated Advertising Expenditures in Major Media, 1935–1993 (millions of dollars)

	1935	1945	1955	1960	1965	1970	1975	1980	1984	1989	1993
Newspapers	761	919	3,077	3,681	4,426	5,704	8,442	15,615	23,744	32,368	32,025
National	148	203	712	778	784	891	1,221	2,335	3,007	3,720	3,620
Local	613	716	2,365	2,903	3,642	4,813	7,221	13,280	20,737	28,648	28,405
Magazines	130	344	691	909	1,161	1,292	1,465	3,225	4,932	6,716	7,357
Business Papers	51	204	446	609	671	740	919	1,695	2,270	2,763	3,260
Television	—	—	1,035	1,627	2,515	3,596	5,263	11,330	19,874	26,891	30,584
National[a]	—	—	810	1,347	2,129	2,892	3,929	8,365	14,818	18,949	22,149
Local	—	—	225	280	386	704	1,334	2,965	5,055	7,942	8,435
Radio	113	424	545	693	917	1,308	1,980	3,690	5,813	8,323	9,457
National	78	290	218	265	335	[illegible]	519	955	1,513	2,023	2,115
Local	35	134	327	428	582	881	1,461	2,755	4,300	6,300	7,342
Direct mail	282	290	1,299	1,830	2,324	2,766	4,124	7,655	13,800	21,945	27,266
Outdoor	31	72	192	203	180	234	335	610	872	1,111	1,090
Miscellaneous	342	555	1,793	2,342	2,965	3,848	5,571	10,795	16,775	23,813	27,04T
Total national	890	1,740	5,380	7,305	9,340	11,350	15,340	30,435	49,590	68,990	80,010
Total local	830	1,100	3,790	4,655	5,910	8,200	12,820	24,315	38,490	54,940	58,070
Grand total	1,720	2,840	9,150	11,960	15,250	19,550	28,160	54,750	88,080	123,930	138,080

[a]The following is the breakdown for television, giving the expenditures for network, cable (national and nonnetwork), syndication, and national and local spo television for 1993:

Network	*10,209*
Cable (national)	*1,970*
Syndication	*1,576*
Spot (national)	*7,800*
Spot (local)	*8,435*
Cable (nonnetwork)	*594*
Total	*30,584*

possible newspapers and magazines, the print media on which most advertising still relies.

The first important medium was newspapers. The earliest agencies, in the mid-nineteenth century, were essentially agents for newspapers. They provided a classic wholesaling function for the newspapers, each of which was too small by itself to sell space directly to the national advertisers. To a large extent, newspapers, particularly the smaller ones, still employ agents to sell their space to national advertisers, although these agents are now organizations distinct from agencies. However, the newspaper is really the domain of the local merchant. More than 80 percent of newspaper advertising is placed at the local level, and the most important newspaper advertisers are local retailers. There were about 1,640 daily newspapers in the country in 1990, reaching 63 percent of all adults (and a higher percentage of those highly educated and with high incomes). The highest-circulation newspapers are *The Wall Street Journal* (1.9 million weekday circulation) and *USA Today* (1.3 million).[35]

For all the attention that television, cable, and the new multimedia forms of audio-visual communications have received, it is nevertheless interesting that total television advertising (including network, cable, spot, and syndication) in 1993 was still exceeded by total newspaper advertising (see Table 1–5). Furthermore, although the total share of newspaper advertising has declined since the advent of television, the decline has only amounted to a few percentage points. In 1993, about 23 percent of all advertising expenditures went into newspapers, and most of this went into local newspapers. Local newspaper advertising expenditures in 1993 were $28.4 billion, down slightly from 1989, when they were $28.6 billion. The strength of newspapers comes from their dominant role in local advertising, especially by retailers such as department stores and automobile companies.

During the last decades of the 1800s, magazines began to assume increasing importance. In that period, Lord and Thomas concentrated on religious and agricultural periodicals, becoming the exclusive agent for many of them. After the Civil War, a young space salesman, J. Walter Thompson, decided to focus on the general magazine field, particularly the just-emerging area of women's magazines.[36] He provided advertisers with a list of several dozen from which they could choose. His choice of emphasis partly explains the phenomenal early success of the agency that still bears his name.

Until television arrived, magazines were the largest national advertising medium. With the advent of television, the magazine industry—and particularly the mass-circulation magazines—began to feel the heavy pressure of competition. With the failure of such classic magazines as *The Saturday Evening Post*, *Look*, and, finally, *Life*, many began to question the long-term future of the magazine industry. Actually, magazines have considerable strength and vitality, despite these visible setbacks. The year that the *Post* stopped publishing, 20 other magazines also merged or closed their doors, but more than 100 new ones appeared.[37] In 1950, magazine circulation was 140.2 per 100 population; twenty years later, it was 170.5 per 100 population and was still growing.[38]

The character of magazine publishing is changing, however. Despite the continued success of the *Reader's Digest* and *TV Guide*, whose circulations were each more than 16 million in 1990, it is a fact that magazines are becoming more specialized.[39] (In 1990, the highest-circulation magazine was actually *Modern Maturity*, with 20 million.) Magazines today are aiming at special-interest groups and are often regional in scope. In 1990, there were about 2,100 consumer and farm magazines and about 4,900 business magazines.[40] (Note that media people usually refer to magazines as "books.") As a result of magazine specialization, the audience is often more specialized and is therefore desirable to an advertiser who is attempting to reach more specific audiences.

Magazines are innovating and attempting to capitalize on their physical contact with the audience to make their advertisements more effective.[41] Perfumed ink was used as early as 1957 for Baker's coconut in a *Better Homes & Gardens* advertisement. Since then, it has been used in advertisements for perfume, cologne, vodka, and soap. Recordings, such as Remington's "Music to Shave By," are included in advertisements. They are particularly effective in business advertisements that have a lengthy, detailed story to tell. Actual product samples have appeared in advertisements for Band-Aids, candy, facial tissues, and computer software. Catalogs and other booklets have been included in magazine advertisements. These and other innovations reflect the willingness of magazines to build on their strengths.

Radio emerged in 1922 as an exciting, new advertising medium. Its coverage of the 1922 World Series established it dramatically as a unique communication medium. The 1930s and 1940s were the golden years of radio. Without the competition of television, the network programs—from the soap operas to the major evening shows that starred such luminaries as Jack Benny, Eddie Cantor, Fred Allen, and Bing Crosby—caught and held the attention of the American people. With the advent of television, however, radio went into the doldrums. But in the 1960s, radio started to make a comeback, finding a useful niche for itself by providing entertainment, news, and companionship, particularly for those in a car or otherwise occupied outside the home. It seemed to serve a purpose in a mobile and restless society. Radio's revitalization has been achieved by such programming innovations as talk shows, the all-news format, and hard-rock programs, and by such technological innovations as transistors and the "Walkman," which makes radios highly portable for people of all ages. Like magazines, radio has become more specialized as stations try to serve well-defined segments of the population. It has been particularly successful in developing a youth appeal. Like newspapers, it is a good medium for local advertisers, who provide radio with more than 60 percent of its advertising. In 1990, there were over 5,000 AM and 5,000 FM stations, plus about 1,700 noncommercial FM stations, and although individual radio stations only command, on average, a 1 percent share of local listenership, radio networks enable advertisers to reach 8 to 9 percent of all U.S. adults at any one time and up to 75 to 80 percent of all U.S. adults cumulatively in a week.[42]

Television, delayed by World War II, began in the mid-1940s. In 1948, Milton Berle premiered his show, which was to dominate the ratings during the early years of commercial television. During the first decade of television, the advertiser usually sponsored and was identified with an entire program. This differs from the present practice of having several advertisers share a program. Advertisers were naturally attracted to this new medium because it provided an opportunity for presenting live demonstrations to large audiences. Television grew rapidly during the 1950s and 1960s. The number of homes with television sets in the top fifty markets increased from 6 million in 1950 to 30 million in 1960 and to 40 million in 1970.[43] Today, about 92 million of the 94 million U.S. homes can be reached by television, through the approximately 200 affiliates of each of the big three broadcast networks, the Fox network, and major cable channels like ESPN, CNN, WTBS, USA, Nickelodeon, MTV, and TNN. Each of these cable channels is now available in approximately 50 million TV homes.

The installation of fiber-optic cable to households throughout the United States and many parts of the world promises to speed the development of the so-called information highway with many important implications for the media industry. Some of the likely developments during the 1990s will be the addition of many more kinds of interactive services in which consumers can play games, order products, do their banking, and search libraries and databases. Whether the television set, an elaborate telephone, or a computer workstation becomes the dominant entry vehicle remains to be seen. All these functions may well be integrated into one comprehensive communications unit. Also, this new vision promises consumers hundreds of cable television channels, on-line access via Internet to computer networks throughout the world, movies that will be provided instantly on demand, and dozens of other services. Much of the merger activity among telephone, entertainment, cable, and computer companies that took place during the early 1990s and continues today is motivated by a desire to take advantage of these new media environments.

The advent of cable television, pay television, video recorders, and videodiscs promises to bring to television the same level of specialized audiences that magazines now deliver. In 1993, cable TV was in approximately 62 percent of U.S. homes with television. One consequence of these new technologies are the relative decline of the three major television networks (ABC, CBS, and NBC), which have lost audience share to cable channels and independents in homes with cable TV; from 91 percent in 1978, the network share declined to 62 percent in 1990.[44] Another development has been the widespread use of remote control devices to "zap" commercials by switching TV channels whenever ads appear. These new technologies have thus moved us to the era of the "invited commercial," because viewers with the capability of bypassing commercials will only tend to watch commercials that are exceptionally entertaining, informative, or involving. Reaching this audience will require very different approaches to advertising creation and testing. These consequences are discussed later in this book at appropriate points.

Through other developing media technologies, including the ability to specifically "address" each cable TV home from the cable "head," the capability of offering programs to small special interest audiences is slowly emerging. Further, these "addressable" cable systems are beginning to be tied into systems that, using grocery store checkout-lane scanner data, can create consumer databases that bring together data on what every household saw in terms of advertising and then purchased in local stores. Clearly, these technologies might someday make possible some very sophisticated targeting of consumers, for it may be possible for advertisers to schedule ad exposures to only those consumers considered most important from either a retention or switching assessment. Also rapidly emerging are new developments in direct-to-home satellite transmission, with the ultimate prospect of reaching world audiences using visual approaches that are not tied to any particular language.

Like the top advertisers and top advertising agencies, there are top media companies. An important characteristic of the media industry is that most of the leading companies are diversified and are large multinational conglomerates spanning all forms of media. Many of them also have significant revenues generated from nonmedia sources as well. These worldwide media giants include Time Warner which owns, among others, magazines such as *People* and *Sports Illustrated*, Home Box Office and Warner Amex Cable, Warner books and Warner records, Time-Life Books, and the Warner Brothers movie studio. Other companies include the Germany-based Bertelsmann, Italy's Fininvest, Canada's Thompson, Australia's News Corporation (which owns *TV Guide* and Fox broadcasting in the United States), France's Hachette, and the United Kingdom's Maxwell Corporation.

Table 1–6 shows the top-ten leading media companies in the United States in 1993. The biggest company was Time Warner, with $5.72 billion in U.S. media revenues in 1993. Notice that the three big broadcast networks (ABC, CBS and GE's NBC) are represented in the top ten. To understand the media history, it is important to appreciate that newspapers still dominate all other media in terms of revenue. Among the top-ten media companies in 1993, for example, four own mostly newspapers (Gannett, Advance Publications, Times Mirror, and Knight-Ridder). The importance of magazines is reflected in the top group by Time Warner, publisher of *Time*, *Fortune*, *Life*, *Money*, *People*, and *Sports Illustrated*. The largest cable television companies in 1993 were Time Warner and Tele-Communications, Inc., which reported about $3.6 billion and $4.2 billion in cable TV revenue, respectively.

Various types of sales promotions can also be considered by the advertiser and represent yet another kind of media. The sales promotion industry has grown rapidly in recent years, faster than advertising expenditures. In 1983, about 37 percent of the total advertising and promotion budgets of packaged-goods companies was spent on advertising, another 37 percent on trade promotions, and 26 percent on consumer promotions. By 1993, the advertising share was down to 25 percent trade promotions were up to 47 percent, and consumer promotions were up to 28 percent.[15] Like the major media, each form of promotional activity is represented by a professional trade association. Thus, the Promotion Marketing Association of America (PMAA) and the National Premium Sales Executive Association (NPSEA) focus on premiums, promotions, contests, couponing, sampling, price-offs, and cash refunds; the Point-of-Purchase Advertising Institute (POPAI) covers point-of-purchase and aisle display materials; the Specialty Advertising Association International (SAAI) is concerned with specialty advertising, such as imprinted

Table 1–6. Top Ten Media Companies, 1993

Rank	Company	Total	1993 Media Revenues (Millions) News-Paper	Maga-Zine	Broad-Cast	Cable TV	Other	1992–1993 % Change
1	Time Warner, New York	5,719.4		2,070.4		3,649.0		2.9
2	Capital Cities/ ABC, New York	5,512.3	568.7	328.3	3,882.3	733.0		10.0
3	Tele-Communications Inc., Denver	4,153.0				4,153.0		16.2
4	CBS Inc., New York	3,510.1			3,510.1			0.2
5	Gannett Co., Arlington, VA	3,472.0	2,844.0		397.2		230.8	5.2
6	Advance Publications, Newark, N.J.	3,266.0	1,800.0	970.0		496.0		2.4
7	General Electric, Fairfield, Conn.	3,102.0			3,008.0	94.0		-7.8
8	Times Mirror Co., Los Angeles	2,681.9	1,980.7	230.8		470.4		-1.5
9	News Corp., Sydney	2,651.8	138.8	600.0	1,426.0		487.0	7.5
10	Knight-Ridder, Miami	2,068.6	2,068.6					3.6
	Total	36,137.1	9,400.8	4,199.5	12,223.6	9,595.4	717.8	

business cards and gifts; and the Trade Show Bureau (TSB) with trade shows. Direct mail, represented by the Direct Marketing Association, is also often included in this category.

A major trend in the media industry for the 1990s is the so-called information highway built with fiber-optic cable and connecting millions of households and businesses throughout the United States and other parts of the industrialized world. Dozens of multimedia services are being developed, to take advantage of the new information age, from home movies on demand to bill paying, home banking, and in-home shopping. Interactive media, with which consumers can request movies and do their shopping and banking from home computers or television sets, is also evolving. Advertising will play a major role in these developments and they, in turn, will undoubtedly shape advertising in new and different ways.

Another trend is toward consolidation and new competitive forms in the media, telephone, computer, entertainment, and electronic industries. Barriers to competition between traditional telephone companies and cable companies are breaking down and some rather hasty mergers and acquisitions have taken place.

Research Suppliers

The final type of facilitating institution is made up of companies that supply research services to advertisers, advertising agencies, and the media. Currently, there are more than 500 firms in the United States[46] that supply all kinds of research information for advertising-planning purposes and for specific decisions, such as copy and media decisions.

The first advertising researchers developed methods for assessing the effectiveness of print advertising. From these early beginnings, research companies have sprung up to provide a wide variety of services to advertisers, ranging from consumer surveys and panels to copy testing, audience measurement, and many others.[47] The progress of the field of advertising research closely parallels the development of each of the major media. The Audit Bureau of Circulations (ABC) was one of the earliest firms to develop the first audits of newspaper circulation in 1914. The notion of auditing circulation quickly spread to magazines, and Daniel Starch, a professor at Harvard University, developed the recognition method for measuring magazine readership in 1919. Later, in 1932, Starch founded the firm of Daniel Starch and Staff, which is still one of the largest firms that supply research on print advertising. It is now called Starch INRA Hooper.

Radio research, and broadcast ratings in general, first began in the 1920s, when Archibald Crossley started the Crossley Radio Ratings. The industry expanded greatly during the 1930s and 1940s, as politicians and advertisers realized the potential of radio for reaching national audiences. Frank Stanton, later to become president of CBS, began his career in radio research and, with Paul Lazarsfeld and others, initiated an office of radio research at Princeton University. Lazarsfeld later moved this office to Columbia University to form the Bureau of Applied Social Research.

Television research became one of the numerous specialties of the A. C. Nielsen Company, and this company is particularly well known for its television program rating services. A. C. Nielsen, Sr., who founded the company in Chicago, began by developing auditing services of the movement of products through retail stores. This service is an important part of the current range of research services supplied by this company, with revenues in 1993 of $1.05 billion. Nielsen's other major service focuses on media research and had revenues of about $204 million in 1993. The company was acquired by Dun & Bradstreet in 1984 and is currently part of D&B Marketing Information Services, Cham, Switzerland, a subsidiary of D&B, Westport, Connecticut. A. C. Nielsen has long been known as the largest research supplier in the United States, with five to six times the research revenues of its closest competitors.

In a similar way to the internationalization of client, agency, and media firms, research suppliers are increasingly international companies with offices in many countries around the world. D&B Marketing Information Services, the parent of A. C. Nielsen, derived 61 percent of its research revenues outside of the United States in 1993.[48] Table 1–7 shows the largest U.S. research companies in 1993 and their research revenues. As can be seen, D&B Marketing Information Services, which includes IMS International (a company specializing in research for the pharmaceutical industry), as well as A. C. Nielsen, heads the list with total research revenues of over $1.868 billion. Information Resources Inc. (IRI), which has grown very rapidly and is best known for its supermarket scanner services, was in second place, followed by Arbitron, Walsh International, and Westat. Most of the firms shown on the list provide data for advertising planning, implementation, and control purposes. D&B, IRI, and Arbitron, offer syndicated services to which advertisers subscribe on an ongoing basis. Others, such as Market Facts, provide custom services tailored to the individual client's specific needs.

Some companies tend to specialize in either copy testing (ad testing is commonly called copy testing even though it is the whole advertisement that is usually tested, not just the copy) or audience measurement and provide information most useful for copy and media decision making. In broadcast, ASI Market Research, ARS, McCollum Spielman Worldwide, and the Gallup Organization are well known for their copy-testing services. Among the better known copy-testing services for print advertisements are those of Starch INRA Hooper. Concerning audience measurement, D&B (A. C. Nielsen) is the most prominent in broadcast. Simmons Market Research Bureau is one of the leaders in print audience measurement. Dozens of specialized services, such as Scarborough and CMR (CMR monitors advertiser spending rates), are available for media planners. In print, ABC provides basic circulation and other data for magazines and newspapers, and BPA provides similar information for business, technical, and trade papers. SRDS (Standard Rate and Data Service), Simmons, and MRI (Mediamark Research, Inc.) provide very useful information on all media. Information Resources is an example of a firm that uses supermarket checkout scanner data to evaluate advertising and other marketing effects. Their service, called BehaviorScan, has grown rapidly and has now attracted competing companies.

Market research is a significant industry in the United States and is the source of much of the information used in advertising management. Throughout the book, we will show how research information enters at various stages of ad-

Table 1-7. Top Ten Research Companies, 1993[a]

Rank 1993	Rank 1992	Company	Research Revenues (Millions)	% Change From 1992	Research Revenues From Outside U.S. (Millions)
1	1/2	D&B Marketing Information Services	$1,868.3	−1.2%	$1,139.7 est
2	3	Information Resources, Inc.	334.5	21.1	50.2
3	4	The Arbitron Co.	172.0	−3.4	
4	6	Walsh International/PMSI	115.4	32.1	39.7
5	5	Westat, Inc.	113.1	−0.5	
6	7	Maritz Marketing Research Inc.	74.4	6.7	
7	8	The NPD Group	66.0	15.6	15.7
8	10	NFO Research Inc.	51.9	10.2	
9	11	Elrick & Lavidge Inc.	47.1	0.6	
10	12	Market Facts Inc.	45.6	12.0	
		Total	$2,888.3	9.4%	$1,245.3

Adapted from Jack J. Honomichl, "The Honomichl 50," Marketing News, *28, no. 12 (June 6, 1994), H4. Published by the American Marketing Association.*

[a]For some companies, total revenues that include nonresearch activities are significantly higher than those shown in the table. Percent change from 1992 has been adjusted so as not to include revenue gains from acquisition.

vertising management and discuss specific services in more detail. Here it is important to gain an initial impression of the diversity and range of such services and to appreciate the importance of their role in advertising management.[49]

PERSPECTIVES ON ADVERTISING

There is an extensive literature on advertising, made up of books, monographs, reports, journal articles, and speeches, most of which have been written since the turn of the century. David A. Revzan of the University of California lists more than 450 books on the subject of advertising written between 1900 and 1969.[50] There are at least six advertising handbooks, eight histories, and several biographical accounts of advertising people. Among recent such assessments are Stephen Fox's *The Mirror Makers* and Eric Clark's *The Want Makers*.[51]

In addition to handbooks and historical perspectives, advertising has been approached through a variety of paths and traditions. These different paths partly reflect the perspectives of such various disciplines as economics, psychology, social philosophy, and management. They also reflect the needs of the audiences to which they are addressed. Although many of the paths cross and some are ill defined, it is possible and useful to identify some of the main tracks that have been followed through the years.

Several books with an economic perspective, including Roland Vaile's *Economics of Advertising*, were published in the 1920s.[52] The depression of the 1930s increased public concern with the role advertising plays in our competitive economic system. Critics argued that advertising inhibits competition. In this environment, Harvard professor Neil Borden published a classic study of the economic effects of advertising.[53] The evaluation of advertising as an economic force in society has continued to receive attention over the years. A recent book in this tradition is Julian Simon's *Issues in the Economics of Advertising*.[54] The economic perspective tends to deal with aggregate statistics of firms and industries and is concerned with public policy implications.

The writings of sociologists, religious leaders, philosophers, and politicians are also extensive, many reflecting critical views of advertising. Thus, in 1932, Arthur Kallet and F. J. Schlink published *100,000,000 Guinea Pigs*, followed by such works as A. S. J. Basker's *Advertising Reconsidered* in 1935, H. K. Kenner's *The Fight for Truth in Advertising* in 1936, Blake Clarke's *The Advertising Smoke Screen* in 1944, F. P. Bishop's *The Ethics of Advertising* in 1949, and later works like Vance Packard's *The Hidden Persuaders*, Francis X. Quin's *Ethics, Advertising and Responsibility*, and Sidney Margolius's *The Innocent Consumer vs. the Exploiters*.[55] Advertising is a controversial subject about which scholars, intellectuals, and businesspeople tend to form strong and often contradictory opinions.[56]

Another approach to advertising, descriptive in nature, typifies the introductory texts covering the principles of advertising that have appeared from the early 1900s to the present time. They describe such institutions of advertising as advertising agencies and the various media, often from an historical perspective. The relative importance and the operation of these institutions is of central interest. Books of this type often also describe in some detail the physical process of creating advertising—the selection of type faces, the production process, and other practical particulars. The descriptive approach generally focuses on what advertising is in a macro sense and how it works at a detailed level. A good example is William Wells, John Burnett, and Sandra Moriarty, *Advertising Principles and Practice*.[57]

Behavioral approaches to advertising can be traced to Walter Dill Scott's 1913 book, *The Psychology of Advertising*.[58] Since then, there has been a steady stream of books firmly tied to the behavioral disciplines, such as D. Lucan and C. E. Benson's *Psychology for Advertisers* in 1930 and, more recently, Edgar Crane's *Marketing Communications*.[59] This approach is largely concerned with the analysis of the communication process, using behavioral science theory and empirical findings. The interest in motivation research in the 1950s and consumer buyer behavior in the 1960s provided impetus to this area of thought. During the past decade, in particular, an enormous amount of progress has been made in using theories and models from psychology, social psychology, and sociology to help understand buyer behavior, the communication process, and the link between the two.

The research tradition in advertising parallels the development of the various media research services discussed earlier. It has also done much to motivate academic work on basic advertising research and studies of advertising effectiveness.

The managerial tradition is really more recent in origin. Perhaps the first book truly devoted to the subject of advertising management was a case book by Neil Borden and Martin Marshall, *Advertising Management: Text and Cases*, published in 1950 and revised in 1959.[60] This book, and the others that followed, approached the subject from the viewpoint of a manager faced with the tasks of preparing an advertising budget, deciding how to allocate funds to different media, and choosing among alternative copy strategies. These books were thus decision-oriented and provided a contrast to the principles approach, in which the nature and role of advertising institutions and advertising techniques tended to be the point of emphasis.

Still another approach to advertising, even more recent in origin, is the model-building perspective originating from the fields of operations research and statistics. Although it had early predecessors, it really began in the late 1950s with the development of decision models concerned with allocating the media budget.

The Approach of This Book

This book, like others, will touch on all these traditions, although its main thrust is really to blend the last four. The managerial perspective will largely motivate the book. The focus is on decision making, specifically those decisions that generate an advertising campaign. The book involves an attempt to analyze and structure systematically the various decision areas within advertising and to present material that shows promise of helping decision makers generate better alternatives and improve their decision-making process.

In doing this, the book will draw heavily on the models and theories that have originated from the behavioral disciplines and the more quantitative models that have emerged from operations research and statistics and the research techniques and approaches that underlie each. Our goal will be to extend and organize these models in such a way as to reveal their potential utility to decision makers.

SUMMARY

There are four major advertising institutions with which the reader should be familiar: the advertiser, the advertising agency, the media, and the research suppliers. There is a wide variety of advertisers. Those who are classified as national advertisers spend the largest share of advertising dollars. The balance is spent by local advertisers. Advertisers can also be distinguished by the product type with which they are involved: consumer packaged goods, consumer durables, retail stores, or industrial products, for example.

In most cases, an advertising agency actually creates the advertisements and makes the media-allocation decisions. For this service, it receives from the various media 15 percent of the advertising billings it places. During the 1980s, advertising agencies underwent a wave of acquisitions and mergers leading to the creation of huge megagroups. Reasons for this trend include the high number of mergers in client firms, the rise in other communications mix activities like promotions and direct mail, and the need to reduce client conflict.

Media developments have dramatically influenced the thrust of advertising through the years. The printing press made possible newspapers and magazines, the major media before the advent of the broadcast media, television and radio. Radio in 1922 and television in 1948 provided a new dimension to advertising and sparked a period of growth. Despite the competition of the broadcast media, newspapers continue to be the largest medium, with more than \$32 billion in advertising revenues in 1993. Television was second with about \$30.6 billion, followed by direct mail advertising's over \$27 billion. The rapid expansion of cable television and the new computer networks that will make up the "information highway," as well as the capacity of interactivity between sender and receiver promises to bring television the same level of specialized audiences that magazines now deliver. Increased competition from cable has also cut deeply into market shares of the major broadcast television networks. The marriage of computer and television technologies, and the explosion of acquisitions and mergers in these and related telephone, entertainment, and electronic industries are profoundly affecting our views of what is meant by print and broadcast media and the roles that they will play in the next century.

Modern advertising management is heavily involved with research, and a sizable industry of research supplier firms has grown up to serve the needs of advertisers, agencies, and the media. Today, over \$1 billion is spent annually on marketing and advertising research and specialized services associated with each of the major media.

Since the 1900s, hundreds of books on advertising have been published, most of which can be categorized into different writing traditions. Some are historical and others descriptive in their orientation; still others represent the perspectives of economists, social philosophers, managers, behavioral scientists, and quantita-

tive model builders. As with past editions, this edition of *Advertising Management* is motivated by the managerial perspective, the creative tasks, and media decisions that generate new advertising campaigns or guide the management of ongoing campaigns. The book also draws heavily on research and models that have their origins in both the behavioral and quantitative disciplines. A major purpose is to integrate these two model-building traditions to enhance their power and relevance to advertising decision makers.

DISCUSSION QUESTIONS

1. Advertisers are defined as organizations that make use of mass media, whereas nonadvertisers do not. Are there any exceptions to this definition? In what other ways might advertisers and nonadvertisers be distinguished?
2. How will the role of advertising differ when the product involved is a consumer packaged product instead of a consumer durable? How will it differ for a retailer and an industrial advertiser? What part of the marketing program will advertising be assigned to in each case?
3. What similarities and differences would there be between the development of an advertising campaign for the Ford Foundation or the Forestry Service and Procter & Gamble or General Motors?
4. Consider the major institutions of advertising management given in Figure 1-1. Are there others that should be included? Write a brief statement explaining the primary roles of each institution.
5. Do you believe that a company like Procter & Gamble should develop its own in-house agency, thereby keeping the 15 percent commission it would otherwise pay an agency?
6. What are some consequences of the significant number of advertising agency mergers in the 1980s? Discuss and give examples to support your arguments.
7. Examine Table 1-5 for media trends. Why did outdoor media decline between 1955 and 1965? What is its likely future now? Why did total advertising expenditures increase so dramatically in 1950 and again in 1955 and 1984? Why did radio decline in 1955?
8. Consumers will soon be able to purchase prerecorded videodiscs and engage in two-way communications via cable television systems. What are some of the implications of these developments for advertisers?
9. Critics of advertising often wonder why certain advertisements are used. Outline the major research studies and research supplier services that would be involved in developing a major national campaign.
10. Consider the different perspectives on advertising. For each, try to determine what would be regarded as the key issues. What types of experimental evidence would be of the greatest interest to each?
11. What are some advertising issues associated with global branding? Discuss the pros and cons of family branding from a global, international perspective.
12. If you were to select an advertising agency to develop and implement a campaign for a new Honda sports car, what agency attributes would you consider most important?

NOTES

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19. Ibid., p. 102.
20. Ibid., pp. 106, 111.
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23. *Advertising Age*, May 22, 1989, p. 72.
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27. *Advertising Age*, March 6, 1989, p. 4.
28. *Advertising Age*, March 28, 1985.
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30. For some general background, see *Fortune*, November 15, 1993, pp. 147–164.
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33. "Advertising That Comes à La Carte," *Business Week*, May 1, 1971, p. 46.
34. Mandell, *Advertising*, p. 24.
35. *Leo Burnett Media Costs and Coverage Guide*, 1990.
36. *Advertising Age*, December 7, 1964, p. 32.

37. *Advertising Age*, October 20, 1969, p. 50.
38. *Advertising Age*, April 30, 1980, p. 270.
39. Ibid.
40. *Leo Burnett Cost Guide*, 1990.
41. *Advertising Age*, October 20, 1969, p. 184.
42. *Leo Burnett Cost Guide*, 1990.
43. Ibid., p. 66.
44. *Advertising Age*, April 24, 1989, p. 2; for the more recent statistics, see Chapter 17 of this book.
45. Donnelley Marketing Inc., *The 16th Annual Survey of Promotional Practices*, 1994.
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2 ADVERTISING PLANNING AND DECISION MAKING

Plans are nothing, planning is everything.
(Dwight D. Eisenhower)

If you are planning a career as a brand or product manager in a large corporation or perhaps a career as an accountant executive in an advertising agency, or if you think you will probably join a small firm or start a business of your own, you need to learn how to develop and write advertising and marketing plans. President Eisenhower may have been right when he put the emphasis on the process of planning rather than on the plan itself, but it most cases you will be responsible for developing a written plan and defending that plan in front of your peers and senior executives of a corporation or nonprofit organization. And, if you want to stay employed in one of those well-paid positions, you must learn decision making—how to identify strategic choices, how to choose the best alternative from among those available in a given situation, and how to implement strategic and tactical decisions. This book should increase your learning and skills in all of these facets of the subject of advertising management.

Chapter 1 presented a broad view of the field. Recall that the advertiser component is the core of the system. Many of the perspectives in this chapter and the balance of the book reflect the advertiser viewpoint. The major activities of advertising management are planning and decision making. In most instances, the advertising or brand manager will be involved in the development, implementation, and overall management of an advertising plan. The development of an advertising plan essentially requires the generation and specification of alternatives. The alternatives can be various levels of expenditure, different kinds of objectives or strategy possibilities, and numerous kinds of options associated with copy creation and media choices. The essence of planning is thus to find out what the feasible alternatives are and reduce them to a set on which decisions can be made. Decision making involves choosing from among the alternatives. A complete advertising plan reflects the results of the planning and decision-making process and the decisions that have been made in a particular product-market situation.

This chapter presents a framework for advertising planning and decision making. It is an elaboration of the advertising system model given in Chapter 1 and expands the advertiser component. It also provides an overview of the structure and contents of the book.

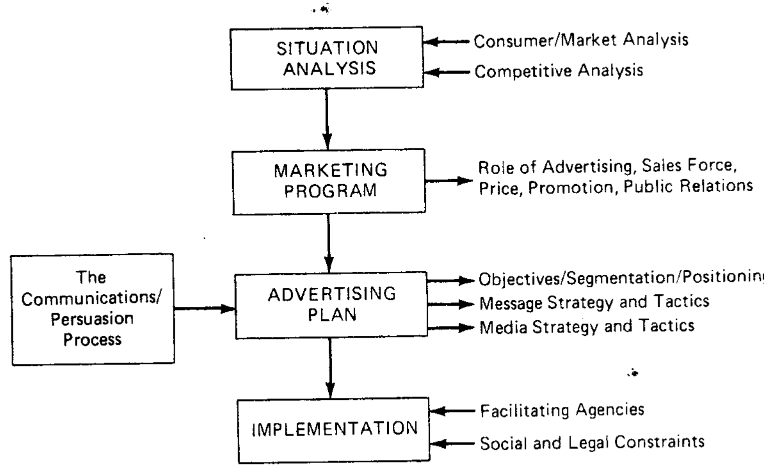

Figure 2–1. Framework for advertising planning and decision making.

PLANNING FRAMEWORK . . . .

The major internal and external factors involved in advertising planning and decision making are shown in Figure 2–1. Internally, situation analysis, the marketing program, and the advertising plan are key considerations. As suggested in the diagram, the three legs of advertising planning concern: (1) objective setting and target market identification, (2) message strategy and tactics, and (3) media strategy and tactics. The advertising plan should flow from the overall marketing program. Any advertising plan is best thought of as part of an overall marketing plan which should be developed following a situation analysis of the organization's particular situation. Situational analysis implies research and research is vital to planning and decision making. Once developed, an advertising plan is implemented and becomes an advertising campaign, carried out in the context of social, legal, and global factors and with the aid of various types of facilitating agencies.

The balance of this chapter addresses each of these considerations. First, situation analysis is explained and discussed. Then a brief review of a marketing plan is presented. This is followed by sections on facilitating agencies and a discussion of the role of social, legal, and global factors.

MARKETING STRATEGY AND SITUATION ANALYSIS . . . .

The planning and decision-making process begins with a thorough analysis of the situation the advertiser faces and the development of marketing strategy. Marketing strategy includes the long-run vision and objectives of the company as well as an articulation of the specific strategic position it will aim to occupy in the marketplace in the years ahead. The company's strategic position might be either one in which it is the low-price leader, seeking growth through offering prices that are

Table 2–1. (Continued)

C. Nature of competition
   1. What is the present and future structure of competition?
      A. Number of competitors (5 versus 2,000)
      B. Market shares
      C. Financial resources
      D. Marketing resources and skills
      E. Production resources and skills
   2. What are the current marketing programs of established competitors? why are they successful or unsuccessful?
   3. Is there an opportunity for another competitor? why?
   4. What are the anticipated retaliatory moves of competitors? can they neutralize different marketing programs we might develop?

D. Environmental climate
   1. What are the relevant social, political, economic, and technological trends?
   2. How do you evaluate these trends? do they represent opportunities or problems?

E. Stage of product life cycle
   1. In what stage of the life cycle is the product category?
      A. What is the chronological age of the product category? (Younger more favorable than older?)
      B. What is the state of the consumers' knowledge of the product category?
   2. What market characteristics support your stage-of-life-cycle evaluation?

F. Cost structure of the industry
   1. What is the amount and composition of the marginal or additional cost of supplying increased output?

G. Skills of the firm
   1. Do we have the skills and experience to perform the functions necessary to be in the business?
      A. Marketing skills
      B. Production skills
      C. Management skills
      D. Financial skills
      E. R&D skills
   2. How do our skills compare with those of competitors?
      A. Production fit
      B. Marketing fit
      C. And so on

Table 2–1. (Continued)

H. Financial resources of the firm
  1. Do we have the funds to support an effective marketing program?
  2. Where are the funds coming from, and when will they be available?

Source: Adapted from an unpublished note by Professor James R. Taylor of the University of Michigan. Used with permission.

In many cases, a situation analysis is undertaken from the perspective of the total company or product line and will involve finding answers to dozens of questions, including questions about the history of the product, distribution, pricing, packaging, consumer analysis, and competition. While there are many parts to a good situation analysis, two key components are the nature and structure of consumer demand and the nature of competition.

Consumer and Market Analysis

A situation analysis often begins by looking at the aggregate market for the product, service, or cause being advertised: the size of the market, its growth rate, seasonality, geographical distribution; the possible existence of different segments; and trends in all of these aggregate market characteristics. See section B in Table 2–1 for sample questions.

It is vitally important, however, that the *reasons* for these aggregate statistics and market trends be understood. The analyst needs to examine and understand the attitudes and behaviors of consumers as individuals (or, in some cases, as decision-making groups). See section A in Table 2–1. Who makes the purchase decision? What benefits are they seeking from the product category? Why are they satisfied or dissatisfied with particular brands? Key aspects of such consumer research and analysis are examined in Chapter 4 (Setting Goals and Objectives), Chapter 5 (How Advertising Works), and in Chapter 6 (Segmentation and Positioning).

Competitive Analysis

Advertising planning and decision making are heavily affected by competition and the competitive situation the advertiser faces. Competition is such a pervasive factor that it will occur as a consideration in all phases of the advertising planning and decision-making process and the various topics treated in much of the balance of this book. A type of market structure analysis that involves the development of perceptual maps of a market, for example, attempts to locate the relative perceptual positions of competitive brands. This topic is covered in detail in Chapter 6.

Situation analysis should usually include an analysis of what current share the brand now has (if it is an established brand), what shares its competitors have, trends in these shares, reasons for these trends, what share of a market is possible for the brand, and from which competitors an increase in share will come. The planner also has to be aware of the relative strengths and weaknesses—financial, production, and marketing—of the different competing companies, and the history of competitive moves and objectives in the product category. If we spend advertising dollars communicating the fact that our brand has a desired benefit, will certain competitors begin claiming the same benefit, thus eliminating any competitive advantage we may hope to get?

Opportunities for marketing and advertising can also be uncovered using competitive analysis. Is there a "hole" in the market not now being filled by a competitive offering? In other terms, is there a bundle of attributes that a consumer segment desires that some competitor has not yet targeted against? Much research shows that companies that are the first to launch brands that meet unmet needs often have a "pioneering advantage" that later competing entries find difficult to fight.[4]

These types of questions need to be asked and answered not only in the initial stages of developing an advertising plan but through the years in which old campaigns are evaluated and improved. Many companies have initiated their own tracking systems for monitoring competitive advertising that monitor the content of the advertising, how much money is being spent, and the media in which competitive ads appear. We discuss some secondary sources of such competitive information in Chapter 17, since such competitive spending information is often a useful input into the budgeting decision. A chapter is not devoted to competition in this book. It is important to look at competition as a precursor to the planning process and to appreciate that the development of plans and decision making with respect to objectives, budgets, copy, and media all must take into account the competitive factor.

THE MARKETING PLAN

Advertising planning and decision making take place in the context of an overall marketing plan. The marketing plan includes planning, implementation, and control functions for the total corporation or a particular decision-making unit or product line. The marketing plan will include a statement of marketing objectives and will spell out particular strategies and tactics to reach those objectives. The marketing objectives should identify the segments to be served by the organization and how it is going to serve them. The needs and wants of consumers on which the firm will concentrate, such as the needs of working men and women for easily prepared meals, are identified and analyzed in a marketing plan.

There are several marketing tools that can be used to help an organization achieve its marketing objectives. Most people are familiar with the "4 Ps"—the marketing mix which includes product, price, place, and promotion. A marketing plan formulates the strategy and tactics for each of these. The marketing plan should be based on the specific problems or opportunities uncovered for the brand by the situation analysis. It should serve as a response to those problems or opportunities through the allocation of the marketing budget and the development of specific plans for various components of the marketing mix. A discussion of how to create a good marketing plan can be found in any marketing textbook and is thus not repeated here.

The effectiveness of the various elements of the marketing mix with respect to the problems or opportunities should be the factor that determines what share each receives of the total marketing budget. Conceptually, the budget should be divided so that the marginal value of an extra dollar will be the same in all components of the mix: dollars should be shifted to the areas that will produce the greatest incremental sales volume. In evaluating the advertising budget, therefore, it is important to keep in mind that incremental amounts of money put into advertising must be more useful than the same amounts put into distribution or product refinement, or even reduced prices. Chapter 16 is devoted to a discussion of the media budget and how the optimal budget level can be determined.

Once this budgetary allocation has been decided, integration of the elements of both the marketing mix and the communication mix is vital to the development of successful marketing and advertising plans. Chapter 3 (Integrated Marketing Communications) focuses on this issue and discusses complementary communications tools such as direct marketing, sales promotion and other action-oriented advertising, public relations, and so on.

THE COMMUNICATION AND PERSUASION PROCESS

The most important factor to be considered in planning advertising, in addition to the marketing plan, is an understanding of the communication and persuasion process. Although much has been researched and written about the effects of advertising and how it works, it is important to appreciate that this is a subject about which there are few definitive answers. There are perhaps as many theories about how advertising "works" as there are people who work in advertising, and it is impossible to discuss them all here. Some of these theories will appear in later chapters, but we will present two well-known ones here. An appreciation for the processes by which advertising works is of great value in designing advertising plans—plans that maximize the advertisement's impact on the consumer.

Advertising Communication System

Figure 2–2 shows one simple model of the advertising communication system. Advertising communication always involves a perception process and four of the elements shown in the model: the source, a message, a communication channel, and a receiver. In addition, the receiver will sometimes become a source of information by talking to friends or associates. This type of communication is termed *word-of-mouth* communication, and it involves social interactions between two or more people and the important ideas of group *influence* and the *diffusion of information*.

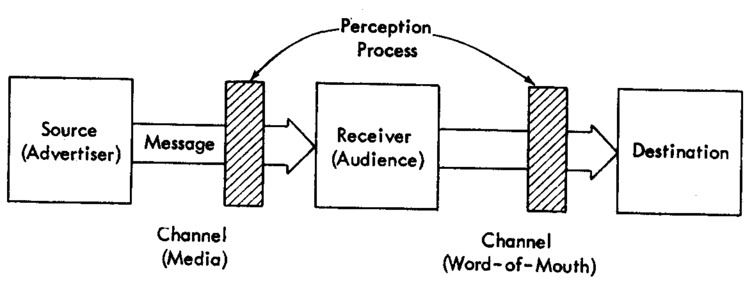

Figure 2-2. Model of the advertising communication system.

These ideas are discussed in Chapter 11 (Group Influence and Word-of-Mouth Advertising).

Source

The *source* of a message in the advertising communication system is the point of which the message originates. There are many types of "sources" in the context of advertising, such as the company offering the product, the particular brand, or the spokesperson used. A model on source factors is developed in Chapter 12 (Creative Approaches) to show the various dimensions of source effects, such as credibility and attractiveness. They are of obvious importance in deciding how best, and through whom, to communicate the advertising message.

Message

The *message* refers to both the content and execution of the advertisement. It is the totality of what is perceived by the receiver of the message. The message can be executed in a great variety of ways and can include, for example, the use of humor and fear, as discussed in Chapter 9 (Associating Feelings with the Brand). In later chapters, specific types of television commercials will be discussed and can also be considered ways to think about the advertising message.

Channel

The message is transmitted through some *channel* from the source to the receiver. The channel in an advertising communication system consists of one or more kinds of media, such as radio, television, newspapers, magazines, billboards, point-of-purchase displays, and so on. The impact of the communication can be different for different media. For example, an advertisement exposure in *Vogue* can have an effect quite different from exposure to the same advertisement in *Good Housekeeping*. In Chapter 17 (Media Tactics: Allocating Media Budgets), this channel effect will be considered in more detail. Word-of-mouth communication, as mentioned above, represents another channel that is of special interest because it can sometimes play a key role in an advertising campaign. It should be noted that any communication system has a channel capacity. There is only so much information that can be moved through it and only so much that a receiver will be motivated to receive and capable of processing. For example, there is a physical limit to the number of advertisements that can be shown on prime time. Shortages of available advertising time can be a real problem.

Receiver

The *receiver* in an advertising communication system is also called the target audience. Thus, the receiver can be described in terms of audience segmentation variables, lifestyle, benefits sought, demographics, and so on. Of particular interest might be the receiver's involvement in the product and the extent to which he or she is willing to search for and/or process information. It is the characteristics of the receiver—the demographic, psychological, and social characteristics—that provide the basis for understanding communications, persuasion, and market processes.

Destination

The communication model in Figure 2–2 does not stop at the receiver but allows for the possibility that the initial receiver might engage in word-of-mouth communication to the ultimate destination of the message. The receiver then becomes an interim source and the destination becomes another receiver. As mentioned earlier, word-of-mouth communication resulting from advertising can be a critical part of a campaign. The reality is that for some products the absence of word-of-mouth communication can be fatal. It is only the word-of-mouth communication that has the credibility, comprehensiveness, and impact to affect the ultimate behavior of a portion of the audience. Furthermore, advertising can actually stimulate word-of-mouth activity. Even when it cannot stimulate it, a knowledge of its appropriateness and power can be very helpful.

Note that an advertising message can have a variety of effects upon the receiver. It can

- **Create awareness**
- **Communicate information about attributes and benefits**
- **Develop or change an image or personality**
- **Associate a brand with feelings and emotions**
- **Create group norms**
- **Precipitate behavior**

Advertising Exposure Model

Figure 2–3 presents another model of the communication and persuasion process that shows the various processes that can occur after consumers are exposed to an advertisement. First, exposure to the advertisement can create awareness about the brand, leading to a feeling of familiarity with it. Second, information about the brand's benefits and the attributes on which the benefits are based can register with the consumer can also result from exposure to the ad. Third, advertisements can also generate feelings in an audience that they begin to associate with the brand or its consumption. Fourth, through the choice of the spokesperson and various executional devices, the advertisement can lead to the creation of an image for the brand, often called "brand personality." Fifth, the advertisement

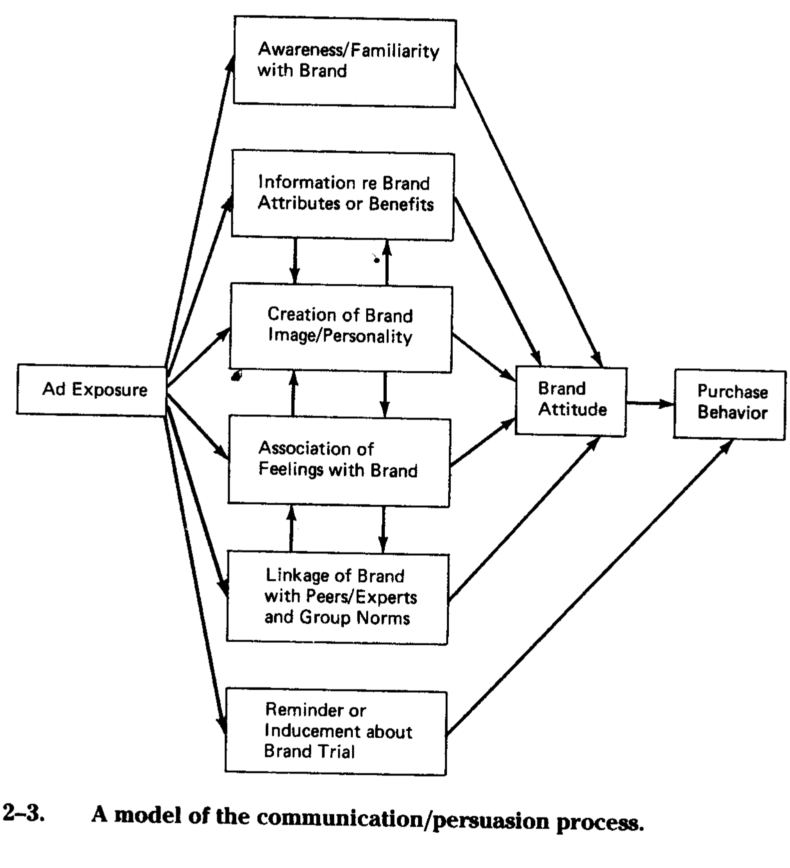

Figure 2–3. A model of the communication/persuasion process.

can create the impression that the brand is favored by the consumer's peers, or experts—individuals and groups the consumer likes to emulate. This is often how products and brands are presented as being fashionable. These five effects can create a favorable liking, or attitude, toward the brand, which in turn should lead to purchasing action. Sometimes the advertiser will attempt to spur purchasing action directly by providing a reminder or by attacking reasons why the consumer may be postponing that action.

These two models help us to understand how and why consumers acquire, process, and use advertising information. It is also important at the planning stage to develop a good understanding of where advertising fits into the total pool of information and influence sources to which a consumer is exposed. Understanding information processing invariably leads to the need for understanding a wide range of other important psychological constructs, such as perception, learning, attitude formation and change, source effects, brand personality and image, cognitive and affective response, and social factors such as group influence. Chapters 5 through 10 are devoted to these topics. With this background in the communication and persuasion process behind us, let us return to the steps involved in the creation of the advertising plan.

THE ADVERTISING PLAN

As depicted in the flow diagram of Figure 2–1, the advertising plan should only be developed once the overall marketing plan has been created and the role of advertising within it has been assessed. Advertising planning and decision making focus on three crucial tasks: objectives and target selection, message strategy and tactics, and media strategy and tactics. Every advertising plan will, at a minimum, reflect planning, decisions, and commitments concerning each of these three major components. The broad purpose of advertising management is to develop, implement, and control an advertising plan. Planning as a process involves the generation and specification of alternatives. Decision making concerns the choice of the best alternative. Which strategy alternatives are feasible in a given situation? Which one should be adopted? What media mix will be most effective? These are some of the questions every advertising manager must address.

In an established-brand situation, analysis will involve a retrospective look at what has been done in the past and whether basic changes in the current plan are called for. In new product situations, the manager may be essentially starting from scratch, and each aspect of the plan will require basic new thinking, significant amounts of new research information, and the development of entirely new advertising objectives and new copy and media strategies.

Alternatives with respect to objectives and the target market must first be carefully evaluated and specified. Then copy alternatives must be developed and analyzed with respect to both content (message strategy) and execution (message tactics). The decisions made at this stage take the form of the advertising campaign adopted in the particular situation. Finally, media alternatives need careful specification and analysis and decisions must be made on how much money to spend (media strategy) and where to allocate it (media tactics). In each case, planning and decision making are involved.

Objectives and Target Selection

The pivotal aspect of any management plan is the development of *operational objectives.* An operational objective is one that provides useful criteria for decision making, generates standards to measure performance, and serves as a meaningful communication device. Objectives in advertising can be couched in many ways and still fulfill the functions of an operational objective. It is sometimes possible to develop objectives in terms of sales goals. Such goals are desirable because they appear to provide a readily accessible and absolute indication of advertising performance. However, because other marketing variables and competitors' actions can have an important impact on sales, it is often necessary to establish objectives in terms of intervening variables such as brand awareness, image, and attitude. The link between such intervening variables and advertising is more direct. Thus a significant increase in brand awareness can usually be identified with advertising. There are simply few other possible causes. To justify the use of intervening variables, a link must be established between them and subsequent sales. Much of Chapters 4, 5, and 6 of this book will deal with the nature of that link.

An important part of the objective is the development of a precise, disciplined description of the target audience. It is often tempting to direct advertising at a broad audience; the implicit argument is that everyone is a potential customer. The risk is that a campaign directed at too wide an audience will have to have such a broad appeal that it will be of little interest to anyone and thus be ineffective. It is best to consider directing the advertising to more selected groups for which it is easier to develop relevant, stimulating copy. An advertiser need not be restricted to one objective and one campaign. It is quite possible to develop several campaigns, each directed at different segments of the market, or to develop one campaign based on multiple objectives. Chapter 6 looks at different ways of segmenting markets and ways to "position" brands to attract specific segments.

Message Strategy and Tactics

The actual development of an advertising campaign involves several distinct steps. First, the advertising manager must decide what the advertising is meant to communicate—by way of benefits, feelings, brand personality, or action content. We call this *message strategy* and devote five chapters in Part III to it. Once the content of the campaign has been decided, decisions must be made on the best and most effective ways to communicate that content. These executional decisions, such as the choice of a spokesperson, the use of humor or fear or other tones, and the selection of particular copy, visuals, and layout, are what we call *message tactics*. Part IV of the book discusses these tactics, as well as other aspects of implementation, such as copy testing, advertising production, and the process of client-agency interaction.

Message Strategy

One of the first strategic objectives has to be the design of an advertisement that gains attention, for without that nothing else is possible. In Part III (Message Strategy), we review in Chapter 7 (Attention and Comprehension) theories of attention, comprehension, and perception processes and discuss how advertisements can be created that capture and retain a consumer's attention. How can attention best be captured in an age in which thousands of advertisements compete for attention and in which consumers can flip television channels with a mere flick of a remote control device? Chapter 8 (Understanding Benefit-Based Attitudes) then examines theories of benefit-based attitudes. Much of the material draws on recent work of consumer behavior researchers in this area, particularly in extending our understanding of learning, attitudes, and attitude change. It focuses on how decisions can be made about which attributes and benefits to emphasize in the advertising.

Chapter 9 focuses on theories and research that contribute to our understanding of advertising that is explicitly designed to generate emotional responses in the audience, such as warmth, excitement, pride, and so on, and to "transform" the brand by associating these feelings with it. How should advertisers choose which emotions to evoke, and how can they tell when they have been successful?

Chapter 10 (Brand Equity, Image, and Personality) examines such questions as: What is brand equity? How can it be measured? What personality dimensions or traits can brands acquire through advertising? What are the situations when brand personality is more important in driving purchase? What is the importance of brand personality in creating long-term "goodwill" for a brand? Most importantly, how can advertising and other marketing mix elements create such a brand image?[5]

Next, Chapter 11 (Group Influence and Word-of-Mouth Advertising) looks at the processes of group influence and word-of-mouth advertising and examines how advertising can help shape group norms and fashions. In what advertising situations is group influence likely to play a major role? It is often useful to conduct a *personal influence audit*, explained in this chapter as part of a general situation analysis.[6]

Message Tactics

In Part IV (Message Tactics), we begin with Chapter 12 (Creative Approaches). The pros and cons of different kinds of spokespersons and the kinds of advertising situations in which they may be most appropriate are presented and discussed. Chapter 12 also examines other decisions on "tone and format," such as the use of fear, humor, comparative advertising, and devices to increase distraction.

The content and tone must eventually be translated into specific advertisements. Throughout the process, decisions have to be made concerning which different copy approaches, scripts, and final advertisements will be used. Chapter 13 (The Art of Copywriting) examines some of the existing knowledge on the principles of good copywriting for each of the major media (print, television, radio, outdoor), and presents capsule portraits of some of the creative geniuses that have graced the advertising business.

Assessments of what makes for "good" copy are not merely subjective, of course, and several kinds of research-based tests can be used, in the laboratory or in the field, to enable a creative team to check the evolving campaign continually against its objectives. These are discussed in Chapter 14 (Advertising Copy Testing and Diagnosis).

Concluding Part IV, Chapter 15 (Production and Implementation) examines how advertisements actually get created, produced, and implemented and describes the client-agency relationship through which this happens. Here, we also present some wisdom on how clients and agencies can best work together to create the most effective advertising.

Media Strategy and Tactics

Whereas message strategy generally concerns decisions about how much to allocate to creating and testing advertising copy, media strategy concerns decisions on how many media dollars to spend on an advertising campaign. Media tactics comprise the decisions about which specific media (television, radio, magazines, etc.) or media vehicles (David Letterman's *Tonight Show*, *Reader's Digest*, etc.) to use. Both media strategy and tactical issues are covered in Part V.

Media Strategy

The advertising budget decision, covered in Chapter 16 (Media Strategy: Setting Media Budgets), is closely tied in with the objectives and target selection decisions discussed in Chapters 3, 4, and 5. Although there are many rules of thumb often used to decide how much money to spend on advertising, the soundest rules involve beginning with a detailed specification of what a corporation is attempting to accomplish with advertising, and the resources necessary. It is only when the job to be done is well specified that the amount and nature of the effort—the amount of money to be invested in advertising—can be really determined. In Chapter 16, we will examine some of the traditional approaches to the advertising budget decision and contrast them with approaches we recommend.

Media Tactics

Chapter 17 (Media Tactics: Allocating Media Budgets) discusses criteria that apply in the allocation of an advertising budget across media types and within each media type. The media-allocation decision and media planning represent one of the few areas in advertising in which the use of mathematical techniques and computer programs is well accepted. These will be discussed, as will other factors that need to be taken into consideration. One such factor is the type of vehicle audience and how well it matches the target audience of the campaign. Another is the ability of the vehicle to enhance the advertising impact, perhaps by creating a compatible mood or setting.

The type and nature of research information required to support media models differs somewhat from the perspectives of research in the case of copy decisions. A media planner is interested in questions concerning the reach and frequency of media alternatives, the effects of various vehicles, and matters involving learning and decay rates over the life of a campaign. Media research is thus a special topic that is treated, along with the sources of media data, in Part V.

The decisions made in the media area and in the other areas of objectives and copy constitute the final advertising plan. What we want to stress is that advertising plans must all take these three major factors (objectives and target groups, message strategy and tactics, and media strategy and tactics) into consideration and that advertising plans will differ according to the decisions made in each area. The internal differences between advertising plans stem largely from differences in the external factors and the environmental situations that face advertisers. These external factors shape the advertising plan in many ways, and it is vital that they be analyzed in depth as the planning process proceeds.

FACILITATING AGENCIES

Another external factor identified in Figure 2-1 involves the agencies that facilitate advertising and provide the means to advertise. Recall that the nature and role of these types of agencies and institutions were reviewed in Chapter 1. From a situation-analysis viewpoint, the advertiser basically needs to know what kinds of facilitating agencies exist and the nature of the services they can provide. From a planning viewpoint, much local advertising, for example, is done without the services of an advertising agency or a research supplier. A national advertiser, on the other hand, may have under contract many different agencies and research suppliers, each serving one or more brands in a product line made up of several products.

Many advertising decisions involve choices among facilitating agency alternatives. What advertising agency should be chosen? What media should be used? What copy-testing supplier will be best for our particular situation? Concerning the question of agency selection, for example, Cagley and Roberts[7] found that the "people factor" tends to dominate in agency selection. Characteristics such as the quality of personnel, reputation, integrity, mutual understanding, interpersonal compatibility, and synergism were very important. The study involved a mail questionnaire sent to 125 companies and ratings on twenty-five attributes ranging from "critically important" to "not important." Consideration of the facilitating agency factor is woven throughout many parts of the book, with special focus in Chapter 15 on client-agency relations. In addition, the question of choosing a copy-testing research supplier is treated at length in Chapter 14, and the question of what media and what media research services to use are the topics of Chapters 16 and 17.

SOCIAL, LEGAL, AND GLOBAL FACTORS . . . .

The final external factor in the planning framework concerns environmental factors—social, legal, and global. In developing specific advertisements, there are certain legal constraints that must be considered. Deceptive advertising is forbidden by law. However, the determination of what is deceptive is often difficult, partly because different people can have different perceptions of the same advertisements. In guarding against deception, all types of perceptions must be considered. Furthermore, the letter and the spirit of the law on deceptive advertising is evolving rapidly. It is no small task to keep abreast of these developments. One solution is to create bland advertising that is vague and contains little specific information. However, such an approach can result not only in ineffective advertising, but it can lessen the social value of advertising by reducing the amount of useful information that it provides to society. Thus, an advertiser who attempts to provide specific, relevant information must be well aware of what constitutes deception in a legal and ethical sense and of other aspects of advertising regulation. These topics are covered in detail in Chapter 18 (Advertising Regulation).

Even more difficult considerations for people involved in the advertising effort are broad social and economic issues. Does advertising raise prices or inhibit competition? Also, issues such as the appropriateness of the use of sex or fear appeals are being examined. It has been suggested that women and minority groups are exploited in advertising by casting them in highly stereotyped roles. Another concern is that advertising, especially when it is more irritating than entertaining, is an intrusion into an already excessively polluted environment. A whole set of rules is emerging to cover advertising directed at children, and advertising of products such as alcohol and cigarettes, and the use of environmental and health claims in advertising. These and other similar concerns, particularly those that affect copy and creative strategy, are developed more fully in Chapter 19 (Advertising and Society).

Most large corporations and advertising agencies are now multinationals and global in their perspectives and organization. Chapter 20 (Global Marketing and Advertising) addresses some of the issues, benefits, and costs of global marketing and advertising. This is the last chapter in the book, and it provides a fitting end to understanding modern advertising and advertising management in the world of the 1990s.

SUMMARY

The predominant perspective of advertising management is that of the advertiser or brand manager in the advertiser component of the overall system. The broad purpose of the manager is to develop, implement, and control an advertising plan. His or her major activities involve planning and decision making.

Planning concerns the generation and specification of alternatives, and decision making concerns the choice process. Which alternative should be chosen? Which message or media strategy is best in a particular situation? What copy theme should be used? What media mix will be most effective? The advertising plan is developed in the context of the company's total marketing program which flows from situation analysis and an assessment of the consumer/market and competitive situation the company is in. Externally, the manager needs to engage in situation analysis with respect to the market conditions that are operating at the time and to assess the consumer/market, competitive, facilitating agency, and social, legal, and global factors that will affect decision making and the development of the plan. Internally, analysis should focus on the overall marketing program and how advertising will interact with the various components of the program. It is vital that the advertising plan be developed so as to mesh with and support the various components of the marketing and communications mix such as personal selling, pricing, public relations, and promotion. The advertising manager also needs to know the major areas of his or her planning and decision-making responsibilities. There are three areas of major importance: objective and target selection considerations, message strategy and tactics, and media strategy and tactics. Planning and decision making are required from each perspective, and the final advertising plan will reflect the various decisions made in each area. Figure 2–1 organized these factors into a planning and decision-making framework for advertising management that is driven by the need for advertising managers to have an in-depth understanding of communication and persuasion processes.

Two views of communication and persuasion processes were presented in this chapter (Figures 2–2 and 2–3), and later chapters will develop others. Cognitive and affective, or feeling, processes that occur between exposure to advertisements and ultimate buying or consuming behavior are primary points of focus. Exposure can lead to increased awareness of and familiarity with the brand, added information on brand attributes and benefits, creation of a brand image or personality, association of feeling with the brand, linkages of brands with peers and ex-

perts, and/or reminders and inducements to try or continue using the brand. All can affect brand attitude and ultimately purchase behavior.

Implementation of advertising plans is done with the assistance of many different kinds of external organizations such as production houses, broadcast and print media, advertising agencies, and research supplier companies. These are the "facilitating agencies" that help in bringing advertising into being. Also, implementation takes place in an environment of major social, economic, legal, and global forces. These, too, must be understood to develop effective advertising and engage in effective advertising management.

DISCUSSION QUESTIONS

1. What are the basic differences between planning and decision making in advertising management? How does an advertising plan differ from an overall marketing plan? How do advertising decisions differ from other types of marketing decisions?
2. Outline the major components and considerations that you would include in your advertising plan if you were the brand manager of a brand of gasoline, a major credit card, or a new electronic device for use in business computers. In what ways would the plans differ? In what ways would they be similar?
3. An important internal component to be considered is the overall marketing plan. Provide additional examples of how advertising interacts with the elements of the marketing plan.
4. Using the model in Figure 2–3, explain your reactions to a recent television advertisement.
5. Give an example of how a competitive situation would affect the development of an advertising plan for a museum, an airline company, and a telephone product.
6. Suppose in your assessment of the current advertising plan for your product you decided that the execution of the advertising campaign was fundamentally weak. Which of the facilitating agencies would you look to as a possible source of the problem? Discuss some of the considerations in switching sources in this case.
7. Advertising plans rest on three central planning and decision making considerations. Name them and give examples of each.
8. Explain the meaning of the term "message strategy." Give an example of three alternative messages strategies that might be adopted for a brand of peanut butter. Choose one of the strategies and defend your position.
9. It has been said that an advertising manager lives in an environment of considerable uncertainty. Explain this statement. Do you agree? What are the chief avenues open to reduce uncertainty?
10. It was stated in this chapter that it is often difficult to decide what is deception in advertising and what is not. Do you agree? What rules or principles should an advertiser use in deciding whether or not a message is likely to be considered "deceptive"?

NOTES

1. There has been much interest and new work in the area of business and marketing strategy in recent years. See David A. Aaker, *Strategic Market Management*, 3rd ed. (New York: Wiley, 1992); David A. Aaker, *Managing Brand Equity* (New York: The Free Press, 1991); and Michael E. Porter, *Competitive Strategy* (New York: The Free Press, 1980).
2. Alan P. Kuritsky, John D. C. Little, Alvin J. Silk, and Emily S. Bassman, " The Development, Testing, and Execution of New Marketing Strategy at AT&T Long Lines," *Interfaces* 12 (December 1982) 22–37.
3. See "Outline for Developing an Advertising Plan," in Don E. Schultz and Dennis G. Martin, *Strategic Advertising Campaigns* (Chicago: Crain Books, 1979), pp. 13–16. For a parallel approach which is specific to advertising called "advertising opportunity analysis," see Edward M. Tauber, "Point of View: How to Get Advertising Strategy from Research," *Journal of Advertising Research* 20 (October 1980), 67–72. For a book on marketing planning, see William A. Cohen, *The Marketing Plan* (New York: Wiley, 1995).
4. Gregory S. Carpenter and Kent Nakamoto, "Consumer Preference Formation and Pioneering Advantage," *Journal of Marketing Research* 16 (August 1989), 285–298.
5. John G. Myers, *Consumer Image and Attitude* (Berkeley, CA: Institute of Business and Economic Research, 1968).
6. A personal influence audit can be usefully done in conducting a situation analysis. See Chapter 9 for procedures involved in conducting a personal influence audit.
7. James W. Cagley and C. Richard Roberts, "Criteria for Advertising Agency Selection: An Objective Appraisal," *Journal of Advertising Research* 24 (April/May 1984), 27–31.

READINGS

#1—WHAT HAPPENED TO ADVERTISING?[a]

Mark Landler, Walechia Konrad, Zachary Schiller, and Lois Therrien

Madison Avenue was always a street that had just one side: sunny. The ad game, after all, is about optimism and the power of positive thinking. Advertising legend David Ogilvy regularly exhorted his top lieutenants to "encourage exuberance" and "get rid of sad dogs who spread gloom."

Well, welcome to Madison Avenue, 1991: It's the gloomiest kennel you ever saw. This once-buoyant business is suffering through the deepest and most prolonged ad drought in 20 years. Advertising has muddled through its share of recessions. But this downturn has sent an unusual shiver through the industry. The gloom has even reached Château de Touffou, the 12th century French castle where Ogilvy now lives in retirement. The advertising world, says the 80-year-old adman, is haunted by "a pervasive atmosphere of fear."

BIG COMEDOWN

What's causing the fear is the suspicion among ad executives—and many of the publishers and broadcasters who depend on ad sales for much of their revenues—that the current hard times are only a foretaste of much slower growth to come. It's a stunning comedown for a business that had grown accustomed to a seemingly limitless boom. From 1976 through 1988, total U.S.

[a]Reprinted from September 23, 1991 issue of *Business Week* by special permission, copyright © 1991 by McGraw-Hill, Inc.

ad spending consistently grew faster than the economy as a whole. In 1981 and 1982, when the U.S. economy caught a nasty cold, the ad biz didn't even sneeze. Instead, it recorded eye-popping growth rates of 12.8% and 10.2%, respectively.

New product categories, from personal computers to compact-disk players, were sprouting everywhere. All of them required lots of advertising. Airline deregulation prompted carriers to launch ad-intensive fare wars. The breakup of American Telephone & Telegraph Co. created seven Baby Bells that had to make names for themselves. Financial-services advertising stampeded along with the bull market.

For the mass media, it was a seller's market. The three TV networks demanded and got double-digit ad rate hikes every year. As ad revenues soared, the agencies reaped millions from their standard 15% commissions on media billings. Such heady growth spurred empire-building: Rupert Murdoch and Robert Maxwell built multinational media conglomerates. Maurice and Charles Saatchi snapped up ad agencies in Britain and the U.S., while three great American agencies—BBDO Worldwide, Doyle, Dane, Bernbach, and Needham Harper Worldwide—combined to form conglomerate Omnicom Group Inc.

Then the party stopped. Even before the recession, the industry began lagging behind gross national product growth (chart). As consumer spending slowed and corporate profits withered, marketers put the brakes on ad expenditures. Total ad spending grew just 5% in 1989 and 3.8% in 1990—well below nominal GNP growth. It could grow as little as 3% this year, according to Robert J. Coen, the industry's top forecaster. Coen, a senior vice-president at agency McCann-Erickson, has already downgraded his bellwether estimate twice.

And those aggregate statistics, which and spending on local ads, cable television, and direct mail, don't reflect the much sharper downturn in advertising in the big mass media, such as TV networks and national publications. Network ad spending fell 7.1% in the first half of 1991 from the same period last year, according to the Television Bureau of Advertising. And revenues at the 170 magazines tracked by Publishers Information Bureau fell nearly 5% in the first half of 1991. Newspapers have also seen their growth contract sharply, pressed by the wave of retailer bankruptcies and plummeting real-estate and help-wanted classified ads. Total newspaper ad spending fell 7% in the first half of 1991, says the Newspaper Advertising Bureau.

Now, advertising and media executives are searching fruitlessly for signs that clients are ratcheting up spending. "I don't know whether we've reached bottom," says Allen Rosenshine, chairman of BBDO. "At best, there's a wait-and-see attitude among clients." As Rosenshine and his colleagues gird for a bleak winter, many of them are asking: Why did a relatively mild recession trigger a depression in advertising?

Loyalty Gap

To many marketers, the reason is as simple as it is scary: The recession has laid bare forces that are giving advertising a permanently diminished role in the selling of goods and services. Cynical consumers are wearying of the constant barrage of marketing messages. They're becoming less receptive to the blandishments of Madison Avenue. And their loyalty to brands has eroded as they see more products as commodities distinguished only by price.

At the same time that consumers have changed, technology and the proliferation of media are transforming the science of marketing to them. Now, companies increasingly can aim their messages to carefully pinpointed consumers through direct mail. General Motors Corp., for example, is rolling out its new Cadillac Seville with a mailing offering a videocassette to 170,000 young and affluent consumers. Or they can advertise on one of the new and sharply targeted media. To reach young children, Levi Strauss & Co. used to advertise mostly during Saturday morning cartoons on the networks. Now, the company also advertises on MTV and a new music channel on cable called Video Jukebox Network.

Then, too, there is a shift in philosophy at many major marketers. Leveraged buyouts, such as the $30 billion deal to take RJR Nabisco private, have left many giant consumer-goods companies saddled with huge levels of debt. And megamergers, such as Grand Metropolitan's purchase of Pillsbury and Philip Morris' acquisitions of both Kraft and General Foods, have led to a harsher bottom-line approach. So in category after category, brand managers are scram-

bling to boost quarterly sales instead of investing in image advertising to nurture brands for the long haul. To pump sales, they're shifting marketing dollars from ads into promotions such as coupons, contests, or sweepstakes. And because most promotions are placed locally, companies are shifting dollars from national to local media. Many marketing experts believe that such strategies—carried to an extreme—run the risk of damaging valuable brand franchises that enable marketers to price their products at a premium.

"SOBERED UP" . . . .

To be sure, some marketers believe advertising spending will come back as soon as corporate profits rebound. Advertising, they point out, is one of the easiest expenses to cut when profits fall, since the savings go straight to the bottom line. Unlike interest expenses or capital costs, advertising is "easy to get to from a budget-cutting point of view," says James C. Reilly, general manager for U.S. marketing at IBM.

And it's true that ad spending often moves in concert with a company's profits. IBM, Adolph Coors, and Chrysler all saw their profits fall in the first quarter of 1991. And all three pared their advertising budgets, according to market researcher Leading National Advertisers. Profits at Philip Morris Cos., on the other hand, rose 22% in the same period. And the company boosted its ad spending for Kraft Miracle Whip, Maxwell House Coffee, and other brands by an average of 5.1%

For most marketers, however, there's a more fundamental shift taking place: They no longer regard advertising as the sine qua non *of their marketing efforts. As a result, say many companies, while ad spending will turn up with the recovery, it will probably never again outperform the overall economy as it did in the boom years. "I absolutely, unequivocally do not see a time when advertising budgets will grow like they did in the halcyon days," says Philip Guarascio, executive director of advertising strategies at GM. The marketing chief at one of the largest national advertisers puts it more bluntly: "The recession has sobered everybody up," he says, "and if agencies think we're all going to start drinking from the same bottle again, they're kidding themselves."*

Madison Avenue is already feeling the postbinge blues. After years of ramping up, it now faces a wrenching readjustment. Pretax profits at WPP Group PLC, the world's largest ad holding company, plummeted 65% in the first half of 1991. Ogilvy & Mather Worldwide Inc., a WPP subsidiary, has let almost 10% of its staff go, while Ayer, Inc., the nation's oldest ad agency, recently laid off 60 staffers. In agency hallways, beleaguered employees murmur as much about pink slips as about their newest commercial.

The downturn has had a ripple effect on the media. The decline in ad spending has pummeled the profits of newspapers, magazines, and broadcasting companies. Worse, as their column inches, ad pages, and commercial time go begging, publishers and broadcasters have had to cut rates—eroding margins even further. Publications such as 7 Days *and* The National *have failed. The squeeze has forced media giants such as* The New York Times, *Time Warner, CBS, and McGraw-Hill, publisher of* Business Week, *to cut costs by buying out contracts of senior employees or laying off staffers. With new rivals such as cable and Fox Broadcasting Co., some media industry observers even wonder if the pinched ad economy can still support three TV networks.*

It's enough to make media executives pine for the simpler days of the '50s, when GM promoted cars by having Dinah Shore sing, "See the USA in your Chevrolet." GM still mounts big TV campaigns, of course: Its Heartbeat of America pitch is a well-supported successor to that vintage Chevy campaign. But now, says Guarascio, "We're looking at a whole bag of marketing options: event sponsoring, direct marketing, public relations, you name it."

SATURATION POINT . . . .

Guarascio and other marketers recognize how much has changed since the 1950s. For one thing, consumers don't pay attention to advertising the way they used to. The average U.S. adult *is already bombarded with 3,000 marketing messages a day. So it's well-nigh impossible to get any one pitch noticed or remembered amid all the clamor. "One of our real concerns is that we have an inability to stand out," says Robert Watson, director of advertising services at AT&T.*

With good reason: Market researcher Video Storyboard Tests say viewer retention of television commercials has slipped dramatically in the past six years. In 1986, 64% of those surveyed could name a TV commercial they had seen in the previous four weeks. In 1990, just 48% could.

Worse, even when consumers do notice an ad, they're less interested in the brand message it conveys. Consumers once clung to brands: There were Crest households and Colgate households, families that washed with Ivory and ones that showered with Dove. And the characters Madison Avenue dreamed up to pitch brands became pop-culture icons—the likes of Star-Kist's Charlie the Tuna, Philip Morris' Marlboro Man, Procter & Gamble's Mr. Clean, or the Pillsbury doughboy.

Now, many Americans, brought up on a steady diet of commercials, view advertising with cynicism or indifference. With less money to shop, they're far more apt to buy on price. And they're a lot less likely to be smitten by Tony the Tiger or the Campbell Kids. A survey by ad agency DDB Needham Worldwide Inc. found that 62% of consumers polled in 1990 say they buy only well-known brands, compared with 77% in 1975. A recent Grey Advertising Inc. study says 61% of consumers regard brand names as an assurance of quality—a drop of six percentage points since July, 1989. In the same study, 66% say they're trading down to lower-priced brands.

But even if consumers remained staunchly brand-loyal, marketers would be less willing to blanket them with media advertising. To be sure of reaching the right audience, companies once had no choice but to use general advertising campaigns, which reach nearly everybody. Now, computerized market research is letting them collect detailed information on their customers—not just the approximations offered by demographics, but the specifics of names and addresses. Marketers such as American Express Co. and Philip Morris have assembled vast data bases identifying their customers and their buying habits. With such information, companies now believe it's as important to reach the right people as it is to reach lots of people.

Increasingly, direct marketing is the vehicle of choice. Junk mailed used to be the sales tool for fairly specialized products and their services—credit cards or magazine subscriptions. Now, marketers of mass consumer products ranging from cars to coffee are turning from the TV box to the mailbox. Chrysler Corp., for example, recently mailed a videocassette promoting the changes in its 1991 minivan to 400,000 current minivan owners. It included a coupon for a Rand McNally road atlas redeemable at any Chrysler dealer. McCann-Erickson's Coen figures national direct-mail spending will grow 6.5%, to $24.8 billion, in 1991, while ad spending on network television will creep up just 1.5%, to $9.5 billion.

Even such traditional TV advertisers as Kraft General Foods Group are shifting to direct marketing. Kraft uses individual mailings, a newsletter, and a toll-free telephone to sell its Gavelia Kaffe, a premium Swedish coffee, to baby boomers and older consumers.

Direct mail has its problems. Consumers are also weary of being flooded by junk mail. And the vast data bases of marketers have prompted fears that they could invade the privacy of consumers.

SLICED THIN . . . .

The woes of the traditional mass media are being sharpened by the proliferation of new competing media outlets. CBS, NBC, and ABC once commanded a 93% share of U.S. homes watching television. Now, they have just over 60%. The rest are watching Bart Simpson on Fox or a baseball game on cable TV, which now reaches 59% of homes. Or they're watching a movie on a rented videotape. Or a boxing match on pay-per-view television.

Some new media target even thinner slices of the population. Want to reach air travelers? Turner Broadcasting System Inc. recently began testing a channel that will beam news from Cable News Network and commercials to TV monitors in airport waiting lounges. GM, AT&T, and American Express have signed up as charter advertisers. How about grocery shoppers? Turner

is also rolling out a channel to be viewed at supermarket checkouts. Both services beat mass media on one important count: The advertisers know who their messages are reaching.

Packaged-goods companies such as Nestlé are also relying more on targeted media. Camillo Pagano, Nestlé's worldwide market chief, figures that in the past two years, the giant Swiss company has shifted roughly 20% of its advertising budget into alternative media. Pagano wouldn't give details, but he says Nestlé will use a variety of these media in a new venture with Coca-Cola Co. to sell cold canned coffee and tea under the Nescafé and Nestea brand names. Says Pagano: "There's no question in our mind that the key point is more targeting of the consumer."

Nestlé and other marketers are spurred by a growing desire to measure the effectiveness of their advertising. Media entrepreneur Chris Whittle says marketers can get more bang for their buck by using his targeted media. His products include Special Reports Family Network, a group of publications and a TV channel distributed to doctors' waiting rooms, and Channel One, a satellite service that beams 12 minutes of programming and commercials each day into school classrooms. Whittle says a 30-second commercial on Channel One reaches 40 times more teens than one on MTV.

Ad executives are unimpressed by such claims: "These methods may be effective," says Philip H. Geier, chairman of Interpublic Group of Cos., "but they are only adjuncts to mass media." Still, Whittle has persuaded Quaker Oats Co., Procter & Gamble Co., and Burger King Corp. to buy commercials on Channel One. "There are still people who believe in a core buy: three networks and a dose of women's magazines," says Whittle. "But a lot of people understand that's not the way things work anymore."

There's no denying that marketers want more accountability. Struggling to meet financial goals in markets that often grow no faster than the population as a whole, packaged-goods companies have been riding herd on their brand managers to produce quarterly sales results. The impact of image-building advertising on sales can often be tough to see. Not so with price discounts or coupons, which give sales a quick, easily measured kick. "People are saying: 'I can't wait for advertising to work. I've got to turn these dollars around more quickly,'" says Don E. Schultz, a professor of advertising at Northwestern University.

In addition to luring consumers, manufacturers must satisfy the demands of an increasingly powerful retail trade. Scanning devices at the checkout counter enable supermarkets to see which products sell and allocate shelf space accordingly. To hold on to a coveted place on the shelf, marketers must ante up dollars in the form of various "slotting fees," trade discounts, subsidies for the retailer's own advertising, or payments for in-store displays. These fees have ballooned because the explosion of new products has made shelf space that much more precious. And paying for them all cuts down on the amount of money available for traditional brand advertising.

That has hit advertising like a kidney punch. Companies now spend 70% of their marketing budget on promotions, leaving just 30% for ads, according to researcher Donnelley Marketing. Ten years ago, advertising got 43%, vs. 57% for promotions. Ad execs and marketers grouse that trade promotions are a form of extortion and that too many coupons dilute a brand. But with the pressure for sales and the power of retailers only growing, few predict that advertising will ever regain its share.

LOCAL TIE-INS . . . .

Promotions also hurt mass media because they siphon dollars from national to local marketing efforts. Burger King now spends half its ad budget on local tie-ins to build traffic in its franchises. Burger King Chief Executive Barry J. Gibbons says that because of the greater choice of media, network TV advertising will become less important. "The networks are efficient," says Gibbons, "but dollar-for-dollar, they're not as effective."

Even some brand advertising now carries promotional components. Not long ago, the Super Bowl telecast provided a huge audience for some of the year's flashiest new ads—for example, Apple Computer Inc.'s atmospheric anti-IBM commercial that paid homage to George Orwell's 1984. Now, the telecast has become a platform for fevered promotions and sweep-

stakes. The Bud Bowl, which invites consumers to guess the score of a mock football game for prizes, competes with noisy promos for the soft-drink companies.

The highly praised Diet Pepsi ads starring Ray Charles and his bluesy rendition of You've Got the Right One Baby, Uh-huh *represent one of the best brand-image campaigns of 1991. But the commercials also invited viewers to send in videos featuring their own rendition of the jingle. A few are chosen for use in future Diet Pepsi commercials, and those viewers will win cash prizes. Pepsi also just ended the Summer Chill Out campaign, a slickly produced series of ads that gave away discounts, cash prizes, and 130 new cars. So what's wrong with that? Again, the money to run sweepstakes and promotions comes at the expense of airing more ads.*

Media advertising is not going away, of course. Campbell Soup Co. plans to boost its ad budget 30% next year. Some of that money will go to revive its fabled Campbell Kids campaign. Herbert M. Baum, president of Campbell North America, hopes the new Kids will win younger consumers over to its red-and-white soup cans. "We missed a generation or two of kids," he says. Another big marketer, P&G, has also bolstered its U.S. ad spending. And most advertisers acknowledge that mass media can't be beat as a low-cost way to reach huge audiences. "The networks are still the Main Street of advertising," says Peter S. Sealey, senior vice-president and head of global marketing at Coca-Cola.

"BLOODY FOOLS" . . . .

Sealey and other marketers also recognize that advertising is still the most effective method to nurture a brand's image over the long haul. The risk in cutting advertising support is that the brand will erode: Mars Inc. surpassed venerable Hershey Foods Corp. as the nation's largest chocolate maker because it spent more to advertise M&Ms and its other brands than Hershey did. "Brands can take short-term cuts in ad spending," says Roy J. Bostock, chairman of D'Arcy Masius Benton & Bowles. "But there's a time bomb waiting to go off."

What's more, marketers have an interest in maintaining strong brand franchises because it enables them to price their products at a premium. In doing so, America's big consumer marketers have been able to roll up comfortable profit margins.

So there's no question ad spending will recover to some degree. But with companies racing to reach consumers in so many new ways, Madison Avenue is struggling to adjust: Since agencies now draw most of their commissions from placing media ads, they're rushing to develop the faster-growing disciplines such as promotions and direct mail. They're also looking overseas: The deregulation of media in Western Europe has fueled faster ad spending growth in many of those markets.

As the industry adjusts to these new realities, it may actually be returning to the fundamentals of its business. Advertising, after all, does work in some fashion, even if its workings are often mysterious. But when the good times were rolling, many ad agencies hurried to see who could produce ever more lavish, ever more "creative" advertising. Clients complained that their shops were interested only in grabbing awards or raking in millions from agency mergers.

Perhaps these hard times will help the business relearn a valuable lesson, says David Ogilvy: "Maybe we'll stop being such bloody fools and get down to our business, which is selling products for clients." He should know. He began his career as a door-to-door salesman, and the verity he learned then applies to the hard truths taking hold today: "No sale, no commission. No commission, no eat."

THE MEDIA GET THE MESSAGE—AND IT'S GRIM

Each summer, its a cat-and-mouse game. The Big Three networks post big rate hikes and p quietly as advertisers scamper to lock up precious commercial time for the coming season. But this year, the mice are having all the fun. Advertisers are having little trouble finding available time. Best of all, they're getting discounts of up to 25%. Battered by a yearlong advertising downturn that feels more like depression than recession, CBS Inc. and NBC Inc. are offering these *sweet deals because they have little choice. Their fear: If they don't catch the advertisers now, they may have to offer more expensive bait later.*

Many magazine publishers are caving in to pressure, too. Until recently, most didn't budge from their published rate card. Now, although most won't admit it, publishers are offering their advertisers premiums or outright discounts. "There's a school of thought that says: 'If you can say you've got the most pages, you're in good shape,'" observes Reginald K. Brack Jr., chairman of Time Warner Publishing.

YESTERDAY'S DARLINGS . . . .

But rather than shield the traditional mass media from a decline in advertising spending, such stopgap measures have only worsened the pain. Now, not only are media companies selling less advertising, but they're also earning less for what they do sell.

The effect on profits has been devastating. Profits of media companies are especially sensitive to fluctuations in ad revenue because they have high fixed costs involving staff, production, and distribution. Since the cost of adding ad pages or commercial time is fairly small, any incremental gain in ad revenue produces a much bigger jump in profits. Likewise, any loss of ads slashes profits disproportionately. Selling time at a discount, for example, will badly hurt CBS, which already reported a 67% decline in profits in the first half of 1991. Still, CBS's troubles are nothing compared to Financial News Network Inc. or Family Media Inc., publisher of Discover *and* Health *magazines. Both have shut down.*

The wave of failures has also come because of a glut in the business. For most of the 1980s, the media were everybody's favorite boom industry. All three networks were gobbled up by profit-hungry corporations. Rupert Murdoch paid $3 billion for TV Guide. *publishers flooded the shelves with hundreds of new magazines every year. And why not? The industry rolled up annual increases in ad rates of 8% to 10%. Now all the new players have vastly overbuilt the business—and the industry is in a shakeout.*

Then there are structural changes in the ad marketplace that are reducing the number of traditional mass media advertisers. Airlines, banks, savings and loan associations, movie studios, and retailers are consolidating into fewer players, so each industry will spend less on advertising. The turmoil in the retail industry, for example, has sharply reduced the volume of newspaper advertising. In New York City, the liquidation of B. Altman & Co. and Gimbels hurt papers such as The New York Times. *The* Times, *which saw its ad linage plunge 18.5% in the first half of 1991, says it doesn't expect its advertising to return to mid-1980s levels.*

Magazines, meanwhile, are struggling as tobacco merchants, one of their key supporters, continue to retreat from advertising. Cigarette makers are reducing print advertising as they concentrate on promotions and direct marketing. Cigarette ad spending in magazines dropped 8.6% in the first half of 1991, according to Publishers Information Bureau.

The media have coped with lower profits by slashing costs. The Big Three networks have laid off scores of staffers and closed bureaus from Johannesburg to St. Louis. Newspapers and magazines are thinning their ranks through early retirement or layoffs.

The media are also striving to alter their approach. Traditionally, magazines relied on advertising for more than half of their revenues. But many publishers are now raising subscriptions and newsstand prices. And most new magazines make the bulk of their revenue from subscription fees, according to Samir A. Husni, a professor at the University of Mississippi who tracks magazine growth.

Still, most media are scrambling to look more attractive to advertisers. CBS is selling packages of ads on several of its marquee sports events such as Major League Baseball, which were once sold separately at high prices.

The print media are dividing their readership into thinner slices for niche-minded marketers. Time, Newsweek, *and four other magazines are using special ink-jet printing technology to allow General Motors Corp.'s Buick Div. to personalize ads for its readers. "There is a sea change in what advertisers are demanding," says Thomas Rider, president of American Express Publishing Corp. "They want targeting and micromarketing."*

Multimedia companies are seeking an advantage by offering marketers advertising opportunities across several media. Time Warner has signed up Chrysler Corp. and Mazda Inc. to advertise in Time's magazines and in electronic media such as Warner's home videocassettes. In return, they get more attractive ad rates.

The networks, meanwhile, are extolling themselves as the last redoubt for mass marketers. With the proliferation of media, they say, nobody can match the broad reach of the Big Three. Daniel B. Burke, CEO of Capital Cities/ABC Inc., points out that even with declining audience share, each network still commands 20% of the viewing audience every night. Cable networks, by contrast, rarely reach more than 2% apiece. "If you look at what we're turning into," says Burke, "it's still an enviable, wonderful thing."

Such confidence led Burke to take a big gamble this year: ABC charged marketers significantly more per rating point than CBS or NBC. Burke believes advertising spending will recover in early 1992. And if it does, ABC will have more time left to sell.

Other entrepreneurs share Burke's confidence. Walt Disney Co., for example, just bought Discover. *Kohlberg, Kravis, Roberts & Co. paid $650 million to buy nine magazines from Murdoch. And Fidelity Investments has snapped up several regional papers near Boston. "The recession will end," says Burke. "It always does." Now if only advertisers would agree.*

READINGS . . . .

#2—DO YOU NEED YOUR AD AGENCY?[b] . . . .

Patricia Sellers

Do you need your ad agency?

If you buy Coca-Cola's audacious new views on marketing, maybe not. Ever since Michael Ovitz, the Hollywood talent agent, last fall snatched the advertising business of the most famous global brand from the world's largest ad agency, McCann-Erickson Worldwide, the earth has been shaking beneath Madison Avenue. The latest quake: In early October, Coca-Cola pulled its huge Diet Coke account, an estimated $65 million in the U.S. alone, from another ad giant, Lintas. Observes M. Douglas Ivester, Coca-Cola's executive vice president and master of these maneuverings: "An ad agency person, of course, is saying, 'This breaks my paradigm. And it makes my head hurt to even think about it.' "

The pain in the paradigm is caused by impatient viewers who are zapping ads even as the media marketplace gets more turbulent by the day. Brand equity, that commercial karma between consumers and products, is eroding universally. As a result, connecting with consumers today requires more ads more often—but without more cost—produced and delivered in new, unusual ways.

Yet the agencies have been devising big, expensive, cookie-cutter campaigns for these increasingly fickle audiences in much the same way that top-heavy, vertically integrated, multilayered manufacturers used to produce automobiles no one would buy—and at cost plus a 15% commission, no less. Now, just like manufacturing, the advertising industry is undergoing seismic change.

Big, bureaucratic agencies are delayering their managements, unbundling their services, and "boutiquing." Lintas even concocted an in-house agencyette called L_2 to appease malcontent client IBM. No go. IBM unplugged its $55 million personal computer account in late October, switching to tiny Merkley Newman Harty in the U.S. and DDB Needham in Europe.

[b]From Patricia Sellers, "Do You Need Your Ad Agency?," *Fortune*, November 15, 1993.

Needham last August spun off creative star Andy Berlin into his own agency to keep Volkswagen of America's $40 million account from driving away.

Brand owners, including MasterCard International and Reebok, are stepping to lesser-known ad firms like Ammirati & Puris or to a few oddly configured large ones such as Leo Burnett, where the creed essentially is "We don't act big." Nestlé and MCI alighted on Messner Vetere Berger McNamee Schmetterer/Euro RSCG, a gang of street-smart, highly productive ad-makers who set up shop in 1986. Says partner and co-founder Bob Schmetterer, 49: "We thought there was something tragically wrong with the traditional agency structure. The industry had gone astray from the central thing clients need—giving insight and creative ways to sell."

The weirdest new architecture of all: Chiat/Day, which is eliminating offices and desks and giving employees lockers for their belongings. Enigmatic Chairman Jay Chiat, 62, America's most celebrated ad-man a decade ago, says his "virtual agency" should foster creative thinking and collaboration. It had better. Chiat/Day has lost a ton of business.

Coca-Cola isn't finished making mischief, either. The company is moving Diet Coke to Lowe & Partners, a limber midsize agency that shares a parent, Interpublic Group, with Lintas and McCann. But the soft-drink giant plans to tap anyone, anywhere for ideas. So for the first time since 1955, Coke is going outside the Interpublic agencies for major ad ideas. The recruits so far are highly creative: little Fallon McElligott in Minneapolis, Nike's agency Weiden & Kennedy in Portland, Oregon, and probably even deskless Chiat/Day. Jeff Goodby, a ponytailed partner at fast-growing Goodby Berlin & Silverstein in San Francisco, observes all the commotion with glee. "It's kind of like deregulation," he says. "The rules are gone."

The rule of the Eighties was "Consolidate and integrate": Merger-created mega-agencies like Saatchi & Saatchi and WPP Group combined diverse services such as product design, corporate identity, public relations, and consulting under one roof, on the notion that these specialties could be peddled to global corporations. The whole egg, Young & Rubicam called it.

Most clients saw little reason to one-stop shop, and the egg began to rot. Advertising conglomerates got stuck with unprofitable divisions and loads of debt. The stock of Saatchi (including Saatchi & Saatchi Advertising, Backer Spielvogel Bates, CME KHBB, and Rowland Worldwide public relations) is trading around $7, vs. a high of $17.38 in 1991. The company, with billings of $11.8 billion, is expected to show earnings this year for the first time since 1988. WPP (Ogilvy & Mather, J. Walter Thompson, Hill & Knowlton PR) sells at $3, vs. $24 three years ago. The company barely makes a profit, and CEO Martin Sorrell is selling assets to raise cash.

Though the conglomerates have cracked, operating profit margins in advertising have stayed around 10%, according to Morgan Anderson & Co., a New York consulting firm that helps companies like MasterCard and Sears Roebuck work with their ad agencies. The pill that has kept Madison Avenue looking fit is an age-old compensation system, the 15% commission. Think about it: Your agency receives 15 cents in revenues for every dollar it spends in the media. That's akin to your salespeople getting paid based on how much they spend instead of how much they sell.

Thanks largely to the 15% commission, the price of placing an ad on network prime-time TV doubled in a decade, yet delivered 25% fewer viewers. No wonder cost-conscious companies such as H. J. Heinz, RJR Nabisco, and BMW rebelled, slicing the 15%. Today less than one-third of major U.S. advertisers pay full commission, and an increasing number prefer set fees. Leo Burnett Chairman Rick Fizdale, 54, whose agency got rich on the commish, is now publicly speaking against it. Says he: "It's incenting us to do the wrong thing, to recommend network TV and national magazines and radio when other forms of communication like direct marketing or public relations might do the job better."

What marketers must do, amid the change and confusion, is align with new and improved partners that cost less, work faster, are fully adaptable to the broadly expanding needs of their clients. And are highly creative, of course. Some agencies are up to the task already. Typically they are untraditional, versatile organizations, delivering surprising sorts of service.

Messner Vetere Berger McNamee Schmetterer/Euro RSCG is one of those thriving. The midsize agency has the most muddled name in the ad trade. But the people who run the firm aren't muddled about their mission: Concentrate on clients' business. They create the ads for

MCI, Nasdaq, Volvo, Nestlé's Stouffer frozen foods group, and A&W Brands, among others—mostly scrappy underdogs in highly competitive, unsteady categories.

Schmetterer, former chief operating officer of Scali. McCabe Sloves, and the other founders, who left New York's Ally & Gargano agency in 1986, have established a company in Manhattan's arty SoHo district that's informal, flexible, responsive. Almost all 300 employees work on advertising. Everyone has at least one computer, some hooked into clients' offices. There are no secretaries, though the 11 partners share four assistants. To encourage cooperation, they also share offices.

So creative director Ron Berger 43, has his stark black and chrome desk at one end, facing the elegant blond-wood furniture of Louise McNamee, 43.

Titles are rare, but McNamee is president, pursuer of new business, and—like her partners—supervisor of a few clients' accounts. She arrived last year when her ex-partner, famously irreverent adman Jerry Della Femina, trotted off to run trendy restaurants and reinvent himself as Jerry Inc. Thereupon Della Femina/McNamee merged with Messner Vetere.

"If we need balance, I'm here to provide it," McNamee jokes, referring mainly to her liberal Democratic leanings within a Republican fort. Founders Berger, Tom Messner, and Barry Vetere all belonged to the ad hoc ad "Tuesday Teams" that helped put Reagan and Bush in the White House.

The political grounding here, remarkably, contributes to good work for clients. Consider MCI. The No. 2 long-distance company was losing market share before Messner Vetere won the ad account three years ago. The agency came up with a frankly political premise: "People don't buy a phone company. They elect one," as Berger puts it. Messner Vetere, which employs conservative political strategist Roger Ailes as a consultant, steered MCI into political-style overnight polling to gauge the company's momentum as a candidate would. They also turned to confrontational ads.

"MCI used to be the Michael Dukakis of the telecommunications industry," says Berger. Meaning: When AT&T attacked MCI in its ads (as Bush bashed Dukakis), Wells Rich Greene, MCI's previous agency, wasn't keen on a client's firing back at a rival that outspends it 5 to 1. Messner Vetere counterattacked. "No wonder they want you back," says one ad, with charts that show AT&T's falling market share.

The admakers' toughest trick was combining a cocky stance and a cozy image, which they decided MCI should have since a warm likability is one thing AT&T sorely lacks. Messner, 49, an eccentric, instinctive copywriter, argued for MCI to brand its service offerings. So, much as Procter & Gamble labels soap, he thought up the name "Friends and Family" for a new program that the client had intended to call "MCI to MCI." This is the plan that gives discounts to customers who sign up a "calling circle" of other MCI subscribers.

An unremitting flow of fresh ads has helped MCI grab over 19% of the combined consumer and business market, up from less than 13% in 1990 according to the company. The gain amounts to more than $3.6 billion in additional revenues. Says Angela Dunlap, 36, president of MCI's $5 billion consumer markets division, of the agency's strength: "They're very in tune with the fact that the world is changing fast, and you have to act differently."

With many big agencies behaving like factories these days, midsize firms such as Messner Vetere and Ammirati & Puris are acquiring fans and expanding rapidly. Says Lee Anne Morgan of Morgan Anderson: "Midsize agencies tend to serve clients best. They usually offer a very good, solid balance between strategic and left-brain thinking and creative right-brain thinking."

Ammirati & Puris's founders are Ralph Ammirati, 63, a shy, owlish art director, and Martin Puris, 54, an eloquent and affable copywriter who 19 years ago penned the line "the ultimate driving machine" for the agency's first major client, BMW. You know the firm's work today for Compaq Computer, RCA, UPS, Four Seasons Hotels, and Nikon, to name a few. It's intelligent, witty, and print-heavy because the bosses love the written word. They demand that clients' senior management become deeply involved in ad strategy, and occasionally they fire clients—this year Cadbury-Schweppes soft drinks—that they think don't invest wisely. Reasons Puris, the businessman of the duo: "Great clients make great agencies. Dopey clients will take you down with them."

For Aetna Life Insurance, Ammirati took the radical approach that less is more. Mary Hermann, an account service manager who is Puris's wife, recently advised the company not *to increase its ad budget. Instead, Ammirati has changed the message, switching from folksy ("Aetna, I'm glad I met 'ya!") to edgy and adult—on TV, stark black and white messages with background voices pointing up issues like drunken driving, AIDS, and drug abuse. Why the attitude adjustment? Says Elizabeth Krupnick, the insurer's senior vice president who oversees advertising: "Aetna's a professional company confronting serious issues."*

Yet the ads are extremely inexpensive to produce—around $40,000 for a 30-second spot, one-tenth of what most major brands pay. More important, while insurance commercials are zapped more than any other type, Aetna's actually get watched. Aetna's consumer survey shows that awareness of its advertising is up 29% since Ammirati's campaign began. "Most advertising fails before it's written," says Puris. "Strategies are weak and the claims are superficial, like 'This is the best car or the best deal.' "

The agency positioned new client MasterCard as "Smart Money," zeroing in on utility, not grand aspirations, in a market where the other biggies, American Express and Visa, promote luxury and prestige. MasterCard also bumped its ad spending to $60 million from $40 million in 1991, which clearly helped pull the card out of a 14-year rut of flat or declining market share. But James Desrosier, the company's vice president for advertising, says he is certain that Ammirati's work has contributed significantly. Consumer perception of MasterCard's broad acceptance by merchants—its most important selling feature—is way up. This year MasterCard is the fastest-growing card in the U.S., with sales up more than 20% from last year.

MasterCard preceded Diet Coke out of the arms of Lintas. The agency was unable to stop the card's slide. Don't blame the whole thing on Lintas. Unstable management within MasterCard stifled growth too. But Desrosier says Lintas's ad talent didn't flow to the customer. "Big agencies lose sight of the fact that they operate primarily to serve clients," he says.

That's how Coca-Cola views large agencies lately too. In fact, when you talk to both sides of the severed Coke-McCann partnership, you wonder how it remained intact for 38 years.

On the 21st floor of McCann's New York headquarters, where senior management resides, you don't see any advertising on the walls. Is this a bank, or what? CEO Robert James, an avid sailor who decorates his office in a nautical motif, won't talk about Coca-Cola (which still uses McCann for media buying and select ads). But asked whether client or agency should be "custodian of a brand" and decide its strategy, James replies firmly, "The agency."

Ivester's testy response: "No way." The Coke executive says in Atlanta, "Our shareholders hold us responsible for our trademark. There's no way our shareholders can hold a third party responsible."

While Ivester, 46, loves signs and stadium displays—what Coke calls presence marketing—James, 57, denigrates it. McCann's chief says this about such ad formats: "They're brand-reminder vehicles, not selling propositions." While Coke sees more of these alternative media, McCann derives about 95% of its total revenues from traditional venues like TV, radio, and magazines. James's boss, Interpublic Group CEO Philip Geier, Jr., 58, says that's fine because client spending in conventional media should accelerate soon. Ivester and most other marketers disagree.

"How big can we get before we get bad?" was always the mantra of Jay Chiat, who dreaded the evil effects of size on creativity. There's one agency that has both, simply because management focuses on the latter. Just about every creative leader in the industry—Puris and Chiat, to name two—says that BBDO, the world's fifth-largest ad firm, delivers the most imaginative ads most consistently.

Until recently at least, its Pepsi commercials regularly flogged Coke's. The agency also has told you that Apple Computer delivers "the power to be your best," that Gillette is "the best a man can get," and that General Electric "brings good things to life."

Unlike almost any other large agency, BBDO has copywriters in charge, Chairman Allen Rosenshine, 54, is an impatient man who despises the industry's habit of heaping awards on itself. Vice chairman Phil Dusenberry, 57, is BBDO's creative chief, and his philosophy—that an ad must tell a story and lift the spirit—pervades the work.

Though tiny, with a whisper of a voice, Dusenberry is tenacious and almost impossible to *satisfy. Some insiders joke that BBDO stands for "Bring it Back and Do It Over." Dusenberry pays his creative people exceedingly well: up to 50% above other agency salaries, so a clever copywriter in her late 20s can earn more than $200,000 a year. Notes Dusenberry: "Account people rule the roost at most big agencies. Here, creative rules."*

Says Bruce Crawford, 64, the urbane chairman of Omnicom, the parent: "There's nothing wrong with being a giant agency network as long as you decentralize. BBDO has not been sullied because it's been allowed to stick with its knitting, creating, great advertising."

For marketers such as Philip Morris, United Airlines, and Sony—which want lots of services as well as lots of service—the agency of choice is Chicago-based Leo Burnett. James Cantalupo, president of McDonald's International, says, "They overservice us. And in the difficult economy these days, that goes a long way."

Integrated marketing works here because Burnett, unlike other large agencies, PR, and direct marketing as separate profit centers. That means you won't find some eager manager who's supposed to be busy on your account pitching services à la carte to other prospects. Such soliciting is forbidden. Yet, observes veteran ad executive Alvin Achenbaum, now a New York marketing consultant, "Burnett gets its tentacles into clients like an octopus." Half its U.S. clients have stuck with the agency at least 20 years.

Burnett staffers receive cross training in various marketing disciplines, so copywriters on the Hallmark account write junk—er, direct—mail and in-store promotion posters too. Burnett operates just one full-service office in the U.S., on Chicago's Wacker Drive, America's largest agency under one roof. Founder Leo Burnett wanted it that way because he insisted on seeing every ad. He resisted international expansion until his death in 1971, but now Burnett has 55 offices in 49 countries, deriving half its billings abroad.

In September that network drew Reebok, which is turning abroad to foment growth and seeks to blare its ad messages through an array of media formats. Stunning the ad industry, Reebok untied itself from Chiat/Day, which is weak internationally, and handed its $140 million worldwide account to Burnett without even screening other agencies. Says Fizdale, Burnett's cerebral, chatty chairman: "This is the first time we've ever won a client globally. We've always started with clients regionally. This shows that our global system works."

In October, on the heels of the Reebok win, CEO William Lynch, 51, realigned Burnett's management to make sure senior execs really are working tightly with particular clients. Sound familiar? Fizdale, who thrives on fixing knotty problems, got plugged into Burnett's most troubled accounts: Oldsmobile and Miller Lite. Fizdale figures, "The advertising industry won't survive unless agencies make every move right. We have to prove our relevance."

And so must the industry. Ad agencies are needed more than ever to rebuild bruised brands and guide marketers into an interactive, multimedia future where connecting with the consumer will be more complicated than ever. Trailblazers the agencies are not. Ironically, the industry was born and grew because its members are said to understand what the consuming public needs and wants, but these professional communicators don't seem to be communicating with their own customers.

At the very least, advertisers must become the stewards of their brands. They need to scrutinize constantly whether their ad partners are delivering the important goods: insight and creative ways to sell. Everything else is overhead.

HOW CAA BOTTLED COCA-COLA . . . .

"We are dead."

John Bergin, McCann-Erickson's former vice chairman, slipped a note with those blunt words on it to an associate as the two watched Michael Ovitz's Creative Artists Agency make a dazzling pitch that would cost McCann the Coke account.

In fact, the handwriting was already on the wall. A secret and unorthodox Coca-Cola study begun in 1989 on the future of marketing preordained the stunning move. Called Project Balance, the study tapped ten unconventional thinkers—business consultants like Peter Drucker, Harvard marketing expert Ted Levitt, and research whiz Arthur Nielsen—for their views on reaching consumers in this media-saturated age. Management felt some urgency: Sales of Coke's main brand were barely increasing in the U.S., and Pepsi's ads consistently scored higher.

The group's first report, published in 1990, posed a provocative premise: "A brand advertised in a normal way, with normal media, is likely to develop a normal image, and not something special." So the experts advised: Don't be normal.

McCann-Erickson was a normal agency. So believed Donald Keough, Coke's president and longtime marketing guru who retired last April. Keough, 67, told FORTUNE in February that traditional agencies tend to approach advertising as if they're "delivering coal"—shoveling money into network TV because it's easy money for the agency.

Keough, who had known Ovitz since the days Coke owned Columbia Pictures, was intrigued by CAA's pipeline into pop culture and by Hollywood's "raw creativity." A partnership was born in 1991.

Enter Peter Sealey. One of the more insightful contributors to Project Balance, Sealey, 53, had been a McCann adman, a Coke executive, and then head of domestic marketing at Columbia Pictures. Keough made him director of Coca-Cola's global marketing. Sealey set up a skunkworks: himself, staffers Ogden Tabb and Elizabeth Rue, in Atlanta; and CAA's duo of Shelly Hochron, a former Columbia movie marketer, and Len Fink, who had worked at Chiat/Day.

Brainstorming from spring 1992 through October, the Coke-CAA team devised over 100 ideas for the 1993 global campaign, then winnowed the list to about 50. "We didn't do any formal research. None. Zero," says Hochron.

Presentation day last October at "the Tower," Coke's headquarters, turned into defenestration day for McCann. The agency proposed the usual half-dozen platform ads positioning Coke as a ubiquitous product, for all people. The CAA show, introduced by Ovitz, was a whirlwind 60 minutes in which the 50 ideas were pitched in many styles for many audiences.

Seeing the Coke side so elated, Bergin passed his note to McCann vice chairman Marcio Moreira. Coke management selected 24 ideas from CAA, including those computer-generated polar bears. The McCann gang sold two.

Unveiled last winter, the new campaign was praised as innovative, sexy, playful, and breathtaking. But was it advertising? Entertainment gymnastics, industry critics carped. Consumers recently rated the ads tops among all campaigns.

Sealey went on to brag publicly that Coke's new advertising not only was far cheaper to produce but constituted a breakthrough for Coke as well. "It's no longer one sight, one sound, one sell," he crowed. Maybe he should have kept quiet. He clashed with Keough's successor, Douglas Ivester, a quiet, methodical ex-accountant who is most likely Coke's future CEO. Ivester canned Sealey last summer, although he remains a consultant.

Sealey's replacement is Sergio Zyman, 48, a temperamental former Coke marketer who crushed any notion that the company would return to the Madison Avenue fold. A week into the job, Zyman rejected McCann's ideas for the 1994 global campaign.

CAA is set to do Coke Classic's entire 1994 campaign. Meanwhile, Ovitz and Bill Gates of Microsoft are meeting quietly. Apple Computer has retained Ovitz as a marketing consultant. And Nike recently hired CAA to help with sports marketing events for TV. At Interpublic, McCann's parent, CEO Philip Geier, Jr., is busily realigning McCann's management. He wants another crack at Coke. America's most powerful adman says, "We've got to do a better job."

PART II

BJECTIVE SETTING AND MARKET POSITIONING

3 INTEGRATED MARKETING COMMUNICATIONS

[illegible]

This case is an excellent example of an increasingly popular approach—called *integrated marketing communications*, or IMC for short—to combining and integrating different elements of the communication mix. We will discuss what IMC is and how to implement it in detail later in this chapter. The key idea behind IMC, however, is simply that advertising has various strengths and weaknesses and that it thus has to be combined with the other elements of the *communications mix*—for example, direct marketing, consumer and trade promotions, publicity and public relations, and event and sports marketing, and others—in an integrated and consistent way.

In addition, these different elements of the communications mix have to be used in a way that the strengths of one are used to offset the weakness of another. For instance, one of advertising's weaknesses is its frequent failure to induce immediate action. Very often advertising can create high awareness and favorable attitudes, but it cannot create the final "push" needed to get the inquiry, trial, or sale. When such a situation appears, a marketer must use direct marketing, or sales promotions, to get the necessary action, possibly after an advertising campaign.

In this chapter, we will first discuss some of the strengths and weaknesses of advertising, in the context of the other communications tools available to the marketer. We will then review some of these other communications tools: direct marketing, sales promotions, and public relations and publicity. (Using the sales force to close a sale is another element, but for a discussion of that we defer to books on sales force management.) We will also discuss some other specialized forms of advertising that attempt to create actual behavioral change, such as retail advertising, co-op advertising, and industrial advertising that aims to generate sales leads. Then we will return to the concept of IMC to understand both the key ideas involved and the tactical issues involved in implementing it.

THE ROLE OF ADVERTISING WITHIN THE MARKETING PROGRAM

Advertising planning and decision making take place in the context of an overall marketing program, as just discussed in Chapter 2. Obviously, there are several marketing tools that can be used to help an organization achieve its marketing objectives. Its product or service can be developed or refined. A distribution network can help match an organization's output with its clientele. Pricing strategy is another marketing decision variable. The most appropriate way to improve the sales of a brand may not involve promotion or advertising at all, but may involve more extensive distribution, better relationships with the trade, a lower price, or simply better product quality.

A brand manager needs to spend considerable time pinpointing the exact source of a brand's poor sales before deciding that the core problem is inadequate or poor advertising or promotion. For instance, if research data indicate that consumers are trying the brand but are not repurchasing it, it may well be that the firm's advertising is successful (since consumers are trying the brand) but that the brand's product quality needs attention (since people who try the brand do not repurchase it). The marketing plan thus should be based on the specific problems or opportunities uncovered for the brand by the kind of situation analysis discussed in Chapter 2.

In addition to placing the advertising plan in this total context, the brand manager must also take care to develop a marketing program in which the component parts work in a coordinated, synergistic manner instead of at cross-purposes. For instance, when a firm develops a prestige product with a premium price, it is important that the advertising reinforce that idea of high quality and prestige. This can be done by associating the product with prestigious people, situations, or events. If the advertising objectives are written to encourage the use of advertising copy and advertising media incompatible with a prestige image, the whole marketing program may be jeopardized. Alternatively, when a firm offers a low-priced product, the job of advertising might be to stress the price differential by using hard-hitting copy.

As another example, the role of advertising will also depend on the distribution channel selected. If door-to-door selling is employed, advertising may be used only to introduce the salesperson, or it may not be used at all. If wholesalers, retailers, or other middlemen are employed, different advertising strategies are available. The advertising and selling effort may be primarily directed to either the consumer or the trade. In the former case, the intent would then be to have consumer interest "pull" the merchandise through the distribution channel; in the latter case, distributor margins would get the emphasis, consumer advertising would be less, and the intent would be to "push" it through the channel. Generally, the nature and significance of advertising will differ according to whether the company is stressing a push or pull strategy and whether its distribution strategy is intensive (the use of many outlets to maximize customer convenience), exclusive (the use of a few outlets to maximize retailer interest), or selective (intermediate arrangements).

THE ROLE OF ADVERTISING WITHIN THE "COMMUNICATIONS MIX" . . . .

Once it has been determined that a key problem or opportunity for the brand involves its communication with consumers, it should not be immediately concluded that more money needs to be spent on advertising. Advertising is only one part of the communications mix: a firm can also communicate with its consumers through the sales force, through publicity or public relations, and through various consumer and trade promotions.

Within this mix, advertising has various strengths and weaknesses. Unlike the high cost of a sales call, which by some estimates now exceeds $225 per call once all relevant costs are considered,[2] advertising is a much cheaper way to reach target consumers (often pennies per exposure), since it uses mass media. And, again, unlike sales calls, advertising can use complex visual and emotional devices to increase the persuasiveness of the message. However, salespeople can often communicate more complex information (often necessary in industrial or big-ticket purchases) better than advertising can, can tailor the nature of the message much more closely to the message recipient, and are much more likely to "close" the sale by getting an order. Thus, direct marketing may be needed to target certain prospects with a more customized message, provide them with detailed information, and induce them to act. Direct marketing will be introduced below.

Advertising is notorious for this inability to actually get the sale: while the effects of advertising in increasing brand awareness and favorable attitudes for the brand are easily documented, effects on sales are harder to find (some reasons for this are discussed in Chapter 4). It is thus often useful, after advertising creates awareness of a brand, to supplement advertising with sales promotions (both consumer promotions and trade promotions), which are often more effective in actually getting consumers to try the brand. Such sales promotions may be especially required if research shows, during the situation analysis, that target consumers are aware of the brand and think it has the features they are looking for but have not gotten around to trying it. Sales promotions are outlined below.

Finally, advertising is also weak in another respect: it is widely perceived as biased. Many consumers often do not trust advertising and are skeptical about its claims. In such situations, it is often useful for a marketer to try to communicate his message to consumers through media that are perceived as more credible and unbiased, such as editorial endorsements obtained through publicity and public relations (PR) campaigns. Such PR programs are introduced below.

Thus, an integral part of the advertising planning and decision-making process is an assessment of the role that advertising is meant to play—as one part of a firm's communications mix and as one part of the total marketing mix. Once this perspective has been gained, the brand manager must design a marketing and communications plan in which the different elements complement each other in increasing the sales for the brand. Although this book deals mostly with advertising management, we cannot emphasize enough that an advertising plan can only be developed in the context of a total marketing and communications plan for the brand.

To help place advertising in the context of this total communications mix, we will now discuss the other nonadvertising elements (direct marketing, sales promotions, and public relations) as well as some more specialized, action-oriented types of advertising. Then, we will address some of the conceptual, strategic, and tactical issues involved in integrating all these elements.

DIRECT OR DATABASE MARKETING. . . . .

Direct marketing includes not just *direct mail*, but also *telemarketing* and *direct response* advertising on TV and radio and other media, in which the ad aims to generate an action response (such as calling a toll-free number). Direct marketing has two key advantages that differentiate it from regular, mass advertising: (1) the ability to target specific, individual consumers (not just demographically described segments) with an *offer* that is tailored to that consumer and (2) the ability to directly measure response. For example, the *script* used by a telemarketer can be tailored to what is known about the person being called. The response (or lack of it) can then be entered into a computerized database so that the next marketing effort aimed at this individual can be customized to whatever the direct marketer knows about this specific individual.

Unlike traditional mass media advertising, the goal of most direct marketing efforts is not simply to build awareness or change preference, but to generate an action: either an order or request for more information, a visit to a dealer or a store, and so on. This need to generate action is another distinguishing element of direct marketing and has implications for its creative requirements, which we will discuss further below.

These features of action orientation, targetability, customization ability, and measurability have led to the tremendous growth in direct marketing over the past decade and have led to the current popularity of so-called *database marketing*.[3] While the first catalog in the United States was offered as far back as 1744 by Benjamin Franklin, today about 4,000 catalogs go through the mails each year in the U.S., and almost 100 million Americans shop every year by mail or telephone, spending over $50 billion.[4] By one estimate, Americans today receive 62 billion pieces of direct mail and 18 million telemarketing calls per year!

To share in this growth, all the major ad agency groups now own direct marketing units. The leading direct marketing agencies in the United States include Ogilvy and Mather Direct (New York), Wunderman Cato Johnson (a division of Young and Rubicam, in New York), Rapp Collins Marcoa (a part of the Omnicom group, and based in New York), Kobs and Draft Worldwide (Chicago), and Bronner Slosberg Humphrey (Boston).[5]

This explosion in direct marketing has occurred because more and more traditional "mass market" advertisers have taken to combining direct marketing efforts with their regular advertising efforts, in an effort to not only sharpen their ability to win new customers (by mailing more targeted offers to prospects) but also to retain the loyalty of existing customers, to *cross-sell* new products and services to these existing customers, and to increase the amount or frequency of usage.[6] As some examples of such databases, consider these: Pizza Hut now has a database of 10 million pizza eaters in the country; Kraft General Foods has one on 25 million of its customers; Seagram knows the names and addresses of over 10 million liquor buyers, and Marriott Hotels and Resorts has one on 4 million of its regular guests.

Uses and Examples

As an example of the first goal mentioned above that an advertiser may have—*customer acquisition*—a magazine advertisement for a new General Motors car may feature a coupon inviting the reader to write in for a free copy of a book that will help him make a better automobile-buying decision. The coupon collects not just the reader's name, address, and telephone number, but also information on his present car and how soon he expects to buy his next car. The coupon-sending customer is then sent further collateral materials (such as brochures and catalogs) on the car, with an invitation to test-drive the car at a local dealership. The dealership will also be sent that coupon information on the reader so that the dealer can follow up with a telephone sales call (called *outbound telemarketing*). Other ways of building up databases might involve inducing customers who use a grocery coupon to also write in their name and address, as part of a sweepstakes entry. (The easiest way, of course, is simply to rent a mailing list, which is discussed below.)

Obviously, this marketing effort may or may not result in a sale. Whatever the response or lack of it, all the information now known about the consumer and his response is entered into a computer database, and this database is subsequently utilized to target certain individuals for further mailings or telemarketing efforts. For example, if the car in the example above is a luxury Cadillac model, a mailing for it may be sent to those known to own a competing model of luxury car such as BMW or Lexus (using a mailing list obtained from automobile registration data). Every subsequent response (or nonresponse) that can be directly tracked and attributed to a specific mailing piece or phone call is entered into this database, and the cycle of targeting and measuring response continues.

As an example of the second goal—*customer retention,* or *loyalty building*—a company such as DuPont Automotive might send all its present customers a regular newsletter on its new research and new products to build up its relationship with these customers. In many businesses, a key 20 percent or so of customers account for 80 percent or so of volume, so building relationships with these key customers is obviously vital. To enhance customer satisfaction, a company might offer a toll-free telephone number for service questions, customer enquiries, or product complaints. (Such a telephone service is an example of *inbound telemarketing.*) An airline might send all its frequent-flyer program members a newsletter with special loyalty-building offers. A credit card might use an *envelope stuffer* mailing to induce its present customers to charge even more. Many of these *loyalty programs* offer free gifts or incentives to a company's best customers: American Express offers the top 5 percent of its cardmembers special restaurant and travel offers that vary by the zip code in which the card member lives.[7]

Such mailings can be used not only to strengthen relationships and build loyalty, but also to accomplish the third and fourth goals—*cross-selling* products or *increasing the usage rate.* Thus, a large financial services company such as American Express might attempt to sell new insurance or financial planning services to its charge card membership base, or a large foods company like Kraft General Foods might try to get a customer of one low-fat product to try its other low-fat products (by mailing them coupons or samples). As an example of direct marketing to increase the usage rate, or amount of repeat consumption, an automobile dealership or repair facility (such as Goodyear Auto Service) may track the mileage of the cars brought in for service and send mailed reminders to these customers to bring their cars in for service at regularly scheduled intervals.

Because of the high cost of personal sales calls, companies also often use direct marketing in after-market sales (e.g., selling copier supplies to people who bought copiers and whose names and addresses and phone numbers are now in a database), and in generating sales inquiries that can then be followed up by telephone and personal sales calls. The use of databases also allows companies to use direct marketing to target mailings of coupons and samples to only high-opportunity individuals and households. The traditional users of direct marketing have always been magazines and newspapers (who use it to sell subscriptions), the marketers of insurance-by-mail, the record and book clubs (in what are called the *negative option continuity programs,* through which customers are sent something every few weeks till they say no), and, of course, the catalog retailers (such as Spiegel's, Lands' End, etc.).

Targeting

The targeting ability of direct marketing can be greatly enhanced by a systematic development of the direct marketer's database. Someone who knows your address and, thus, your postal zip code or census block group, can obtain information from database companies about various characteristics (such as the median income, average age, etc.), of the zip code in which you live, based on the average for the geodemographic *cluster* in which you live (such clusters are discussed in Chapter 6). This information is then used to assess whether you are a likely prospect for a particular product, on the assumption that your individual profile is similar to the average data available for your zip code. The average profile of people living in some of Donnelley's "Clusterplus" forty-seven clusters are provided in Figure 3–1; every household can be classified into one of these clusters based on its zip code.

In addition, data are also available that apply to consumers as individuals: lifestyle (hobby and activity) information supplied on product warranty registration cards can be purchased, as can driving license and automobile registration data (in most states). Any other source to whom consumers reveal their incomes or age or anything else may also sell this information to the large database companies (such as Donnelley, Metromail, Polk, etc.) that maintain household databases on almost every household in the United States. Databases on business establishments are maintained by companies like Dun & Bradstreet, containing information on the businesses' sales, number of employees, and nature of business (using the Standard Industrial Classification, or SIC, code).

Companies can also acquire names from their databases in other creative ways: a company making diapers, like Kimberly-Clark, may acquire the names of all those expectant mothers who take a childbirth class before delivery—or from newspaper birth announcements after the delivery. Many packaged goods companies attempt to "capture" the names and addresses of users by obtaining them from sweepstakes entries, from those sending in mail-in offers for promotional premiums and gifts, from those who cash in rebates or writing in response to free sample offers, or from those who include a sweepstakes entry form as part of a regular grocery coupon that is redeemed in a store. The consumer who writes in a name and address on the redeemed coupon thus not only receives the coupon's promised cents-off but also enters a sweepstakes. Retailers build up lists of customers by obtaining names and addresses as part of the regular sales process. Obviously, the availability of such information on consumers raises all kinds of concerns about privacy.[8]

Cluster code	
01	Highest SESI, highest income, prime real estate areas, highest education level, professionally employed, low mobility, homeowners, children in private schools
02	Very high household income, new homes and condominiums, prime real estate areas, highly mobile, high education level, professionally employed, homeowners, families with children
03	High income, high home values, new homes, highly mobile, younger, high education level, professionally employed, homeowners, married couples, high incidence of children, larger families
04	High income, high home values, high education level, professionally employed, married couples, larger families, highest incidence of teenagers, homeowners, homes built in 60's
05	High income, high home values, high education level, professionally employed, low mobility, homeowners, homes built in 50's and 60's
06	Highest incidence of children, large families, new homes, highly mobile, younger, married couples, above average income and education, homeowners
07	Apartments and condominiums, high rent, above average income, high education level, professionally employed, mobile, singles, few children, urban areas
08	Above average income, above average education, older, fewer children, white collar workers
09	Above average income, average education, households with two or more workers, homes built in 60's and 70's
10	High education level, average income, professionally employed, younger, mobile, apartment dwellers, above average rents
11	Above average income, average education, families with children, high incidence of teenagers, homeowners, homes built in 60's, small towns
12	Highly mobile, young, working couples, young children, new homes, above average income and education, white collar workers
13	Older, fewer children, above average income, average education, white collar workers, homeowners, homes built in 50's, very low mobility, small towns
14	Retirees, condominiums and apartments, few children, above average income and education, professionally employed, high home values and rents, urban areas
15	Older, very low mobility, fewer children, above average income and education, white collar workers, old housing, urban areas
16	Working couples, very low mobility, above average income, average education, homeowners, homes built in 50's, urban areas
17	Very young, below average income, high education level, professionally employed, highly mobile, singles, few children, apartment dwellers, high rent areas
18	High incidence of children, larger families, above average income, average education, working couples, homeowners

Source: Donnelley Marketing Information Services.

Figure 3–1. Demographic characteristics of selected ClusterPLUS^{SM} neighborhood clusters.

Source: Donnelley Marketing Information Services.

Measuring and Improving Response

Typically, the direct marketing companies compute response on a response-rate-per-thousand-mailings basis, abbreviated as *OPM* (orders per thousand). They can tell which mailing to which a customer responded by using code numbers (called *key codes*) on the response coupons that uniquely identify a mailing package. Companies continually test different mailing packages to see which ones "pull" best. Thus, different mailing pieces may be sent to random samples of 10,000 to 25,000 individuals, with the mailing peices varying systematically in the size and color scheme of the envelope, the copy in the sales letter, the size and illustrations in the brochure, and the price and payment terms. The objective in such tests is to see which of these many new *test packages* yields a response rate or order rate greater than the mailing piece being used currently, called the *control package*.

Response rates—which can be very low, often just 1 to 2 percent of the packages mailed—are a function of many factors. First, of course, there is the product being offered, at a certain price and payment term, and with or without a *premium*, or free gift. These are collectively called the *offer*. Response rates are higher if the product is unique and not available in regular retail channels, if the price is credibly low, and if the payment terms are easy, and so on. Second, there are the quality and responsiveness of the names in the mailing lists that the direct marketer is renting, through a *list broker* or *list compiler* (perhaps paying $100 for every thousand names mailed). Are the people on the list really interested in this product or service? Third, of course, is the quality of the creative message: the letter, the brochure, the envelope, and so on. Even with such low response rates, and even with production and mailing costs of 50 to 60 cents per mailing piece, a mailing can still be profitable if the gross profit per response is high. Conversely, if the gross profit per sale is low, and/or if the target marget is reached more efficiently by mass media than through targeted direct marketing, mass marketing and advertising may make more economic sense than a direct marketing program.

Direct marketers also spend large sums of money building analytical models of the responses to their mailings. For example, a logit or logistic regression model might be estimated on a previous mailing, which can be used to forecast which of the prospects for an upcoming mailing are most likely to respond to it, and the mailing can be limited to only the most likely responders. Such models to a company's existing customers often model the likelihood of response as a function of how long it has been since that customer's last order (called *recency*), how many times that customer has purchased in the past (called *frequency*), and how much money that customer has spent with the company in the past (called *monetary value*). Such RFM models (for the first letters of these three concepts) are very often used by traditional catalog direct marketers, but newer and more sophisticated modeling methods—some even using artificial intelligence techniques called *neural nets*—are often superior to such RFM models.

In building a direct marketing business, a direct marketer is concerned not just with maximizing the response rates to a mailing (called the *front-end* of the business), but also the (*back-end*) profitability of the customers acquired. For example, a book club can very easily boost response rates to a mailing by giving away more books free of charge, and requiring no commitment from the new member to buy any more books ever. Such a *soft offer* would obviously boost response rates! However, the members acquired through such a mailing may well not end up buying many books over the lifetimes of their memberships with the book club and may thus be relatively unprofitable to acquire. In contrast, a *hard offer* that offers fewer free books and requires bigger and longer commitments to buy a certain number of books may well result in a lower overall response, but more profitable members long-term. A direct marketer is concerned not just with immediate payoff but with the *lifetime value* of its customers.

Mailing List Rental and Processing

Mailings or telemarketing campaigns can obviously be made to a company's list of existing or past customers, called its *house list.* For mailings to prospects, however, *outside lists* usually have to be rented. Mailing lists are usually rented on a per-use basis, rather than bought and sold. Compliance with rental conditions is monitored by inserting *dummy* or *decoy* names into the list to which the renting mailer will unknowingly send mailings, which can be tracked for frequency of use.

Such outside lists are of two primary kinds. A *response list* is a list of the customers of another business. Such a list will obviously contain a name and complete address, but may also contain information on the recency, frequency, and monetary value of the name on the list (these terms were defined above). If these are customers who ordered from that business very recently, the list may be called a *hotline list* (and command a higher price). In contrast, a *compiled list* is a list put together from directories and other sources, and is usually cheaper to rent, since it is unknown how likely the people on the list will be to respond to the mailing.

Such outside lists are usually rented through a *list broker,* who represents the people who own or compile the lists (for a commission, of course). List brokers offer access to a huge number of lists—over 40,000 by one count, including every conceivable occupation and profession. Lists are rented on a *per-thousand-names* basis, with the charge varying on the desirability of the list (it may cost $100 per thousand names, for instance). Since a renter may end up renting several hundred small lists, the multiple lists used are first merged and purged of duplicate names, and payment is usually made on a net basis, after deleting duplicate names. This *merge/purge* is done by computer bureaus. The actual mailing of the mailing pieces, using the mailing labels or names supplied by the list broker, is done through *lettershops.*

Creative Guidelines

Good direct mail pieces are built on an intuitive understanding of the psychology of inducing action. Think about the state of mind of a consumer opening a direct-mail solicitation. He or she has doubts about the quality of the product, since it cannot be physically inspected. There is no salesperson to answer questions and overcome objections. And, there is the very human tendency to postpone things: even if the consumer feels vaguely interested, there will typically be a reaction of "I'll get around to this later, not now."

What good direct marketing copywriters have discovered—and this is wisdom that even non-direct marketers can benefit from—is that direct-mail copy that gets action tries hard (1) to use testimonials and guarantees to develop confidence; (2) to use as much information as is necessary in the letter to clarify doubts, overcome objections, and increase the reader's level of desire for the product; (3) to make it easy for the consumer to take action, by having easy-to-use response cards or toll-free telephone numbers; (4) to "involve" the reader, through devices such as peel-off stamps and scratch-off numbers; and (5) to express urgency about the need for immediate response, by saying that the offer or free premium is good "for a limited time," expires by a certain date, and so on. In direct marketing, as in all marketing, the key barrier to getting consumers to act is sheer inertia, and ads that target such inertia directly are most likely to obtain action.

Figure 3–2 shows an advertisement from a very successful mail-order campaign. Although the advertisement is not a one-time effort but part of a continuing campaign, its primary goal is intended to precipitate immediate response and its effectiveness can be properly measured by this response. Direct marketing advertising has long been recognized as being perhaps the only area in advertising in which immediate sales are a reliable indication of advertising performance. As a result, advertising professionals look to the experience of mail-order advertisers to learn what works and what doesn't.

SALES PROMOTIONS

Sales promotions are of two broad types: *consumer promotions*, such as coupons, sampling, premiums, sweepstakes, low-cost financing deals, and rebates; and *trade promotions*, such as slotting allowances, allowances for featuring the product in retail advertising, display and merchandising allowances, and the like. They are used to get consumers to try or to repurchase the brand and to get the retail trade to carry and to "push" the brand.

Additionally, promotions are also used by manufacturers to "discriminate" between different segments of consumers—for example, only those consumers who have the time to clip coupons will clip and use them and obtain a lower price for themselves, while those consumers who are time-pressed won't use coupons (and will end up paying a higher price). Finally, retailers use promotions to clear their inventory of slow-moving, out-of-season, or shelf-unstable products (those products, such as fresh produce, that will spoil if they are not sold quickly). Retailers thus run their own promotions aimed at consumers, such as price cuts, displays, frequent shopper programs, and so on.

While this is a book about advertising management, and while sales promotion is a distinct area of research and management—with its own textbooks[9]—it is necessary for us to spend some time discussing sales promotions. There are three reasons for doing so.

First, sales promotions are a key element in inducing trial or repurchase in many communications programs in which advertising creates awareness and favorable attitudes but fails to spur action. One of the reasons they spur action—compared to simple price cuts—is that they are typically run for a limited duration,

Figure 3–2. A successful mail-order advertisement.
Courtesy of Book-of-the-Month Club, Inc.

which means that the consumer must act quickly, before the promotion ends. Other reasons they spur action is simply that many consumers feel they get value for their money if they buy "a good deal" (they are "smart shoppers"). In fact, many consumers automatically assume that if a brand is being promoted it must be a good deal (which is not always true!). By one estimate, 80 percent of U.S. households use coupons, 75 percent of the appliances bought in the U.S. are bought on deal, and 70 percent of the packaged goods sold to retailers are sold with a trade promotion. Thus, it is important to understand the complementary roles of advertising and sales promotion in order to conduct situation analyses properly and to set communications, advertising, and sales promotion goals.

Second, according to a 1993 survey of promotional practices in seventy leading companies, sales promotions constitute about 73 percent of marketing expenditures (about 27 percent is spent on consumer promotions, 46 percent on trade promotions), whereas advertising constitutes about 27 percent.[10] The share of the marketing dollar spent on trade promotions has risen rapidly in recent years, in large part due to the growing power of ever-larger retail chains. For instance, America's largest retail chain, Walmart, now accounts for 10 to 15 percent of the sales of many of America's largest packaged goods companies! Some of the power of retail chains also comes from their access to accurate checkout scanner data, which reveals which brands are moving fast off the retail shelves (and which are not) and to their ownership of the precious retail shelf-space "real estate" that the manufacturing companies covet (and are willing to pay for). Other reasons for the growth in promotional spending are the trend to more local and regional marketing programs and the greater price competition posed to national brands by store-label (*private label*) brands.

Clearly, since advertising expenditures take place in this total promotional context and not in isolation, it is essential that the advertising manager have a good understanding of sales promotions as well. While the implementation details of sales promotions and advertising are handled by different individuals in most marketing organizations, brand managers usually are responsible for both areas. In order to be able to offer "integrated" sales promotion services, many of the major advertising agency groups own one or more sales promotion companies (such as Alcone Sims O'Brien, owned by Omnicom, or Lintas: Marketing Communications, owned by Interpublic), although many of the leading firms in this area are still independent.[11]

Finally, advertising and sales promotions operate together in their impact on the consumer. When designed and run in tandem, they yield powerful synergies that magnify their individual effects. For example, a coupon offer in a Sunday newspaper *free-standing insert* (FSI) can have a higher redemption rate if theme ads for that brand are run concurrently. On the other hand, if advertising and sales promotion efforts are designed and run in isolation, they can lead to effects that hurt each other—poorly designed promotions, in particular, can quickly erode the long-term image of the brand that advertising has worked hard to build up over several years. This longer-term *brand equity dilution* effect of promotions is probably greater for brands in highly involving image and "feeling" product areas, because promotions might "cheapen" a brand's image. Brands in product categories in which choices are based on "economic," price-minimizing criteria are not as vulnerable to brand equity dilution.[12] Even if the brand's image is not hurt, most promotions end up only drawing volume from existing users who would have bought anyway, so that the promotion may end up costing the company more money than it brings in.

It is therefore essential that the advertising manager understand the need for this interaction between advertising and sales promotions. The thrust of this section thus will be to explore this interaction. Before we do that, however, we will briefly describe several different types of sales promotions, stressing those aspects that relate in some way to the advertising program.

Consumer Promotions

Consumer promotions are designed to offer consumers an incentive (such as a lower price or a free or low-cost premium or gift) to try a brand for the first time, to switch back to it, or to repurchase it. The different types of consumer promotions vary in their trial versus repurchase orientation, as will be pointed out below. A few consumer promotions, such as sweepstakes and premiums, can be designed with a view to enhancing the key imagery equities of the brand.

Coupons

Coupons are perhaps the most frequently used consumer promotion—over 300 billion coupons were distributed in the United States through print media in the early 1990s, but only about 3 percent were redeemed.[13] Although over 75 percent of all coupons are currently distributed through newspaper FSIs,[14] coupons distributed through direct mail are more targeted than are those distributed through print media (newspapers and magazines) and thus have much higher redemption rates (about 9 to 10 percent in direct mail versus about 2 to 3 percent in newspapers). Whereas coupons that are in or on the pack are specifically designed to build repeat purchase and loyalty, those that are carried in other products consumed by a similar target market (such as coupons for a baby shampoo carried in a diaper product) are designed to attract new customers. These latter coupons are called *cross-ruff* coupons. Coupons (or cash checks) are often offered as straight price *rebates* for durable products, such as cars or appliances, and are sometimes offered as *refunds*, mailed to consumers who send in proof of purchase. (Manufacturers often hope that many consumers who buy products because of a mail-in rebate never in fact mail-in the rebate, and this is often the case!)

From an advertising perspective, it is important in couponing to design the coupon ad in such a way that it builds on, and reinforces the positioning and key benefits developed in theme advertising, rather than having a different theme (or no theme at all, other than the price incentive). Similarly, a rebate offer might be creatively designed to highlight a brand strength—for instance, an offer to pay for a car's gas consumption or maintenance expenses in its first year might better highlight the car's gas economy or repair record than a simple rebate check. In addition, of course, the coupon must be designed so it is easy to clip, shows the package prominently, has the appropriate legal copy, and so on.

From a media standpoint, another key objective in couponing is to make sure it really gets new users instead of merely going to existing users who would have bought it anyway. The easiest way to deliver coupons, to gain mass reach, is to use newspapers. However, it has been estimated that only one-third of coupon usage, from such mass-distributed coupons (such as those in Sunday newspaper FSIs), comes from new users. As a result, many more companies are either mailing coupons via direct mail to those known to be nonusers, or using new in-store services (such as Catalina Marketing's Checkout Coupon service) which prints a coupon for a brand at the point-of-sale to someone who has just bought a competing brand. The coupon is "triggered" by the scanned purchase of the competing product.

This synergy can work the other way as well: coupons or other promotional offers can be used to increase the effectiveness of an ad by increasing readership. Apple Computer supported the introduction of its Macintosh with a "Test Drive a Macintosh" promotion, which allowed customers to leave computer showrooms with $2,400 worth of equipment.[15] The budget was $10 million, of which $8 million went to advertising and the rest supported such activities as in-store displays and carrying the inventory costs. Around 200,000 Macintoshes were test driven, at a cost of only $5 each.

Sampling

Giving people *free samples* or *trial packs* (door to door, at street corners, in stores or shopping malls, or through the mail) is another promotional technique and is an excellent (but expensive) way to get consumers to try a product. Chesebrough-Pond's, for instance, distributed 80,000 full-size samples of its new products, plus coupons and literature, in five shopping malls. A new product launch could include a small sample mass-mailed to possibly half of the nation's households. Alternatively, for an existing product, small trial packs could be mailed to households known—as part of a databased marketing effort—to be current users of a competitive product. New and creative avenues for in-store sampling include sampling children's products in toys stores such as Toys R Us, sampling products aimed at teenagers in college bookstores, and so on. In such sampling programs, care must be taken to provide enough product quantity to convince the trier that this is indeed a better product, while simultaneously minimizing product, packaging, and mailing expenses.

Figure 3–3 shows an ad for Lipton's new teas that ask consumers to write in for trial tea bags. It is often appropriate to do such sampling for new brands, after running an introductory flight of ads to build awareness and favorable attitudes (so that consumers who receive the free sample already know about it and are predisposed to try it). It may often be more cost effective to do such sampling than to run additional advertising for such new brands, after that introductory advertising. When feasible, the advertising could feature an in-store coupon for a free trial pack or a toll-free phone number to call for one.

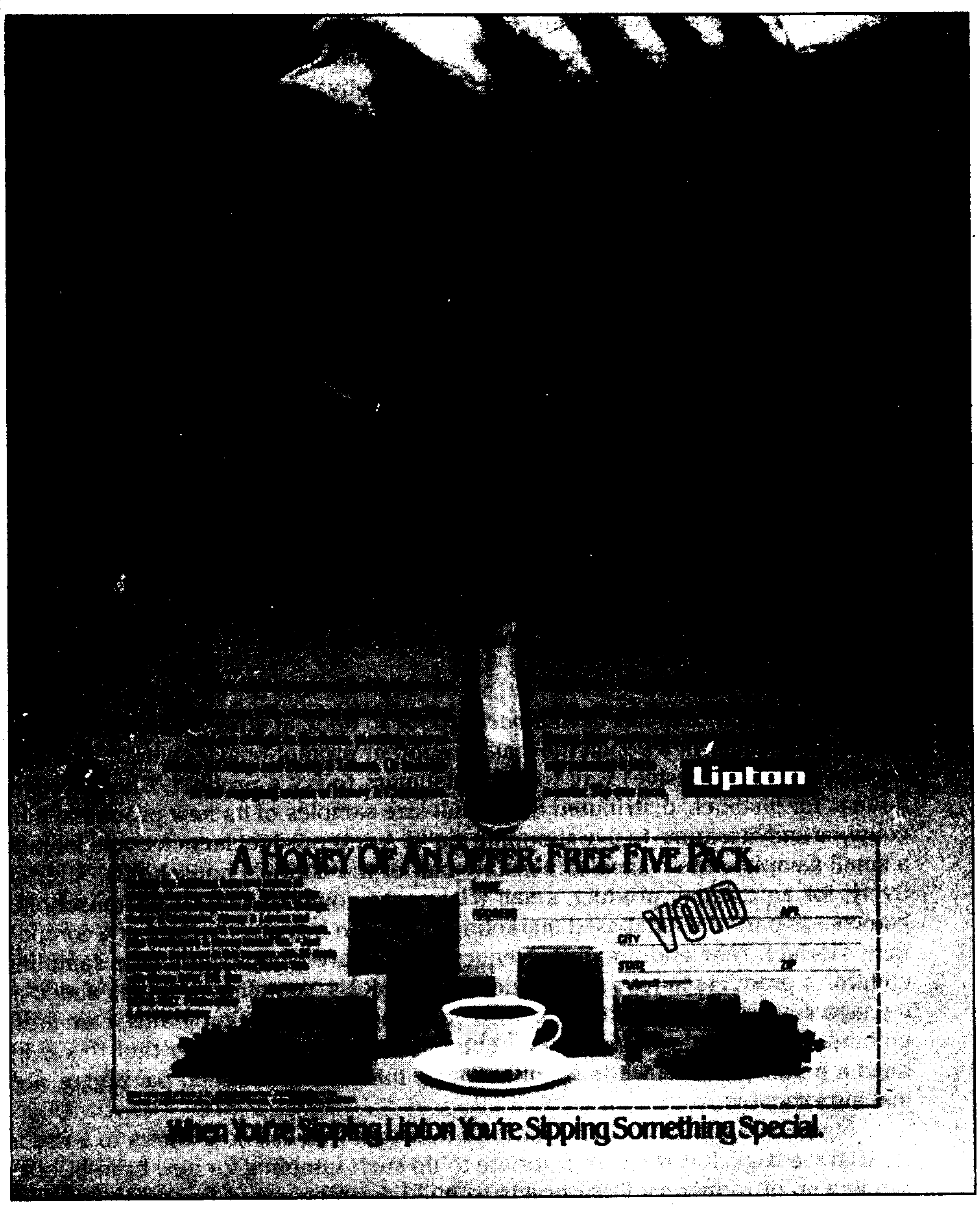

Figure 3–3. Sampling via trial packs: Lipton Teas.
Courtesy of Thomas J. Lipton Company.

Price Packs

Price packs (packs that offer a lower than usual price, or greater than usual quantity) are another kind of consumer promotion that can both attract switching and reinforce loyalty. Here again, it may be more supportive of the brand's advertised image to offer "extra" product volume than to simply lower price. For some products (such as tea, coffee, detergents, etc.), it may be possible to offer the "extra" volume in a special container (such as a glass carafe or plastic dispensing unit) that reinforces some aspect of the brand's image.

Premiums and Gifts

The same kind of thinking can be used to select *premiums* that are offered to consumers (these are "free" products that are provided in the pack or mailed if multiple proofs of purchase are sent in, either at no cost or at below-retail prices. If the latter, they are called *self-liquidating premiums* because the company recovers its out-of-pocket costs). An intelligently selected premium can be used to reinforce a brand image: Mueslix cereal from Kellogg, from instance, which built its initial advertising campaign around a European heritage, offered consumers a packet of European currency notes if they sent in the required number of proofs of purchase. In-pack premiums (such as toy characters in children's cereals) can also be designed to build a brand's image. The cigarette brand Marlboro offers loyal consumers—those who collect enough boxtops—merchandise with an outdoorsy, Western, cowboy theme that reinforces the brand's classic imagery. Since such premiums typically require multiple proofs of purchase, they are designed most often to build repeat purchase and customer loyalty.

Sweepstakes

Sweepstakes are another kind of consumer promotion, and these offer the greatest potential to reinforce a brand's advertising platform. McDonald's, for instance, ran a sweepstakes promotion at the same time that its ads were featuring a "McDonald's menu song" in which consumers had to play a plastic record to find out if they had won—with the record featuring the same menu song. Benson & Hedges cigarettes, around the time it launched a 100-mm-length version, ran a sweepstakes in which consumers had to pick which one of a hundred minicontests they wanted to enter, in which each of these minicontests had as their prize 100 units of something (such as 100 pints of ice cream).

Subsidized Financing

This incentive is frequently used in the promotional programs for many durable products, including automobiles. Since these products are often purchased by consumers on monthly installment plans, the consumer is more concerned with the monthly payment amount, including the monthly interest payment, than the total amount paid. Companies therefore attempt to lower this monthly amount by offering a subsidized interest rate, often through a captive financing subsidiary (such as General Motors Acceptance Corporation, in the case of General Motors).

The key thought in the foregoing discussion on consumer promotions is that promotions are needed to move the consumer along to making the needed "action" step, or needed to build loyalty and promote repurchase, after advertising has done its job in creating awareness and preference. However, promotions can sometimes hurt a brand's image by cheapening it, but this is not necessary if the promotion is designed with a view to working with and strengthening the brand's advertised image.

Trade Promotions

Trade promotions are financial incentives given to the trade to stock the product, to buy in larger quantities, to move merchandise from the warehouse onto the retail shelf, to display the brand in end-aisle displays, or to feature the brand in local retailer advertising (such as on "best food days"—Wednesdays or Thursdays), including offering retailer coupons, and so on. Another purpose served by trade promotions is that they give the manufacturer some degree of control over the final price charged to the end-consumer: if the price to the retailer is cut, it should lead to (at least slightly) lower prices for the consumer. Cooperative advertising is discussed later in this chapter, but many of the other types of trade allowances are discussed briefly below.

These trade promotions often have the objective of "buying" retail shelf space and getting additional retailer "push" by loading the retailer with extra inventory or of giving the retailer a temporarily lower price in the hope that some of the price cut is passed on to the consumer. Unfortunately, retailers have begun to keep back for themselves much of the price incentive they are expected to pass on to the consumer (the *pass-through* percentage is often only about 50 percent). In addition, many retailers often *forward buy* more deal-promoted product volume than they can sell at that time, either using the extra volume for nonpromoted future time periods, or "diverting" that volume to other dealers at a slight mark-up. As a consequence of these practices, trade promotions have begun to account for a very large percentage (20 to 30 percent) of retailers' total profits.

Because of these problems, manufacturers have recently begun to cut back on these promotions, often by substituting a lower *everyday low price* (EDLP) for a sometimes-high, sometimes-low (*high-low*) price and promotion policy. Since cutting back on trade promotions will obviously hurt retailers' profits, manufacturers have begun to compensate for these cuts by also trying to hold down the costs that retailers incur in warehousing, transporting, and stocking that manufacturer's products through processes called *efficient consumer response*. The hope is that the retailers' *direct product profitability* (DPP) on these manufacturers' brands does not suffer.

In addition, many companies have begun to offer advice to retailers on how to maximize their dollar return from each section of the store, by showing them how to allocate their retail shelf space optimally among the different brands, using *planograms*. This approach is called *category management*, and has led to many manufacturers developing closer relationships with each retail chain so that they can understand the retailer's needs better, often on a store-by-store or market-by-market basis.

Some of the types of trade promotions frequently used by manufacturers are described briefly below.

Off-Invoice or Buying Allowances

These incentives are the simplest form of trade promotion and are nothing more than a price cut of a certain percentage applied to the volume bought by a retailer during the promotional period (e.g., 5 percent may be taken off the invoice, hence the name). No retailer performance (such as displays, feature ads in retail store circulars, etc.) is required. As mentioned, retailers often purchase more than they can sell during such promotional periods to have enough stock to last them to the next promotional period, a practice called *bridge buying* or *forward buying.* A variant of such promotions is the offer of *free goods*, such as one unit free per dozen purchased. This has the advantage of requiring the retailer to actually sell the free good before the gains from the promotion are financially realized, putting greater "push" pressure on the retailer.

Count-Recount Allowances

Under this type of trade promotion, the discount is applied not to the quantity the retailer buys from the manufacturer during the promotional period, but only to that quantity that is moved from the retailer's warehouses into the retailer's stores. As a consequence, the retailer is given a greater incentive to pass the price cut on to the consumer so that the product "moves" from the store into consumers' hands.

Billback Allowances

These allowances are paid by the manufacturer to the retailer on a per-case basis only if certain performance criteria are met. While they have the advantage of "pay-for-performance," they have the disadvantage of requiring sales force and administrative time to monitor compliance.[16] The kinds of "performance" expected from the retailer could include in-store displays, feature ads in the retailer's circulars, and so on.

Display Allowances

These allowances are incentives to the trade to display the product prominently, in an end-of-aisle or store-window display. These have been found to be very effective, because many time-pressed consumers simply pick up those brands that are made salient by such displays, assuming they are on sale (which is not always the case). Stores like such allowances because they are a good source of revenue (a grocery chain might charge $200 per week per store for a display). For durable goods, such displays are often a very valuable tool to educate both the consumer and the retail salespeople about the special features of the product.

In-Ad Grocer Coupon

This type of payment by the manufacturer is made to the retailer in return for which the retailer features a coupon for that brand in the retailer's weekly advertising circulars. The coupon is redeemable only in that retailer's store. The manufacturer pays the coupon face value, plus handling costs.

Slotting or Facing Allowances

These allowances are one-time fees paid by the manufacturer to the retailer to get a new brand on the retailer's shelf, paid to compensate the retailer for the brand removed to make space for this new brand and for associated inventory and administrative costs—and the risk—involved with the new brand. These fees may cost manufacturers anywhere from $10,000 to $100,000 per item per chain.[17]

Trade Inventory Financing or Delayed Billing

These financial incentives are used most often in durable goods industries, such as appliances or automobiles. The manufacturer lowers the cost to the retailer to purchase products to stock on the retail floor or in inventory, either by offering a reduced-rate financing facility, by delaying billing, or both.

Sweepstakes, Contests, and *Spiffs*.

These are incentives used to reward retail salespeople who meet their sales quotas for the manufacturer's goods, usually for durable goods, paid for by the manufacturers of those products. Ideally, these are timed to run concurrently with consumer promotions.

There is emerging consensus that, in addition to the several negative consequences already discussed earlier, these trade promotions also have the potential to erode a brand's franchise and image. They do this by reducing the amount spent on advertising and in increasing the extent to which the consumers buy the brand in the supermarket because it is "on deal" that week, rather than because of its advertised image. This leads to an increase in the perception that the brand is a commodity, or parity product, rather than something with unique added values (the subject of Chapters 9 through 11). Here, again, the smart advertiser must strive to focus these trade deals on advertising-enhancing activities (such as thematically linked displays or thematically consistent retailer advertising).

In the longer run, of course, only an advertiser with a strong brand consumer franchise—built up through consistent advertising—will have the market clout to withstand retailer pressure to provide higher and higher trade allowances. Strong brands with demonstrated "sell-through" (advertising-induced consumer demand) will not have to give as much to the retailer (although the trade will often "push" stronger brands of their own accord) and will thus end up as more profitable brands.

Thus far we have discussed the interaction between advertising and promotions mainly in terms of the content of both. Another form of interaction pertains to their timing: consumers are more likely to notice the advertising for a brand and the promotions for it if both are run concurrently rather than in separate time periods. Such a coordinated campaign is more likely to break through the clutter. This is likely to enhance the effectiveness of both the advertising campaign (through higher readership or viewership) and of the promotional program (through greater coupon redemption or in-store sales from special displays).

OTHER ACTION-ORIENTED COMMUNICATIONS . .

Retail Advertising

Another example of advertising that has direct, action objectives is the advertising of retailers, or *retail advertising*. What are the advertising practices of successful retailers? The best retail advertisements are those that provide the consumer with a lot of specific information, so that the consumer can see immediately that he or she must indeed visit the store. It is not enough, therefore, to say (for example) that the shirts on sale are available in various colors and sizes; it is much more action-inducing to list the exact colors, sizes, and prices. Any piece of missing information could hinder action. It is also important to create a sense of immediate availability and urgency, by stressing that this availability (and these prices) are "for a limited time only."

While there is probably little carryover effect of advertising of a specific storewide sale, retail advertisers are very particular that every retail ad fit and enhance the specific long-term image of the store. Every ad from Bloomingdale's, Lord & Taylor, and so on is carefully tuned to the particular character—the "look and feel"—that the store has carefully developed over the years. (See Figure 3–4).

For durable products, such as large appliances and automobiles, an appropriate behavioral objective for advertising might be to entice customers to visit a dealer's showroom. For large-ticket consumer items, the final phases of the selling process are usually best handled by a person-to-person sales effort, with advertising used appropriately to draw people to the showroom. In such situations, "traffic-building" advertising becomes key, and (once again) the advertising must try to create a strong sense of desire, curiosity, and urgency to get the reader or viewer to make that store visit.

Cooperative Advertising

A situation closely related to retail advertising is that of *cooperative advertising*, in which a manufacturer offers retailers an advertising program for the latter to run.[18] The program may include suggested advertising formats, materials to be used to create actual advertisements, and money to pay a portion (often, half) of the cost. It also often includes requests or requirements that the retailer stock certain merchandise quantities and perhaps use certain displays. By some estimates, almost one-half of retail advertising is some form of co-op advertising.

There are three types of co-op advertising: (1) *vertical* (when an *upstream* manufacturer or service provider, such as Royal Cruise Lines, pays for a *downstream* retailer's ads, such as a travel agent's ads); (2) *horizontal* (when local dealers in a geographical area pool money, as in automobiles or fast-food chains); and (3) *ingredient producer co-op* (when the *producer* of an ingredient, such as Nutrasweet, pays part of an ad run by the *user* product, such as Diet Coke). Recent estimates have put the amount of co-op advertising in the U.S. at about $10 billion per year, of which about two-thirds are spent through newspapers.[19] Co-op ads thus consitute a large portion of newspaper advertising revenue, and newspapers

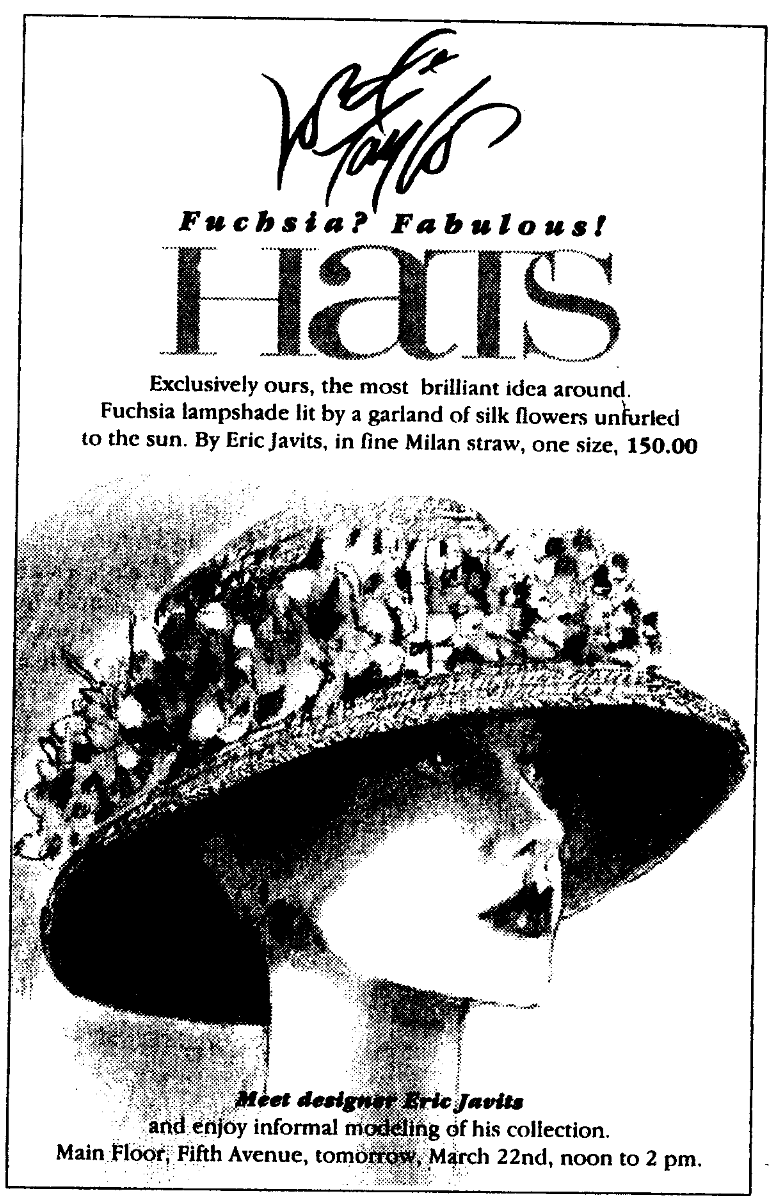

Figure 3–4. A retail ad.
Courtesy of Lord and Taylor.

have set up set up organizations (such as the Newspaper Co-op network, and the Newspaper Advertising Cooperative Network) to alert local retailers to manufacturer co-op programs they may not be fully utilizing.

The intent of coöperative advertising, in part, is often to stimulate short-term sales. The advertising is well suited to this task because it is usually specific as to the product, the place at which it can be purchased, and the price. However, co-op advertising also has other longer-term objectives: namely, to reinforce the brand image of the original manufacturer or service provider and to maintain the manufacturing company's leverage with the retail trade. The former is especially important because retail store buyers and salespeople often favor products that come with large allowances, to the extent that a product not having the expected co-op amount can find itself losing distribution.

The latter implies that the manufacturer needs to monitor and control co-op advertising content carefully, to ensure that it is consistent with the national ad campaign. Weak control over the creative content and media placement of co-op ads run by small retailers can contribute to a lack of consistency in the image of the brand and even the creation of negative associations with the brand, potentially hurting the brand's equity (see Chapter 10). Such creative control can be obtained by providing the local retailer with *advertising slicks* created by the manufacturer's agency, which can then be customized by the local retailer while still being consistent with the national campaign for the brand.

Given the pressures from the retail trade (and from one's own sales force) to maintain and even increase co-op advertising allowances, a marketer is often tempted to allocate more money into co-op advertising at the expense of national advertising. In deciding how much money to allocate to co-op advertising, the marketer needs to determine if the product will really benefit from being associated with a store's image. Such benefits are typically higher for the case of fashion goods, hi-fi stereo equipment, and so on, which are expensive and image-driven products about which consumers seek retail information and endorsements; these benefits are lower for inexpensive, frequently purchased products (such as toothpaste or shampoo) about which the consumer does not seek retail advice. The key question is: What are the relative roles of national advertising and store advertising in influencing consumer brand choice processes?

In addition to looking at consumer decision processes, the advertising planner must also be concerned with the need to acquire or expand distribution; a high need typically compels higher co-op allowances. Further, legal and administrative requirements must be met. For example, co-op allowances have to be offered on an "equally available to all" basis unless it can be demonstrated that certain stores (to whom proportionately higher allowances are being offered) will lead to a greater gain in new customers to the manufacturer.[20] A co-op program is likely to yield greater benefits to the manufacturing company if the program is tightly monitored (e.g., limited to certain slow-moving sizes of products rather than all sizes). The administrative burdens of a co-op program also need to be remembered: claims need to be documented and compliance checked before payments are made, and this can be a tremendous headache if hundreds of retail accounts are involved. Software packages exist to streamline this process.[21]

Reminder, Point-of-Purchase, and Specialty Advertising

Sometimes the primary role of advertising is to act as a reminder to buy and use the brand. The brand may be established and have a relatively solid, stable image. *Reminder advertising* then serves to stimulate immediate purchase and/or use to counter the inroads of competition. A good example is the Budweiser advertisement shown in Figure 3–5. Other examples of reminder advertising are the "shelf talkers" or other *point-of-purchase* (P-O-P) materials placed in stores at or near the place where the brand is on display. Such P-O-P materials often feature the package, price, and a key selling idea.

Reminder advertising can work in several ways. First, it can enhance the top-of-mind awareness of the brand, thus increasing the probability that the brand gets included on the shopping list or gets purchased as an impulse item. A media plan that aims to enhance or maintain top-of-mind awareness through reminder ads might utilize shorter ads (such as fifteen-second commercials) with a high level of frequency or use media such as outdoor billboards or transit that are suited to such reminder advertising. Second, it can reinforce the key elements of the na-

Figure 3–5. A reminder advertisement.
Courtesy of Anheuser-Busch, Inc.

tional campaign at the point-of-purchase. It has been shown in research by Kevin Keller that if there is a match between the type of information used in the P-O-P material and in an ad for the brand seen previously, the consumer is more likely to recall the information in the ad successfully, and this leads to more favorable judgments about the brand involved.[22]

In addition, it is often useful in such situations to use items of *specialty advertising,* useful products given free to consumers that have the manufacturer's name and related information on them. Specialty advertising items go beyond the usual calendars, ball-point pens, coasters, and Rolodex cards to all kinds of creative, high-quality products (such as a refrigerator magnet for Domino's Pizza that reminds a hungry but time-starved consumer which phone number to call for quick, home-delivered pizza). Manufactured by *supplier* companies, such specialty advertising items are not usually handled by traditional advertising agencies but by organizations called specialty distributors or specialty advertising agencies.[23]

In addition to maintaining top-of-mind awareness for a particular brand, reminder advertising can also increase the motivation for the use of the product class as a whole. In this context, the advertising may tend to simply increase the purchase and use of the product class and thus work to the advantage of the leading brand. Thus, reminder advertising for Royal Crown Cola may tend to increase purchases of other colas, to the advantage of Coke and Pepsi. Similarly, Campbell's Soup is the soup brand that is in the best position to conduct reminder advertising.

In-Store Advertising and Merchandising

In-store advertising is a rapidly growing area of advertising, in large part because of the increasing realization among marketers that most consumer decisions about which brand to buy are made after the consumer enters the store and scans the brands on the aisles.[24] As a result, a variety of new in-store media have become available to the advertiser, such as electronically scrolling ads in the aisles, ads on TVs near the checkout lanes, ads in radio programs played in-store while the consumer shops, on-aisle coupon dispensers, even ads on shopping carts equipped with special video screens. While some of these new services have shown rapid sales growth, others have had to shut down after an experimental run, in part because of the difficulty in measuring results. Actmedia, Catalina, Advanced Promotion Technologies, and VideOcart are some of the companies that are very visible in this rapidly growing area.[25]

Another frequently neglected type of in-store communication is the *merchandising environment,* by which we mean the displays, signs, and positioning of the brand in that particular store. Creative and attention-getting displays in the store serve to do much more than stock the product: they can greatly add to a sense of excitement about the product and lead to much greater involvement by the consumer in that product. An example would be the in-store "computers" used by cosmetics companies such as Noxell that lets consumers make their own color matches. Service establishments, such as banks like Citibank or fast-food restaurants like McDonald's, are constantly experimenting with better branch displays and signage to increase cross-selling opportunities as well as to create the particular kind of image and ambience that are so vital to creating a service company's brand image and equity (see Chapter 10).

Industrial Marketing: Sales Leads

Industrial (business-to-business) marketing is similar to the marketing of durables in that advertising can rarely be expected to make the sales. Rather, a salesperson is usually required to supply information and to handle the details of the transaction. Advertising, in this case, can provide the engineer or buyers with the opportunity to express interest in the product by returning a card which is a request for additional information. These inquiries or leads are then typically *qualified* by a telemarketing callback to determine if an in-person sales call is necessary and cost effective. Often this telemarketing call can itself lead to a sale. Once qualified, the salesperson then follows up these leads by calling on the prospect, discussing his or her requirements, and trying to "close" the sale. Thus, for industrial advertising, a useful objective is to generate such inquiries or leads. Figure 3–6 shows a rather dramatic industrial advertisement for Savin copiers. The reader can get specific information by calling the toll-free number in the ad.

PUBLIC RELATIONS

Because consumers are exposed to so much advertising these days, they often try hard to avoid it—and are very skeptical of it when they do get exposed it. To reach these hard-to-reach consumers and to convey messages to them in a manner that is more credible partly because it is more subtly delivered, more and more companies today are devoting a portion of their communication budgets to the use of *public relations* (PR) for marketing purposes. Some of the different ways in which this is done are reviewed below, but what most of them have in common is the delivery of a message about the brand not through paid, explicit advertising, but rather through an implied or explicit endorsement of a credible third-party media source, such as the editorial content of a newspaper or magazine, or by associating themselves with a sports or cultural event, or a charitable organization.

Public relations is usually regarded of as a way to build a corporation's public image before stakeholders such as government, shareholders, employees, and so on, and as a way to counteract negative publicity (such as the scare about Tylenol after it was involved in cyanide murders in 1982). While these *corporate reputation* and *crisis communications* uses of public relations are still very important, it is being used more and more in the form of *marketing public relations*.[26] Budgets for such uses of public relations are rising—one estimate puts the total annual amount of PR spending in the U.S. at about $8 billion. Most leading PR agency groups today own one or more PR firms, including two of the biggest: the WPP Group owns Hill & Knowlton, and Young & Rubicam owns Burşon-Marsteller.

The following are examples of public relations used as an essential element in marketing.

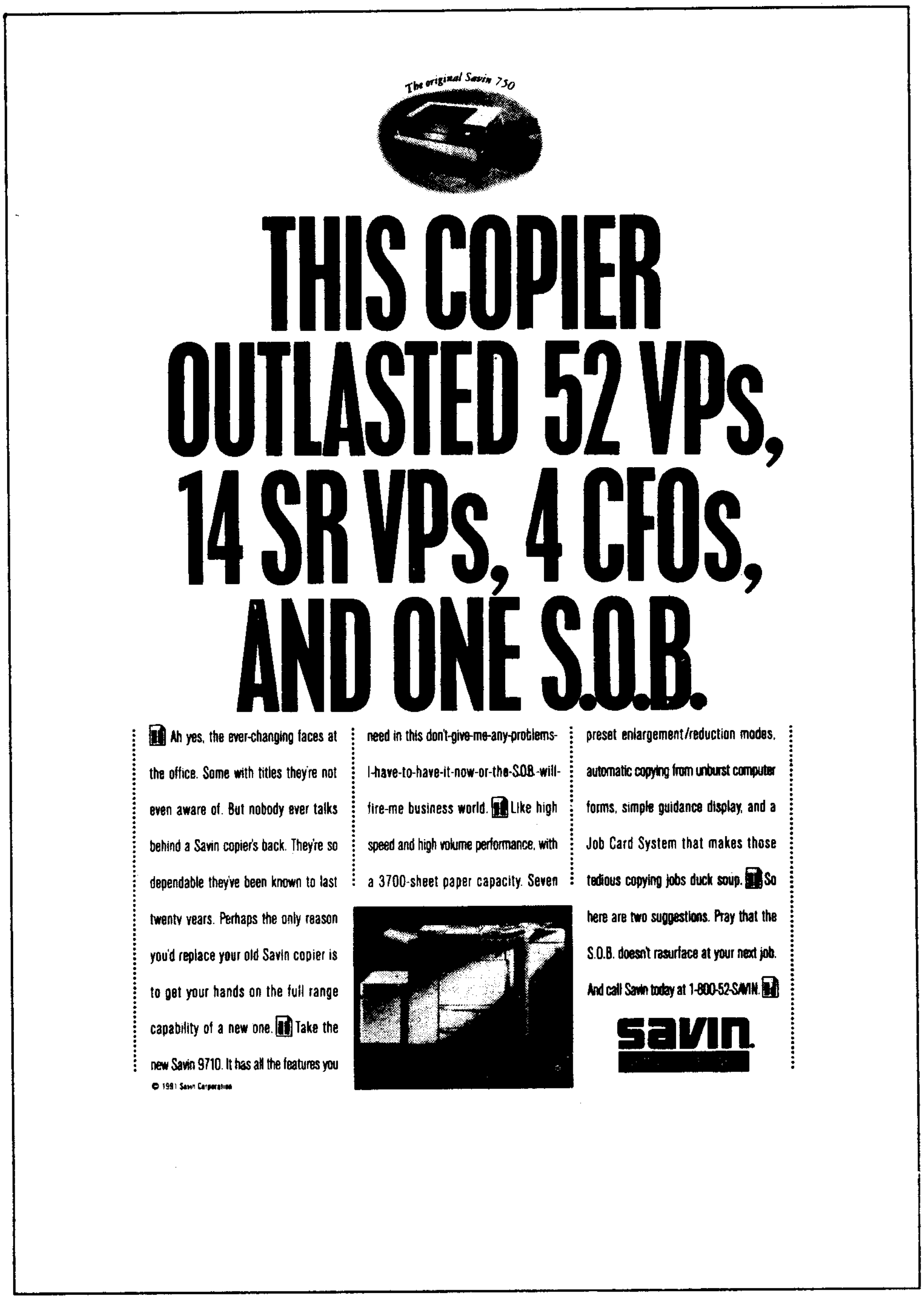

Figure 3-6. An industrial ad seeking inquiries and leads.
Courtesy of Savin Corporation.

News Stories and Media Editorial Coverage

Cabbage Patch Dolls became a toy craze in 1985 after being featured in a *Newsweek* cover story, appearing in network and local TV and radio broadcasts, and after first lady Nancy Reagan was shown worldwide giving them to two Korean children hospitalized for heart treatment. New products of various kinds—from Ford cars like the Taurus, to fat substitutes like Simplesse—achieved very high levels of brand awareness even before advertising for them broke because of favorable news coverage. To convey an image of industry leadership, many industrial marketers try hard to have trade magazines carry articles by-lined by their top executives.

Event and Sports Marketing

Ed Bernays, considered the father of modern pubuc relations, pulled off a huge publicity coup for General Electric by orchestrating the celebrations for the fiftieth anniversary of Edison's invention of the the light bulb, in which then-President Herbert Hoover—and millions of others—switched on their electric lights after an NBC announcer gave the signal. Budweiser sponsored the concert tour of the Rolling Stones, Pepsi that of Michael Jackson, both gaining tremendous visibility. Fast food (and other) companies often run tie-in promotions with movies. Cigarette companies sponsor sports events, like Virginia Slims Tennis and Winston Cup NASCAR racing. Most athletes at most major sports events today are paid to wear the logos of sponsoring companies.

The sponsorship of big events and sports competitions—such as the Statue of Liberty Centennial, or the L'eggs 10K Mini Marathon for women—is a multi-billion-dollar business involving its own specialist firms. Obviously, the key issue here is the "fit" between the event being sponsored and the desired positioning and image of the sponsoring brand or company.

Cause-Related Marketing

Pampers diapers are distributed free at mobile baby care centers at state and county fairs across the country, gaining not only trial but much goodwill for the brand. American Express asks cardmembers to "charge against hunger," donating a few cents from every card use to hunger-fighting organizations. Hall's cough suppressant tablets are distributed free in many concert halls. Phillip Morris, IBM, and AT&T have sponsored major art exhibitions at the Metropolitan Museum of Art in New York and at other museums. Local McDonald's restaurants take the lead in raising funds for Ronald McDonald children's charities and Houses. Campbell Soup gives elementary schools free equipment in return for collected labels for its products.

Product Placement

Sales of Reese's Pieces candy soared after they were shown in the hit movie *E.T.* When Ray-Ban provided actor Tom Cruise sunglasses to wear in the movie *Top Gun*, sales reportedly rose 30 to 40 percent. Auto makers provide cars for free for use in Hollywood TV shows. Almost 75 percent of local TV stations are reported to make use of video news releases, including those on the making of commercials.[27] A study by *Advertising Age* found 1,035 instances of "product plugs" in a single day of programming on the four major networks.[28] Again, specialist companies exist that, for the necessary fee, will "place" your product in movies and TV shows.

Contests

Pillsbury's bake-off recipe contests lead to big sales increases after they are held annually and have made Pillsbury synonymous with baking. Pepto-Bismol sponsors a chili-cooking contest. Combat roach killer sponsors a contest for the World's Largest Roach.

In all of these cases of marketing public relations, the benefit to the brand is not only that the message is delivered through (or in the context of) a perceivedly neutral, objective, and trustworthy organization or institution, but also that it is relatively cheap. Unlike ad budgets, which can run into the hundreds of millions of dollars, most public relations programs cost well under $1 million. The downside of this cheapness and credibility, of course, is the lack of control: you can hope the media will present your story the way you want, but you have no way of ensuring that is what will happen. Public relations payoffs are also hard to quantify. Most companies simply attempt to add up the seconds or minutes of free media exposure for their brand names or logos and then value that exposure at advertising rate equivalents. A few companies actually test for increases in brand awareness, attitudes, or sales in markets with versus without the PR campaign.[29]

Obviously, the standard way to try to get PR coverage is to send out news releases to the media or to hold a news conference. These are more likely to be used by the media if they contain something that is genuinely newsworthy in the context of the publications that are targeted. Ask yourself: If I were the journalist receiving this news release, would I consider it news that my readers should see? Following this logic, Quaker Oats sponsored and publicized research about the health benefits of eating oats, which was picked up by most media because they thought most readers would in fact benefit from that information. Other ways include the creation of events such as McDonald's sale of its 50 billionth hamburger or the opening of its restaurants in Moscow and Beijing, or the contests described above.

INTEGRATING THE DIFFERENT ELEMENTS. . . . . .

Thus far in this chapter, we have discussed some of the other communication elements that a communications manager can and should use in addition to advertising. It should be clear that a huge variety of these communication elements exist, and the purpose of this chapter was merely to introduce you to what they were and to refer you to sources for further information. Obviously, the best communication programs manage to use many of these elements in ways that reinforce each other. The Southwest Airlines case noted at the beginning of this chapter illustrates such mutual reinforcement of these elements and is an example what is today being called *integrated marketing communications* (IMC).

What Is Integrated Marketing Communications?

Despite the increasing use of the term "integrated marketing communications" by both practitioners and academics in recent years, there is little agreement on what the term actually means. According to one recent review,[30] at least two related ideas are involved:

One-Voice Marketing Communications

As consumers increasingly begin to be addressed by the same marketer in a variety of different ways—through image-building advertising, public relations, direct marketing, sales promotions, point-of-sale material, collateral material (e.g., brochures and catalogs), and sales force calls—there is the obvious need to ensure a consistency of positioning, message, and tone across these different media. As discussed in Chapter 10 of the book, such consistency is a vital element of brand-building. Ideally, these different communications would all begin from the same vision of what the consumer was supposed to be hearing from the marketer so that they all operate seamlessly, reaching the consumer with one voice. At the very least, this implies that the different marketing communications elements—mass media advertising, direct marketing, sales promotions, package graphics, point-of-sale material, events, trade shows, employee communications, and public relations—need to be created in a tightly coordinated manner by the many different agencies and organizations (the PR firm, direct response agency, sales promotion firm, ad agency, client company) that work on the different elements.

Integrated Communications

A marketer's consumer communications need to not only raise brand awareness, or create or change brand preference and image, or to get sales trial or repurchase, but to do all of the above at the same time. Increasing image without getting a sales result is not good enough and getting short-term sales (e.g. via sales promotion) at the expense of a brand's long-term image is also courting disaster. Thus, it is argued that all marketing communication materials, paticularly ads, should attempt to *simultaneously* achieve targeted communication goals (e.g., raising attitudes or building image) *and* lead to some behavioral action (e.g. trial or repurchase).

Why IMC Has Grown

As should be apparent from the two conceptualizations of IMC above, the need for IMC has grown in parallel with the trend to allocate marketing communication budgets away from their mainstay of mass media advertising. As reviewed in Chapter 1, both consumer goods and industrial goods marketers have moved increasingly large proportions of marketing resources into direct marketing and sales promotions. The amounts of money being spent in direct marketing and in sales promotions have thus grown dramatically.[31] These trends in spending patterns have occurred for various reasons, including the increased splintering and fragmentation of consumer media, the increasing segmentation of consumer tastes and preferences, the easier access to consumer databases and computational resources, the increased pressure on marketers to maintain the momentum of short-term sales, the increased power of the retail trade, the recognition of the importance of reinforcing consumer loyalty and repurchase via relationship marketing, and so on. At the same time, marketers have also been forced to recognize the vital importance of building and increasing a brand's image-based equity (see Chapter 10).[32]

Thus, marketers now must accomodate more complex and multiple communication objectives simultaneously, must spread their marketing communications resources over a much wider array of techniques and media, and usually must implement these multiple communications programs through a larger number of vendors or agencies. The multiplicity of markets and media and objectives and organizations can very easily lead to a fragmentation and dilution of message consistency and impact, unless steps are taken to integrate these various communications efforts.

Impact of IMC on Advertising Practice

Two major studies of the attitudes toward, and use of, IMC were conducted in 1991 in the United States, by researchers from Northwestern University and the University of Colorado.[33] In both, almost 80 percent of the respondents surveyed (marketing and advertising managers from client firms) said the concept of IMC was valuable to them by potentially providing greater consistency to their communications, reducing media waste. Their expectation was that the use of IMC would increase, provided that the key barrier to its use—turf battles and egos within their companies and in outside agencies—could be overcome. There was disagreement, however, on who should do the integrating. While marketing managers from larger, higher-expertise companies (surveyed in the Northwestern study) felt that the companies themselves should do the integrating, managers from smaller companies (in the Colorado survey) felt that such integration was the responsibility of the outside agencies. Clearly, how best to organize for IMC is a key issue in implementing it, and we will return to it below. Meanwhile, both clients and agencies have clearly become conscious of the need for IMC, and many companies and agencies have begun programs to train their managers to take a more integrated approach to marketing communications.

IMC Strategies and Tactics

According to Thomas Duncan, a company that thinks it is doing IMC should begin by conducting an audit: check to see the real degree to which it is coordinating its various communications activities and the real degree to which it is sending out messages that are integrated and consistent. Most companies that do this find they are actually doing less IMC than they first thought.[34] There are many barriers to doing real IMC, among them a lack of appreciation for its value (especially among top management), a lack of skills and training, and organizational structures and systems that create territorialism. We will discuss organizational issues further below, and providing skills and training (and an appreciation of its value) are obvious prerequisites to implementing IMC: But is there anything more to IMC than the commonsensical idea that all communications to the consumer about a particular brand should be "synergized," which is hardly a novel or earthshaking idea?

There is no clear answer to this last question, and only a few interesting implementation-oriented ideas have emerged. Most of these borrow heavily from the concepts of database or direct marketing, discussed earlier in this chapter. Don Schultz and colleagues, for instance, have suggested that marketers should build a comprehensive database of customers and prospects and then think through what different time and place opportunities exist for the company to contact each segment of customers (such as loyals, switchers, new prospects, etc.), what medium or communications mode, with what message and tonality, and for what overall marketing objectives. An overall communications strategy must then be developed that guides the integration of the different communications tactics. Each communications *contact* with the target must then not only deliver the intended message, but also solicit a response, which is then added to the database for further analysis.[35]

For example, the following sequence of questions should help develop an integrated marketing communications program:

1. What is the target customer's information gathering, decision, and shopping process?
2. Who or what are all the media, institutions (e.g., retailers), and people or influencers (e.g., pharmacists) with which the target customer comes in contact? In what sequence do these contacts occur? What communications opportunities do these contacts create for us?
3. For all these people, what attitudes and/or behaviors do we want to affect?
4. Therefore, for each communication opportunity, what are our communications needs? What quantitative goals?
5. For each communications opportunity, given what we need to accomplish, what is the best program(s) to accomplish it—advertising, direct mail, public relations, sales promotion, or other?
6. Given this choice and sequence of programs, how should the budget be allocated?
7. Who is to be responsible for implementing which part?
8. How will we measure the degree of success of each part?

The key to ensuring the desired integration and consistency in these various contacts is having organizational arrangements that facilitate rather than impede such integration, and we now turn to discussing these.

Organizing for IMC

Obviously, the easiest way to organize for IMC is to have just one outside communications *supplier,* such as an ad agency, and to have centralized responsibility for all brand communications within the client company, at either a brand/product manager or marketing vice president level. In terms of outside suppliers, ad agencies are more likely to have the expertise to perform multiple communication tasks (advertising, direct marketing, sales promotions, public relations) than standalone single-function suppliers (such as public relations, direct marketing, or sales promotion firms). Indeed, large ad agencies have for long claimed an ability to or-