

ADVERTISING and Integrated Brand Promotion

Product Edition

The Process: Advertising and Integrated Brand Promotion in Business and Society

The first part

of the book, "The Process: Advertising and Integrated Brand Promotion in Business and Society," sets the tone for our study of advertising. The chapters in this part of the book emphasize that advertising is much more than a wonderfully creative interpretation of important corporate marketing strategies. While it certainly serves that purpose, advertising is not just a corporate process; it is also a societal process that has evolved over time with culture, technology, and industry traditions.

To appreciate the true nature of advertising, we must first understand advertising as the complete dynamic business and social process it is. In this first part of the text, the roots of the advertising process are revealed. Advertising is defined as both a business *and* a communications process, and the structure of the industry through which modern-day advertising exists is described. The evolution of advertising is traced from modest beginnings through periods of growth and maturation. The complex and controversial social, ethical, and regulatory aspects of advertising conclude this opening part of the text.

The World of Advertising and Integrated Brand Promotion

Chapter 1, "The World of Advertising and Integrated Brand Promotion," introduces and defines advertising and the role it fulfills within a firm's overall marketing and brand promotion programs. This chapter also analyzes advertising as a marketing communications process. We introduce the concept of integrated brand promotion (IBP), which shows that firms communicate to consumers using a broad range of communications that often go far beyond advertising—sales promotion, event sponsorship, direct marketing, placing brands in movies and television programs, point-of-purchase displays, the Internet, and public relations—are used to help a firm compete effectively, to develop customer loyalty, and to generate profits.

1

The Structure of the Advertising Industry: Advertisers, Advertising Agencies, and Support Organizations

Chapter 2, "The Structure of the Advertising Industry: Advertisers, Advertising Agencies, and Support Organizations," shows that effective advertising requires the participation of a variety of organizations and specially skilled people, not just advertisers. Advertising agencies, research firms, production facilitators, designers, media companies, Web developers, public relations firms, and Internet portals are just some of the organizations that form the structure of the industry. Each plays a different role, and billions of dollars are spent every year for the services of these various participants. This chapter also highlights that the structure of the industry is in flux. New media options, like streaming video, and new types of organizations, like talent agencies, are forcing change. This chapter looks at the basic structure of the industry, the participants, and how both are evolving with the marketplace. Special attention is given to the rising prominence of promotion agencies as counterparts to advertising agencies.

2

The Evolution of Promoting and Advertising Brands

Chapter 3, "The Evolution of Promoting and Advertising Brands," sets the process of advertising and promotion into both a historical and contemporary context. Advertising has evolved and proliferated because of fundamental influences related to free enterprise, economic development, and tradition. Advertising as a business process and a reflection of social values has experienced many evolutionary periods of change as technology, business management practices, and social values have changed. Special attention is given to the evolution of technology and how new technologies are changing the development and delivery of advertising and promotion.

3

Social, Ethical, and Regulatory Aspects of Advertising

Chapter 4, "Social, Ethical, and Regulatory Aspects of Advertising," examines the broad societal aspects of advertising. From a social standpoint, we must understand that advertising has positive effects on the standard of living, addresses lifestyle needs, supports mass media, and is a contemporary art form. Critics argue that advertising wastes resources, promotes materialism, is offensive, and perpetuates stereotypes, or can make people do things they don't want to do. Ethical issues in advertising focus on truth in advertising, advertising to children, and the advertising of controversial products. Regulatory aspects highlight that while government organizations play a key role in regulating the process, nongovernment forces like consumer interest groups and societal values also put pressure on advertising to change and evolve with culture.

4

CHAPTER I

After reading and thinking about this chapter, you will be able to do the following:

1. Know what advertising and integrated brand promotion (IBP) are and what they can do.

Know what advertising and integrated brand promotion (IBP) are and what they can do.

2. Discuss a basic model of advertising communication.

Discuss a basic model of advertising communication.

3. Describe the different ways of classifying audiences for advertising.

Describe the different ways of classifying audiences for advertising.

4. Explain the key roles of advertising as a business process.

Explain the key roles of advertising as a business process.

5. Understand the concept of integrated brand promotion (IBP) and the role advertising plays in the process.

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CHAPTER 1 The World of Advertising and Integrated Brand Promotion

CHAPTER 2 The Structure of the Advertising Industry: Advertisers, Advertising Agencies, and Support Organizations

CHAPTER 3 The Evolution of Promoting and Advertising Brands

CHAPTER 4 Social, Ethical, and Regulatory Aspects of Advertising

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OROLOGI



Introductory Scenario: When Does Something Free Cost \$1.75 a Bottle?

The last time we checked, water still comes out freely from faucets and drinking fountains around the world. Yet the last time we checked, bottled-water brands like Aquafina and Dasani were priced at about \$1.50 to \$1.75 a bottle—often more than soft drinks in the same vending machine!

The bottled-water industry is truly a marvel of modern marketing, advertising, promotion, and branding. Not only has bottled water grown to be a \$10 billion a year industry, but it is the fastest growing category in the beverage market—averaging double digit growth through 2005. How big is the industry other than the \$10 billion in sales? It's huge on any dimension you can measure. Each year, about 1.5 billion cases of bottled water are consumed in the United States. That's about 36 billion eight-ounce bottles of water—120 bottles a year for each man, woman, and child in the United States! As the editor of *Beverage Digest* put it, "Bottled water growth over the last several years has been stunning, even shocking. . . ."¹

What makes the dramatic growth of bottled water such a big deal? First, as we all know, water is free and yet a lot of people choose to spend a lot of money for it anyway. Second, if people want their water in a bottle, you would think that they would simply buy the cheapest bottled water around, like Costco's Kirkland brand or the local grocery store brand of water. *Au contraire*. People don't just buy any bottled water. They buy *branded* bottle water that sells for a premium price, like Pepsi's Aquafina, Coca-Cola's Dasani, and Evian (see Exhibit 1.1). These premium brands aren't just a little more expensive. They usually sell for about twice as much as private-label brands like Kirkland. The top 10 branded bottled waters held 72.5 percent of the market share in the bottled water industry in 2002, a strengthening of market dominance from the 69.1 percent share they held in 2001.²

So why do we pay for water that we can get for free? And why do we buy more of the prominent, national brands than the less expensive private-label brands? Well, there are a lot of influences on why we are buying water instead of drinking the free stuff. First, every doctor in America is telling us to drink eight eight-ounce glasses of water a day. Second, most of us don't trust the water that comes from the tap from our local water treatment plant (how can something that smells that bad be doing anything good to the water?). Finally, when we have an urge to drink some nice cold water, we're probably closer to a vending machine or a convenience store than we are to our kitchen or a good drinking fountain.

So, in the end, drinking more bottled water might not be that hard to explain. But what's



Evian is one of the key competitors in the \$10 billion bottled-water industry. <http://www.evian.com>

1. Hillary Chura, "Water War Bubbling Among Top Brands," *Advertising Age*, July 7, 2003, 6.
2. Hillary Chura, "Pricing Gets Slippery," *Advertising Age*, June 23, 2003, S20.

the explanation for buying high-priced bottled water as opposed to buying low-priced bottled water. Ah, herein lies the mystery and magic of the contents of this entire book—the world of advertising and integrated brand promotion. The reason you and I are inclined to buy well-known brands is that companies work hard to develop brands that have features that appeal to us and then advertise and promote those brands in a way that we remember and like that brand better than others. Pepsi spends about \$35 million per year advertising the Aquafina brand and Coke spends about \$20 million advertising Dasani. That puts these brands as the number one and number two most heavily advertised brands of bottled water. Guess what? Aquafina is the leading brand in the market with about 15 percent market share, and Dasani is second with about 14 percent market share. Now it's not always true that the more you spend on advertising and promotion, the better the brand does in the market. But when a company works hard to develop a good brand and does a good job with the advertising and promotion, the probability increases that the brand will succeed and flourish. At this point, we will emphasize the importance of advertising and its effect on the way firms build their brands. Part Five of the text, "Integrated Brand Promotion," will go into great detail about the various other promotional tools firms use to build strong brands.

The World of Advertising. The example of the bottled-water industry overall, and the success of Aquafina, Evian, and Dasani in particular, points to an important truth in the world of advertising—advertising is an important part of the brand-building process for a firm. And the role of advertising in communicating brand values is not reserved for big national or multinational companies like Pepsi and Coke. Marketers in organizations of all sizes and in all industries recognize the need for and invest in advertising and promotion as potent competitive tools. Company leaders appreciate that good advertising and solid brand promotion is key to driving sales and building brand value and market share.⁴ For firms like Procter & Gamble (these are the folks who bring you Tide, Crest, Pringles, Folgers, and about 70 other brands) the concepts of advertising, promotion, and the brand are so central to the company that the opening of the firm's annual report starts with the company "promise": "Nearly 98,000 P&G people working in almost 80 countries worldwide make sure P&G brands live up to their promise to make everyday life just a little better."⁵

While companies believe in and rely heavily on advertising and promotion, they are not practices that the average person clearly understands or values. Most people have some significant misperceptions about the process of advertising and what it's supposed to do, what it can do, and what it can't do. But as average people, we do know what we like and want, and advertising helps expose us to brands that might meet our needs. And remember that a brand that does *not* meet our needs or is not advertised properly will not succeed. Consider the case of Cadillac. In the early 1950s, Cadillac held a stunning 75 percent share of the luxury car market. By 2001, that market share had fallen to about 9 percent—an unprecedented loss in the history of the automobile industry. What happened to the Cadillac brand? A series of product missteps (the 1986 Cimarron used a Chevy chassis and looked cheap, and the 1987 Allante sports car was slow and leaked like a sieve, as examples), confused the market's perception of the brand. And formidable competitors like Lexus and Infiniti entered the market with powerful and stylish alternatives that were effectively advertised. Now GM is reinvesting in Cadillac and has committed \$4.3 billion

3. Ibid.

4. Clair Atkinson, "GM Ad Boss Takes Agencies to Task," *Advertising Age*, June 30, 2003, 1, 26.

5. Procter & Gamble, "Sustaining Growth," *2003 Annual Report*, Cincinnati, Ohio, inside front cover.

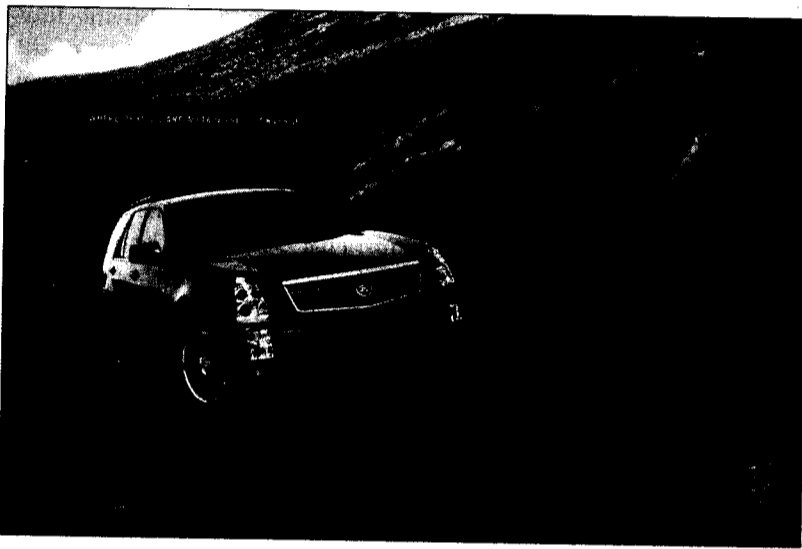


EXHIBIT 1.2

GM is reinvesting in the Cadillac brand with new designs and new advertising.
<http://www.cadillac.com>

rupt con artists or pathological liars. At worst, advertising is seen as hype, unfair capitalistic manipulation, banal commercial noise, mind control, postmodern voodoo, or outright deception. At best, the average person sees advertising as amusing, informative, helpful, and occasionally hip. Advertising often helps consumers see possibilities and meanings in the things they buy and in the services they use. It can connect goods and services to the culture and liberate meanings that lie below the surface. It can turn mere products into meaningful brand icons and important possessions. For example, the advertising of Doyle Dane Bernbach in the 1960s for Volkswagen (see Exhibit 1.3) helped turn an unlikely automobile into a mobile social statement.



EXHIBIT 1.3

Advertising can occasionally turn a mere brand into a social statement. Volkswagen used this ad in the 1960s to get consumers to replace the image of cars as "lemons" with the image of thrifty, dependable VWs.
<http://www.vw.com>

The truth about advertising lies somewhere between the extremes. Sometimes advertising is hard-hitting and powerful; at other times, it's boring and ineffective. Advertising can be enormously creative and entertaining, and it can be simply annoying. One thing is for sure: advertising is anything but unimportant. Advertising plays a pivotal role in world commerce and in the way we experience and live our lives. It is part of our language and our culture. It reflects the way we think about things and the way we see ourselves. It is both a complex communication process and a dynamic business process.

And, as a business process, it is relied on by companies big and small to build their brands—that is the central theme of this book. Advertising and integrated brand promotions are key to organizations' strategies designed to build awareness and preference for their brands (see Exhibit 1.4). Advertising is an important topic for you to study—so let's do that!

1 What Is Advertising? Advertising means different things to different people. It's a business, an art, an institution, and a cultural phenomenon. To the CEO of a multinational corporation, like Pepsi, advertising is

to redesign and advertise the brand to change consumer's perceptions (see Exhibit 1.2). Advertising (featuring Led Zeppelin rock music) and effective product redesign (dramatic changes in styling and performance) are the key tools being used in revitalizing the brand.⁶

Another truth in the world of advertising is that there is no shortage of opinions about what it is and what it does. Many people think advertising deceives others, but rarely themselves. Most think it's a semi-glamorous profession, but one in which people are either morally bank-

6. David Welch and Gerry Khermouch, "Can GM Save An Icon?" *BusinessWeek*, April 8, 2002, 60–67; David Welch, "The Second Coming of Cadillac," *BusinessWeek*, November 24, 2003, 79–80.



The American Advertising Federation (AAF) ran this ad touting the power of advertising's effect of brand building. The AAF used the Intel logo and brand "look" for this message because Intel is regarded as one of the most successful firms in using advertising to build brand name awareness and recognition. <http://www.aaf.org>

an essential marketing tool that helps create brand awareness and loyalty and stimulates demand. To the owner of a small retail shop, advertising is a way to bring people into the store. To the art director in an advertising agency, advertising is the creative expression of a concept. To a media planner, advertising is the way a firm uses the mass media to communicate to current and potential customers. To scholars and museum curators, advertising is an important cultural artifact, text, and historical record. Advertising means something different to all these people. In fact, sometimes determining just what is and what is not advertising is a difficult task. Keeping that in mind, we offer this straightforward definition:

Advertising is a paid, mass-mediated attempt to persuade.

As direct and simple as this definition seems, it is loaded with distinctions. First, advertising is *paid* communication by a company or organization that wants its information disseminated. In advertising language, the company or organization that pays for advertising is called the **client** or **sponsor**. If a communication is *not paid for*, it's not advertising. For example, a form of promotion called *publicity* is not advertising because it is not paid for. Let's say Will Smith appears on the *Late Show with David Letterman* to promote his newest movie. Is this advertising? No, because the producer or film studio did not pay the *Late Show with David Letterman* for airtime. In this example, the show gets an

interesting and popular guest, the guest star gets exposure, and the film gets plugged. Everyone is happy, but no advertising took place—it might be public relations, but it is not advertising. But when the film studio produces and runs ads for the newest Will Smith movie on television and in newspapers across the country, this communication is paid for by the studio, it is placed in media to reach consumers, and therefore it most definitely is advertising.

For the same reason, public service announcements (PSAs) are not advertising either. True, they look like ads and sound like ads, but they are not ads. They are not commercial in the way an ad is because they are not paid for like an ad. They are offered as information in the public (noncommercial) interest. When you hear a message on the radio that implores you to "Just Say No" to drugs, this sounds very much like an ad, but it is a PSA. Simply put, PSAs are excluded from the definition of advertising because they are unpaid communication.

Consider the two messages in Exhibits 1.5 and 1.6. These two messages have similar copy and offer similar advice. Exhibit 1.5 has persuasive intent, is paid-for communication, and appears in the mass media. It is an advertisement. Exhibit 1.6 also has persuasive intent and appears in mass media outlets, but it is not advertising because it is not paid-for communication. PSAs are important and often strongly imitate their commercial cousins.

Second, advertising is *mass mediated*. This means it is delivered through a communication medium designed to reach more than one person, typically a large number—or mass—of people. Advertising is widely disseminated through familiar means—television, radio, newspapers, and magazines—and other media such as


EXHIBITS 1.5 AND 1.6

The messages in Exhibits 1.5 and 1.6 communicate nearly identical information to the audience, but one is an advertisement and one is not. The message in Exhibit 1.5, sponsored by Trojan, is an advertisement because it is paid-for communication. The message in Exhibit 1.6, sponsored by the U.K.'s Health Education Authority, has a persuasive intent similar to the Trojan ad, but it is not advertising—Exhibit 1.6 is a PSA. Why isn't the Health Education Authority PSA message an ad? <http://www.trojancondoms.com>

"I didn't use one because I didn't have one with me."

GET REAL

If you don't have a parachute, don't jump, genius.



Helps reduce the risk

HOW FAR WILL YOU GO BEFORE YOU MENTION CONDOMS?



THIS FAR?



THIS FAR?



THIS FAR?



THIS FAR?

Today, we can ignore the need to mention condoms. Have sex with someone without using one and not only could you risk an unwanted pregnancy, but you also risk contracting one of the more serious, transmittable diseases.

Mention them too early and you might feel you look pushy. As a result, many people don't mention them at all.

When is the perfect moment to say you want to use one? How about while you're still wearing your knicker? In this instance, it would be plenty there.

By now you've gone far enough to make it obvious that you both want to have sex. But not so far that you're in danger of getting emotionally and sexually carried away.

It's a perfect opportunity to take it. Say you want to use a condom.

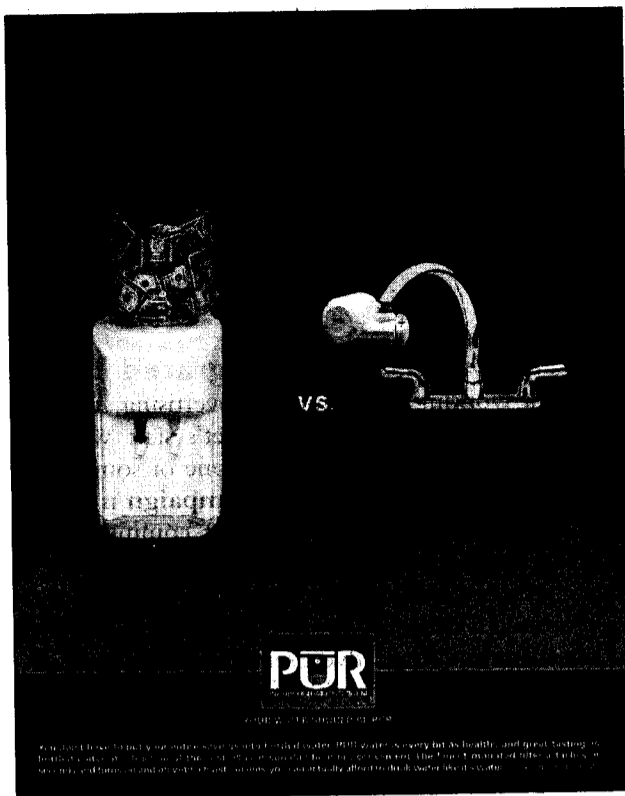
So, he hasn't got one? Well, here one of your own as the ready par in case. It really doesn't matter where you are.

And then you can go just as far as you like.



direct mail, billboards, the Internet, and CD-ROMs. The mass-mediated nature of advertising creates a communication environment where the message is not delivered in a face-to-face manner. This distinguishes advertising from personal selling as a form of communication.

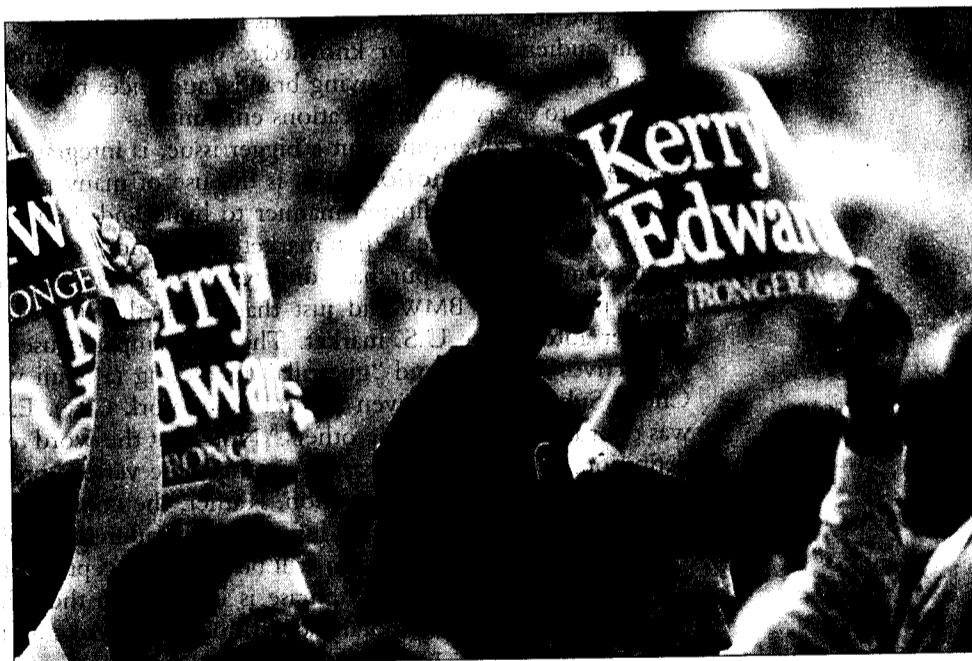
Third, all advertising includes an *attempt to persuade*. To put it bluntly, ads are communications designed to get someone to do something. Even an advertisement with a stated objective of being purely informational still has persuasion at its core. The ad informs the consumer for some purpose, and that purpose is to get the consumer to like the brand and because of that liking to eventually buy the brand. Consider the Pur water filter ad in Exhibit 1.7. It doesn't carry a lot of product information. But it's interesting and most of us would say, "Yeah, I like that ad." With that reaction, this ad is persuasive. In the absence of a persuasive intent, a communication might be news, but it would not be advertising.

**EXHIBIT 1.7**

In order for a communication to be advertising it has to have a persuasive intent. Even though this PUR water filter ad is not overtly persuasive, the fact that it is interesting creates a positive reaction in the audience, which can persuade people to try the brand. <http://www.purwater.com>

EXHIBIT 1.8

The Kerry and Edwards presidential campaign uses advertising and promotion to promote ideas. This meets the definitional test for advertising in general—the ads are paid-for communications, are placed in mass media, and have a persuasive intent.



7. Erin Strout, "The Branding of a President," *Sales & Marketing Management*, October 2000, 54–62.

At this point, we can say that for a communication to be classified as advertising, three essential criteria must be met:

1. The communication must be *paid for*.
2. The communication must be delivered to an audience via *mass media*.
3. The communication must be *attempting persuasion*.

It is important to note here that advertising can be persuasive communication not only about a product or service but also about an idea, a person, or an entire organization. When Colgate and Honda use advertising, this is product advertising and meets all three criteria. Likewise, when E-Trade, Delta Air Lines, Terminix, or your dentist runs advertisements, it is service advertising and meets all three criteria.

But what about political advertising? Political ads "sell" candidates rather than commercial goods or services. Political advertisements may seem special because they are the only completely unregulated form of advertising; they are viewed as "political speech" and thus enjoy complete First Amendment protection. Still, political advertising meets our definition because it is paid-for communication, is mass mediated, and has a persuasive intent. Not only does political advertising pass the definition test, but strategists also see advertising as a "brand" building process for political candidates.⁷

Consider political advertising represented by the Kerry and Edwards campaign effort (Exhibit 1.8).

Although political ads, like those used in the Kerry and Edwards campaign in the 2004 presidential election, do not ask anyone to buy anything (in terms of spending money), they are (1) paid for, (2) placed in a mass medium, and (3) an attempt to persuade members of the electorate to view Kerry and Edwards and their agenda favorably. They represent another way advertising can persuade beyond the purchase of products and services. Many political candidates, environmental groups, human rights organizations, and political groups buy advertising and distribute it through mass media to persuade people to accept their way of thinking. They, too, are selling something.

Advertising, Advertisements, Advertising Campaigns, and Integrated Brand Promotion.

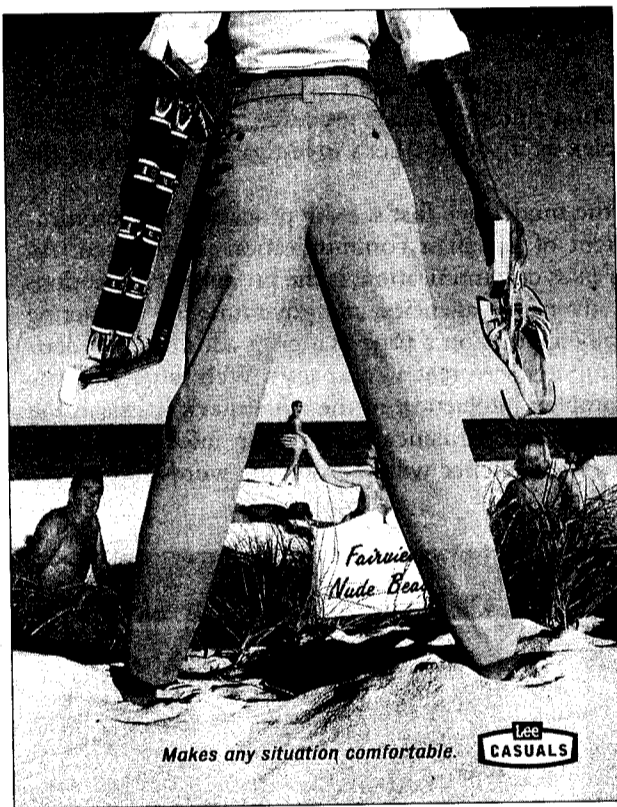
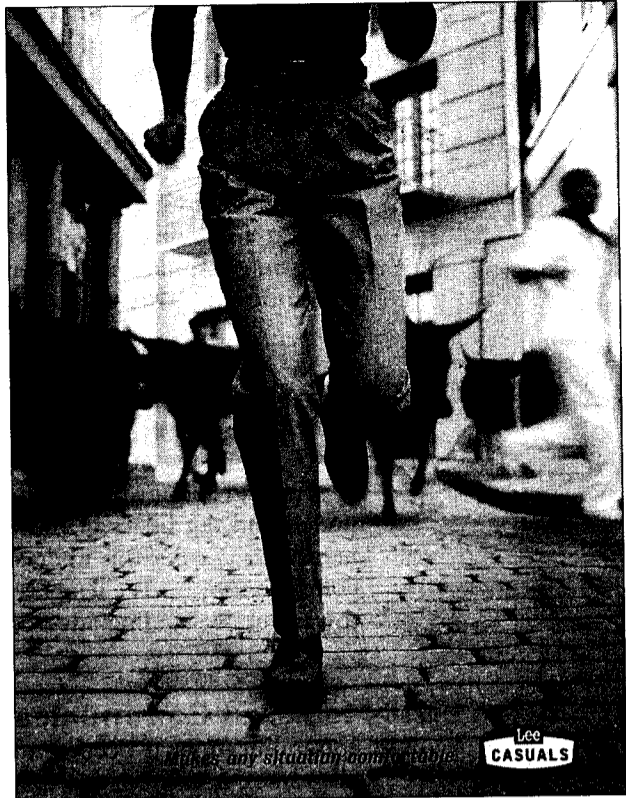
Now that we have a working definition of advertising, we turn our attention to other important distinctions in advertising. Let's start with the basics. An **advertisement** refers to a specific message that someone or some organization has placed to persuade an audience. An **advertising campaign** is a series of coordinated advertisements and other promotional efforts that communicate a reasonably cohesive and integrated theme. The theme may be made up of several claims or points but should advance an essentially singular theme. Successful advertising campaigns can be developed around a single advertisement placed in multiple media, or they can be made up of several different advertisements (more typically) with a similar look, feel, and message. You are probably familiar with the "Got Milk" campaign as an example. Another example is represented by the Lee Casuals ads in Exhibits 1.9 through 1.12. Notice the excellent use of similar look and feel in this advertising campaign. Advertising campaigns can run for a few weeks or for many years. The advertising campaign is, in many ways, the most challenging aspect of advertising execution. It requires a keen sense of the complex environments within which an advertiser must communicate to different audiences.

And think about this important aspect of advertising campaigns. Most individual ads would make little sense without the knowledge that audience members have accumulated from previous ads for a particular brand. Ads are interpreted by consumers through their experiences with a brand and previous ads for the brand. When you see a new Nike ad, you make sense of the ad through your history with Nike and its previous advertising. Even ads for a new brand or a new product are situated within audiences' broader knowledge of products, brands, and advertising. After years of viewing ads and buying brands, audiences bring a rich history and knowledge base to every communications encounter.

Related to advertising, but a bigger issue, is integrated brand promotion. **Integrated brand promotion (IBP)** is the use of many promotional tools, including advertising, in a coordinated manner to build and then maintain brand awareness, identity, and preference. When marketers combine contests, a Web site, event sponsorship, and point-of-purchase displays with advertising, this creates an integrated brand promotion. BMW did just that when the firm (re-) introduced the Mini Cooper auto to the U.S. market. The IBP campaign used billboards, print ads, an interactive Web site, and "guerrilla" marketing (a Mini was mounted on top of a Chevy Suburban and driven around New York City). Each part of the campaign was coordinated with all the others.⁸ Note that the word *coordinated* is central to this definition. Without coordination among these various promotional efforts, there is not an integrated brand promotion. Rather, the consumer will merely encounter a series of unrelated (and often confusing) communications about a brand.

Integrated brand promotion will be a key concept throughout our discussion of advertising. The fact that this phrase is included in the title of the book signals its importance to the contemporary advertising effort. Make no mistake, all of marketing,

8. John Gaffney, "Most Innovative Campaign," *Business 2.0*, May 2002, 98-99.



EXHIBITS 1.9 THROUGH 1.12

A well-conceived and well-executed advertising campaign offers consumers a series of messages with a similar look and feel. This series of ads for Lee Casuals is an excellent example of a campaign that communicates with similar images to create a unified look and feel. <http://www.leejeans.com>

including the advertising effort, is about brand building. As consumers encounter a daily blitz of commercial messages and appeals, brands and brand identity offer them a way to cope with the overload of information. Brands and the images they project allow consumers to quickly identify and evaluate the relevance of a brand to their lives and value systems. The marketer who does not use advertising and integrated brand promotion as a way to build brand meaning for consumers will, frankly, be ignored. We will develop this concept of integrated brand promotion throughout the text and demonstrate how advertising is central to the process. The encounters between consumers and advertisements, advertising campaigns, and integrated brand promotion underlie the discussion of our next topic.

Advertising as a Communication Process. Communication is a fundamental aspect of human existence, and advertising is communication. To understand advertising at all, you must understand something about communication in general and about mass communication in particular. At the outset, it's important to understand the basics of how advertising works as a means of communication. To help with gaining this understanding, let's consider a contemporary model of mass communication. We'll apply this basic model of communication as a first step toward understanding advertising.

A Model of Mass-Mediated Communication. As we said earlier, advertising is mass-mediated communication; it occurs, not face-to-face, but through a medium (such as radio, magazines, television, or a computer). While there are many valuable models of mass communication, a contemporary model of mass-mediated communication is presented in Exhibit 1.13. This model shows mass communication as a process where people, institutions, and messages interact. It has two major components, each representing quasi-independent processes: production and reception. Between production and reception are the mediating (interpretation) processes of accommodation and negotiation. It's not as complex as it sounds. Let's investigate each part of the model.

Moving from left to right in the model, we first see the process of communication production, where the content of any mass communication is produced. An advertisement, like other forms of mass communication, is the product of institutions (such as networks, corporations, advertising agencies, and governments) interacting to produce content (what physically appears on a page as a print ad, or on a videotape as a television ad, or on a computer screen at a company's Web site). The creation of the advertisement is a complex interaction of the advertiser's message; the advertiser's expectations about the target audience's desire for information; the advertiser's assumptions about how the audience will interpret the words and images

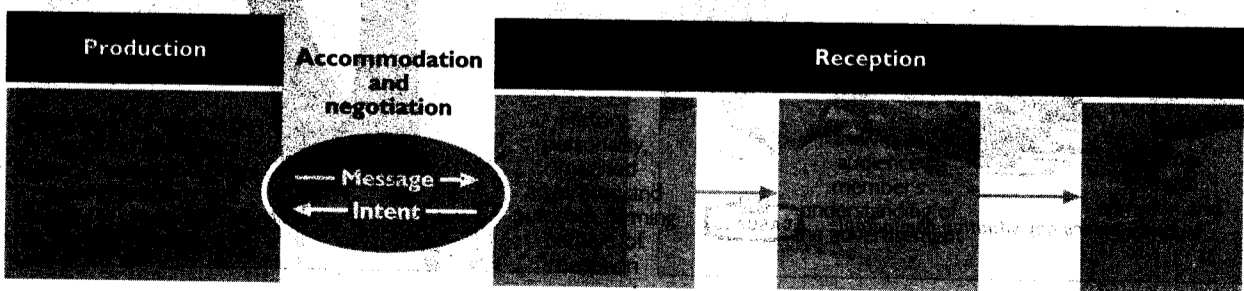


EXHIBIT 1.13

A model of mass-mediated communication.



EXHIBIT 1.14

This ad is a good example of how the meaning of an ad can vary for different people. How would you interpret the meaning of this ad? Think of someone very different from you. What meaning might that person give this ad?
<http://www.cocacola.com>

in an ad; and the rules and regulations of the medium that transmits the message. Advertising is rarely (if ever) the product of any one individual. Rather, as this model shows, it is a collaborative (social) product between people receiving a message and the institutions (advertisers and media companies) that send them that message.

Continuing on to the right, we see that the mediating processes of accommodation and negotiation lie between the production and reception phases. Accommodation and negotiation are the ways in which consumers interpret ads. Audience members have some ideas about how the advertiser wants them to interpret the ad (we all know the rules of advertising—somebody is trying to persuade us to buy something). And consumers also have their own needs, agendas, and preferred interpretations. They also know about the way other consumers think about this product and this message, because brands have personalities and send social signals. Given all this, consumers who see an ad arrive at an interpretation of the ad that makes sense to them, serves their needs, and fits their personal history with a product category and a brand.

What's interesting about the whole progression of consumer receipt and interpretation of an ad is that it is usually wholly *incompatible* with the way the advertiser wanted consumers to see the ad! In other words, the receivers of the ad must *accommodate* these competing forces, meanings, and agendas and then *negotiate* a meaning, or an interpretation, of the ad. That's why we say that communication is inherently a *social* process: What a message means to any given consumer is a function, not of an isolated solitary thinker, but of an inherently social being responding to what he or she knows about the producers of the message (the advertisers), other receivers of it (peer groups, for example), and the social world in which the brand and the message about it resides. Now, admittedly, all this interpretation happens very fast and without much contemplation. Still, it happens. The level of conscious interpretation might be minimal (mere recognition) or it might be extensive (thoughtful, elaborate processing of an ad), but there is *always* interpretation.

It has to be emphasized that the processes of production and reception are partially independent. Although the producers of a message can control the placement of an ad in a medium, they cannot control or even closely monitor the circumstances that surround reception and interpretation of the ad. Audience members are exposed to advertising outside the direct observation of the advertiser and are capable of interpreting advertising any way they want. (Of course, most audience interpretations are not completely off the wall, either.) Likewise, audience members have little control over or input into the actual production of the message—the advertiser developed a message that audience members are *supposed* to like. Because of these aspects of communication, the model shows that both producers and receivers are thus “imagined,” in the sense that the two don't have significant direct contact with each other but have a general sense of what the other is like.

The communication model in Exhibit 1.13 underscores a critical point: No ad contains a single meaning for all audience members. An ad for a pair of women's shoes means something different for women than it does for men. An ad that achieved widespread popularity (and controversy) is the ad for Diet Coke shown in Exhibit 1.14, which may be interpreted differently by men and women. For example, does the ad suggest that men drink Diet Coke so they can be the object of

intense daily admiration by a group of female office workers? Or does the ad suggest that Diet Coke is a part of a modern woman's lifestyle, granting her "permission" to freely admire attractive men in the same way women have been eyed by male construction workers (or executives) for years? The audience decides. Keep in mind that although individual audience members' interpretations will differ to some extent, they may be close enough to the advertiser's intent to make the ad effective. When members of an audience are similar in their background, social standing, and goals, they generally yield similar enough meaning from an ad for it to accomplish its goals.

The Audiences for Advertising. We've been referring to audiences, so now it's time to define them. In the language of advertising, an **audience** is a group of individuals who receive and interpret messages sent from advertisers through mass media. The audience could be made up of household consumers, college students, or business people. Any large group of people can be an audience. A **target audience** is a particular group of consumers singled out by an organization for an advertisement or advertising campaign. These target audiences are singled out for advertisements because the advertiser has discovered that audience members like or might like the product category being advertised. Target audiences are always *potential* audiences because advertisers can never be sure that the message will actually get through to them as intended. By the way, there is nothing sinister about the targeting process. Targeting audiences simply means that a company wants to reach you with a message. Do you feel like something bad happens to you when the Gap targets you with an ad and you see it on TV? Of course not! Somewhere along the line the word *targeting* and the phrase *target audience* have picked up some negative connotations—ignore them.

While advertisers can identify dozens of different target audiences, five broad audience categories are commonly described: household consumers, members of business organizations, members of a trade channel, professionals, and government officials and employees.

Audience Categories. **Household consumers** are the most conspicuous audience in that most mass media advertising is directed at them. McDonald's, Nissan, Miller Brewing, the Gap, and AIG Insurance have products and services designed for the consumer market, and so their advertising targets household consumers. The most recent information indicates that there are about 109 million households in the United States and approximately 292 million household consumers.⁹ Total yearly retail spending by these households is about \$5.5 trillion in the United States.¹⁰ This huge audience is typically where the action is in advertising. Under the very broad heading of "consumer advertising," very fine audience distinctions can be made by advertisers. A target audience definition such as men, 25 to 45, living in metropolitan areas, with incomes greater than \$50,000 per year would be the kind of target audience description an advertiser might develop.

Members of business organizations are the focus of advertising for firms that produce business and industrial goods and services, such as office equipment, production machinery, supplies, and software. While products and services targeted to this audience often require personal selling, advertising is used to create an awareness and a favorable attitude among potential buyers. Not-for-profit businesses such

9. "2004 Survey of Buying Power," *Sales and Marketing Management* (2004), 10, 15, 16.

10. *Ibid.*, 19.

BLUE MARTINI

THEY COME TO YOUR SITE LOOKING FOR SOMETHING DIFFERENT. GIVE IT TO THEM.

Everybody's different, when you know your customers—what they need, what they like and what may be of interest to them in the future—it's a lot easier to give them what they're looking for. Blue Martini has the power to make it all happen. Our sophisticated analysis—customer information, then deliver a highly personalized experience based on that insight. The more you know about your company, the more relevant, it's quicker. And it's for more likely to purchase a sale. To find out how Blue Martini's e-business solutions can improve your customer's experience, visit www.bluemartini.com/ptm.

EXHIBIT 1.15

When members of business organizations use advertising to communicate, the ads often emphasize creating awareness of the company's brand name. Blue Martini, a software firm, is using high visual appeal to accomplish brand name recognition. <http://www.bluemartini.com>

as universities, some research laboratories, philanthropic groups, and cultural organizations represent an important and separate business audience for advertising. Exhibit 1.15 is an example of an ad directed at members of business organizations. Blue Martini Software sells systems used by companies to cut sales costs and improve customer and channel loyalty.

Members of a trade channel include retailers, wholesalers, and distributors. They are a target audience for producers of both household and business goods and services. So, for example, if Microsoft cannot gain adequate retail and wholesale distribution through trade channels for the Xbox, the brand will not reach target customers. That being the case, it's important to direct advertising at the trade level of the market. Various forms of advertising and promotion can be used to develop demand among members of a trade channel. The promotional tool used most often to communicate with this group is personal selling. This is because this target audience represents a relatively small, easily identifiable group that can be reached with personal selling. When advertising is also directed at this target audience, it can serve an extremely useful purpose, as we will see later in the section on advertising as a business process.

Professionals form a special target audience and are defined as doctors, lawyers, accountants, teachers, or any other professional group that has special training or certification. This audience warrants a separate classification because its members have specialized needs and interests. Advertising directed to professionals typically highlights products and services uniquely designed to serve their more narrowly defined needs. The language and images used in advertising to this target audience often rely on esoteric terminology and unique circumstances that members of professions readily recognize. Advertising to professionals is predominantly carried out through trade publications. **Trade journals** are magazines published specifically for members of a trade and carry highly technical articles.

Government officials and employees constitute an audience in themselves due to the large dollar volume of buying that federal, state, and local governments do. Government organizations from universities to road maintenance operations buy huge amounts of various types of products. Producers of items such as office furniture, construction materials, vehicles, fertilizers, computers, and business services all target government organizations with advertising. Advertising to this target audience is dominated by direct mail, catalogs, and Web advertising.

Audience Geography. Audiences can also be broken down by geographic location. Because of cultural differences that often accompany geographic location, very few ads can be effective for all consumers worldwide. If an ad is used worldwide with only minor changes it is called **global advertising**. Very few ads can use global advertising. These are typically brands that are considered citizens of the world and whose manner of use does not vary tremendously by culture. Using a Sony television or a taking a trip on Singapore Airlines doesn't change much from culture to culture and



„Voller Einsatz. Anders kann ich nicht Tennis spielen.“

Jim Courier gilt als ausgesprochen kämpferischer und entschlossener Gegner auf den Courts. Und doch zugleich als einer, der sich eine bemerkenswert souveräne Einstellung gegenüber seinem Sport bewahrt hat.

Wenn einer kommt, der besser spielt als ich – kein Problem. Ich versuche einfach, mich das nächste Mal zu steigern.

Seine Fähigkeit, unter wachsendem Druck besser zu werden, hat Jim Courier bereits vier Grand Slam-Titel eingebracht. Vor allem in Australien ist er der dominierende Spieler. Dort gewann er gleich zwei Australian Open hintereinander. Dieser Triumph war die Krönung einer erstaunlichen Siegesserie in 32 Spielen. Wenn er in Bestform ist, verbindet sich bei Courier Kraft und Ausdauer auf eine Art, die geradezu unheimlich ist, schreibt *Tennis Week* über ihn.

Ob es ein Spiel in fünf Sätzen auf dem schwierigen Rotsandboden in Paris ist oder in glühender Hitze auf den Plätzen in Melbourne, Courier spielt sein bestes Tennis, wenn es hart auf hart geht.

Es überrascht also kaum, daß er eine Uhr gewählt hat, deren Qualitäten ebenso unübertroffen sind. **ROLEX**



Watch by Rolex. Rolex is a registered trademark of Rolex S.A. in Switzerland. Rolex is a registered trademark of Rolex S.A. in Switzerland. Rolex is a registered trademark of Rolex S.A. in Switzerland.

EXHIBITS 1.16 AND 1.17

Global advertising can be used for brands where there is little difference in use across cultures or geographic location. The only real difference in these two ads is language (German versus Italian), while other aspects—Rolex's appeal to an affluent elite who likely follow tennis and the Rolex brand imagery—remain the same. An interesting twist with Rolex is that it uses a Web site to describe, but not sell, its products (<http://www.rolex.com>). Instead, the Web site directs surfers to the retailers who carry the brand. Is the Web likely to be Rolex's best advertising channel, anyway?

geographic location to geographic location. Exhibits 1.16 and 1.17 show extremely similar appeals in two different ads for Rolex watches—another product category where product use across cultures is the same. Firms that market brands with global appeal, like Singapore Airlines, IBM, Sony, and Pirelli Tires, try to develop and place advertisements with a common theme and presentation in all markets around the world where the firm's brands are sold. Global placement is possible only when a brand and the messages about that brand have a common appeal across diverse cultures. Motorola had its agency, McCann-Erickson Worldwide, prepare global ads for its cell phones and pagers; their strategy is discussed in the Global Issues box. Note in this issues box that Motorola focused on the brand rather than product or technology issues as a way to appeal to the target market.

International advertising occurs when firms prepare and place different advertising in different national markets outside their home market. Each international market often requires unique or original advertising due to product adaptations or message appeals tailored specifically for that market. Unilever prepares different versions of ads for its laundry products for nearly every international market because consumers in different cultures approach the laundry task differently. Consumers in the United States use large and powerful washers and dryers and lots of hot water. Households in Brazil use very little hot water and hang clothes out to dry. Very few

“Bisogna essere fortissimi per raggiungere il ‘centrale’. Ed imbattibili per rimanerci.”

“Prendere possesso del “centrale” di Wimbledon è una delle emozioni più grandi nella vita di un tennista. Perché è il torneo più importante e di maggior prestigio, quello che ogni giocatore sogna di vincere.

Avevo sedici anni quando venni a Wimbledon la prima volta per seguire un incontro sul “centrale”. Ero emozionatissimo. Ed anche oggi, quando ci gareggio, provo lo stesso brivido.

È una sensazione che ti prende negli spogliatoi, dove il giocatore si concentra prima di affrontare quello che sicuramente sarà uno degli incontri più importanti della sua carriera.

Raggiungo il rettangolo da gioco, e sento appena gli applausi del pubblico. Raccolgo tutte le mie forze e mi dico che posso farcela. A questo punto l'incanto si rompe e sento un'enorme carica di energia e di stimoli. Sono pronto.

È meraviglioso sollevare il trofeo sul “centrale” di Wimbledon dove è già un grande successo essere ammessi e dove, secondo me, il tennis è nato.”

Jim Courier

Jim Courier e l'organizzazione di Wimbledon hanno scelto Rolex. La precisione e l'affidabilità di Rolex sono le qualità richieste affinché il grande meccanismo di Wimbledon possa funzionare proprio come un orologio. Una scelta condivisa da molti altri campioni.

ROLEX




CHRONOMETRO ROLEX (SWISS MADE) BY ROLEX S.A. IN CHAM, SWITZERLAND. ROLEX IS A REGISTERED TRADEMARK OF ROLEX S.A. IN CHAM, SWITZERLAND.

GLOBAL ISSUES

Try This One on for Size

Here's a challenge of global proportions. Imagine that it is your job to develop the advertising for a retail store that sells women's lingerie. This shouldn't be too hard. After all, Victoria's Secret has done a great job with bold television advertising featuring Tyra Banks and Gisele Bündchen, not to mention those direct mail catalogs. It's a product category that's showing strong growth and is colorful and diverse visually, and the media are loosening up on restrictions for visuals.

Well, there is one other little detail that might make this a bit more difficult. The retail lingerie store's name is Al Mashat and it is located in Saudi Arabia. So, you ask? Lingerie is lingerie and women are women. That may be true, but Saudi Arabia is also Saudi Arabia and in Saudi Arabia the detail that is most problematic was well articulated by Margo Chase, founder and executive director of Chase Design Group design consulting firm: "The really huge problem is how to market lingerie in a country where you can't show photographs of women." Not being able to show women in lingerie is a somewhat important detail that would make this just a bit more difficult.

So, what *would* you do in a situation like this? One thing is for sure, there is no way that the religious culture of Saudi Arabia and the media restrictions it creates are going to change just because some retail store wants to more effectively advertise. But here are some details that might help you out: Saudi Arabia has an extremely young population, with 42.4 percent being under the age of 15. Additionally, shopping is one of the few recreations available to Saudi women. Finally, Saudi women are fascinated with all things French.

Have you figured out an advertising strategy yet? Well, let's take a look at what the U.S. consulting firm Chase Design Group came up with for advertising for Al Mashat. First, the design firm decided that if they could not use the images of women, then the advertising campaign would be carried by "language that was rich, textured, layered, and sensual." An example of the language was a poem featured both in advertising and store banners: "Wrap this beautiful robe of words around you and dream." Second, to carry through on the force of the language, a special font and characters were developed. Finally, advertising was launched using print ads, radio ads, and a direct mail piece featuring bags imprinted with the store logo and filled with potpourri and an invitation card printed on iridescent pearl-colored paper. As a follow-up, another direct mail campaign mailed out gift vouchers worth 50 riyals (about \$13) to prospective customers.

How did it all work out? In the first year of the store's operations more than \$3.2 million in revenue was generated. The owner expects revenue to grow to \$5 million in the store's second full year.

The lesson here is that in global markets, any number of unique circumstances can restrict the way we might use advertising. But the other lesson is that even though there may be what seem to be huge barriers (like not showing women in ads for a product designed exclusively for women), the breadth and creativity of advertising can be used to overcome such barriers.

Source: Arundhati Parmar, "Out from Under," *Marketing News*, July 21, 2003.

firms enjoy the luxury of having a brand with truly cross-cultural appeal and global recognition as discussed in the previous section on global advertising.

National advertising reaches all geographic areas of one nation. National advertising is the term typically used to describe the kind of advertising we see most often in the mass media in the domestic U.S. market. Does international advertising use many different national advertising efforts? Yes, that is exactly the relationship between international advertising and national advertising.

Regional advertising is carried out by producers, wholesalers, distributors, and retailers that concentrate their efforts in a relatively large, but not national, geographic region. Albertson's, a regional grocery chain, has stores in 31 western, northwestern, midwestern, and southern states. Because of the nature of the firm's regional markets, it places advertising only in regions where it has stores.

Local advertising is much the same as regional advertising. **Local advertising** is directed at an audience in a single trading area, either a city or state. Exhibit 1.18 shows an example of this type of advertising. Daffy's is a discount clothing retailer with stores in the New York/New Jersey metropolitan area. Retailers with local markets like Daffy's use all types of local media to reach customers. Under special circumstances, national advertisers will share advertising expenses in a market with local dealers to achieve specific advertising objectives. This sharing of advertising expenses between national advertisers and local merchants is called **cooperative advertising** (or **co-op advertising**). Exhibit 1.19 illustrates a co-op advertisement run by TUMI luggage and one of its retailers, Shapiro. In a key strategy move several years ago, General Motors redesigned its co-op advertising program with dealers in an attempt to create a more fully coordinated integrated brand promotion.¹¹

11. Joe Miller, "Dealers Regain Ad Input as GM Revives Program," *Advertising Age*, October 16, 2000, 80.




**WHEN A CLOTHING STORE HAS A SALE
ON SELECTED MERCHANDISE,
WHY IS IT ALWAYS MERCHANDISE
YOU'D NEVER SELECT?**

At Daffy's you'll find 40-70% off all our clothes, every day. 5th Ave. & 18th St., Madison Ave. & 44th St.

DAFFY'S
CLOTHES THAT WILL MAKE YOU, NOT BREAK YOU.™

EXHIBIT 1.18

Daffy's (<http://www.daffys.com>) is a clothing retailer with 12 shops in the New York/New Jersey metropolitan area. It services a local geographic market. Retailers that serve a small geographic area use local advertising to reach their customers and typically rely on newspaper and radio ads to reach their local target market.



EVERY DAY OVER 1,000 COMPLETERS ARE BROKEN IN TRANSIT.

HAVE A SALE HERE.

SHAPIRO
Luggage • Gifts • Leather

Furrow Pallet
2000 Camera
Carrommen Mail
Ocean Car Mail
University Mail
Ocean Tents Mail
Ocean Tents Mail

EXHIBIT 1.19

National advertisers will often share advertising expenses with local retail merchants if the retailer features the advertiser's brand in local advertising. This sharing of expenses is called co-op advertising. Here a local retailer, Shapiro Luggage, is featuring TUMI brand luggage in this co-op ad. <http://www.tumi.com>

Advertising as a Business Process.

So far we have talked about advertising as a communication process and as a way companies reach diverse audiences with persuasive brand information. But we need to appreciate another aspect of advertising. Advertising is very much a business process as well as a communication process. For multinational organizations like Microsoft, as well as for small local retailers, advertising is a basic business tool that helps them communicate with current and potential customers. We need to understand advertising as a business process in three ways. First, we'll consider the role advertising plays in the overall marketing and brand promotion programs in firms. Second, we will look at the types of advertising used by firms. Finally, we will take a broader look at advertising by identifying the economic effects of the process.

The Role of Advertising in Marketing and Integrated Brand Promotion. To truly appreciate advertising as a business process, we have to understand the role advertising plays in a firm's marketing and integrated brand promotion effort. As the introductory scenario so clearly demonstrated, effective advertising as part of an overall integrated brand promotion is a key factor in the success of brands.

To begin with, realize that every organization *must* make marketing decisions. There simply is no escaping the need to develop brands, price them, distribute them, and advertise and promote them to a target audience. The role of advertising and brand promotion relates to four important aspects of the marketing process: (1) the marketing mix; (2) brand development and management; (3) achieving effective market segmentation, differentiation, and positioning; and (4) contributing to revenue and profit generation.

The Role of Advertising in the Marketing Mix. A formal definition of marketing reveals that advertising (as a part of overall promotion) is one of the primary marketing tools available to any organization:

*Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.*¹²

Marketing people assume a wide range of responsibilities in an organization related to conceiving, pricing, promoting, and distributing goods, services, and even ideas. Many of you know that these four areas of responsibility and decision making in marketing are referred to as the **marketing mix**. The word *mix* is used to describe the blend of strategic emphasis on the product versus its price versus its promotion (including advertising) versus its distribution when a brand is marketed to consumers. This blend, or mix, results in the overall marketing program for a brand. Advertising is important, but it is only one of the major areas of marketing responsibility and it is only one of many different promotional tools relied on in the marketing mix.

Generally speaking, the role of advertising in the marketing mix is to focus on the ability of advertising to communicate to a target audience the value a brand has to offer. Value consists of more than simply the tangible aspects of the brand itself, though. Indeed, consumers look for value in the brand, but they also demand such things as convenient location, credit terms, warranties and guarantees, and delivery. In addition, a wide range of emotional values such as security, belonging, affiliation, excitement, and prestige can also be pursued in the brand choice process. If you have any doubts that emotion plays a role, think about the fact that a \$10,000 Dodge Neon can get you from one place to another in pretty much the same way as an \$80,000 BMW M5. Well, maybe without the same thrill and style—but that's the point. People look for more than function in a brand; they often buy the emotional kick that a brand and its features provide.

Because of consumers' search for such diverse values, marketers must determine which marketing-mix ingredients to emphasize and how to blend the mix elements in just the right way to attract and satisfy customers. These marketing mix decisions play a significant role in determining the message content and media placement of advertising.

Exhibit 1.20 lists factors typically considered in each area of the marketing mix. You can see that decisions under each of the marketing mix areas can directly affect the advertising message. The important point is that a firm's advertising effort must be consistent with and complement the overall marketing mix strategy being used by a firm.

The Role of Advertising in Brand Development and Management. One of the key issues to understand about the role of advertising is that it plays a critical role in brand development and management. We have been referring to the brand and integrated brand promotion throughout our discussion of the process of advertising so far. All of us have our own understanding of what a brand is. After all, we buy brands everyday. A formal definition of a **brand** is a name, term, sign, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers. Advertising plays a significant role in brand development and management. A brand is in many ways the most precious business asset owned by a firm. It allows a firm to communicate consistently and efficiently with the market.¹³

12. This definition of marketing was approved in 1995 by the American Marketing Association (<http://www.marketingpower.com>) and remains the official definition offered by the organization.

13. Peter D. Bennett, *Dictionary of Marketing Terms*, 2nd ed. (Chicago: American Marketing Association, 1995), 4.

EXHIBIT 1.20

These are the factors that an organization needs to consider in creating a marketing mix. Advertising messages and media placement must be consistent with and complement strategies in all the other areas of the marketing mix.

Product	Promotion
Functional features	Amount and type of advertising
Aesthetic design	Number and qualifications of salespeople
Accompanying services	Extent and type of personal selling program
Instructions for use	Sales promotion—coupons, contests, sweepstakes
Warranty	Trade shows
Product differentiation	Public relations activities
Product positioning	Direct mail or telemarketing
	Event sponsorships
	Internet communications
Price	Distribution
Level:	Number of retail outlets
Top of the line	Location of retail outlets
Competitive, average prices	Types of retail outlets
Low-price policy	Catalog sales
Terms offered:	Other nonstore retail methods—Internet
Cash only	Number and type of wholesalers
Credit:	Inventories—extent and location
Extended	Services provided by distribution:
Restricted	Credit
Interest charges	Delivery
Lease/rental	Installation
	Training

BusinessWeek magazine in conjunction with Interbrand, a marketing analysis and consulting firm, has attached a dollar value to brand names based on a combination of sales, earnings, future sales potential and intangibles other than the brand that drive sales. The 20 most valuable brands in the world in 2004 are shown in Exhibit 1.21. Often, the brand name is worth much more than the annual sales of the brand. Coca-Cola, the most valuable brand in the world, is estimated to be worth about \$67 billion even though sales of branded Coca-Cola products are only about \$20 billion a year.

A brand can be put at a serious competitive disadvantage without effective communication provided by advertising. In fact, managers at ConAgra came to the startling realization that while they were doing a good job of using advertising to develop and manage the Marie Callender line of frozen entrées, they had “let the Healthy Choice brand wither on the vine.”¹⁴ To rectify that mistake, ConAgra invested \$40 million in advertising for the more than 300 items in the Healthy Choice product line.

For every organization, advertising effects brand development and management in five important ways.

14. Stephanie Thompson, “ConAgra Cooks Up Stronger Identity,” *Advertising Age*, November 6, 2000, 42.

EXHIBIT I.21*The World's 20 Most Valuable Brands in 2004*

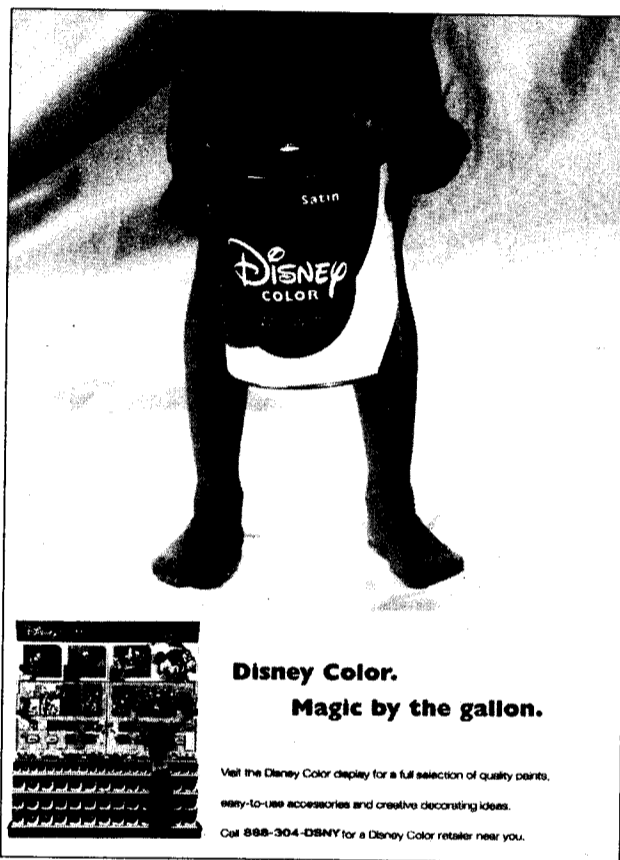
Rank	Brand	Brand Value 2004 (U.S. billions)	Brand Value 2003 (U.S. billions)	% Change
1	Coca-Cola	\$67.39	\$70.45	-4%
2	Microsoft	61.37	65.14	-6
3	IBM	53.79	51.76	4
4	GE	44.11	42.34	4
5	Intel	33.49	31.11	8
6	Disney	27.11	28.03	-3
7	McDonald's	25.00	24.69	1
8	Nokia	24.04	29.44	-18
9	Toyota	22.67	20.78	9
10	Marlboro	22.12	22.18	0
11	Mercedes	21.33	21.37	0
12	Hewlett-Packard	20.78	21.37	-6
13	Citibank	19.97	18.57	8
14	American Express	17.68	16.83	5
15	Gillette	16.72	15.97	5
16	Cisco Systems	15.94	15.78	1
17	BMW	15.88	15.10	5
18	Honda	14.87	15.62	-5
19	Ford	14.47	17.06	-15
20	Sony	12.75	13.15	-3

Source: *Business Week*, August 2, 2004, 64-71.

Information and Persuasion. Target audiences learn about a brand's features and benefits through the message content of advertising and, to a lesser extent, other promotional tools (most other promotional tools, except the Web, are not heavy on content) that are used in the integrated brand promotion effort. But advertising has the best capability to inform or persuade target audiences about the values a brand has to offer. No other variable in the marketing mix is designed to accomplish this communication. As an example, persuasive brand communication is particularly competitive in the credit card market, where consumers often perceive no difference between services offered by one firm and another. Analysts agree that branding is crucially important in the multibillion dollar cell phone market as Verizon, Cellular One, AT&T, and Cingular compete for 150 million wireless subscribers.¹⁵ In many ways, marketing and advertising a cellular service brand is much like marketing and advertising the bottled-water brands highlighted at the beginning of the chapter. One cell phone works just like another and there are plenty of alternatives.

Introduction of New Brand or Brand Extensions. Advertising is absolutely critical when organizations introduce a new brand or extensions of existing brands to the

15. Alice Z. Cuneo, "Cell Giants Plot \$1.5B Ad Bonanza," *Advertising Age*, October 6, 2003, 1, 44.

**EXHIBIT 1.22**

Advertising helps companies with brand extension strategies. Here, the famous Disney brand name is being used as the company extends the brand name into paint products. How would you describe Yahoo! Shopping (<http://www.shopping.yahoo.com>) in terms of brand extension strategy? What value does the widely recognized nature of these brand names lend to the extension process?

market. A **brand extension** is an adaptation of an existing brand to a new product area. For example, the Snickers Ice Cream Bar is a brand extension of the original Snickers candy bar, and Ivory Shampoo is a brand extension of Ivory Dishwashing Liquid. When brand extensions are brought to market, advertising and integrated brand promotion play a key role in attracting attention to the brand—so much so that researchers now suggest that “managers should favor the brand extension with a greater allocation of the ad budget.¹⁶ This is often accomplished with advertising working in conjunction with other promotional activities such as sales promotions and point-of-purchase displays. Mars (famous for candy) invested heavily in advertising and promotion when it extended the Uncle Ben’s Rice brand into ready-to-eat microwave Rice Bowls of all varieties, including Italian, Mexican, and Chinese.¹⁷ Exhibit 1.22 shows another example of advertising being used to extend a famous brand name into a totally different product category.

Building and Maintaining Brand Loyalty among Consumers. Loyalty to a brand is one of the most important assets a firm can have. **Brand loyalty** occurs when a consumer repeatedly purchases the same brand to the exclusion of competitors’

brands. This loyalty can result because of habit, because brand names are prominent in the consumer’s memory, because of barely conscious associations with brand images, or because consumers have attached some fairly deep meanings to the brands they buy.

While brand features are the most important influence on building and maintaining brand loyalty, advertising plays a key role in the process as well. Advertising reminds consumers of the values—tangible and intangible—of the brand. Advertising and integrated brand promotions often provide an extra incentive to consumers to remain brand loyal. Direct marketing can tailor communications to existing customers. Other promotional tools can offer similarly valuable communications that will help build and strengthen lasting and positive associations with a brand—such as a frequent-flyer or frequent-buyer program. When a firm creates and maintains positive associations with the brand in the mind of consumers, the firm has developed **brand equity**.¹⁸ While brand equity occurs over long periods of time, short-term advertising and promotional activities are key to long-term success.¹⁹ This advertising fact of life became clear to strategists at food giant Kraft as it devised a strategy to defend its Kraft Miracle Whip brand against a new campaign by competitor Unilever for Imperial Whip. In order to protect Miracle Whip’s \$229 million in sales and brand equity with consumers, Kraft invested heavily in television advertising just before Unilever lowered prices on the Imperial Whip brand.²⁰

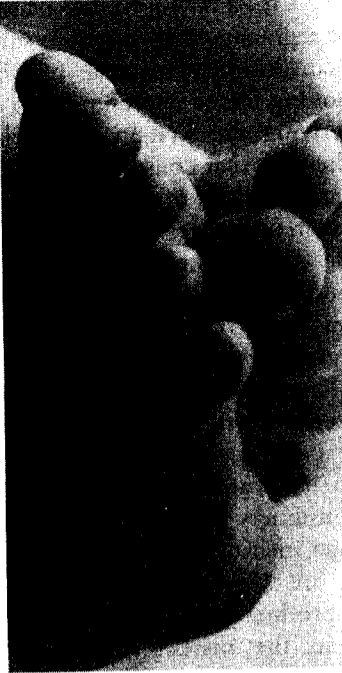
16. Douglas W. Vorhies, “Brand Extension Helps Parent Gain Influence,” *Marketing News*, January 20, 2003, 25.

17. Stephanie Thompson, “The Bowl Is Where It’s At for New Frozen Meal Lines,” *Advertising Age*, August 14, 2000, 4.

18. Kevin L. Keller, *Strategic Brand Management: Building, Measuring, and Managing Brand Equity* (Upper Saddle River, N.J.: Prentice Hall, 1998), 2.

19. Keller, “Conceptualizing, Measuring, and Managing Customer-Based Brand Equity,” *Journal of Marketing*, vol. 57 (January 1993), 4.

20. Stephanie Thompson, “Kraft Counters Unilever Launch,” *Advertising Age*, August 25, 2003, 4.



I HAVE LOVED
YOU ALWAYS.
AS AN IDEA, A HEART-
BEAT, A FUZZY IMAGE
OF TEN PERFECT TOES.
I CARRY YOU UNDER
MY HEART. I WILL TEACH
YOU ALL THAT I KNOW.
I AM STRONG ENOUGH
TO FEED US BOTH.
I WILL LEARN LULLABIES.

Schiff's New Pregnancy Prenatal Multivitamin provides 100% of 12 essential vitamins and minerals needed by expectant and lactating mothers, including folic acid, calcium and iron. Its balanced formula delivers the maximum benefits to you and your baby.



Benefits Beyond Your Daily Requirements.  

EXHIBIT 1.23

The message in this Schiff ad creates meaning for vitamins that goes beyond the daily nutrition role vitamins can play. What are the many meanings in this message offered to consumers?

<http://www.schiffvitamins.com>

Creating an Image and Meaning for a Brand. As we discussed in the marketing mix section, advertising can communicate how a brand addresses certain needs and desires and therefore plays an important role in attracting customers to brands appear to be useful and satisfying. But advertising can go further. It can help link a brand's image and meaning to a consumer's social environment and to the larger culture, and in this way actually delivers a sense of personal connection for the consumer.

The Schiff ad for prenatal vitamins in Exhibit 1.23 is a clear example of how advertising can create an image and deeper meaning. The message in this ad is not just about the health advantages of using a nutritional supplement during pregnancy. The message mines associations related to love and caring for an unborn or recently born child. Even the slogan for the brand, "Benefits Beyond Your Daily Requirements," plays on the notion that a vitamin is more than a vehicle for dosing up on folic acid. Other promotional tools in the integrated brand promotion process, such as personal selling, sales promotions, event sponsorship, or the Internet, simply cannot achieve such creative power or communicate all the potential meanings a brand can have to a consumer.

Building and Maintaining Brand Loyalty within the

Trade. It might not seem as if wholesalers, retailers, distributors, and brokers would be brand loyal, but they will favor one brand over others given the proper support from a manufacturer. Advertising and particularly advertising integrated with other brand promotions is an area where support can be given. Marketers can provide the trade with sales training programs, collateral advertising materials, point-of-purchase advertising displays, premiums (giveaways like key chains or caps), and traffic-building special events. Exide, the battery company, spends several million dollars a year to become the official battery of Nascar racing. Mike Dever, Exide's vice president of marketing and product management, explains: "Both our distributors and our distributors' customers, for the most part, are race fans so it's the place we want to be."²¹

Also, remember that trade buyers (retailers, wholesalers, distributors, brokers) can be key to the success of new brands or brand extensions, as we pointed out earlier in the discussion of the trade market as a target audience. Marketers have little hope of successfully introducing a brand if there is no cooperation in the trade channel among wholesalers and retailers. This is where integrated brand promotion as a factor in advertising becomes prominent. This is because the trade is less responsive to advertising messages than they are to other forms of promotion. Direct support to the trade in terms of displays, contests, and other incentives combined with advertising in an IBP program helps ensure the success of a brand.

The Role of Advertising Market Segmentation, Differentiation, and Positioning. For advertising to be effective, it must work to support an organization's basic marketing strategies. The most basic and important marketing strategies for cultivating customers are market segmentation, differentiation, and positioning. Advertising plays an important role in helping a firm execute these marketing strategies.


21. Beth Snyder Bulik, "The Company You Keep," *Sales & Marketing Management*, November 2003, 14.

**THIS TEST
COULD HELP SAVE
YOUR LIFE.**

MAN OVER 40
 WOMAN OVER 50
 HIGH CHOLESTEROL
 FAMILY HISTORY
OF HEART DISEASE

If you checked one or more of these boxes,
you may be at a greater risk of a heart attack.

Take this test to your doctor,
and ask if Bayer could help save your life.



TRUST YOUR HEART TO BAYER.

EXHIBIT 1.24

Advertising plays an important role in helping a firm segment the market based on needs and characteristics of consumers. Along with Bayer's regular aspirin for headache relief, Bayer offers these three additional versions of the brand that address both consumer needs (calcium-fortified aspirin for women) and consumer characteristics (a children's lower-dose aspirin). <http://www.bayer.com/aspirin.com>

Market segmentation is the process of breaking down a large, widely varied (*heterogeneous*) market into submarkets, or segments, that are more similar (*homogeneous*) than dissimilar in terms of what the consumer is looking for or is presumed to be looking for. Underlying the strategy of market segmentation are the facts that consumers differ in their wants and that the wants of one person can differ under various circumstances. The market for automobiles can be divided into submarkets for different types of automobiles based on the needs and desires of various groups of buyers. Identifying those groups, or segments, of the population who want and will buy large or small, luxury or economy, or sport or sedan or minivan models is an important part of basic marketing strategy. In addition to needs, markets are often segmented on characteristics of consumers (referred to as demographics) such as age, marital status, gender, and income. These data are widely available and tend to be related to product preference and use. Advertising's role in the market segmentation process is to develop messages that appeal to the wants and desires of different segments and then to transmit those messages via appropriate media. For example, Bayer has four different versions of its basic aspirin brand. There is regular Bayer for headache relief; Bayer Enteric Safety Coated 81 mg aspirin for people with cholesterol and heart concerns; Women's Bayer, which includes a calcium supplement; and Children's Bayer, which is lower dose and chewable. Each of these versions of the Bayer brand of aspirin addresses both needs and characteristics of consumers in the market (see Exhibit 1.24). The Internet provides a new and highly efficient way to reach very well-defined market segments, as the Creativity box on page 28 demonstrates.

Differentiation is the process of creating a perceived difference, in the mind of the consumer, between an organization's brand and the competition's. Notice that this definition emphasizes that brand differentiation is based on *consumer perception*. The perceived differences can be tangible differences, or they may be based on image or style factors. Consider the Fendi watch ad in Exhibit 1.25. A \$20 Timex and a \$12,000 Fendi keep time in exactly the same way. But the two brands are differentiated on perceptions of style and the deeper meaning brands can have, as discussed earlier. The critical issue in differentiation is that consumers *perceive* a difference between brands. If consumers do not perceive a difference, then whether real differences exist or not does not matter. Differentiation is one of the most critical of all marketing strategies. If a firm's brand is not perceived as distinctive and attractive by consumers, then consumers will have no reason to choose that brand over one from the competition or to pay higher prices for the "better" or "more meaningful" brand.

When advertising is used to help create a difference in the mind of the consumer between an organization's brand and its competitors' brands, the ad may emphasize performance features, or it may create a distinctive image for the brand. The essential task for advertising is to develop a message that is different and unmistakably linked to the organization's brand. The ad in Exhibit 1.26 is distinctive and pursues product differentiation.



EXHIBIT 1.25

Advertising is key to the marketing strategy of differentiation—creating a perceived difference between the advertiser's brand and competitors' brands. This very expensive Fendi watch keeps time just like a \$20-Timex. But you won't see an ad like this for a Timex. What is it about this ad that helps differentiate the Fendi brand from the Timex brand? <http://www.fendi.it>

Ever Tried To Vacuum A Cat?



Breathe Easy. Hunter Air Purifiers Fight Odors, Allergens, Dust And Dander.

Deal with pet dander, odors, dust, pollen, smoke and mold spores the easy way. Hunter air purifiers provide 99.97% effective air cleaning* And they reduce common household odors 30% better than other leading brands!† Plus, quiet Hunter air purifiers include handy features like easy-to-use, digital programmable controls. Give the cat a break. Visit www.hunterfan.com to learn more about Hunter air purifiers.



HUNTER
www.hunterfan.com

From the Hunter Fan people...quietly improving your indoor air since 1886*

*99.97% effective at removing particles as small as 0.3 microns that pass through the filter.
†Based on tests conducted by human test panels in accordance with ASTM E1593 and ASTM E1956 using competitive pre-filters available in 2002.
© 2004 Hunter Fan Company

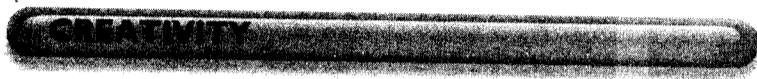
EXHIBIT 1.26

An important role for advertising is to help a firm differentiate its brand from the competition with a distinctive message and presentation. The Hunter Fans ad in Exhibit 1.26 focuses on the function features of its air purifier line as the basis for differentiation.

<http://www.hunterfan.com>

Positioning is the process of designing a brand so that it can occupy a distinct and valued place in the target consumer's mind relative to other brands and then communicating this distinctiveness through advertising. Positioning, like differentiation, depends on a perceived image of tangible or intangible features. The importance of positioning can be understood by recognizing that consumers create a *perceptual space* in their minds for all the brands they might consider purchasing. A perceptual space is how one brand is seen on any number of dimensions—such as quality, taste, price, or social display value—in relation to those same dimensions in other brands.

There are really two positioning decisions. A firm must decide on the **external position** for a brand—that is, the niche the brand will pursue relative to all the competitive brands on the market. Additionally, an **internal position** must be achieved with regard to the other similar brands a firm markets. With the external-positioning decision, a firm tries to create a distinctive *competitive* position based on design features, pricing, distribution, or promotion or advertising strategy. Some brands are positioned at the very top of their competitive product category, such as BMW's 745i, priced around \$85,000. Other brands seek a position at the low end of all market offerings, such as the Chevrolet Metro, whose base price is \$10,000.



Wait! You Really Need Pickles!

When it comes to target marketing, the Internet can really deliver the goods. Think about this scenario. You go to the store and decide to pick up a few items. The store you shop at has given you a "loyalty card," which allows you to earn discount points, and you scan your card as you enter the store. No big deal, you say? Lots of stores have these loyalty cards, you say?

Well, a lot of stores may have loyalty cards, but few have integrated the loyalty card with the Internet like Stop & Shop Supermarket Company, which has created one of the most precise target marketing systems in the world. Imagine this as a shopping experience. You're making your way through the aisles of the Stop & Shop doing your normal grocery shopping. You stop in front of the deli counter and ask for a half pound of smoked turkey. Just then, the screen on your shopping cart computer beeps and a promotion pops up for Vlasic Dill Pickles! Talk about reaching the right target market at the right time!

The system is still in its early stages of trial, but works like this. A shopper starts by scanning a loyalty card through a reader on a specially computer-equipped shopping cart—"The Shopping Buddy." The computer then makes a wireless connection to the store's intranet, which downloads your product and brand preferences. The computer is also linking up to a GPS system that will track your progress through the store. That way, the computer knows just when to cue you to certain types of "compatible" products. Not only does the Shopping Buddy help companies target consumers right at the point of purchase, but the shopper gets a break, too. The Shopping Buddy scanner lets shoppers pay for their goods online and bypass check out lines completely. While there are still some bugs to be worked out, the system was being slowly introduced to all 334 Stop & Shops during 2004.

Source: Faith Amer, "Web Smart 50: Stop & Shop," *Business 2.0*, November 24, 2003, 96.

Effective internal positioning is accomplished by either developing vastly different products *within* the firm's own product line (Ben & Jerry's ice cream, for example, offers plenty of distinctive flavors, as shown in Exhibit 1.27) or creating advertising messages that appeal to different consumer needs and desires. Procter & Gamble successfully positions its many laundry detergent brands both internally and externally using a combination of product design and effective advertising. While some of these brands assume different positions within P&G's line due to substantive differences (a liquid soap versus a powder soap, for example), others with minor differences achieve distinctive positioning through advertising. One P&G brand is advertised as being effective on kids' dirty clothes, while another brand is portrayed as effective for preventing colors from running (see Exhibit 1.28). In this way, advertising helps create a distinctive position, both internally and externally.

The methods and strategic options available to an organization with respect to market segmentation, product differentiation, and positioning will be fully discussed in Chapter 6. For now, realize that advertising plays an important role in helping an organization put these most basic marketing strategies into operation.

The Role of Advertising in Revenue and Profit Generation. There are many who believe that the fundamental purpose of marketing (and the advertising that is used in marketing) can be stated quite simply: to generate revenue. No other part of an organization has this primary purpose. In the words of highly regarded management consultant and scholar Peter Drucker, "Marketing and innovation produce results: all the rest are 'costs.'"²² The results Drucker is referring to are revenues. The marketing process is designed to generate sales and therefore revenues for the firm.

Creating sales as part of the revenue-generating process is where advertising plays a significant role. As we have seen, advertising communicates persuasive information to audiences based on the values created in the marketing mix related to the product, its price, or its distribution. This advertising communication, as you have seen throughout this chapter, then highlights these brand features, price, emotion, or availability through distribution and then attracts a target market. In this way, advertising makes a direct contribution to the marketing goal of revenue generation. Notice that advertising *contributes* to the process of creating sales and revenue. It can-

22. Peter F. Drucker, *People and Performance: The Best of Peter Drucker* (New York: HarperCollins, 1997), 90.



EXHIBIT 1.27

Firms with multiple brands in a single product category have to internally position these brands to differentiate them from each other in the minds of consumers. Ben & Jerry's achieves its product positioning by emphasizing the distinctly different flavors of each of its ice creams. <http://www.benjerry.com>

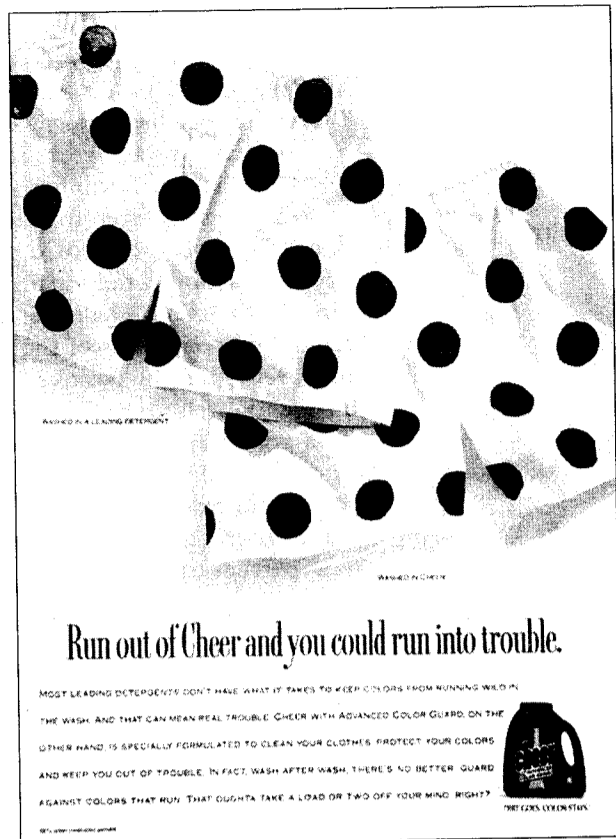


EXHIBIT 1.28

When a firm has multiple brands in a product category, it must be careful to position these brands distinctively so as to avoid cannibalization of one brand's sales by another. Procter & Gamble successfully achieves both a competitive external position and a distinctive internal product line position for Cheer laundry detergent by advertising the brand as the leader in preventing colors from running. <http://www.pg.com>

not be solely responsible for creating sales and revenue—it's not that powerful. Some organizations mistakenly see advertising as a panacea—the salvation for an ambiguous or ineffective overall marketing mix strategy. Advertising alone cannot be held responsible for sales. Sales occur when a brand has a well-conceived and complete marketing mix—including good advertising.

The effect of advertising on profits is a bit more involved and complicated. Its effect on profits comes about when advertising gives an organization greater flexibility in the price it charges for a product or service. Advertising can help create pricing flexibility by (1) contributing to economies of scale and (2) helping create inelasticity of demand. When an organization creates large-scale demand for its product, the quantity of product produced is increased, and **economies of scale** lead to lower unit production costs. Cost of production decreases because fixed costs (such as rent and equipment costs) are spread over a greater number of units produced.

How does advertising play a role in helping create economies of scale? When Colgate manufactures hundreds of thousands of tubes of its Colgate Total toothpaste and ships them in large quantities to warehouses, the fixed costs of production and shipping per unit are greatly reduced. With lower fixed costs per unit, Colgate can realize greater profits on each tube of toothpaste sold. Advertising contributes to demand stimulation by communicating to the market about the features and

availability of a brand. By contributing to demand stimulation, advertising then contributes to the process of creating these economies of scale, which ultimately translates into higher profits per unit for the organization.

Remember the concept of brand loyalty we discussed earlier? Well, brand loyalty and advertising work together to create another important economic effect related to pricing flexibility and profits. When consumers are brand loyal, they are generally less sensitive to price increases for the brand. In economic terms, this is known as **inelasticity of demand**. When consumers are less price sensitive, firms have the flexibility to raise prices and increase profit margins. Advertising contributes directly to brand loyalty, and thus to inelasticity of demand, by persuading and reminding consumers of the satisfactions and values related to a brand. This argument related to the positive business effects of advertising was recently supported by a large research study. The study found that companies who build strong brands and raise prices are more profitable than companies who cut costs as a way to increase profits—by nearly twice the profit percentage. This research is supported by such real-world examples as Louis Vuitton. The maker of luxury handbags (\$1,000 per bag or more) and other luxury items enjoys an operating margin of 45 percent and a 30 percent earnings increase in 2003.²³

Types of Advertising. So far, we've discussed advertising in a lot of different ways, from its most basic definition through how it can help an organization stimulate demand and generate profits. But to truly understand advertising, we need to go back to some very basic typologies that categorize advertising according to fundamental approaches to communication. Until you understand these aspects of advertising, you really don't understand advertising at all.

Primary versus Selective Demand Stimulation. In **primary demand stimulation**, an advertiser is trying to create demand for an entire product category. Primary demand stimulation is challenging and costly, and research evidence suggests that it is likely to have an impact only for totally new products on the market—not brand extensions or product categories that have been around a long time (known as mature products). An example of effective primary demand stimulation was the introduction of the VCR to the consumer market in the 1970s. With a product that is totally new to the market, consumers need to be convinced that the product category itself is valuable and that it is, indeed, available for sale. When the VCR was first introduced in the United States, RCA, Panasonic, and Quasar (see Exhibit 1.29) ran primary demand stimulation advertising to explain to household consumers the value and convenience of taping television programs with this new product called a VHS video recorder—something no one had ever done before at home.

For organizations that have tried to stimulate primary demand in mature product categories, typically trade associations, the results have been dismal. Both the National Fluid Milk Processor Promotion Board and the Florida Department of Citrus have tried to use advertising to stimulate primary demand for the entire product categories of milk and orange juice. Examples of these campaigns are shown in Exhibits 1.30 and 1.31. While the “mustache” campaign is popular and wins awards, milk consumption has *declined* every year during the time of this campaign.²⁴ This is despite the fact that more than \$1.5 billion in spending has been invested in the campaign (including a NASCAR race car!). Even if the attempts at primary demand have reduced the overall decline in milk consumption, this is still not a very impressive

23. The research study is reported in Robert G. Docters, Michael R. Reopel, Jeanne-Mey Sun, and Stephen M. Tanney, *Winning the Profit Game: Smarter Pricing, Smarter Branding* (New York: McGraw-Hill, 2004); the information on Louis Vuitton was taken from Carol Matlack et al., “The Vuitton Machine,” *BusinessWeek*, March 22, 2004, 98–102.

24. U.S. Bureau of the Census, *Statistical Abstract of the United States: 1995*, 115th ed. (Washington, D.C.: U.S. Government Printing Office, 1995); “Got Results?” *Marketing News*, March 2, 1998, 1.



EXHIBIT 1.29

When new, innovative products are first introduced to the market, a type of advertising called **primary demand stimulation** is often used. Primary demand stimulation attempts to stimulate demand for the entire product category by educating consumers about the values of the product itself, rather than the values of a brand within the product category. This ad from the early days of the VHS video cassette recorder is a classic example of primary demand stimulation in a new, innovative product category.



EXHIBIT 1.30

Advertising that attempts to stimulate primary demand is often tried by industry associations and advocacy groups, such as the National Fluid Milk Processor Promotion Board, rather than by specific manufacturers. Trouble is, it doesn't work. Primary demand stimulation has been shown to be ineffective in mature product categories, such as milk, but rather is appropriate for products totally new to the market. <http://www.getmilk.org> and <http://www.elsie.com>

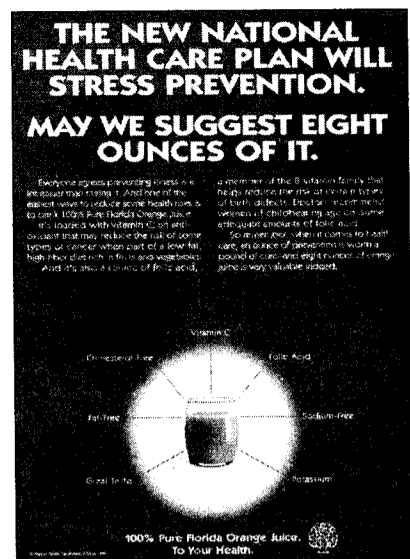


EXHIBIT 1.31

This ad promoting orange juice also attempts to stimulate primary demand, or demand for a product category rather than demand for a particular brand. Decades of literature demonstrate no relationship between aggregate levels of advertising in an industry and overall demand in an industry. It appears that advertising is indeed suited only to selective (brand) demand stimulation. <http://www.floridajuice.com>

result. This should come as no surprise, though. Research over decades has clearly indicated that attempts at primary demand stimulation in mature product categories (orange juice, beef, pork, and almonds have also been tried) have never been successful.²⁵

While some corporations have tried primary demand stimulation, the true power of advertising is shown when it functions to stimulate demand for a particular company's brand. This is known as selective demand stimulation. The purpose of **selective demand stimulation** advertising is to point out a brand's unique benefits compared to the competition. For example, compare the Tropicana ad in Exhibit 1.32 touting the brand's superiority with the primary demand stimulation ad in Exhibit 1.31. Likewise, now that the VCR is past the stage of primary demand stimulation and is a mature product category, households accept the value of this product and each brand selectively appeals to different consumer needs. Selective demand stimulation advertising for VCRs emphasizes brand features such as hi-fi sound, remote control, and voice recognition programming, as Exhibit 1.33 illustrates. This is selective demand stimulation.

25. For an excellent summary of decades of research on the topic, see Mark S. Abian and Paul W. Farris, *The Advertising Controversy: Evidence of the Economic Effects of Advertising* (Boston: Auburn House, 1981); and J. C. Luik and M. S. Waterson, *Advertising and Markets* (Oxfordshire, England: NTC Publications, 1996).



EXHIBIT 1.32

Selective demand stimulation advertising highlights a brand's superiority in providing satisfaction. In this ad, Tropicana touts its superiority as a brand of orange juice with very specific brand features. Compare this ad to the primary demand ad in Exhibit 1.31. <http://www.tropicana.com>

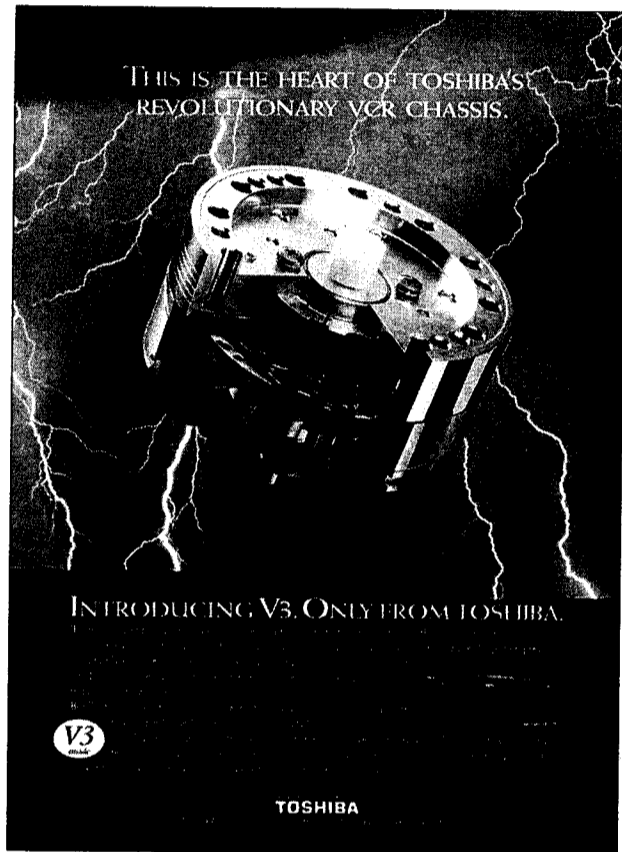


EXHIBIT 1.33

Once the VHS video cassette recorder became widely adopted, there was no longer a need for primary demand stimulation. Companies turned to the selective brand stimulation process represented by this Toshiba ad. How is this ad different in its message content from the ad in Exhibit 1.29? <http://www.toshiba.com>

Direct versus Delayed Response Advertising. Another important type of advertising involves how quickly we want consumers to respond. **Direct response advertising** asks consumers to act immediately. An ad that suggests that you “call this toll-free number” or “mail your \$19.95 before midnight tonight” is an example of direct response advertising. In the ad in Exhibit 1.34, the company implores consumers to act quickly in order to obtain the Frank Sinatra collector's plate. That's direct response advertising.

While exceptions exist, direct response advertising is most often used for products that consumers are familiar with, that do not require inspection at the point of purchase, and that are relatively low-cost. The proliferation of toll-free numbers and the widespread use of credit cards have been a boon to direct response advertisers.

Delayed response advertising relies on imagery and message themes that emphasize the benefits and satisfying characteristics of a brand. Rather than trying to stimulate an immediate action from an audience, delayed response advertising attempts to develop awareness and preference for a brand over time. In general, delayed response advertising attempts to create brand awareness, reinforce the benefits of using a brand, develop a general liking for the brand, and create an image for a brand. When a consumer enters the purchase process, the information from delayed response advertising comes into play. Most advertisements we see on television and



It's some of the most important packaging your life can wear. Because plastic helmets and pads and other sports equipment play a vital role in helping to protect against bumps and bruises. • But plastic isn't just for fun and games. Plastic wraps and trays help keep food fresh and prevent spoilage. Tamper-evident seals help keep medicines protected. Foam cartons protect eggs from premature scrambling. • And because plastic is strong, thin and lightweight, it provides a lot of protection without a lot of additional, heavy packaging. • To learn more, just call 1-800-777-9500, and the American Plastics Council will send you a free booklet. • And see how a little plastic is having a positive impact in places far beyond the football field.

A Little Plastic Packaging Can Help Prevent Bruising.

PLASTIC MAKES IT POSSIBLE™

Advertising affects the competitive environment in an economy. This ad by a plastics manufacturers council is fostering competition with manufacturers of other packaging materials. <http://www.americanplasticscouncil.org>

and Wal-Mart advertise to persuade consumers to shop at their stores. While these retailers may occasionally feature a particular manufacturer's brand in the advertising (Nordstrom features Clinique cosmetics) the main purpose of the advertising is to get the audience to shop at their store. Federated Department Stores, for example, invested \$387 million in 2003 to promote its national brand stores, Macy's and Bloomingdale's, as well as its many regional chains that include Rich's, Lazarus, and The Bon Marche. The thrust of Federated's brand strategy comes from marketing research findings that show their target audience "considers shopping an enjoyable activity."²⁶

The Economic Effects of Advertising.

Our discussion of advertising as a business process so far has focused strictly on the use of advertising by individual business organizations. But you cannot *truly* understand advertising unless you know something about how advertising has effects across the entire economic system of a country. (This isn't the most fun you'll have reading this book, but it is one of the most important topics.)

Advertising's Effect on Gross Domestic Product. Gross domestic product (GDP) is the measure of the total value of goods and services

produced within an economic system. Earlier, we discussed advertising's role in the marketing mix. Recall that as advertising contributes to marketing mix strategy, it can contribute to sales along with the right product, the right price, and the right distribution. Because of this role, advertising is related to GDP in that it can contribute to levels of overall consumer demand when it plays a key role in introducing new products, such as VCRs, microcomputers, the Internet, or alternative energy sources. As demand for these new products grows, the resultant consumer spending fuels retail sales, housing starts, and corporate investment in finished goods and capital equipment. Consequently, GDP is affected by sales of products in new, innovative product categories.²⁷

Advertising's Effect on Business Cycles. Advertising can have a stabilizing effect on downturns in business activity. There is evidence that many firms increase advertising during times of recession in an effort to spend their way out of a business downturn.

Advertising's Effect on Competition. Advertising is alleged to stimulate competition and therefore motivate firms to strive for better products, better production methods, and other competitive advantages that ultimately benefit the economy as a whole. Additionally, when advertising serves as a way to enter new markets, competition across the economic system is fostered. For example, Exhibit 1.36 shows an

26. Mercedes M. Cardona, "Federated Focuses Campaign on Macy's," *Advertising Age*, December 8, 2003, 6.

27. There are several historical treatments of how advertising is related to demand. See, for example, Neil H. Borden, *The Economic Effects of Advertising* (Chicago: Richard D. Irwin, 1942), 187-189; and John Kenneth Galbraith, *The New Industrial State* (Boston: Houghton Mifflin, 1967), 203-207.

ad in which plastics manufacturers present themselves as competitors to manufacturers of other packaging materials.

Advertising is not universally hailed as a stimulant to competition. Critics point out that the amount of advertising dollars needed to compete effectively in many industries is often prohibitive. As such, advertising can act as a barrier to entry into an industry; that is, a firm may have the capability to compete in an industry in every way except that the advertising dollars needed to compete are so great that the firm cannot afford to get into the business. In this way, advertising can actually serve to decrease the overall amount of competition in an economy.²⁸

Advertising's Effect on Prices. One of the widely debated effects of advertising has to do with its effect on the prices consumers pay for products and services. Since we have seen that firms spend millions or even billions of dollars on advertising, then products and services would cost much less if firms did no advertising. Right? Wrong!

First, across all industries, advertising costs incurred by firms range from about 1 percent of sales in the automobile and retail industries to about 15 percent of sales in the personal care and luxury products businesses. Exhibit 1.37 shows the ratio of advertising to sales for various firms in selected industries. Notice that there is no consistent and predictable relationship between advertising spending and sales. Honda spent \$1.144 billion in advertising to generate about \$40.3 billion in sales; L'Oréal spent about the same on advertising (\$1.239 billion) but generated only \$4.318 billion in sales; and Wal-Mart spent only \$678 million on advertising to generate over \$208 billion in sales! Different products and different market conditions demand that firms spend different amounts of money on advertising. These same conditions make it difficult to identify a predictable relationship between advertising and sales.

It is true that the cost of advertising is built into product costs, which are ultimately passed on to consumers. But this effect on price must be judged against a couple of cost savings that lower the price. First, there is the reduced time and effort a consumer has to spend in searching for a product or service. Second, economies of scale, discussed earlier, have a direct impact on cost and then on prices. Recall that economies of scale serve to lower the cost of production by spreading fixed costs over a large number of units produced. This lower cost can be passed on to consumers in terms of lower prices, as firms search for competitive advantage with lower prices. Nowhere is this effect more dramatic than the price of personal computers. In the early 1980s, an Apple IIe computer that ran at about 1 MHz and had 64K of total memory cost over \$3,000. Today, you can get a computer that is several hundred times faster with vastly increased memory and storage for less than \$800. And it is likely that companies like Gateway and Dell are spending more on advertising today than Apple did back in the 1980s.

Advertising's Effect on Value. *Value* is the password for successful marketing. **Value**, in modern marketing and advertising, refers to a perception by consumers that a brand provides satisfaction beyond the cost incurred to obtain that brand. The value perspective of the modern consumer is based on wanting every purchase to be a "good deal." Value can be added to the consumption experience by advertising. Recall the discussion of bottled water at the beginning of the chapter. Advertising helps create enough value in the mind of consumers that they (we) will pay for water that comes free out of the tap.

Advertising also affects a consumer's perception of value by contributing to the symbolic value and the social meaning of a brand. **Symbolic value** refers to what a

28. This fundamental argument about the effect of advertising on competition was identified and well articulated many years ago by Colston E. Warn, "Advertising: A Critic's View," *Journal of Marketing*, vol. 26, no. 4 (October 1962), 12.

Industry	Advertiser	2003 U.S. Ad Spending (millions)	2003 U.S. Sales (millions)	Advertising Spending as % of Sales
	General Motors	\$3,430	\$133,897	2.55
	Ford	2,234	103,435	2.13
	Volkswagen	608	16,701	3.59
	Honda	1,144	40,306	2.72
	IBM	862	33,762	2.37
	Dell	565	28,603	1.97
	Microsoft	1,147	22,100	4.98
	Intel	394	7,644	5.10
	Bristol-Myers Squibb	778	12,897	6.04
	Johnson & Johnson	1,996	25,274	7.89
	Bayer	434	7,567	5.71
	ConAgra	765	17,739	4.32
	Nestlé SA	1,113	20,527	5.40
	Altria Grp	1,311	40,298	3.23
	Sara Lee	583	10,662	5.44
	Procter & Gamble	3,323	21,853	15.19
	Gillette	612	3,448	17.73
	Estée Lauder	906	2,953	30.71
	L'Oréal	1,239	4,318	28.53
	JCPenney	1,025	17,786	5.73
	Home Depot	1,150	64,816	1.77
	Wal-Mart	678	208,757	.032

Source: Ad Age, Special Report: "U.S. Company Revenue Per 2003 Advertising Dollar," *Advertising Age*, June 28, 2004, 5-10.

Advertising spending as a proportion of sales in selected industries, 2003 (U.S. dollars in millions).

product or service means to consumers in a nonliteral way. For example, branded clothing such as Guess? jeans or Doc Martens shoes can symbolize self-concept for some consumers. Exhibit 1.38 shows an example of an ad seeking to create symbolic value for Ray-Ban sunglasses. In reality, all branded products rely to some extent on symbolic value; otherwise they would not be brands, but just unmarked commodities (like potatoes).

Social meaning refers to what a product or service means in a societal context. For example, social class is marked by any number of products used and displayed to



Advertising contributes to the symbolic value that brands have for consumers. What is it about the ad for Ray-Ban sunglasses in Exhibit 1.38 that contributes to the symbolic value of this brand? <http://www.ray-ban.com>



Ads communicate social meaning to consumers, as a product or service carries meaning in a societal context beyond its use or purpose. This ad for United Airlines puts the company's service into such a context. <http://www.ual.com>

signify class membership, such as cars, beverages, and clothes. Exhibit 1.39 shows an ad for a service with clear social-class connections. Often, the product's connection to a social class addresses a need within consumers to move up in class.

Researchers from various disciplines have long argued that objects (brands included) are never just objects. They take on meaning from culture, society, and consumers.²⁹ It is important to remember that these meanings often become just as much a part of the brand as the physical features. Since advertising is an essential way in which the image of a brand is developed, it contributes directly to consumers' perception of the value of the brand. The more value consumers see in a brand, the more they are willing to pay to acquire the brand. If the image of a Gucci watch, a Nissan coupe, or a Four Seasons hotel is valued by consumers, then consumers will pay a premium to acquire that value. Waterford crystal and Gucci watches, shown in Exhibits 1.40 and 1.41, are examples of brands that consumers pay a premium to own.

5 From Advertising to Integrated Marketing Communications to Integrated Brand Promotion.

As we discussed in the section on advertising's role in the marketing mix, it is important to recognize that advertising is only one of many promotional tools available to impress and persuade consumers. Now realize that it is not always even the *main* choice of some companies, because in many situations another tool, such as targeted e-mail, event

29. For an historical perspective on culture, consumers, and the meaning of goods, see Ernest Dichter, *Handbook of Consumer Motivations* (New York: McGraw-Hill, 1964), 6. For a contemporary view, see David Glenn Mic and Claus Buhl, "A Meaning-Based Model of Advertising Experiences," *Journal of Consumer Research*, vol. 19 (December 1992), 312-338.



EXHIBITS I.40 AND I.41

Waterford crystal and Gucci watches are two advertised products that consumers will pay premium prices to own. Both products have value in that they epitomize the highest levels of quality craftsmanship. Such craftsmanship, in itself, may not be enough to command premium prices in the marketplace. Advertising that creates an image of exclusivity may also be needed. In what way does the Gucci site (<http://www.gucci.com>) contribute directly to consumers' perceptions of a brand's value? Compare this site to Waterford's site (<http://www.waterford.com>) and determine which communicates its brand's social meaning more effectively.

sponsorship, or direct mail, is better suited to the task at hand (see the IBP box). For example, R. J. Reynolds Tobacco announced in September of 2003 that it would cease advertising two of its widely known brands, Winston and Doral, and focus instead on targeted e-mail to adult smokers and on pricing strategies.³⁰

Another example is McDonald's. McDonald's spends over \$1.3 billion a year in advertising.³¹ But the firm also spends tens of millions of dollars a year on a wide range of promotions that include movie tie-in premiums featuring Disney Princesses and Power Rangers and event sponsorships like the 19-city Justin Timberlake European concert tour.

Beginning in about 1990, the concept of mixing various promotional tools has generally been referred to as integrated marketing communications.³² **Integrated marketing communications (IMC)** is the process of using promotional tools in a unified way so that a synergistic communication effect is created. But as the discussion earlier in the chapter highlighted, the current thinking is that the emphasis on *communication* has given way to an emphasis on the *brand*. The result is a recent evolution from an integrated marketing communications perspective to an integrated brand promotion perspective.

30. R.J. Reynolds Tobacco, "RJR Announces Restructuring Plan and Workforce Reduction; Revises Full-Year Earnings Guidance," press release available at http://www.rjrholdings.com/Investors/financials_othersview.asp?docID'425, accessed December 19, 2003.

31. "100 Leading National Advertisers," *Advertising Age*, June 28, 2004, S2.

32. Don E. Schultz, Stanley Tannenbaum, and Robert Lauterborn, *Integrated Marketing Communications* (Lincolnwood, Ill.: NTC Books, 1993).

Advertising and IBP: An ROI Perspective

All in all, you have to believe that advertising is a highly respected and trusted tool by marketers. After all, several organizations like General Motors, Procter & Gamble, and AOL spend over \$2 billion a year on advertising. And what other way is there to reach hundreds of millions of people at the same time, not to mention all the beauty and drama you can create with advertising?

Well, while all that may be true, another perspective on advertising, return on investment (ROI), shows that a majority of marketers are not all that thrilled with advertising. A survey of marketing professionals showed that 26 percent thought that media advertising was the worst marketing tool for providing return on investment. Media advertising was followed by public relations (25 percent) and product placement (13 percent) as the next worst for providing return on investment. The best integrated brand promotion (IBP) tools for maximizing ROI turned out to be direct marketing, sales promotion, and coupons.

Before we jump to any conclusions that advertising is dead and will be totally replaced by other IBP tools, this survey is an excellent demonstration of the power of advertising versus the power of advertising tools—an issue that will be raised and discussed throughout the book. ROI is defined by the vast majority of survey respondents as sales or market share. The truth is that advertising and especially media advertising is not particularly easy to track relative to those definitions of ROI. Note that the most highly rated IBP tools—direct marketing, sales promotion, and coupons—are relatively easy to trace directly to sales.

So if marketing professionals do not like advertising from an ROI perspective, then why do they spend billions of dollars each year on advertising? There is a relatively straightforward answer: advertising does what no other IBP tool can do—it helps create an image and a position for a brand. You will learn throughout this text that advertising is powerful and useful but is very difficult to track. It can create a very special place in the mind of the consumer. Can you tell when or how this effect turns into a sale? Probably not. So despite the frustration with advertising from an ROI perspective, organizations will continue to invest heavily in this most ethereal of all communication tools.

Sources: Ad Age Special Report, "100 Leading National Advertisers," June 23, 2003, S2; Judann Pollack, "Marketers Slap Network TV in Survey on ROI," *Advertising Age*, October 13, 2003, 1, 66.

Recall from the definition earlier in the chapter that integrated brand promotion (IBP) is the use of various communication tools, including advertising, in a coordinated manner to build and maintain brand awareness, identity, and preference. The distinction between IBP and IMC is pretty obvious. IMC emphasizes the communication effort, per se, and the need for coordinated and synergistic messages. IBP retains the emphasis on coordination and synergy, but goes beyond the parameters of IMC. In integrated brand promotion, the emphasis is on the brand and not just the communication. With a focus on building brand awareness, identity, and ultimately preference, the IBP perspective recognizes that coordinated promotional messages need to have brand-building effects and not just communication effects.

Because of the growing importance of IBP to the advertising industry, IBP issues are raised throughout this book as it relates to various topics in advertising strategy and execution. In addition, each chapter has special IBP boxes that highlight the strategy and coordination challenges of every aspect of advertising. In addition, five distinct sections of this book are devoted to a rich case history that features a real-life application of IBP. These five sections conclude each of the major parts of the book, parallel the emphasis of the text, and feature the complete story of the application of IBP concepts by Cincinnati Bell in its marketing of a new, wireless phone service:

Part 1—Cincinnati Bell Wireless:
From IMC to IBP

Part 2—Cincinnati Bell Wireless:

Planning Advertising and Integrated Brand Promotion

Part 3—Cincinnati Bell Wireless: Preparing Advertising and Integrated Brand Promotion

Part 4—Cincinnati Bell Wireless: The Launch Campaign

Part 5—Cincinnati Bell Wireless: Sustaining and Growing the Brand after Launch

These special IBP sections are easy to find because each begins with the distinctive color scheme that designates our Cincinnati Bell Wireless case. These sections focus on the real-world challenges faced by Cincinnati Bell during the planning, development, and execution of nearly two years of brand-building activity for Cincinnati

ETHICS

Corporate scandals are pretty common lately.

Steroids, corked bats, and bad lip sync on SNL.

Even the sacrosanct *News York Times* got caught printing the fabricated stories of one of its reporters.

Does everybody cheat now?

Does everyone look in the camera and lie?

In this environment, the advertising industry is starting to look pretty good. Everyone knows ads try to put things in the best light, that they are trying to sell something.

Advertising has always been confronted with charges of poor ethical behavior. The criticisms range from fair to absurd, from justified and valid to shrill hyperbole and whiny victimhood.

So, when you think about the ethics of advertising, of doing the right thing, give it some thought.

The Ethics boxes you will see throughout the text are designed to get you think about this, and not just react. Hopefully, you will become more informed, knowledgeable, and sophisticated in your thinking about advertising, and you may change your mind a time or two over the course of reading our book.

Think about this:

"80% of American companies have a written Code of Ethics. And probably 100% of you do too, if you gave it some thought and wrote it down. Ethics happen, or don't, in our relationships with others. Advertisers are in the business of communicating with thousands, even millions, of 'others' all the time. That gives us thousands or millions of chances to practice what we believe every day. And try to get it right."

—Chris Moore, Ogilvy and Mather Advertising

Source: "Ethics in Advertising," Advertising Education Foundation, http://www.aef.com/05/speaker_pres/data/3001.

Bell Wireless. Cincinnati Bell, and its advertising agency, Northlich, have generously provided their advertising and other brand promotion materials for use in this text. We believe that IBP is an important enough consideration in contemporary communications and promotion that its role alongside the advertising effort deserves comprehensive assessment. The materials and expertise gained in working with our corporate partners allow us to provide a comprehensive case history that offers a truly unique learning opportunity on the forefront of advertising and integrated brand promotion.

Know what advertising and integrated brand promotion are and what they can do.

Since advertising has become so pervasive, it would be reasonable to expect that you might have your own working definition for this critical term. But an informed perspective on advertising goes beyond what is obvious and can be seen on a daily basis. Advertising is distinctive and recognizable as a form of communication by its three essential elements: its paid sponsorship, its use of mass media, and its intent to persuade. An advertisement is a specific message that an advertiser has placed to persuade an audience. An advertising campaign is a series of ads and other promotional efforts with a common theme also placed to persuade an audience over a specified period of time. Integrated brand promotion (IBP) is the use of many promotional tools, including advertising, in a coordinated manner to build and maintain brand awareness, identity, and preference.

Discuss a basic model of advertising communication.

Advertising cannot be effective unless some form of communication takes place between the advertiser and the audience. But advertising is about mass communication. There are many models that might be used to help explain how advertising works or does not work as a communication platform. The model introduced in this chapter features basic considerations such as the message-production process versus the message-reception process, and this model says that consumers create their own meanings when they interpret advertisements.

Describe the different ways of classifying audiences for advertising.

While it is possible to provide a simple and clear definition of what advertising is, it is also true that advertising takes many forms and serves different purposes from one application to another. One way to appreciate the complexity and diversity of advertising is to classify it by audience category or by geographic focus. For example, advertising might be directed at households or government officials. Using another perspective, it can be global or local in its focus.

Explain the key roles of advertising as a business process.

Many different types of organizations use advertising to achieve their business purposes. For major multinational corporations, such as Procter & Gamble, and for smaller, more localized businesses, such as the San Diego Zoo, advertising is one part of a critical business process known as marketing. Advertising is one element of the marketing mix; the other key elements are the firm's products, their prices, and the distribution network. Advertising must work in conjunction with these other marketing mix elements if the organization's marketing objectives are to be achieved. It is important to recognize that of all the roles played by advertising in the marketing process, none is more important than contributing to building brand awareness and brand equity. Similarly, firms have turned to more diverse methods of communication beyond advertising that we have referred to as integrated brand promotion. That is, firms are using communication tools such as public relations, sponsorship, direct marketing, and sales promotion along with advertising to achieve communication goals.

Understand the concept of integrated brand promotion (IBP) and the role advertising plays in the process.

Integrated brand promotion (IBP) is the use of various promotional tools like event sponsorship, the Internet, public relations, and personal selling, along with advertising, in a coordinated manner to build and maintain brand awareness, identity, and preference. When marketers use advertising in conjunction with other promotional tools, they create an integrated brand promotion that highlights brand features and value. Note that the word *coordinated* is central to this definition. Over the past 30 years, the advertising and promotion industry has evolved to recognize that integration and coordination of promotional elements is key to effective communication and lasting brand identity.

KEY TERMS

advertising	national advertising	internal position
client, or sponsor	regional advertising	economies of scale
advertisement	local advertising	inelasticity of demand
advertising campaign	cooperative advertising, or co-op advertising	primary demand stimulation
integrated brand promotion (IBP)	marketing	selective demand stimulation
audience	marketing mix	direct response advertising
target audience	brand	delayed response advertising
household consumers	brand extension	corporate advertising
members of business organizations	brand loyalty	brand advertising
members of a trade channel	brand equity	gross domestic product (GDP)
professionals	market segmentation	value
trade journals	differentiation	symbolic value
government officials and employees	positioning	social meaning
global advertising	external position	integrated marketing communications (IMC)
international advertising		

QUESTIONS

1. Why do you think people will pay a premium price for bottled water when water from the tap is free? What is *symbolic value*, and how might it relate to the bottled-water phenomenon discussed at the opening of the chapter?
2. What does it mean when we say that advertising is intended to persuade? How do different ads persuade in different ways?
3. Explain the differences between regional advertising, local advertising, and cooperative advertising. What would you look for in an ad to identify it as a cooperative ad?
4. How do the goals of direct response and delayed response advertising differ? How would you explain marketers' growing interest in direct response advertising?
5. Differentiate between global advertising and international advertising. Do you think consumers in foreign markets would feel the same rock 'n' roll nostalgia for GM's Led Zeppelin-fueled Cadillac commercials as do American consumers? Why or why not?
6. Give an example of an advertising campaign that you know has been running for more than one year. Why do some advertising campaigns last for years, whereas others come and go in a matter of months?
7. If a firm developed a new line of athletic shoes, priced them competitively, and distributed them in appropriate retail shops, would there be any need for advertising? Is advertising really needed for a good product that is priced right?
8. Many companies now spend millions of dollars to sponsor and have their names associated with events such as stock-car races or rock concerts. Do these event sponsorships fit the definition for advertising given in this chapter?
9. How does the process of market segmentation lead an organization to spend its advertising dollars more efficiently and more effectively?
10. What is the concept of integrated brand promotion (IBP)? How are IBP and advertising related?

ESSENTIAL EXERCISES

1. In this chapter, audiences for advertising were divided into five broad audience categories. For each, find one ad that appears to be targeted to members of that audience. Analyze the message and style of each ad and determine whether the message seems effective, given the intended audience category. Why was the ad effective or ineffective? Did you have difficulty locating ads for any specific audience category? If so, explain why you think that might have occurred and what it reveals about the nature and methods of advertising to that audience category.

2. Very few advertisements or brands have the same appeal to all consumers worldwide. (Think about GM's decision to beef up Cadillac's image with rock 'n' roll from Led Zeppelin; how would that have gone over in foreign markets?) Advertisers must therefore strategically place ads based on geographic regions. List four favorite products or brands that you use in your everyday life. For each, decide whether it is appropriate to advertise the product at the global, international, national, regional, local, or cooperative level. Explain your answer.

ESSENTIAL EXERCISES

1-1 What Is Advertising?

As a part of a settlement between the tobacco industry and attorneys general in 46 states, the Truth campaign is dedicated to distributing facts about the harmful effects of tobacco use, especially among young people. Run by the nonprofit American Legacy Foundation, the campaign gets its message out through TV, radio, magazines, and the Internet in the hopes of preventing the spread of tobacco use among its target audience while encouraging higher ethical standards for tobacco advertisers.

Truth: <http://www.thetruth.com>

1. Browse around the Truth Web site and describe its features. What audience category does the Truth campaign appear to be targeting?
2. What criteria need to be met for the Truth campaign to be considered advertising? Based on these criteria, should this campaign be classified as advertising?
3. Do you think the Truth campaign as it is presented on the Web site is effective? Explain your position.

1-2 Advertising as a Business Process

The wireless revolution is bringing about a whole new communications network based on computing devices that keep people connected to their work and lifestyle from almost any location. The race to supply consumers with instant e-mail and Internet access on handheld devices has increased the importance of advertising in the overall marketing and brand promotion programs of wireless-product manufacturers.

palmOne: <http://www.palmone.com/us>

1. What is a brand? Give reasons why the Palm brand name is so significant to the successful marketing of the company's computing products.
2. Using the text, list one of the ways advertising affects brand development and management, and give an example of how the palmOne site accomplishes this.
3. Explain how the term *value* relates to the popularity of wireless computing products among your peer groups. Use the concepts of *symbolic value* and *social meaning* in your answer.

Introductory Scenario: Who's In Charge Here? To say that there is a power struggle going on in the advertising industry might be the understatement of the new millennium. The power struggle really started back in 1999. It was about then that traditional advertising agencies were losing business to the new dot.com, interactive, totally hip (at the time) agencies. The big time advertising shops watched client after client be won over by the (over-)confident, techno-savvy, new era competitors. Well, the dot.com agencies got blown up in the dot.bomb explosion (implosion) of 2001–2002. So you would think that things must have returned to normal by now: dominance by the traditional big Madison Avenue (New York) and Wacker Drive (Chicago) agencies calling the shots. Not quite.

A whole new struggle has emerged in the advertising industry, and its roots go deep to the core of the structure of the industry. By the middle of 2002, the massive consolidation taking place among big agencies would provide an ideal opportunity for these big global agencies to dictate the way advertising and promotion would be done across the industry. After all, they controlled the majority of the nearly \$500 billion a year that would be spent on media around the world.¹ But it hasn't worked out that way.

What has happened in the industry is that other players, beyond the agencies, have started to exert their own power and control. Not surprisingly, those other players are consumers and the advertisers themselves. After all, it is *their* money that ends up paying for advertising and, therefore, giving the big agencies their revenue.

But let's explore what's going on. First, from the consumer side. With the large number of media options available for news, information, and entertainment, media fragmentation is a boon to consumers and a huge headache for advertising agencies. The new generation of consumers are behaving very differently from the cable-TV generation that preceded them. This new generation of media users is insisting on the convenience and appeal (and control) of their PC, iPod, and TiVo.² The irony of the control that consumers are starting to exert is that it will make product branding even *more* important as consumers choose what and where they want to be exposed to persuasive messages. Again, the importance of the brand in advertising and promotion was a key theme in Chapter 1. And advertising agencies are struggling with just how to insert themselves and their clients' brands into this new environment controlled by the consumer. Some think better creative is the answer. Other advertisers, like Coca-Cola, feel that a much more radical solution is necessary. They believe that consumers will no longer tolerate passive television or magazine ads. Rather, the brand is going to have to become part of their daily lives in ways advertisers are only now trying to figure out. Part of Coke's approach: pay \$20 million to have Coke cups on the desks of the judges during Fox Network's *American Idol* programming.³ (See Exhibit 2.1.) More on this in Chapter 5 when we look at advertising and consumer behavior.

Now, let's consider the advertisers and their influence over the big advertising agencies. A wide range of changes are occurring and all of them end up hurting the bottom line of the agencies. First, advertisers are carefully scrutinizing their results and switching agencies with little hesitation. A case in point is the \$110 million Tylenol account that Saatchi & Saatchi advertising held for nearly 30 years. As sales in the analgesic market flattened, Johnson & Johnson's McNeil division, makers of Tylenol, not only unceremoniously dumped Saatchi & Saatchi from the Tylenol account, but then proceeded to relieve the agency of another \$85 million in annual billings.⁴ Ouch! But the shake-up seemed to start to pay off almost immediately. The

1. Stuart Elliot, "Advertising's Big Four: It's Their World Now," *New York Times*, March 21, 2002, Section 3, pp. 1, 10, 11.
2. Martin Nisenholtz, "Control Shift Is Here," *Advertising Age*, December 15, 2003, 20.
3. Dean Foust and Brian Grow, "Coke: Wooing the TiVo Generation," *BusinessWeek*, March 1, 2004, 77–78.
4. Rich Thomaselli, "IPG Agencies Gun for Tylenol," *Advertising Age*, September 22, 2003, 1; *Advertising Age* Late News insert, "Incumbent Saatchi cut in \$110 Million Tylenol review," *Advertising Age*, November 17, 2003, 1; Lisa Sanders and Rich Thomaselli, "J & J Yanks \$85 million from Saatchi," *Advertising Age*, November 24, 2003, 1.



EXHIBIT 2.1

Big advertisers like Coca-Cola (which used to spend about \$200 million a year on television advertising) realize that a large portion of the consumer market is gaining more and more control over their exposure to commercial messages like advertising. TiVo and other new technologies are allowing consumers to choose how and when they view such messages. In response, big advertisers are looking at more and varied ways to reach consumers and have their brands become more a part of consumers' lifestyles through promotional techniques like placing products within television shows and event sponsorships. <http://www.cocacola.com>

big agencies "flabby organizations that have become more revenue models than consumer solutions models."⁷ Double ouch! The exertion of this sort of control over agencies by clients is having an almost immediate and painful effect. In 2003, Interpublic Group (New York) posted a single-quarter loss of \$327 million. Similarly, the Havas agency (Suresnes, France) posted a \$64 million revenue decline and cut 850 jobs.⁸

This sort of change in the advertising industry is nothing new, as the section to follow highlights. But the pace of change and the complexity of the issues may be more challenging than any the industry has ever faced. We'll spend our time in this chapter considering the structure in the industry and all the "players" that are creating and being affected by change.

The Advertising Industry in Constant Transition. The introductory scenario gives some examples of the deep and complex changes affecting the advertising industry. To say that the advertising industry is in constant transition might seem like an exaggeration, but it's not. If you consider changes in technology, economic conditions, culture, lifestyles, and business philosophies, one or more of these broad business and societal forces is always affecting the advertising and promotion effort. Aside from all these broad-based influences, we have to consider change in industry itself as the introductory scenario revealed.

This chapter highlights how the industry is changing now and has changed over time. But before we look at change and its effects, we first need to realize that the fundamental *process* of advertising and the role it plays in organizations remains steadfastly rooted in persuasive communications directed at target audiences—no matter what is happening with technology, economic conditions, society, or business philosophies. The underlying role and purpose of advertising and promotion has not changed and will not change.

To appreciate the way the advertising industry is in a state of constant transition and the level of complexity that transition can reach, it is necessary to appreciate that

5. Rich Thomaselli, "Tylenol Remedy Sees Results," *Advertising Age*, February 9, 2004, 3, 51.
6. Alice Z. Cuneo and Lisa Sanders, "Verizon Wireless Puts \$315 Mil in Play," *Advertising Age*, January 12, 2004, 1.
7. Lisa Sanders and Jean Halliday, "GM Hammers Agency Costs," *Advertising Age*, November 17, 2003.
8. Laurel Wentz, "Havas to Cut 850 Jobs in Restructuring," *Advertising Age*, September 22, 2003, 3; Mercedes M. Cardona, "Interpublic's \$327 Mil Loss Highlights Messy Situation," *Advertising Age*, November 17, 2003, 8.

next year Tylenol sales reversed their downward trend.⁵ Saatchi's problems and treatment by one of its biggest clients are not unique. Verizon, the wireless services giant, put \$315 million of its \$828 million advertising budget up for agency competition, saying flatly that "We are not completely satisfied with what we have received from IPG [Interpublic Group]."⁶ In a slightly different demonstration of client control, General Motors Corporation (the largest advertiser in the world; see Exhibit 2.3) asked all of its agencies to define overhead costs using standardized components so the corporation could make judgments about the efficiency of its many supplier agencies. C. J. Fraleigh, GM's executive director of corporate advertising and marketing, called the

advertising is an industry with great breadth and intricacy due to the fact that it is a communications process and therefore a communications industry. We will turn our attention to that issue now—understanding how advertising and other promotional tools are managed in a communications industry and how that effort is managed in a state of constant transition. First, we'll look at advertising as a fairly well-structured communications industry. Then, we'll consider all the different participants in the process, particularly the advertisers and their advertising agencies and the role they play in creating and executing advertising and integrated brand promotions.

i Trends Affecting the Advertising and Promotion Industry.

Often advertisers struggle with whether to use traditional mass media, like television and radio, that have wide reach. Or whether they should use newer, highly targeted media like personalized e-mail, Web films, or other forms of promotion. But in the end what is important is not the Web or the new opportunities that technology has to offer, but rather the critical need to focus on the brand, its image, and a persuasive, integrated presentation of that brand to the target market. It might be the Web, it might not. It might be television, it might not. The point is that the right medium needs to be used to achieve the right persuasive impact.

To understand the change that is affecting the advertising and promotion industry and the use of promotional tools, let's consider four broad trends in the marketplace.

The “Undoing” of Agency Consolidation and Globalization? As the introductory scenario alluded to, the advertising industry went through a period of extreme consolidation from 1999 through 2002. Full-service agencies acquired and merged with other full-service agencies and interactive shops. One such merger sequence began when Leo Burnett (the long-standing Chicago-based full-service agency) merged with the MacManus group to create a \$1.7 billion-a-year agency known as Bcom3 Group, with 500 operating units in 90 countries and 16,000 employees.⁹ Adding globalization to that merger, the Japanese agency Dentsu took a partnership position in the agreement as well. Then, two years later, the Paris-based global agency Publicis bought up the whole Bcom3 set. Another global agency, Interpublic Group, acquired more than 300 agencies from 1998 through 2002 at a cost of over \$5 billion. It is fair to say that the advertising industry is now dominated by four giant, global agency groups: Publicis Groupe (Paris), Omnicom Group (New York), Interpublic Group (New York), and WPP Group (London).

But while this all consolidation and globalization provided an enormous array of services to clients, it has created problems as well. First, not all clients were impressed with the giant agencies. In a survey of nearly 300 major companies, only 43 percent said that it was “very important” to have a single agency offer fully integrated services. They felt they would be missing out on the creativity that small shops can offer through the specialization of services.¹⁰ And, when agencies get very large, there are inevitably conflicts of interest when trying to go after new business because the potential new client is in the same business as an existing client. Too, bigger has not always meant better or more profitable. Interpublic's buying binge has not increased its net income, yet it has created crushing debt and made the agency unwieldy. Analysts are now saying that these big agencies need to consolidate, get rid of money-losing operations, and turn what's left “loose to pursue their own clients.”¹¹

9. Laura Petrecca and Hillary Chura, “Merged Leo-MacManus Could Be Valued at \$5 Billion,” *Advertising Age*, November 8, 1999, 3.

10. Hillary Chura, “Marketers: One-Stop Shops Could Compromise Creative,” *Advertising Age*, June 16, 2003, 6.

11. Gerry Khermouch, “Interpublic Group: Synergy—or Sinkhole,” *BusinessWeek*, April 21, 2003, 76–77.

EXHIBIT 2.2

The proliferation of media alternatives has caused media fragmentation in the advertising and promotion industry. One effect of this change is that new specialized media organizations have emerged to sell and manage new media options. DoubleClick, one of these new media companies, manages targeted e-mail messages. <http://www.doubleclick.net>

restrictions, ending a ban on the joint ownership of a newspaper and broadcast station in a city.¹²

It is too soon to know what the effects of this new ruling will be. What we do know is that media companies tend to pursue more and more “properties” if they are allowed to. Consider the evolution of newspaper, satellite, and cable systems giant News Corp. The company’s worldwide media holdings company generates \$30 billion in revenue and reaches every corner of the earth.¹³ And the Web has its own media conglomerate. InterActiveCorp (IAC) has amassed a media empire of Internet sites that is as diverse as it is successful. The holdings include Expedia, Hotels.com, Ticketmaster, Hotwire.com, and Lending Tree. Together, these sites generate about \$6.2 billion in revenue, which makes IAC much bigger than better-known Internet merchants like eBay and Amazon.com.¹⁴ In turn, the evolution of media options has spawned new specialized agencies to sell and manage these new media opportunities (see Exhibit 2.2). But fragmentation is only one aspect of the media evolution.

Media Clutter and Fragmentation. While the media industry may be consolidating into fewer and fewer large firms with more control, that does not mean that there are fewer media options. Quite the contrary is true. There are more ways to *try* to reach consumers than ever before. In 1994 the consumer had access to about 27 television channels. Today, the average U.S. household has access to about 100 channels. In

It is unlikely that the giant agencies will dismantle all they have created. Some advertising clients are pleased to be able to consolidate all their integrated brand promotion (IBP) needs with one shop. But there is enough burden on the agencies from debt and conflict of interest that some unconsolidation will most certainly take place.

Media Proliferation and Consolidation.

The proliferation of cable television, direct marketing technology, Web options, and alternative new media has caused a proliferation of media options. And while agency consolidation may be turning around, media consolidation may just be starting. Control of media has always been a driving force behind many media companies. But there has always been a legal barrier to just how much control any one media company could acquire. Well, in 2003, the Federal Communications Commission (FCC) relaxed a decades-old rule that had restricted media ownership. Now a single company can own television stations that reach up to 45 percent of U.S. households—up from the 35 percent specified in the old rule. In addition, the FCC also voted to lift all “cross-ownership”

12. David Ho, “FCC Votes to Ease Media Ownership Rules,” *Washington Post*, available at <http://news.yahoo.com>, accessed on June 2, 2003.

13. Ronald Grover and Tom Lowry, “Rupert’s World,” *BusinessWeek*, January 19, 2004, 52–62.

14. Timothy J. Mullaney and Ronald Grover, “The Web Mogul,” *BusinessWeek*, October 13, 2003, 62–70.

1995, it took three well-placed TV spots to reach 80 percent of women television viewers. By 2003, it took 97 spots to reach them!¹⁵ From television ads to billboards to banner ads on the Internet, these new and increased media options have resulted in so much clutter that the probability of any one advertisement breaking through and making a real difference continues to diminish. Advertisers are developing a lack of faith in advertising alone, so promotion options such as online communication, brand placement in film and television, point-of-purchase displays, and sponsorships are more attractive to advertisers. For example, advertisers on the Super Bowl, notorious for its clutter and outrageous ad prices (about \$2.5 million to \$3 million for a 30-second spot), have turned instead to promotional tie-ins to enhance the effect of the advertising. To combat the clutter and expense at one Super Bowl, Miller Brewing distributed thousands of inflatable Miller Lite chairs by game day. The chairs were a tie-in with a national advertising campaign that began during the regular season before the Super Bowl.¹⁶

Given the backlash against advertising that clutter can cause, advertisers and their agencies are rethinking the way they try to communicate with consumers. Fundamentally, there is a greater focus on integrating more tools within the overall promotional effort in an attempt to reach more consumers in more different ways. As an example, just consider the kind of communication *plus* distribution channels that have emerged in the context of e-commerce. These new communication/distribution links include catalogs, TV shopping networks, and especially the online shopping and interactive television cited earlier. Consumers do not just want a communications experience; they are now expressing a desire for a *commerce* experience.¹⁷ This topic is covered in detail in Chapter 17.

Advertisers are looking to the full complement of promotional opportunities in sales promotions (like the Miller chairs), event sponsorships, new media options, and public relations as means to support and enhance the primary advertising effort for brands. In fact, some advertisers are enlisting the help of Hollywood talent agencies in an effort to get their brands featured in television programs and films. The payoff for strategic placement in a film or television show can be huge. For example, getting Coca-Cola placed on *American Idol* is estimated to be worth up to \$20 million in traditional media advertising.¹⁸ This topic is covered in Chapter 17 when we consider branded entertainment in detail. The IBP box highlights how several firms in the luxury brand market are using public relations and brand placements in celebrity settings to grow brand visibility by using tools beyond mass media.

Consumer Control: From Blogs to TiVo. Historically, advertisers controlled information and the flow of information as a one-way communication through mass media. But, as the introductory scenario highlights, consumers are now in greater control of the information they receive about product categories and the brands within those categories. The simplest and most obvious example is when consumers log on to the Internet and visit sites they choose to visit for either information or shopping. But it gets a lot more complicated from there. The emergence of **blogs**, Web sites frequented by individuals with common interest where they can post facts, opinions, and personal experiences, are emerging as new and sophisticated sources of product and brand information. Once criticized as the “ephemeral scribble” of 13-year-old girls and the babble of techno-geeks, blogs are gaining greater sophistication and

15. Matthew Boyle, “Brand Killers,” *Fortune*, April 11, 2003, 89–100.

16. Betsy Spethmann, “Pre-Game Warmups,” *PROMO Magazine*, December 2000, 33–34; Bruce Horowitz, “Gee-Whiz Effects Make Super Bowl Ads Super Special,” *USA Today*, January 30, 2004, B1–B2.

17. Lauren Barack, “Chia’s New Day,” *Business 2.0*, December 1999, 130–132.

18. Betsy Streisand, “Why Great American Brands Are Doing Lunch,” *Business 2.0*, September 2003, 146–150.

organization. Web-based service firms like Blogline, Feedster, and Blogger are making blogs easier to use and accessible to the masses.¹⁹

IBP

See the Brand, Join the Club

Most advertisers have embraced the concept that a wide range of promotional tools is essential for reaching target markets and positively affecting brand awareness and image. But few advertisers have needed the full range of integrated brand promotion (IBP) strategies as much as luxury brand marketers, who need not only to maintain brand awareness but also to protect their brands from counterfeit brands. Knockoffs of luxury brands like Gucci, Hermes, and Rolex continue to be a problem. In the summer of 2000, Power Beads became a nationwide craze. The bead bracelet from New York design firm Stella Pace was the must-have accessory for the fashion conscious. But Zoe Metro, who conceived the bead designs and founded the company, lamented, "I've been a case study for these knockoffs." While the real thing, made from semi-precious stones, sold for \$35 in upscale jewelry stores, knockoffs of the Power Beads were showing up in discount stores for as little as \$5.

The answer to the knockoff problem? Experts say that the only solution is to continue to make the brand itself, not the object, the thing consumers covet. That, the experts continue, requires advertising plus a heavy investment in public relations, merchandising, and brand placements. The president of a brand consulting firm in New York argues, "There's a three dimensionality that builds these brands. It's not just advertising. Everything builds the brand from the advertising to the store experience to the Web site." The vice president of marketing for Louis Vuitton adds, "It's a top-to-bottom brand concept. PR is very important in helping these brands establish themselves. People are always trying to place their products in the right programs and with the right people because it adds validity to the brand." Metro credits the original success of Power Beads to celebrity plugs and coverage of the brand's popularity in the fashion media.

The formula of advertising plus IBP strategies must be working for these luxury brand marketers. Despite the aggressiveness of the counterfeiters, Interbrand research found that luxury brands like Louis Vuitton and Chanel have been enjoying 30 to 60 percent growth, while Gap and Nike have shown little or no growth in the past few years.

Source: Mercedes M. Cardona, "Trendsetting Brands Combat Knockoffs," *Advertising Age*, August 21, 2000, 20.

Another new and dramatic example of consumer control is the growth of personal video recorders (PVRs), like TiVo, which allow TV viewers to essentially skip broadcast advertising. Analysts expect that the use of PVRs will reduce ad viewership by as much as 30 percent by 2005. That translates into taking approximately \$18 billion out of advertising industry revenue. And advertisers and their agencies can expect that by 2007, approximately one-quarter (27.4 million) of all U.S. television households will have "ad-skipping" capability.²⁰ Advertisers and their agencies will need to adapt to the concept that consumers are gaining greater control over the information they choose to receive. How will they adapt? Creativity is one answer. The more entertaining and informative an ad can be, the more likely consumers will be to want to actually watch the ads. Another technique, less creative but certainly effective, is to run advertising messages along the bottom of the programming. While effective, this method is sure to bring about the wrath of viewers and producers alike.²¹

Big advertisers are quickly recognizing that consumers are taking more and more control of their shopping and consumption experience. Big advertisers like Procter & Gamble have adopted the position that the "Consumer is Boss" and are developing new research methods to deal with this new, more independent, and harder to reach consumer.²² You'll learn more about these research methods in Chapter 7 when we discuss advertising and promotion research.

For years to come, these trends and the changes they effect will force advertisers to think differently about advertising and IBP. Similarly, advertising agencies will need to think about the way they serve their clients and the way communications are delivered to audiences. As you have read already, big spenders such as Procter & Gamble, Miller Brewing, and General Motors are already demanding new and innovative programs to enhance the

19. John Battelle, "Why Blogs Mean Business," *Business 2.0*, January-February 2004, 62.

20. Stephen Baker, "My Son, the Ad-Zapper," *BusinessWeek*, November 10, 2003.

21. Ronald Grover, et. al., "Can Mad Ave Make Zap-Proof Ads?" *BusinessWeek*, February 2, 2004, 36-37.

22. Jim Stengel, keynote address to the AAAA Media Conference and Trade Show, February 12, 2004.

impact of their advertising and promotional dollars. The goal of creating persuasive communication remains intact—attract attention and develop preference for a brand—and so the dynamics of the communications environment and the changes in the structure of the advertising industry are the central topics of this chapter.

2 The Scope and Structure of the Advertising Industry.

To fully appreciate the structure of the advertising industry, let's first consider the size of the advertising industry. Remember from Chapter 1 that the advertising industry is huge: more than \$250 billion spent in the United States alone on various categories of advertising, with nearly \$550 billion spent worldwide. Spending on all forms of promotion exceeds a trillion dollars.²³

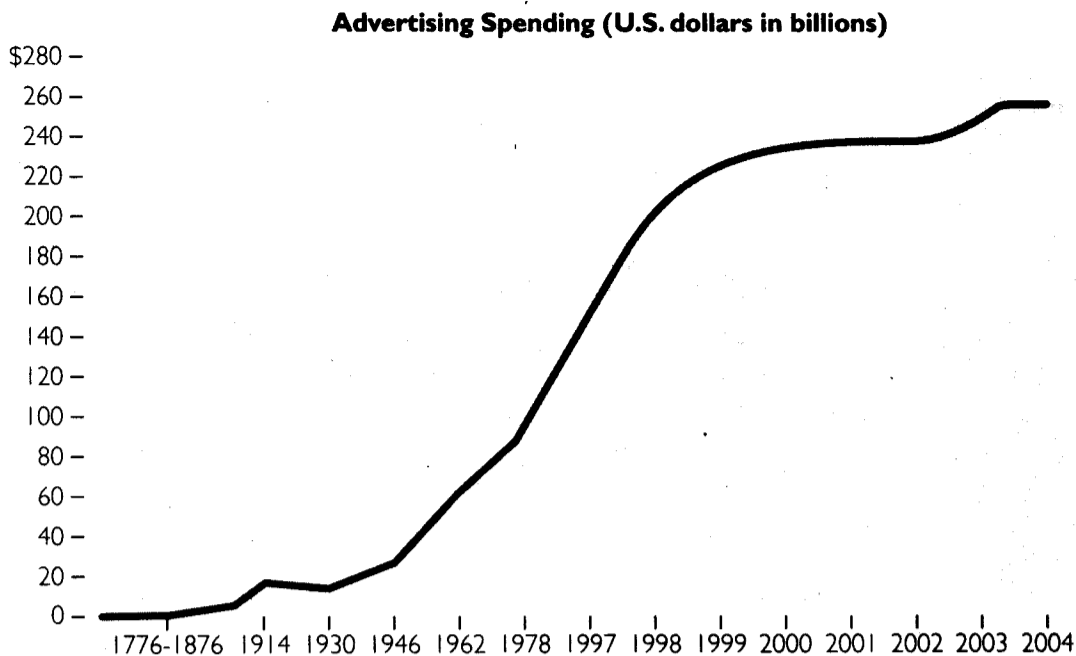
Another indicator of the scope of advertising is the investment made by individual firms. Exhibit 2.3 shows spending for 2003 and 2002 among the top 20 U.S. advertisers. Hundreds of millions of dollars and, in the case of the largest spenders, even billions of dollars is truly a huge amount of money to spend annually on advertising. But we have to realize that the \$3.7 billion spent by General Motors on advertising was just about 2 percent of GM's sales. Similarly, Unilever spent about

The 20 largest advertisers in the United States in 2003 (U.S. dollars in millions).

Company	2003 Ad Dollars (millions)	2002 Ad Dollars (millions)	% Change
General Motors	\$3,429	\$3,652	-6.1%
Procter & Gamble	3,322	2,673	24.3
Time Warner	3,097	2,922	6.0
Pfizer	2,838	2,566	10.6
DaimlerChrysler	2,317	2,031	14.1
Ford Motor Co.	2,233	2,251	-0.8
Walt Disney Co.	2,129	1,803	18.1
Johnson & Johnson	1,995	1,799	10.9
Sony Corp.	1,814	1,621	12.0
Toyota Motor	1,682	1,552	8.4
Verizon Communications	1,674	1,527	9.6
Sears Roebuck & Co.	1,633	1,661	-1.7
General Electric	1,575	1,181	25.4
Glaxo Smith Kline	1,553	1,554	0.0
SBC Communications	1,511	936	38.4
McDonald's	1,368	1,330	2.4
Unilever	1,332	1,640	-18.8
Altria	1,311	1,206	8.7
Nissan	1,300	845	34.6
Merck	1,264	1,158	9.1

Source: "100 Leading National Advertisers," *Advertising Age*, June 28, 2004, S-2.

23. Hillary Chura, "Coen: 2005 Ad Spending Will Increase to \$280 Billion," *Advertising Age*, June 28, 2004, 8.



Source: "100 Leading National Advertisers," *Advertising Age*, annual estimates.

EXHIBIT 2.4

Advertising spending from the founding of the United States into the 21st century.

\$1.6 billion, but this amount represented only about 3.2 percent of its sales. So while the absolute dollars are large, the relative spending is much more modest. Overall, the 100 leading advertisers in the United States spent just over \$90 billion on advertising in 2003, which was a healthy 9 percent increase over 2002.²⁴ Still, there is no doubt that this rapidly increasing spending is related to increased clutter. Advertising may be quickly becoming its own worst enemy. Exhibit 2.4 shows the increase in advertising across the 20th century and into the 21st century.

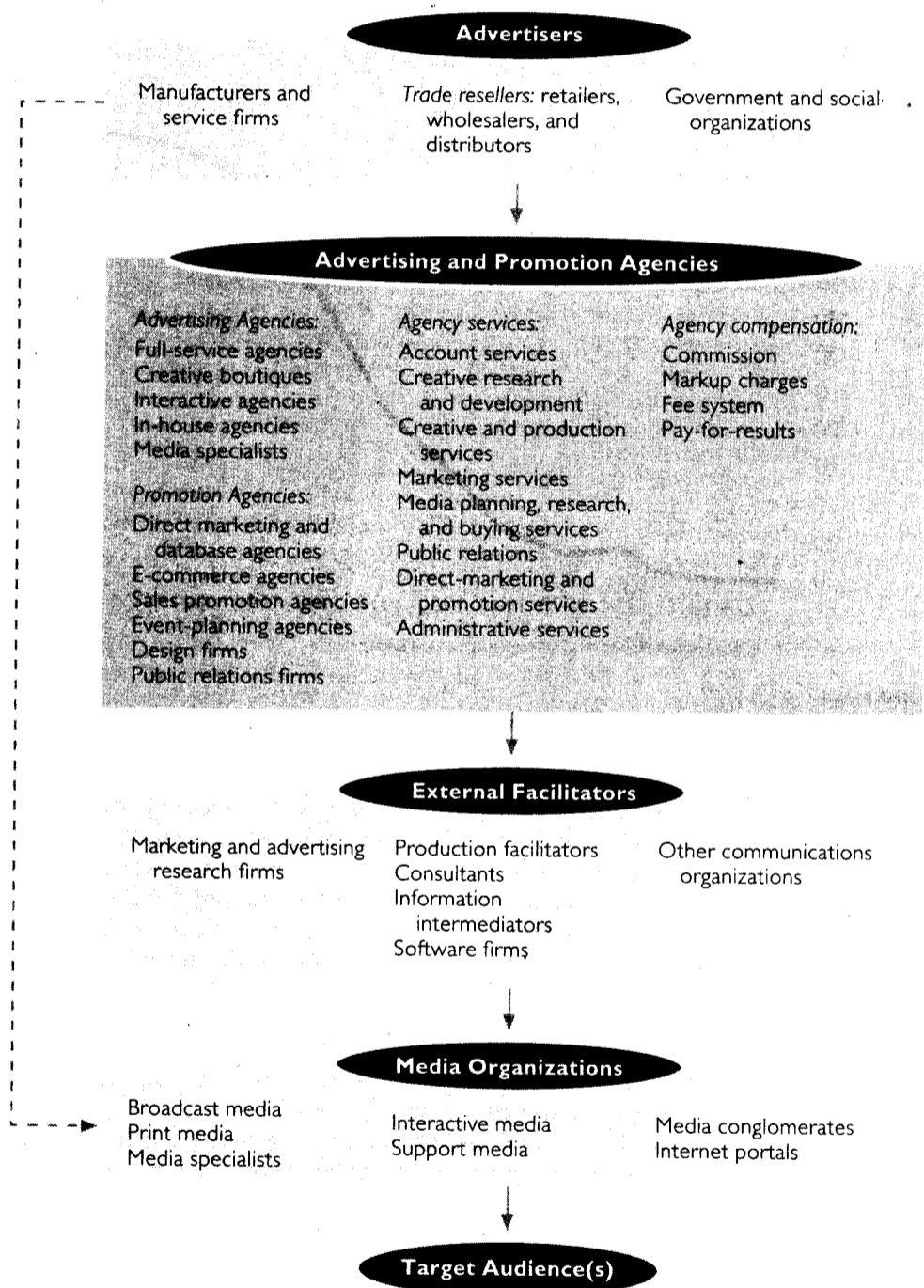
Beyond the scope of spending, the structure of the industry is really the key issue. When we understand the structure of the advertising industry, we know *who* does *what*, *in what order*, during the advertising process. The advertising industry is actually a collection of a wide range of talented people, all of whom have special expertise and perform a wide variety of tasks in planning, preparing, and placing of advertising. Exhibit 2.5 shows the structure of the advertising industry by showing who the different participants are in the process.

Exhibit 2.5 demonstrates that *advertisers* (such as Kellogg) can employ the services of *advertising agencies* (such as Grey Global Group) that may (or may not) contract for specialized services with various *external facilitators* (such as Simmons Market Research Bureau), which results in advertising being transmitted with the help of various *media organizations* (such as the TNT cable network) to one or more *target audiences* (such as you!).

Note the dashed line on the left side of Exhibit 2.5. This line indicates that advertisers do not always employ the services of advertising agencies. Nor do advertisers or agencies always seek the services of external facilitators. Some advertisers deal directly with media organizations for placement of their advertisements or implementation of their promotions. This happens either when an advertiser has an internal advertising/promotions department that prepares all the materials for the process, or when media organizations (especially radio, television, and newspapers) provide technical assistance in the preparation of materials. The new interactive media formats also provide advertisers the opportunity to work directly with entertainment programming firms, such as Walt Disney, Sony, and SFX Entertainment,

24. "100 Leading National Advertisers," *Advertising Age*, June 28, 2004, S1.

EXHIBIT 2.5
Structure of the advertising industry and participants in the process.



to provide integrated programming that features brand placements in films and television programs or at entertainment events. And, as you will see, many of the new media agencies provide the creative and technical assistance advertisers need to implement campaigns through new media.

Each level in the structure of the industry is complex. So let's take a look at each level, with particular emphasis on the nature and activities of agencies. When you need to devise advertising or a fully integrated brand promotion, no source will be more valuable than the advertising or promotion agency you work with. Advertising and promotion agencies provide the essential creative firepower to the process and represent a critical link in the structure.

Advertisers. First in the structure of advertising is the advertisers themselves. From your local pet store to multinational corporations, organizations of all types and sizes seek to benefit from the effects of advertising. **Advertisers** are business, not-for-profit, and government organizations that use advertising and other promotional techniques to communicate with target markets and to stimulate awareness and demand for their brands. Advertisers are also referred to as **clients** by their advertising and promotion agency partners. Different types of advertisers use advertising somewhat differently, depending on the type of product or service they market. The following categories describe the different types of advertisers and the role advertising plays for them.

Station: Technology
 Acc. No.: 2716
 Call No.:

Where Art Meets Power

American IronHorse Motorcycle Company
 Offers the industry's most innovative designs.
 Building each top performing V-twin motorcycle
 by hand to each customer's specifications.

**Six Models, Three Engine Options, Ten Wheel
 Designs and Unlimited Paint Designs**

**Rocky Mountain
 CHOPPERS**
 Boylston, MI

Highway 191, five miles south of Four Corners
 406-763-5010 • rinchoppers.com

EXHIBIT 2.6

Advertising is not reserved for just big companies with national markets like Microsoft or Snapple. Organizations that serve regional and local markets, like Rocky Mountain Choppers, can make effective use of advertising as well.

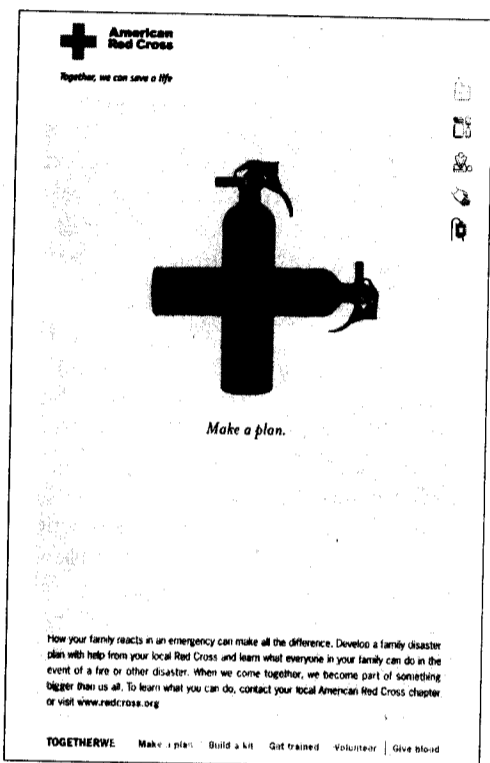
Manufacturers and Service Firms. Large national manufacturers of consumer products and services are the most prominent users of promotion, often spending hundreds of millions of dollars annually. Procter & Gamble, General Foods, MCI, and Merrill Lynch all have national or global markets for their products and services. The use of advertising, particularly mass media advertising, by these firms is essential to creating awareness and preference for their brands. But advertising is useful not

just to national or multinational firms; regional and local producers of household goods and services also rely heavily on advertising. For example, regional dairy companies sell milk, cheese, and other dairy products in regions usually comprising a few states. These firms often use ads placed in newspapers and regional editions of magazines. Further, couponing and sampling are ways to communicate with target markets with IBPs that are well suited to regional application. Several breweries and wineries also serve only regional markets. Local producers of products are relatively rare, but local service organizations are common. Medical facilities, hair salons, restaurants, auto dealers, and arts organizations are examples of local service providers that use advertising to create awareness and stimulate demand. What car dealer in America has not advertised a holiday event or used a remote local radio broadcast to attract attention!

Firms that produce business goods and services also use advertising on a global, national, regional, and local basis. IBM (computer and business services) and Deloitte (accounting and consulting services) are examples of global companies that produce business goods and services. At the national and regional level, firms that supply agricultural and mining equipment and repair services are common users of promotion, as are consulting and research firms. At the local level, firms that supply janitorial, linen, and bookkeeping services use advertising.

Trade Resellers. The term **trade reseller** is simply a general description for all organizations in the marketing channel of distribution that buy products to resell to customers. As Exhibit 2.5 shows, resellers can be retailers, wholesalers, or distributors. These resellers deal with both household consumers and business buyers at all geographic market levels.

Retailers that sell in national or global markets are the most visible reseller advertisers. Sears, The Limited, and McDonald's are examples of national and global retail companies that use various forms of promotion to communicate with customers. Regional retail chains, typically grocery chains such as Albertson's or department stores such as Dillard's, serve multistate markets and use advertising suited for their regional customers. (See Exhibit 2.6.) At the local level, small retail shops of all sorts rely on newspaper, radio, television, and billboard advertising and special promotional events to reach a relatively small geographic area.

**EXHIBIT 2.7**

Government and social organizations can use advertising as effectively as corporations. Here the American Red Cross is using advertising to communicate to families the importance of having a “family disaster plan” in case of a fire or other catastrophe. Note how the American Red Cross is highlighting its logo in this ad as a way of developing “brand” recognition—just like corporations do!
(<http://www.redcross.org>)

Wholesalers and distributors, such as Ideal Supply, Inc. (a company that supplies contractors with blasting and surveying equipment), are a completely different breed of reseller. Technically, these types of companies deal only with business customers, since their position in the distribution channel dictates that they sell products either to producers (who buy goods to produce other goods) or to retailers (who resell goods to household consumers). Occasionally, an organization will call itself a wholesaler and sell to the public. Such an organization is actually operating as a retail outlet.

Wholesalers and distributors have little need for mass media advertising over media such as television and radio. Rather, they use trade publications, directory advertising such as the Yellow Pages and trade directories, direct mail, and their Internet Web sites as their main advertising media.

Federal, State, and Local Governments. At first, you might think it is odd to include governments as advertising users, but government bodies invest millions of dollars in advertising annually. The U.S. government often ranks as one of the 25 largest spenders on advertising in the United States, with expenditures typically exceeding \$1.0 billion annually.²⁵ And that’s just on advertising. If you add in other IBP expenses like brochures, recruiting fairs, and the personal selling expense of recruiting offices, the U.S. government easily spends well over \$2 billion

annually. The federal government’s spending on advertising and promotion is concentrated in two areas: armed forces recruiting and social issues. As an example, the U.S. government regularly uses broad-based advertising campaigns for military recruiting.²⁶ The U.S. Army’s “Army of One” campaign uses television, magazine, newspapers, and interactive games (“America’s Army”) hosted at the Army recruiting Web site (<http://www.goarmy.com>).

Social Organizations. Advertising by social organizations at the national, state, and local level is common. The Nature Conservancy, United Way, and American Red Cross use advertising to raise awareness of their organizations, seek donations, and attempt to shape behavior (deter drug use or encourage breast self-examination procedures, for example). National organizations such as these use both the mass media and direct mail to promote their causes and services (see Exhibit 2.7). Every state has its own unique statewide organizations, such as Citizens against Hunger, a state arts council, a tourism office, an economic development office, or a historical society. Social organizations in local communities represent a variety of special interests, from computer clubs to fraternal organizations to neighborhood child care organizations. The advertising used by social organizations has the same fundamental purpose as the advertising carried out by major multinational corporations: to stimulate demand and disseminate information. While big multinationals might use national or even global advertising, local organizations rely on advertising through local media to reach local audiences.

The Role of the Advertiser in IBP. Very few of the advertisers just discussed have the employees or financial resources to strategically plan and then prepare effective advertising and IBP programs. This is where advertising and promotion agencies play such an important role in the structure of the advertising industry. But there is an important role played by the advertiser *before* the services of an agency are enlisted. Advertisers

25. Ibid.

26. Elizabeth Boston, “Marketers Tweak Efforts on Fly,” *Advertising Age*, June 23, 2003, 24.

of all sizes and types, as just discussed, have to be prepared for their interaction with an agency in order for the agency to do *its* job effectively. That is, it is the advertiser's role to

- Fully understand and describe the value that the firm's brand provides to users
- Fully understand and describe the brand's position in the market relative to competitive brands
- Describe the firm's objectives for the brand in the near term and long term (e.g., brand extensions, international market launches)
- Identify the target market(s) that are most likely to respond favorably to the brand
- Identify and manage the supply chain/distribution system that will most effectively reach the target markets
- Be committed to using advertising and other promotional tools as part of the organization's overall marketing strategy to grow the brand

Once an advertiser has done its job with respect to the six factors above, then and *only* then is it time to enlist the services of an agency to help effectively and creatively develop the market for the brand. This is not to say that an agency will not work with an advertiser to help better define and refine these factors. Rather, it is a mistake for an advertiser to enter a relationship with an agency (of any type) without first doing its homework and being prepared for a productive partnership.



Advertising and Promotion Agencies. Advertisers are fortunate to have a full complement of agencies that specialize in literally every detail of every advertising and promotion. Let's take a closer look at the types of agencies advertisers can rely on to help create their advertising and IBP campaigns.

Advertising Agencies. Most advertisers choose to enlist the services of an advertising agency. An **advertising agency** is an organization of professionals who provide creative and business services to clients in planning, preparing, and placing advertisements. The reason so many firms rely on advertising agencies is that agencies house a collection of professionals with very specialized talent, experience, and expertise that simply cannot be matched by in-house talent.

Most big cities and small towns in the United States have advertising agencies. Advertising agencies often are global businesses as well. As discussed in the section on trends affecting the advertising industry, megamergers between agencies have been occurring for several years. Exhibit 2.8 shows the world's 10 largest advertising organizations and their worldwide gross income. Worldwide revenue for ad agencies reached \$20.54 billion in 2003.²⁷

The types of agency professionals who help advertisers in the planning, preparation, and placement of advertising and other promotional activities include the following:

Account planners	Sales promotion and event planners
Marketing specialists	Copywriters
Account executives	Direct marketing specialists
Media buyers	Radio and television producers
Art directors	Web developers
Lead account planners	Researchers
Chief executive officers (CEOs)	Interactive media planners
Chief financial officers (CFOs)	Artists
Chief technology officers (CTOs)	Technical staff—printers, film editors, and so forth
Public relations specialists	
Creative directors	

27. "60th Annual Agency Report," *Advertising Age*, April 19, 2004, S1.

Rank		Company	Headquarters	Worldwide Gross Revenue, 2003 (millions)	% Change
2003	2002				
1	1	Omnicom Group	New York	\$8,621	14.4
2	3	WPP Group	London	6,756	16.9
3	2	Interpublic Group	New York	5,863	-5.5
4	5	Publicis Groupe	Paris	4,408	7.3
5	4	Dentsu	Tokyo	2,545	11.0
6	6	Havas	Suresnes, France	1,877	-0.6
7	7	Grey Global Group	New York	1,307	9.0
8	8	Hakuhodo	Tokyo	1,208	0.0
9	9	Regis Group	London	1,067	21.9
10	10	Asatsu-DK	Tokyo	413	16.8

Source: "60th Annual Agency Report," *Advertising Age*, April 19, 2004, S-2.

EXHIBIT 2.8

The world's top 10 advertising organizations (ranked by worldwide gross revenue, U.S. dollars in millions).

As this list suggests, some advertising agencies can provide advertisers with a host of services, from campaign planning through creative concepts to e-strategies to measuring effectiveness. Also note from this list that an agency is indeed a business. Agencies have CEOs, CFOs, and CTOs just like any other business. Salaries in the positions listed above range from about \$200,000 a year for a chief executive officer to about \$50,000 for a media planner.²⁸ Of course, those salaries change depending on whether you're in a big urban market or a small regional market.

Several different types of agencies are available to the advertiser. Be aware that there are all sorts of agencies with varying degrees of expertise and services. It is up to the advertiser to dig deep into an agency's background and determine which agency or set of multiple agencies will fulfill the advertiser's needs. A short description of the major different types of agencies follows:

Full-Service Agencies. A full-service agency typically includes an array of advertising professionals to meet all the promotional needs of clients. Often, such an agency will also offer a client global contacts. Omnicom Group and Grey Global Group are examples. Full-service agencies are not necessarily large organizations employing hundreds or even thousands of people. Small local and regional shops can be full service with just a few dozen employees. At one point, when American Honda put its Acura account up for review, it wanted outstanding creative talent no matter what size agency did the work. The account went to a midsize agency in Santa Monica, California, well outside the mainstream of large agency cities.²⁹ Similarly, not every full-service agency is built on giant accounts worth hundreds of millions of dollars. Cramer-Krasselt, a midsize agency, has built a stable of international clients one small and medium account at a time. The agency rarely has accounts billing over \$20 million. But by serving small accounts from clients such as AirTran, Allen-Edmonds shoes, Rexall, and Bombardier ATVs, the agency now has several million dollars in annual billings.³⁰

28. R. Craig Endicott, "Agencies Mixed on '04 Pay Hikes," *Advertising Age*, December 8, 2003, S1.

29. *Advertising Age* Viewpoint editorial, "Why Mid-Size Shops Survive," *Advertising Age*, October 28, 1998, 26.

30. Hillary Chura and Kate MacArthur, "Cramer-Krasselt Thinks Small," *Advertising Age*, September 11, 2000, 32.

**EXHIBIT 2.9**

The era of new media has spawned new interactive advertising agencies that specialize in developing banner ads and corporate Web sites. Bluestreak is an agency with the stated purpose of providing the infrastructure for marketers and agencies to create results-driven campaigns that generate dramatically higher click-through, conversion, and transaction rates. Check out their philosophy and purpose at <http://www.bluestreak.com>.

a commitment to IBP campaigns, the creative boutique may be an extra expense and step that advertisers simply don't feel they can afford. But, as you will learn in Chapter 10 on creativity and advertising, the creative effort is so essential to effective brand building that creativity will rise to prominence in the process, and creative boutiques are well positioned to deliver that value.

Interactive Agencies. **Interactive agencies** help advertisers prepare communications for new media such as the Internet, interactive kiosks, CD-ROMs, and interactive television. Interactive agencies focus on ways to use Web-based solutions for direct marketing and target market communications (see Exhibit 2.9). Other cyber-agencies, which we will talk about shortly, specialize in online promotions. One of the best interactive agencies in this regard is Ad4ever.com. This highly successful agency has created interactive campaigns for BMW, Oracle, Nintendo, and the U.S. Army. Check out their work at <http://www.ad4ever.com> and the story about their work in the Creativity box. But interactive agencies were not spared when the big shake out occurred among dot.coms in 1999. Many simply folded up shop; others were acquired by large agencies. Today, even a midsize full-service agency will offer interactive services to clients. This being the case, many firms have consolidated all their IBP needs, including interactive media, with their main full-service agency.

In-House Agencies. An **in-house agency** is often referred to as the advertising department in a firm and takes responsibility for the planning and preparation of advertising materials. This option has the advantage of greater coordination and control in all phases of the advertising and promotion process. Some prominent advertisers who do most of their work in-house are Gap, Calvin Klein, and Revlon. The

Creative Boutiques. A **creative boutique** typically emphasizes creative concept development, copywriting, and artistic services to clients. An advertiser can employ this alternative for the strict purpose of infusing greater creativity into the message theme or individual advertisement. As one advertising expert put it, "If all clients want is ideas, lots of them, from which they can pick and mix to their hearts' delight, they won't want conventional, full-service agencies. They all want fast, flashy fee-based idea factories."³¹ Creative boutiques are these idea factories. Some large global agencies such as McCann-Erickson Worldwide and Leo Burnett have set up creative-only project shops that mimic the services provided by creative boutiques, with mixed results. The truth is that as the advertising industry continues to evolve, the creative boutiques may become a casualty of expansion-contraction-expansion by the big global multi-service agencies.³² Be assured, there are still some great creative boutiques around, like E-evolution Media (<http://www.e-evolutionmedia.com>) and Fusion Idea Lab (<http://www.fusionidealab.com>).

The creative boutique's greatest advantage, niche expertise, may be its greatest liability as well. As firms search for IBP programs and make

31. Martin Sorell, "Agencies Face New Battle Grounds," *Advertising Age*, April 13, 1998, 22.

32. Anthony Vagnoni, "Small Fries," *Advertising Age*, March 4, 2002, 20.

advertiser's own personnel have control over and knowledge of marketing activities, such as product development and distribution tactics. Another advantage is that the firm can essentially keep all the profits from commissions an external agency would

have earned. While the advantages of doing advertising work in-house are attractive, there are two severe limitations. First, there may be a lack of objectivity, thereby constraining the execution of all phases of the advertising process. Second, it is highly unlikely that an in-house agency could ever match the breadth and depth of talent available in an external agency.

CREATIVITY

The Four Second Ad

When Eurocom Cellular Communications, sole agent for Nokia phones in Israel, wanted to launch the new Nokia 6210 mobile phone, the company turned to an interactive agency, Ad4ever Inc. (<http://www.ad4ever.com>). Eurocom was intrigued with Ad4ever's TopLayer Technology, which has been producing an unheard-of 25 percent click-through rate (CTR) in other campaigns. CTR measures the volume of traffic from exposure to the Web ad site.

Eurocom was not disappointed. Using the Internet's multimedia platform, Ad4ever created an interactive advertising campaign that emphasized the mobile phone's unique features. These included Internet access by WAP, high-speed data transmission, ability to synchronize with a computer, and an extended calendar.

The ads that were developed for the Nokia 6210 appear on a transparent layer above the conventional Web site on a user's screen. The ad is an interactive, animated, dynamic object complete with a greeting to the viewer. The ads are nonintrusive, lasting for only four seconds before disappearing from the middle of the monitor. The campaign then uses a friendly reminder that travels the screen as viewers scroll down the screen, staying with the user in a way that traditional banner ads do not. Users can choose to interact with the ad and request more information about the phone without leaving the Web site they originally came to visit.

Ophira Avisha, the MARCOM (Marketing Communications) manager at Eurocom, said, "We believe that by using Ad4ever's technology, we will be able to gain more effective use of the Internet as an integral part of our advertising."

Source: Ad4ever.com, "Interactive Online Advertising Campaign to Launch Nokia 6210," press release available at <http://www.ad4ever.com/site/press/pr130602.html>, accessed on January 8, 2004.

Media Specialists. While not technically agencies, **media specialists** are organizations that specialize in buying media time and space and offer media strategy consulting to advertising agencies and advertisers. The task of strategic coordination of media and promotional efforts has become more complex because of the proliferation of media options and extensive use of promotional tools beyond advertising.

An example of one of these specialists is Starcom MediaVest Group (SMG). SMG encompasses an integrated network of nearly 3,800 contact architects specializing in media management, Internet and digital communications, response media, entertainment marketing, sports sponsorships, event marketing, and multicultural media. A subsidiary of France-based Publicis Groupe, SMG's network of 110 offices in 76 countries focuses on brand building for many of the world's leading companies. In fact, its Web site prominently displays the slogan "Fueling Brand Power" (<http://www.starcomworldwide.com>).

One additional advantage of using media specialists is that since they buy media in large quantities, they often acquire media time at a much lower cost than an agency or advertiser could. Also, media specialists often have time and space in inventory and can offer last-minute placement to advertisers. Media-buying services have been a part of the advertising industry structure for many years. In recent years, however, media planning has been added to the task of simply buying media space. At one point, Unilever decided to turn over its \$575 million media-buying and planning tasks to a specialized agency, MindShare Worldwide. Firms are finding that the firm that buys space can provide keen insights into the media strategy as well.³³

33. Richard Linnett, "Unilever Win Affirms MindShare Strategy," *Advertising Age*, December 4, 2000, 4.

Promotion Agencies. While advertisers often rely on an advertising agency as a steering organization for their promotional efforts, many specialized agencies often enter the process and are referred to as **promotion agencies**. This is because advertising agencies, even full-service agencies, will concentrate on the advertising process and often provide only a few key ancillary services for other promotional efforts. This is particularly true in the current era, in which new media are offering so many different ways to communicate to target markets. Promotion agencies can handle everything from sampling to event promotions to in-school promotional tie-ins. Descriptions of the types of agencies and their services follow.

Direct Marketing and Database Agencies. **Direct marketing agencies** and **database agencies** (sometimes also called **direct response agencies**) provide a variety of direct marketing services. These firms maintain and manage large databases of mailing lists as one of their services. These firms can design direct marketing campaigns either through the mail or via telemarketing, or direct response campaigns using all forms of media. These agencies help advertisers construct databases of target customers, merge databases, develop promotional materials, and then execute the campaign. In many cases, these agencies maintain **fulfillment centers**, which ensure that customers receive the product ordered through direct mail. Direct Media (<http://www.directmedia.com>) is the world's largest list management and list brokerage firm, providing clients with services in both the consumer and the business-to-business markets across the country and around the world.

Many of these agencies are set up to provide creative and production services to clients. These firms will design and help execute direct response advertising campaigns using traditional media

such as radio, television, magazines, and newspapers. Also, there are some that can prepare **infomercials** for clients: a five- to 60-minute information program that promotes a brand and offers direct purchase to viewers. AdProducers.com is an online community that lists infomercial producers around the world. It is part of the Ad Producer.com/Entertainment Producer.com network of advertising providers.

E-Commerce Agencies. There are so many new and different kinds of e-commerce agencies that it is hard to categorize all of them. **E-commerce agencies** handle a variety of planning and execution activities related to promotions using electronic commerce. Note that these

agencies are different from the interactive agencies discussed earlier. They do not create Web sites or banner ads, but rather help firms conduct all forms of promotion through electronic media, particularly the Internet. They can run sweepstakes, issue coupons, help in sampling, and do direct response campaigns (see Exhibit 2.10). A firm like 24/7 Real Media (<http://www.247media.com>) offers advertisers the option of providing consumers with online coupons, contests, and loyalty programs.

e-SIGHTINGS

OPT-IN EMAIL MARKETING



OPT-IN EMAIL MARKETING

- Find Your Target Market
- View Managed Email Lists
- View XactMail Sales Categories
- View 250 Unique Selection Criteria
- Proven Response Rates
- No Spam - Can Spam Compliant
- XactMail Clients

EMAIL MARKETING WITH XACTMAIL

Opt-in email is one of the most effective direct marketing tools available. The reason is simple—messages are sent only to people who have requested them. This crucial factor—permission—means that advertisers focus money and time only on the consumers or professionals that have expressed an interest in relevant products or services.



COMPLIANT

CAN SPAM ACT

As a service of VentureDirect Worldwide, the XactMail Opt-in Email Network is backed by twenty years of direct marketing experience, spanning both offline and online media, and business and consumer markets. As a fully integrated media and marketing company, we understand how a successful email campaign fits into your media and marketing plans.

Contact an XactMail Email Specialist at 212.656.5231 or email xactmail@ven.com

A Service of





We came to XactMail to test 10,000 email names in our target market. We asked for particularly complicated targeting and made some stringent demands that would not have been possible with other email companies.

The test went well and we decided to roll-out to 150,000 opt-in e-mail names.

We have used other opt-in email companies over the years, and I can confidently say that we have been very pleased with the quality of XactMail's lists and the professional management of our account.

Even during a bout with the flu, our rep took care of us from his sick bed. His expertise resulted in the satisfaction of our every request.

We're impressed! We look forward to many more email campaigns with your company.

Principal
Xaphon Interactive

EXHIBIT 2.10

E-commerce agencies provide highly specialized Internet-based services. XactMail (<http://www.xactmail.com>) provides opt-in e-mail communications programs for advertisers.

Old Navy, American Airlines, the World Wildlife Fund, Cisco, and 3M are a few of the firms that have signed on with e-commerce agencies to add another dimension to their IBP campaigns. Another of these new media e-commerce organizations is DoubleClick (featured in Exhibit 2.2 earlier in the chapter), which provides services related to Internet advertising, targeting technology, complete advertising management software solutions, direct response Internet advertising, and Internet advertising developed for regional and local businesses. The best way to view these new e-commerce agencies is to understand that they can provide all forms of promotion using new media technology and usually specializing in Internet solutions.

Sales Promotion Agencies. These specialists design and then operate contests, sweepstakes, special displays, or coupon campaigns for advertisers. It is important to recognize that these agencies can specialize in **consumer sales promotions** and will focus on price-off deals, coupons, sampling, rebates, and premiums. Other firms will specialize in **trade sales promotions** designed to help advertisers use promotions aimed at wholesalers, retailers, vendors, and trade resellers. These agencies are experts in designing incentive programs, trade shows, sales force contests, in-store merchandising, and point-of-purchase materials.

Event-Planning Agencies. Event sponsorship can also be targeted to household consumers or the trade market. **Event-planning agencies** and organizers are experts in finding locations, securing dates, and putting together a team of people to pull off a promotional event: audio/visual people, caterers, security experts, entertainers, celebrity participants, or whoever is necessary to make the event come about. The event-planning organization will also often take over the task of advertising the event and making sure the press provides coverage (publicity) of the event. When an advertiser sponsors an entire event, such as a PGA golf tournament, managers will work closely with the event-planning agencies. If an advertiser is just one of several sponsors of an event, such as a NASCAR race, then it has less control over planning.

Design Firms. Designers and graphics specialists do not get nearly enough credit in the advertising and promotion process. If you take a job in advertising or promotion, your designer will be one of your first and most important partners. While designers are rarely involved in strategy planning, they are intimately involved in the execution of the advertising or IBP effort. In the most basic sense, **designers** help a firm create a **logo**—the graphic mark that identifies a company—and other visual representations that promote an identity for a firm. This mark will appear on everything from advertising to packaging to the company stationery, business cards, and signage. But beyond the logo, graphic designers will also design most of the materials used in supportive communications such as the package design, coupons, in-store displays, brochures, outdoor banners for events, newsletters, and direct mail pieces. One of the largest consumer package goods firms in the world recently made a larger commitment to design across all aspects of its marketing and promotion, claiming that design was critical to “winning customers in the store with packaging and displays [being] major factors in the outcome.”³⁴

Public Relations Firms. **Public relations firms** manage an organization’s relationships with the media, the local community, competitors, industry associations, and government organizations. The tools of public relations include press releases, feature stories, lobbying, spokespersons, and company newsletters. Most advertisers do not like to handle their own public relations tasks for two reasons. First, public relations takes highly specialized skills and talent not normally found in an advertising firm. Second, managers are too close to public relations problems and may not be

34. Jack Neff, “P&G Boosts Design’s Role in Marketing,” *Advertising Age*, February 9, 2004, 1, 52.

capable of handling a situation, particularly a negative situation, with measured public responses. For these reasons, advertisers, and even advertising agencies, turn to outside public relations firms. In keeping with the movement to incorporate the Internet across all forms of promotion, there are even organizations that will handle putting all of a firm's news releases online. One such firm is PR Newswire (<http://www.pdnswire.com>).

In a search for more and distinctive visibility for their brands, advertisers have been turning to public relations firms to achieve a wide range of film and television placements.³⁵ William Morris, originally a talent agency and now a public relations firm, has 16 consultants working with top consumer brands like Anheuser-Busch. William Morris succeeded in getting Budweiser to be the first beer advertiser on the Academy Awards.

Agency Services. Advertising and promotion agencies offer a wide range of services. The advertiser may need a large, global, full-service advertising agency to plan, prepare, and execute its advertising and IBP campaigns. On the other hand, a creative boutique may offer the right combination of services. Similarly, a large promotion firm might be needed to manage events and promotions while a design firm is enlisted for design work, but nothing else. The most important issue, however, is for the advertiser and the agency to negotiate and reach agreement on the services being provided before any agency is hired. Exhibit 2.11 shows the typical organizational structure of a full-service advertising agency that also provides a significant number of IBP services. The types of services commonly offered by advertising and promotion agencies are discussed in the following sections.

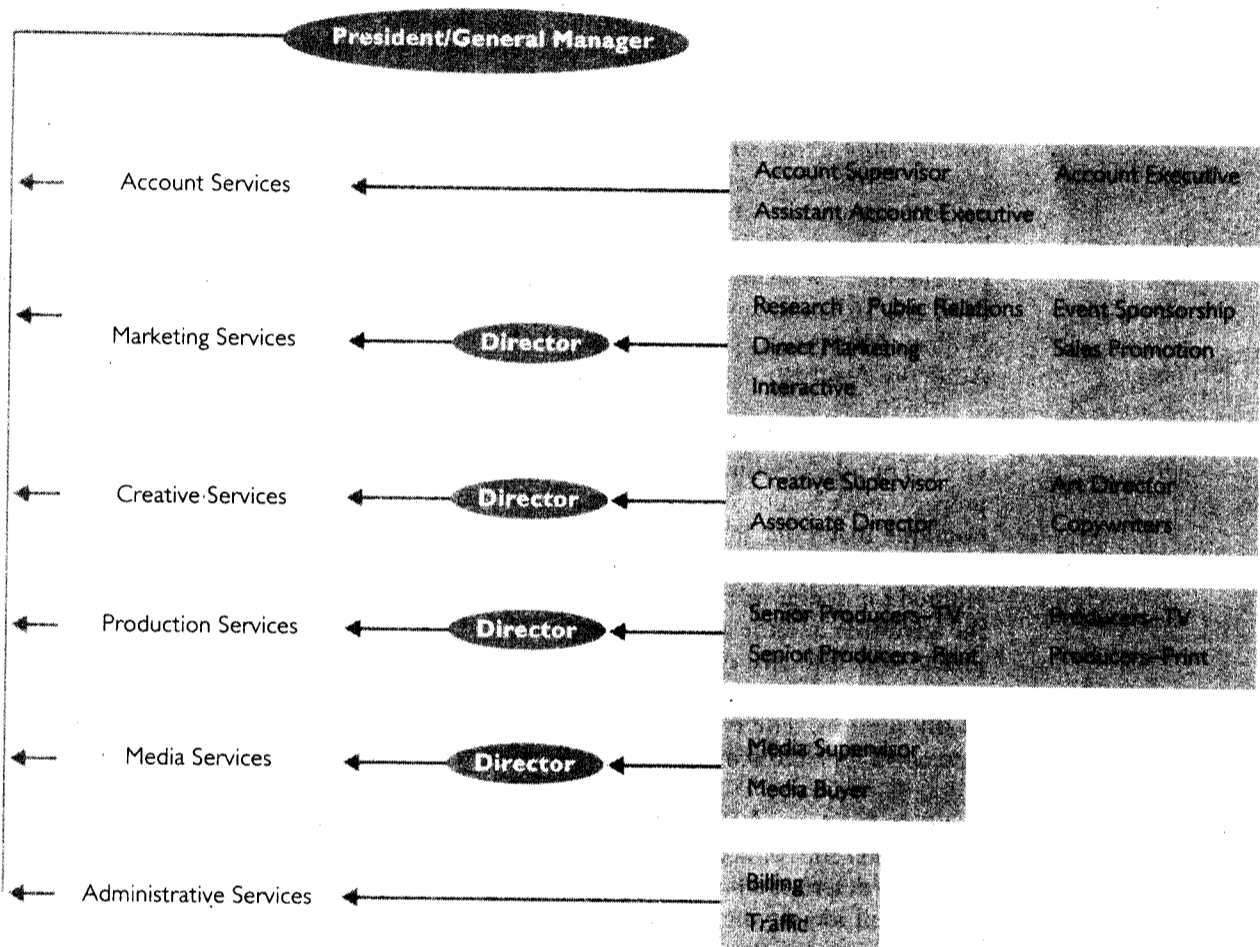
Account Services. **Account services** includes managers who have titles such as account executive, account supervisor, or account manager, and who work with clients to determine how the brand can benefit most from promotion. Account services entail identifying the benefits a brand offers, its target audiences, and the best competitive positioning, and then developing a complete promotion plan. In some cases, account services in an agency can provide basic marketing and consumer behavior research, but the client should bring this information to the table. Knowing the target segment, the brand's values, and the positioning strategy are really the responsibility of the advertiser (more on this in Chapters 5 and 6).

Account services managers also work with the client in translating cultural and consumer values into advertising and promotional messages through the creative services in the agency. Finally, they work with media services to develop an effective media strategy for determining the best vehicles for reaching the targeted audiences. One of the primary tasks in account services is to keep the various agency teams' creative, production, and media on schedule and within budget (more about this in Chapter 8 when we look at the advertising plan).

Marketing Research Services. Research conducted by an agency for a client usually consists of the agency locating studies (conducted by commercial research organizations) that have bearing on a client's market or advertising and promotion objectives. The research group will help the client interpret the research and communicate these interpretations to the creative and media people. If existing studies are not sufficient, research may be conducted by the agency itself. As mentioned in the account services discussion, some agencies can assemble consumers from the target audience to evaluate different versions of proposed advertising and determine whether messages are being communicated effectively.

Many agencies have established the position of account planner to coordinate the research effort. An **account planner's** stature in the organization is on par with an

35. Betsy Streisand, "Why Great American Brands Are Doing Lunch," *Business* 2.0, September 2003, 146-150.

**EXHIBIT 2.11**

The typical structure of a full-service advertising agency. Note that this structure includes significant integrated brand promotion (IBP) services as well as advertising services.

account executive. The account planner is assigned to clients to ensure that research input is included at each stage of development of campaign materials. Some agency leaders, like Jay Chiat of Chiat/Day, think that account planning has been the best new business tool ever invented.³⁶ Others are a bit more measured in their assessment. Jon Steel, director of account planning at Goody, Silverstein and Partners, described account planning this way: “[Account] planning, when used properly, is the best *old* business tool ever invented.”³⁷ Either way, agencies are understanding that research, signaled by the appointment of an account planner, is key to successful promotional campaigns. The advertising research issue is considered in detail in Chapter 7.

Creative and Production Services. The **creative services** group in an agency comes up with the concepts that express the value of a company’s brand in interesting and memorable ways. In simple terms, the creative services group develops the message that will be delivered through advertising, sales promotion, direct marketing, event sponsorship, or public relations. Howard Davis, retired CEO of the full-service advertising agency Tracy-Locke, refers to this process in the industry as the “art of commerce.”³⁸

Clients will push their agencies hard to come up with interesting and expressive ways to represent the brand. Geoffrey Frost, vice president of consumer communications for Motorola’s Personal Communications Sector, expressed his company’s

36. John Steel, *Truth, Lies & Advertising: The Art of Account Planning* (New York: John Wiley & Sons, 1998), 42.

37. *Ibid.*, 43.

38. Howard Davis expressed his views in this regard during a keynote speech at the Montana State University College of Business delivered on December 13, 2000.

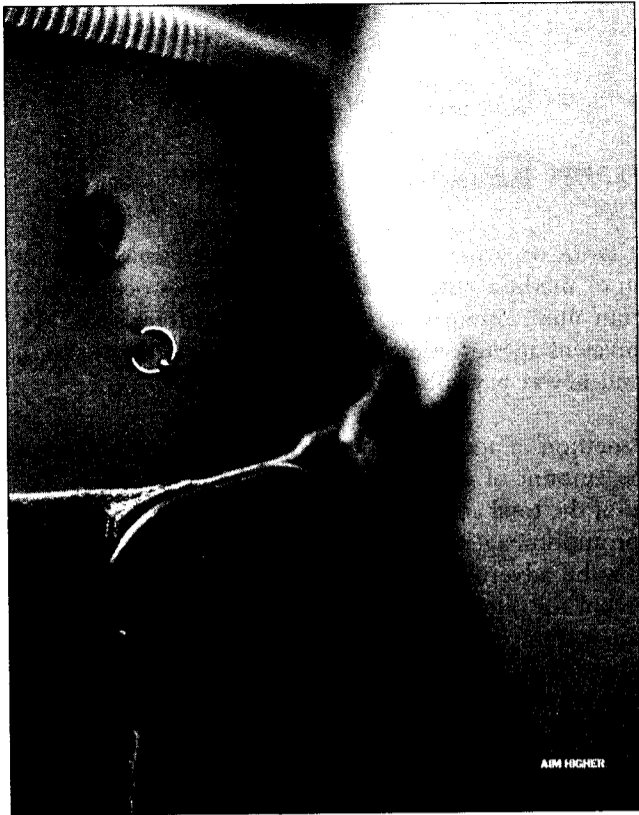


EXHIBIT 2.12

Advertising agencies, from large global agencies to smaller regional shops, provide a wide range of services for clients. Their greatest contribution to the process is, perhaps, their creative prowess. Here, FJCandN, a regional agency, once implored advertisers to "aim higher." A nice bit of creativity to tout the agency's creative talents.

approach to demanding creative excellence by saying, "What we've challenged the agencies to do was to help us to figure out how to position Motorola as the company that has really figured out the future. . . ." ³⁹ That seems like a pretty tall creative order, indeed. The creative group in an agency will typically include a creative director, art director, illustrators or designers, and copywriters. In specialized promotion agencies, event planners, contest experts, and interactive media specialists will join the core group. Exhibit 2.12 shows how advertising agency FJCandN promotes its own creative services.

Production services include producers (and sometimes directors) who take creative ideas and turn them into advertisements, direct mail pieces, or events materials. Producers generally manage and oversee the endless details of production of the finished advertisement or other promotion material. Advertising agencies maintain the largest and most sophisticated creative and production staffs.

Media Planning and Buying Services. This service was discussed earlier as a specialized agency through which advertisers can contract for media buying and planning. Advertising agencies them-

selves provide **media planning and buying services** similar to those of the specialized agencies. The central challenge is to determine how a client's message can most effectively and efficiently reach the target audience. Media planners and buyers examine an enormous number of options to put together an effective media plan within the client's budget. But media planning and buying is much more than simply buying ad space, timing a coupon distribution, or scheduling an event. A wide range of media strategies can be implemented to enhance the impact of the message. Agencies are helping clients sort through the blizzard of new media options such as CD-ROMs, videocassettes, interactive media, and the Internet. Most large agencies, such as J. Walter Thompson, Chiat/Day, and Fallon McElligott, set up their own interactive media groups years ago in response to client demands that the Internet media option be included in nearly every IBP plan. The three positions typically found in the media area are media planner, media buyer, and media researcher. This is where most of the client's money is spent; it's very important.

Administrative Services. Like other businesses, agencies have to manage their business affairs. Agencies have personnel departments, accounting and billing departments, and sales staffs that go out and sell the agency to clients. Most important to clients is the traffic department, which has the responsibility of monitoring projects to be sure that deadlines are met. Traffic managers make sure the creative group and media services are coordinated so that deadlines for getting promotional materials to printers and media organizations are met. The job requires tremendous organizational skills and is critical to delivering the other services to clients.

Agency Compensation. The way agencies get paid is somewhat different from the way other professional organizations are compensated. While accountants, doctors,

39. Tobi Elkin, "Motorola Tenders Brand Challenge," *Advertising Age*, August 14, 2000, 14.

Exhibit 2.13

Calculation of agency compensation using a traditional commission-based compensation system.

Agency bills client	\$ 1,000,000	for television airtime
	-	
Agency pays television media	\$ 850,000	for television airtime
	=	
Agency earns	\$ 150,000	15% commission

lawyers, and consultants often work on a fee basis, advertising agencies often base compensation on a commission or markup system. Promotion agencies occasionally work on a commission basis, but more often work on a fee or contract basis. We will examine the four most prevalent agency compensation methods: commissions, markup charges, fee systems, and newer pay-for-results plans.

Commissions. The traditional method of agency compensation is the **commission system**, which is based on the amount of money the advertiser spends on media. Under this method, 15 percent of the total amount billed by a media organization is retained by the advertising or promotion agency as compensation for all costs in creating advertising/promotion for the advertiser. The only variation is that the rate typically changes to 16 2/3 percent for outdoor media. Exhibit 2.13 shows a simple example of how the commission system works.

Over the past 15 years, and particularly in the past three years with the change in consumer media use, the wisdom of the commission system has been questioned by both advertisers and agencies themselves. As the chairman of a large full-service agency put it, "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."⁴⁰ About half of all advertisers compensate their agencies using a commission system based on media cost. But only about 14 percent of advertisers responding to a recent survey still use the traditional 15 percent commission. More advertisers are using other percentage levels of commission, often negotiated levels, as the basis for agency compensation. But even the use of media-based commissions is under fire. Jim Stengel, global marketing officer for Procter & Gamble, told the American Association of Advertising Agencies members at a media conference that the media-based model dependent on the 30-second spot is "broken" and that the industry needs to understand the complexity of media use by contemporary consumers.⁴¹ This message, indirectly, calls into question the whole issue of basing compensation on media billings at all.

Markup Charges. Another method of agency compensation is to add a percentage **markup charge** to a variety of services the agency purchases from outside suppliers. In many cases, an agency will turn to outside contractors for art, illustration, photography, printing, research, and production. The agency then, in agreement with the client, adds a markup charge to these services. The reason markup charges became prevalent in the industry is that many promotion agencies were providing services that did not use traditional media. Since the traditional commission method was based on media charges, there was no way for these agencies to receive payment for their work. This being the case, the markup system was developed. A typical markup on outside services is 17.65 to 20 percent.

Fee Systems. A **fee system** is much like that used by consultants or attorneys, whereby the advertiser and the agency agree on an hourly rate for different services provided. The hourly rate can be based on average salaries within departments or on some agreed-upon hourly rate across all services. This is the most common basis for

40. Patricia Sellers, "Do You Need Your Ad Agency?" *Fortune*, November 15, 1993, 148.

41. Jeff Neff and Lisa Sanders, "It's Broken," *Advertising Age*, February 16, 2004, 1, 30.

promotion agency compensation. GM, the largest U.S. advertiser, agreed to a fee system in which compensation will be based on an agency's work and thinking.⁴² Many

agencies went to a fee system when dot.coms were spending money like crazy to advertise themselves in some pretty expensive venues like the Super Bowl. That turned out to be a smart move in two ways: Many dot.com firms went bankrupt before the agencies would have received their commissions; and the vast majority of the new Internet firms that survived have dramatically curtailed their offline advertising expenditures from their peak spending in early 2000.⁴³

Another version of the fee system is a fixed fee, or contract, set for a project between the client and the agency. It is imperative that the agency and the advertiser agree on precisely what services will be provided, by what departments in the agency, over what specified period of time. In addition, the parties must agree on which supplies, materials, travel costs, and other expenses will be compensated beyond the fixed fee. Fixed-fee systems have the potential for causing serious rifts in the client-agency relationship because out-of-scope work can easily spiral out of control when so many variables are at play.

Pay-for-Results. Recently, many advertisers and agencies alike have been working on compensation programs called **pay-for-results** that base the agency's fee on the achievement of agreed-upon results. Historically, agencies have not agreed to be evaluated on results because results have often

been narrowly defined as sales. The key effects on sales are related to factors outside the agency's control such as product features, pricing strategy, and distribution programs (that is, the overall marketing mix, not just advertising or IBP). An agency may agree to be compensated based on achievement of sales levels, but more often (and more appropriately) communications objectives such as awareness, brand identification, or brand feature knowledge among target audiences will serve as the main results criteria.

One of the most difficult tasks in the compensation system is coordinating all the agencies and coordinating how they get paid. As you have seen, more advertisers are using more different forms of promotion and enlisting the help of multiple agencies. A key to IBP here is integrated agency communication. When all of an advertiser's

Of Course I Trust You—Meet My Auditor

It used to be that advertisers and their agencies had long histories together and a handshake was the primary way deals got sealed. Well, times have changed. As you saw earlier in the chapter, agencies with 20- or even 30-year histories with a client are being dumped—usually with little ceremony. The days when the agency-advertiser relationship was built purely on trust seem to (sadly) be gone forever. When advertisers like General Motors refer to their agencies as “flabby organizations,” you can be pretty sure that the atmosphere in the industry is changed for good. It doesn't help that recently a federal grand jury indicted two agency executives for defrauding the U.S. government with excess labor charges on a campaign developed for the Office of National Drug Control.

So what has replaced the handshake and the toast at dinner as the basis for the client/agency relationship? Guess who's coming to dinner—the auditor. Today, clients are using outside firms to scrutinize all aspects of agency work, from creative services to billing practices. One such scrutinizer is called Firm Decisions. It is an international ad-agency auditing firm that acts as an intermediary between advertisers and agencies. An example of the work done by Firm Decisions: On one agency project invoice, it found that an agency staffer had billed an average of 17 hours a day including weekends for an entire month. On one day, she even logged 26 hours. David Brocklehurst, founder of Firm Decisions, commented on this particular audit with the deadpan observation, “Even if it was true, how productive could she be?”

So the friendly partnership days are over and the auditor seems to be showing up more and more often. This is not to say that agencies are not productive and clients aren't happy with the agencies work. But it really isn't as much fun as it used to be.

Sources: Claire Atkinson, “GM Ad Boss Takes Agencies to Task,” *Advertising Age*, June 30, 2003, 1, 26; Erin White, “Making Sure the Work Fits the Bill,” *Wall Street Journal*, February 5, 2004, B8.

42. Jean Halliday, “GM to Scrap Agency Commissions,” *Advertising Age*, November 16, 1998, 1, 57.

43. Jennifer Gilbert, “Dot-Com Shift,” *Advertising Age*, September 25, 2000, 1, 24.

agencies are working together and coordinating their efforts, not only is integrated brand promotion achieved, but better relations between agencies are achieved.⁴⁴

As if this long list of agencies and intricate compensation schemes weren't complicated enough, let's complicate things a bit more and consider a fairly long list of external facilitators and what their agencies rely on to create and execute promotional campaigns.



External Facilitators. While agencies offer clients many services and are adding more, advertisers often need to rely on specialized external facilitators in planning, preparing, and executing promotional campaigns. **External facilitators** are organizations or individuals that provide specialized services to advertisers and agencies. The most important of these external facilitators are discussed in the following sections.

Marketing and Advertising Research Firms. Many firms rely on outside assistance during the planning phase of advertising. Research firms such as Burke International and Simmons can perform original research for advertisers using focus groups, surveys, or experiments to assist in understanding the potential market or consumer perceptions of a product or services. Other research firms, such as SRI International, routinely collect data (from grocery store scanners, for example) and have these data available for a fee.

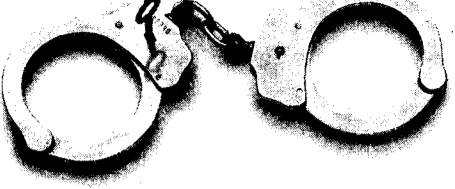
Advertisers and their agencies also seek measures of promotional program effectiveness after a campaign has run. After an advertisement or promotion has been running for some reasonable amount of time, firms such as Starch INRA Hooper will run recognition tests on print advertisements. Other firms such as Burke offer day-after recall tests of broadcast advertisements. Some firms specialize in message testing to determine whether consumers find advertising messages appealing and understandable.

Consultants. A variety of **consultants** specialize in areas related to the promotional process. Advertisers can seek out marketing consultants for assistance in the planning stage. Creative and communications consultants provide insight on issues related to message strategy and message themes. Consultants in event planning and sponsorships offer their expertise to both advertisers and agencies. Public relations consultants often work with top management. Media experts can help an advertiser determine the proper media mix and efficient media placement.

Three new types of consultants have emerged in recent years. One is a database consultant, who works with both advertisers and agencies. Organizations such as Shepard Associates help firms identify and then manage databases that allow for the development of integrated marketing communications programs. Diverse databases from research sources discussed earlier can be merged or cross-referenced in developing effective communications programs. Another new type of consultant specializes in Web site development and management. These consultants typically have the creative skills to develop Web sites and corporate home pages and the technical skills to advise advertisers on managing the technical aspects of the user interface. The final consultant helps firms integrate information across a wide variety of customer contacts and helps the firm organize all this information to achieve customer relationship management (CRM). Business Objects is one software firm that helps consultants create effective programs (<http://www.businessobjects.com>). (See Exhibit 2.14.)

Production Facilitators. External **production facilitators** offer essential services both during and after the production process. Production is the area where advertisers and their agencies rely most heavily on external facilitators. All forms of media advertising require special expertise that even the largest full-service agency, much less an advertiser, typically does not retain on staff. In broadcast production,

44. Allen Winneker, "Avoiding Bonus Envy," *PROMO Magazine*, November 1999, 35-37.



MAY WE SUGGEST A MORE INTELLIGENT WAY TO IMPROVE CUSTOMER RETENTION?

BUSINESS INTELLIGENCE FROM BUSINESS OBJECTS

Who are your most profitable customers? Why are they profitable? And what will it take to retain them? If you can't answer all those questions, perhaps you should talk to someone who can. Namely, Business Objects.

Our industry standard business intelligence software mines customer information from all your systems—sales, marketing, customer support, and finance—and presents an integrated view of each and every customer. You'll understand why some customers are more profitable than others. How to keep the profitable ones. And make others more profitable. You'll even get more value out of your customer relationship management (CRM) software.

Our software enables you to better track, understand, and manage your business to maximize enterprise performance. You'll have the information you need to make better decisions, improve operational efficiency, and discover new sources of revenue.

In fact, more than 24,000 companies rely on our software to unlock the power of information. Perhaps you should, too.

For our free business paper "Optimizing Customer Intelligence," visit www.businessobjects.com/retention. Or call 1-800-877-2340. Because a good customer is a terrible thing to lose.

BUSINESS OBJECTS
The business intelligence standard.

EXHIBIT 2.14

Business Objects is the world's leading business intelligence (BI) software company. Business intelligence enables organizations to track, understand, and manage enterprise performance. The company's solutions leverage the information that is stored in an array of corporate databases, enterprise resource planning (ERP), and customer relationship management (CRM) systems. <http://www.businessobjects.com>

is it:

what happens when cousins marry

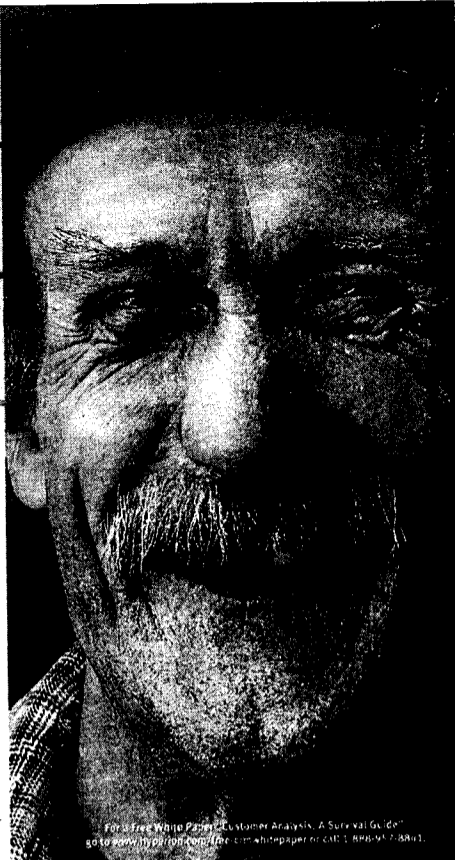
a centerfold in *Orthodontia Illustrated*

Eugene R. Wilton III
Gross Pointe, MI
Platinum Customer #43243

Are your online customers actually who they appear to be? Now you can know for sure. With Hyperion® Web Site Analysis Suite, part of the eCRM Analysis family, you can quickly gather and analyze key online customer data so you can positively identify who's really visiting your site—and why. It's insight that turns hits into sales... and one-time lookers into long-term buyers. Which is sure to make everyone smile.

Hyperion
eCRM Analysis Suite

For a free White Paper Customer Analysis: A Sure-Kal Guide, go to www.hyperion.com/whitepaper or call 1-800-947-8801.


EXHIBIT 2.15

Software firms like Hyperion are providing advertisers with key assistance in the areas of audience analysis or broadband communications. Hyperion specializes in gathering and analyzing online customer data from Web site visits. <http://www.hyperion.com>

directors, production managers, songwriters, camera operators, audio and lighting technicians, and performers are all essential to preparing a professional, high-quality radio or television ad. Production houses can provide the physical facilities, including sets, stages, equipment, and crews, needed for broadcast production. Similarly, in preparing print advertising, brochures, and direct mail pieces, graphic artists, photographers, models, directors, and producers may be hired from outside the advertising agency or firm to provide the specialized skills and facilities needed in preparing advertisements. In-store promotions is another area where designing and producing materials requires the skills of a specialty organization.

The specific activities performed by external facilitators and the techniques employed by the personnel in these firms will be covered in greater detail in Part 3 of the text. For now, it is sufficient to recognize the role these firms play in the advertising and promotions industry.

Software Firms. An interesting and complex new category of facilitator in advertising and promotion is composed of software firms. The technology in the industry, particularly new media technology, has expanded so rapidly that a variety of software firms facilitate the process. Some of these firms are well established and well known, such as Microsoft, Novell, and Oracle. But others, such as Hyperion (see Exhibit 2.15), L90, SAS, and Infinium, are new to the scene. These firms provide

software ranging from the gathering and analysis of Web surfer behavior to broadband streaming audio and video to managing relationships with trade partners. These firms provide the kind of expertise that is so esoteric that even the most advanced full-service or e-commerce agency would have to seek their assistance.



Media Organizations. The next level in the industry structure, shown in Exhibit 2.16, comprises media available to advertisers. The media available for placing advertising, such as broadcast and print media, are well known to most of us simply because we're exposed to them daily. In addition, the Internet has created media organizations through which advertisers can direct and distribute their advertising and promotional messages.

Advertisers and their agencies turn to media organizations that own and manage the media access to consumers. In traditional media, major television networks such as NBC and Fox, as well as national magazines such as *U.S. News & World Report* and *People*, provide advertisers with time and space for their messages at considerable cost.

Other media options are more useful for reaching narrowly defined target audiences. Specialty programming on cable television, tightly focused direct mail pieces, and a well-designed Internet campaign may be better ways to reach a specific audience. One of the new media options, broadband, offers advertisers the chance to target very specific audiences. Broadband allows Internet users to basically customize their programming by calling on only specific broadcasts from various providers. For example, The FeedRoom (<http://www.feedroom.com>) is an interactive broadband television news network that allows Web users to customize their news broadcasts to their personal preference. Advertisers can target different types of audiences using broadband for interactive broadcasts. The next step in broadband communications is wireless broadband; firms are already developing technology and access for consumers (see Exhibit 2.17).

Note the inclusion of media conglomerates in the list shown in Exhibit 2.16. This category is included because organizations such as Viacom and Comcast own and operate companies in broadcast, print, and interactive media. Viacom brings you cable networks such as Nickelodeon, VH1, and TV Land. The recent merger of AOL and Time Warner (now referred to again as only Time Warner) has created the world's largest mega media conglomerate, one that provides broadcasting, cable, music, film, print publishing, and a dominant Internet presence. One analyst described the media environment as "AOL Time Warner Anywhere, Anytime, Anyhow."⁴⁵

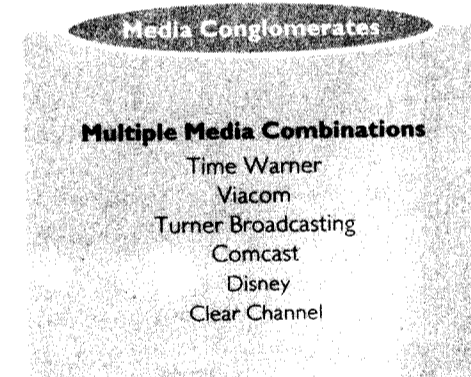
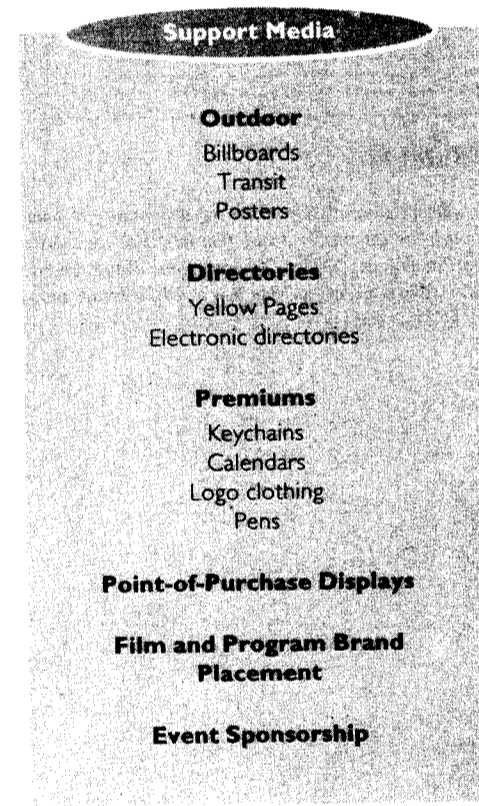
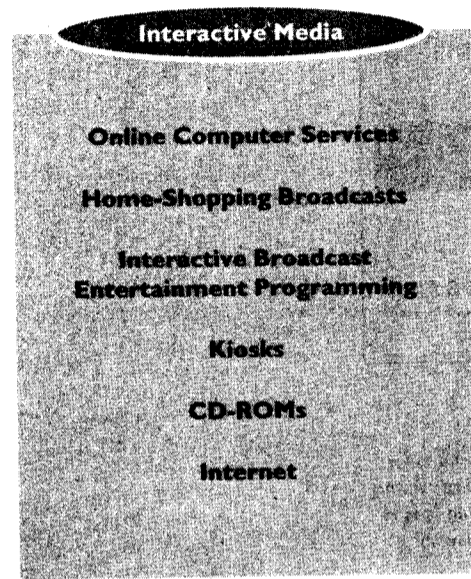
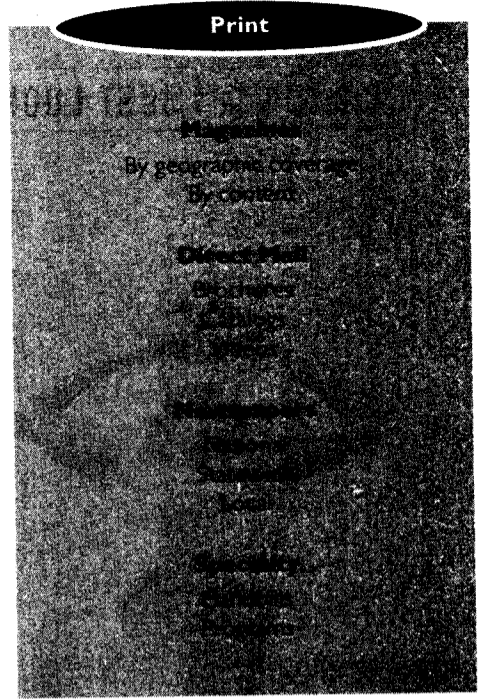
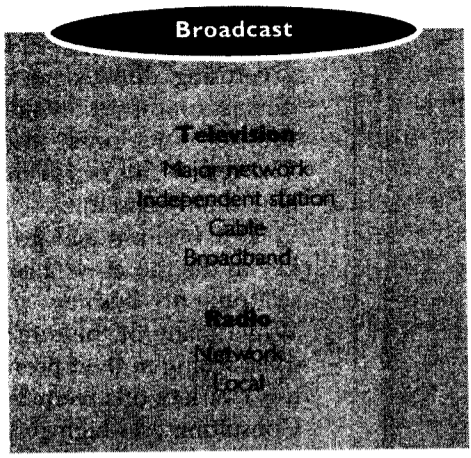
The support media organizations indicated in Exhibit 2.16 include all those places that advertisers want to put their messages other than mainstream traditional or interactive media. Often referred to as out-of-home media, these support media organizations include transit companies (bus and taxi boards), billboard organizations, specialized directory companies, and sports and performance arenas for sponsorships, display materials, and premium items.

Target Audiences. The structure of the promotion industry (check Exhibit 2.5 again) and the flow of communication would obviously be incomplete without an audience: no audience, no communication. One interesting thing about the audiences for promotional communications, with the exception of household consumers, is that they are also

45. Frank Gibney Jr., "Score One for AOLTW," *Time*, December 25, 2000–January 1, 2001, 138.

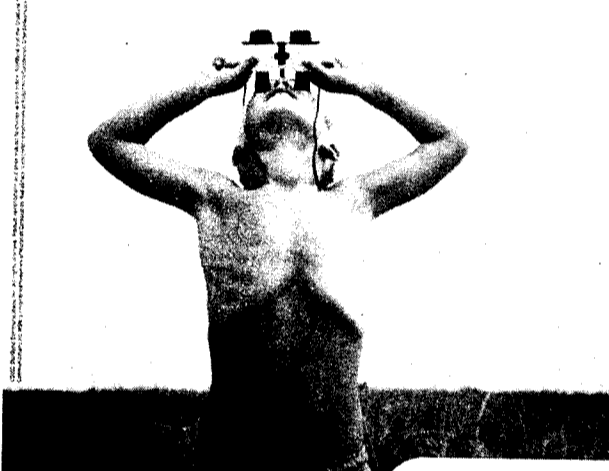
EXHIBIT 2.16

Advertisers have an array of media organizations available to them. Notice that the choices range from traditional print and broadcast media to broadband and media conglomerates.



e-SIGHTINGS

STILL WAITING FOR HIGH-SPEED INTERNET ACCESS? **↑ JUST LOOK UP.**



Tired of waiting for broadband? StarBand is here now. StarBand is the first company to deliver two-way, high-speed Internet access via satellite to consumers. It's always on and it's available virtually everywhere. If you can see the southern sky, you can get StarBand. Just look up: StarBand is available now at selected DISH Network™ retailers and through MSN® HighSpeed - Satellite at your local RadioShack® store. For more info go to www.StarBand.com or call toll-free 1-800-421-3466.

STARBAND.
www.StarBand.com

EXHIBIT 2.17

Broadband promises advertisers the opportunity to send audio and video through the Internet in a way that lets Web users customize their viewing and listening experiences. To learn more about various streaming services and media-rich content being developed for broadband, visit Akamai (<http://www.akamai.com>), <http://www.starband.com>.

the advertisers who use advertising and IBP communications. We are all familiar with the type of advertising directed at us in our role as consumers: toothpaste, window cleaner, sport-utility vehicles, soft drinks, insurance, and on and on. The text is full of advertising by firms targeting household consumers.

But business and government audiences are key to the success of a large number of firms that sell only to business and government buyers. While many of these firms rely heavily on personal selling in their promotional mix, many also use a variety of advertising and IBP tools. KPMG Consulting uses high-profile television and magazine advertising and sponsors events. Many business and trade sellers regularly need public relations, and most use direct mail to communicate with potential customers as a prelude to a personal selling call.

SUMMARY

- Discuss important trends transforming the advertising and promotion industry.

Recent years have proven to be a period of dramatic change for the advertising and promotion industry. The late-1990s trend towards agency consolidation has seen a reversal as numerous industry acquisitions and mergers failed to impress clients or produce greater profitability. Next, the proliferation of media from cable television to the Internet has created new advertising options, and giant media conglomerates are expected to control a majority of these television, radio, and Internet properties. Media proliferation has in turn led to increasing media clutter and fragmentation, reducing the effectiveness of advertisements; as a result, advertisers are utilizing sales promotions, event sponsorships, and public relations to supplement and enhance the primary advertising effort. Finally, today's consumers have greater control over the information they receive about brands. New technology applications from blogs to TiVo empower consumers and diminish the role of advertising in the consumption process. These developments are forcing advertisers to think differently about advertising and IBP.

- Describe the advertising and promotion industry's size, structure, and participants.

Many different types of organizations make up the industry. To truly appreciate what advertising is all about, one must understand who does what and in what order in the creation and delivery of an advertising or IBP campaign. The process begins with an organization that has a message it wishes to communicate to a target audience. This is the advertiser. Next, advertising and promotion agencies are typically hired to launch and manage a campaign, but other external facilitators are often brought in to perform specialized functions, such as assisting in the production of promotional materials or managing databases for efficient direct marketing campaigns. These external facilitators also include consultants with whom advertisers and their agencies may confer regarding advertising and IBP strategy decisions. All advertising and promotional campaigns must use some type of media to reach target markets. Advertisers and their agencies must therefore also work with companies that have media time or space.

- Discuss the role played by advertising and promotion agencies, the services provided by these agencies, and how they are compensated.

Advertising and promotion agencies come in many varieties and offer diverse services to clients with respect to

planning, preparing, and executing advertising and IBP campaigns. These services include market research and marketing planning, the actual creation and production of ad materials, the buying of media time or space for placement of the ads, and traffic management to keep production on schedule. Some advertising agencies appeal to clients by offering a full array of services under one roof; others such as creative boutiques develop a particular expertise and win clients with their specialized skills. Promotion agencies specialize in one or more of the other forms of promotion beyond advertising. New media agencies are proliferating to serve the Internet and other new media needs of advertisers. The four most prevalent ways to compensate an agency for services rendered are commissions, markups, fee systems, and the new pay-for-results programs.

- Identify key external facilitators who assist in planning and executing advertising and integrated brand promotion campaigns.

Marketing and advertising research firms assist advertisers and their agencies in understanding the market environment. Consultants of all sorts from marketing strategy through event planning and retail display are another form of external facilitator. Perhaps the most widely used facilitators are in the area of production of promotional materials. In advertising, a wide range of outside facilitators is used in the production of both broadcast and print advertising. In promotions, designers and planners are called on to assist in creation and execution of promotional mix tools. Software firms fill a new role in the structure of the industry. These firms provide expertise in tracking and analyzing consumer usage of new media technology.

- Discuss the role played by media organizations in executing effective advertising and integrated brand promotion campaigns programs.

Media organizations are the essential link in delivering advertising and IBP communications to target audiences. There are traditional media organizations such as television, radio, newspaper, and magazines. Interactive media options include not just the Internet but CD-ROMs, electronic kiosks, and less widely known communications companies. Media conglomerates such as AT&T, Time Warner, and Viacom control several different aspects of the communications system, from cable broadcast to Internet connections and emerging broadband communications technologies.

KEY TERMS

blog
 advertiser
 client
 trade reseller
 advertising agency
 full-service agency
 creative boutique
 interactive agency
 in-house agency
 media specialists
 promotion agencies
 direct marketing agency

database agency
 direct response agency
 fulfillment center
 infomercial
 e-commerce agency
 consumer sales promotion
 trade sales promotion
 event-planning agency
 designers
 logo
 public relations firm
 account services

account planner
 creative services
 production services
 media planning and buying services
 commission system
 markup charge
 fee system
 pay-for-results
 external facilitator
 consultants
 production facilitator

QUESTIONS

- Briefly describe the power struggle now taking place in the advertising industry. Who, beyond the agencies, is exerting power in the industry, and in what ways?
- Do you think the increasing independence and control consumers gain through new technologies like TiVo, the Internet, digital music players, and cell phones will make advertising and product branding less important? Explain.
- As cable-TV channels continue to proliferate and the TV-viewing audience becomes ever more fragmented, how would you expect the advertising industry to be affected?
- The U.S. government spends millions of dollars each year trying to recruit young men and women into the armed services. What forms of advertising and IBP communication would be best suited to this recruiting effort?
- Huge advertisers such as Procter & Gamble spend billions of dollars on advertising every year, yet they still rely on advertising agencies to prepare most of their advertising. Why doesn't a big company like this just do all its own advertising in-house?
- What is the advertiser's role in IBP?
- As advertisers become more enamored with the idea of IBP, why would it make sense for an advertising agency to develop a reputation as a full-service provider?
- Explain the viewpoint that a commission-based compensation system may actually give ad agencies an incentive to do the wrong things for their clients.
- What makes production of promotional materials the area where advertisers and their agencies are most likely to call on external facilitators for expertise and assistance?
- Give an example of how the skills of a public relations firm might be employed to reinforce the message that a sponsor is trying to communicate through other forms of promotion.