# Advertising and Promotion

AN INTEGRATED MARKETING COMMUNICATIONS PERSPECTIVE

# An Introduction to Integrated Marketing Communications

# 1

## Chapter Objectives

1. To examine the promotional function and the growing importance of advertising and other promotional elements in the marketing programs of domestic and foreign companies.

2. To introduce the concept of integrated marketing communications (IMC) and consider how it has evolved.

3. To examine reasons for the increasing importance of the IMC perspective in planning and executing advertising and promotional programs.

4. To introduce the various elements of the promotional mix and consider their roles in an IMC program.

5. To examine how various marketing and promotional elements must be coordinated to communicate effectively.

6. To introduce a model of the IMC planning process and examine the steps in developing a marketing communications program.

# "An Army of One" Campaign Accomplishes Its Mission

During the early to mid 1990s, the U.S. Army had little trouble attracting enough young men to enlist for military service. The collapse of the Soviet Union had all but ended, and the cold war and military warfare was becoming more high-


tech, which meant that fewer soldiers were needed. Thus, the Army was downsized by 40 percent, making it easy to reach modest recruitment goals. Recruitment advertising used the "Be All That You Can Be" tagline and relied primarily on expensive television commercials to deliver the self-actualization message. The ads also emphasized how joining the Army provided opportunities for career training, college scholarships, and other financial incentives.

While its recruitment marketing strategy worked well in the early to mid '90s, by the later part of the decade the Army found itself losing the battle to recruit America's youth. The military recruiting environment had changed as the booming economy of the '90s created many other opportunities for high school graduates. The Army's financial package was not enough to attract qualified recruits, and many high school graduates were not willing to endure the demands of basic training. However, the core challenge facing the Army was deeply rooted negative perceptions of the military. Research showed that 63 percent of young adults 17–24 said there was no way they would enlist in the military, and only 12 percent indicated an interest in military service. Comments such as, "not for people like me," "for losers," and, "only for those with no other options" were typical of the feelings young people held toward military service. Moreover, even for many of those who would consider enlisting in the service, the Army was their fourth choice among the branches of the military as it had major image problems on key attributes considered important in a post-high school opportunity.

All of these factors resulted in the Army missing its recruiting goals three out of the five years during the late '90s, despite spending more money on recruitment advertising than any branch of the military. In early 2000, Secretary of the Army Louis Caldera announced that: "We are totally changing the way we do Army advertising. We have to adopt the kinds of practices that the best marketing companies use to attract today's youth." His new marketing strategy called for a new advertising campaign and a new media strategy that included less reliance on television ads and greater use of the Internet, and "e-recruiting" to complement the Army's transformation into a more mobile, high-tech force. In June of 2000, Caldera announced the hiring of Leo Burnett USA, Chicago, as its new agency, replacing Young & Rubicam which had created Army ads since 1987.

One of the first decisions facing Leo Burnett was whether to continue with the long running "Be All That You Can Be" tagline. Although highly recognizable, the agency felt that the tagline had lost its relevance with young adults and could not be used to reposition the Army and forge a connection with this target audience. The agency came up with a new advertising and positioning theme that would be the basis for the integrated marketing campaign—"An Army of One." The creative strategy behind the theme is that it would bring to the forefront the idea that soldiers are the Army's most important resource and highlight that each individual can and does make a difference; that his/her contributions are important to the success of the whole team. The "An Army of One" campaign would send a message that a soldier is not nameless or faceless, but part of a unified group of individuals who together create the strength of the U.S. Army.

A major goal of the "An Army of One" campaign is to provide young adults with an accurate look into what it means to be a soldier in today's Army. A key phase of the campaign was called "Basic Training" which uses a reality based television format made popular by the hit show *Survivor.* The unscripted TV spots feature brief profiles of six actual army recruits as they progress through basic training, giving viewers a glimpse of their personal experiences and opinions as they transform from civilians into soldiers. The ads also encourage prospective recruits to visit the Army website (GoArmy.com) to experience a complete, in-depth multimedia "webisode" presentation including commentary from the recruits. The Web site was re-designed in early 2001 by Chemistri, an interactive agency which is a subsidiary of Leo Burnett, with the goal of making it a more effective recruitment tool. The site serves as a resource for potential recruits interested in learning about the Army and helps them overcome fears about basic training, increases their understanding of career opportunities available, and introduces them to soldiers similar to themselves.

The "An Army of One" campaign has been a great success. Although its media budget was 20 percent lower than the previous year, the Army fulfilled its 2001 recruiting goal of 115,000 new recruits one month early. Television, print, radio and online ads were effective in driving traffic to GoArmy.com as visits to the Web site doubled and online leads were up by 75 percent. The Web site has won several awards including a prestigious Cannes Cyber Lion and has become a focal point for the Army's recruitment efforts. The overall "An Army of One" integrated campaign also won an Effie Award as one of the most effective marketing programs of the year. Mission accomplished.

Sources: 2002 Effie Awards Brief of Effectiveness, Leo Burnett USA; Kate MacArthur, "The 'Army of One' meets 'Survivor,'" *Advertising Age,* www.AdAge.com February 02, 2001; Michael McCarthy, "Army enlists Net to be all it can be," *USA Today,* April 19, 2000, p. 10B.

The opening vignette illustrates how the roles of advertising and other forms of promotion are changing in the modern world of marketing. In the past, marketers such as the U.S. Army relied primarily on advertising through traditional mass media to promote their products. Today many companies are taking a different approach to marketing and promotion: They integrate their advertising efforts with a variety of other communication techniques such as websites on the Internet, direct marketing, sales promotion, publicity and public relations (PR), and event sponsorships. They are also recognizing that these communication tools are most effective when they are coordinated with other elements of the marketing program.

The various marketing communication tools used by the U.S. Army as part of its recruitment efforts exemplify how marketers are using an *integrated marketing communications* approach to reach their customers. The U.S. Army runs recruitment advertising in a variety of media including television, radio, magazines, newspapers, and billboards. Banner ads on the Internet as well as in other media encourage consumers to visit the GoArmy.com website which provides valuable information about the U.S. Army such as career paths, the enlistment process, and benefits (Exhibit 1-1). Direct marketing efforts include mailings to high school seniors and direct response television ads which encourage young people to request more information and help generate leads for Army recruiters. Publicity for the U.S. Army is generated through press releases and public relation activities as well as in movies and television shows. At the local level the Army sponsors athletic events and participates in activities such as career fairs to reach its target audience as well as other groups or individuals who can influence its brand image. Recruiters work in local recruitment offices and are available to meet individually with potential recruits to answer questions and provide information about the Army. Recruitment efforts for the U.S. Army also include promotional incentives such as cash enlistment bonuses and educational benefits.

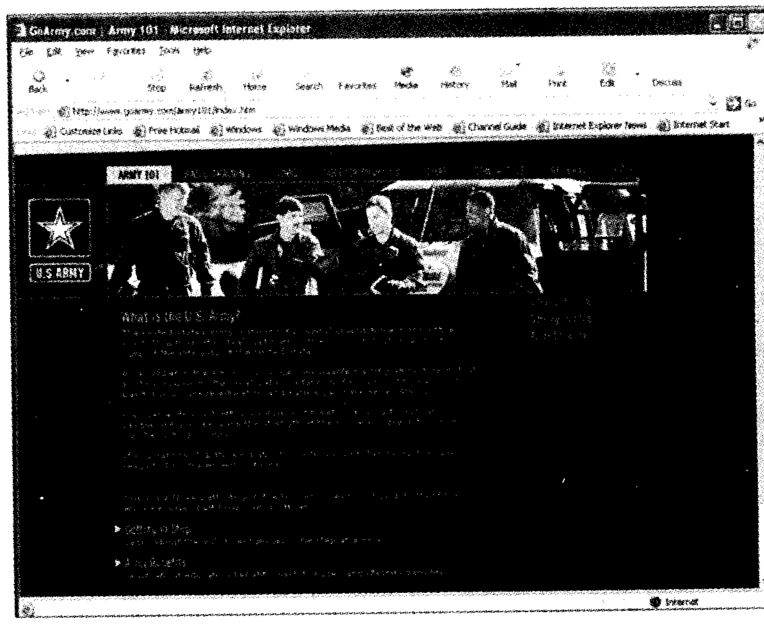


**Exhibit 1-1** The U.S. Army provides potential recruits with valuable information through the GoArmy.com website on the Internet

The U.S. Army and thousands of other companies and organizations recognize that the way they must communicate with consumers and promote their products and services is changing rapidly. The fragmentation of mass markets, the explosion of new technologies that are giving consumers greater control over the communications process, the rapid growth of the Internet and electronic commerce, the emergence of global markets, and economic uncertainties are all changing the way companies approach marketing as well as advertising and promotion. Developing marketing communications programs that are responsive to these changes is critical to the success of every organization. However, advertising and other forms of promotion will continue to play an important role in the integrated marketing programs of most companies.

## The Growth of Advertising and Promotion

Advertising and promotion are an integral part of our social and economic systems. In our complex society, advertising has evolved into a vital communications system for both consumers and businesses. The ability of advertising and other promotional methods to deliver carefully prepared messages to target audiences has given them a major role in the marketing programs of most organizations. Companies ranging from large multinational corporations to small retailers increasingly rely on advertising and promotion to help them market products and services. In market-based economies, consumers have learned to rely on advertising and other forms of promotion for information they can use in making purchase decisions.

Evidence of the increasing importance of advertising and promotion comes from the growth in expenditures in these areas. In 1980, advertising expenditures in the United States were $53 billion, and $49 billion was spent on sales promotion techniques such as product samples, coupons, contests, sweepstakes, premiums, rebates, and allowances and discounts to retailers. By 2002, nearly $240 billion was spent on local and national advertising, while spending on sales promotion programs targeted toward consumers and retailers increased to more than $250 billion.[1] Companies bombarded the U.S. consumer with messages and promotional offers, collectively spending more than $30 a week on every man, woman, and child in the country—nearly 50 percent more per capita than in any other nation.

Promotional expenditures in international markets have grown as well. Advertising expenditures outside the United States increased from $55 billion in 1980 to nearly $214 billion by 2002.[2] Both foreign and domestic companies spend billions more on sales promotion, personal selling, direct marketing, event sponsorships, and public relations, all important parts of a firm's marketing communications program.

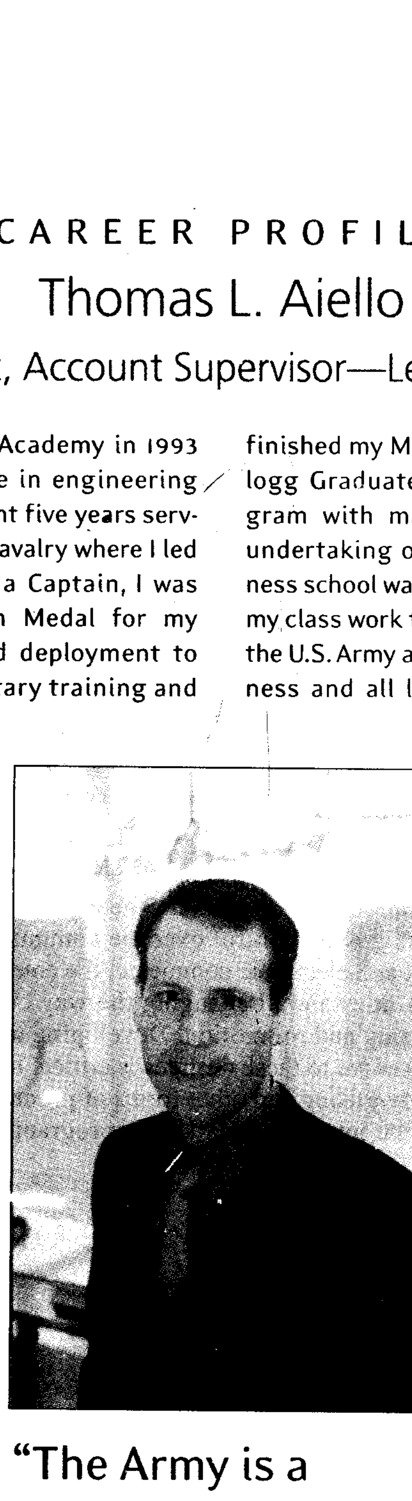
The tremendous growth in expenditures for advertising and promotion reflects in part the growth of the U.S. and global economies and the efforts of expansion-minded marketers to take advantage of growth opportunities in various regions of the world.

## CAREER PROFILE

# Thomas L. Aiello

### Vice President, Account Supervisor—Leo Burnett, USA

I graduated from the U.S. Military Academy in 1993 with a bachelor's of science degree in engineering management. After West Point, I spent five years serving in the U.S. Army in the armored cavalry where I led groups of 50 or more soldiers. As a Captain, I was awarded the Army Commendation Medal for my accomplishments during real-world deployment to Panama, Korea, and Kuwait. My military training and experiences taught me valuable skills about leadership, project management, and strategic decision making. But the most valuable thing the Army taught me was about people and what makes them tick–this human insight is the core of all good advertising.



"The Army is a great account because of the diversity of people I get to work with."

In 1998, I transitioned to the corporate world and accepted a position with Leo Burnett in Chicago. I had interviewed with Fortune-500 companies for careers in sales, operations and even manufacturing. When I interviewed with Leo Burnett, the advertising job seemed the best fit for my skills and I was attracted to the strong values and culture of the agency. Working at a major agency like Leo Burnett has many advantages. We have big agency resources with a small agency attitude in terms of our adaptability to move the client's business forward. My first position at Leo Burnett was in the Client Service Department working with the Chicagoland McDonald's account team. I played an integral role in helping Chicago become one of McDonald's top sales regions.

In 1999, I began working on national assignments for McDonald's and was the catalyst in winning new McDonald's business for the agency. After a promotion to account supervisor, I took the lead role on the McDonald's Happy Meal calendar team. I helped develop programs to launch new products such as Mighty Kids Meals and the Kid Dessert Menu.

Although I was learning through experience and Leo Burnett's training program, I felt a need to expand my business skills. I began night school and in early 2002 I finished my MBA from Northwestern University's Kellogg Graduate School of Management evening program with majors in marketing and finance. The undertaking of working full-time and going to business school was tasking, but I was able to directly apply my class work to my job at Leo Burnett. I then moved to the U.S. Army account, where I supervise the ROTC business and all local advertising and field marketing. Working on an account like the U.S. Army is very rewarding given its importance in a post 9/11 world. Personally, it seemed like my years of military experience, advertising, and business school had come together.

The Army is a great account because of the diversity of people I get to work with. My client partners are Army officers and Department of Defense civilians. They bring a great deal of experience and drive to the business. Our approach on Army is integrated, so I get to work with a diverse cross-functional team spanning creative, planning, media, web, PR, direct mail, sports marketing, and ethnic experts. Coordinating all of these areas into flawless execution is half art, half science, and a lot of hard work. My peers on the Army account created the Army of One integrated campaign. It has helped the Army achieve their recruiting mission over the last two years and won many ad industry awards.

I also do volunteer work for various organizations which help promote the advertising business such as the Ad Council which is a leading producer of public service advertisements (PSAs) since 1942. I am also an ambassador for the Advertising Education Foundation (AEF). The AEF is a not-for-profit organization created and supported by ad agencies to improve the perception and understanding of the social, historical, and economic roles of advertising. As an ambassador I visit students and faculty of various colleges and universities to talk on the advertising process and issues such as global advertising and ethics, gender, and ethnicity in advertising.

The growth in promotional expenditures also reflects the fact that marketers around the world recognize the value and importance of advertising and promotion. Promotional strategies play an important role in the marketing programs of companies as they attempt to communicate with and sell their products to their customers. To understand the roles advertising and promotion play in the marketing process, let us first examine the marketing function.

# What Is Marketing?

Before reading on, stop for a moment and think about how you would define marketing. Chances are that each reader of this book will come up with a somewhat different answer, since marketing is often viewed in terms of individual activities that constitute the overall marketing process. One popular conception of marketing is that it primarily involves sales. Other perspectives view marketing as consisting of advertising or retailing activities. For some of you, market research, pricing, or product planning may come to mind.

While all these activities are part of marketing, it encompasses more than just these individual elements. The American Marketing Association (AMA), which represents marketing professionals in the United States and Canada, defines **marketing** as

> 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.[3]

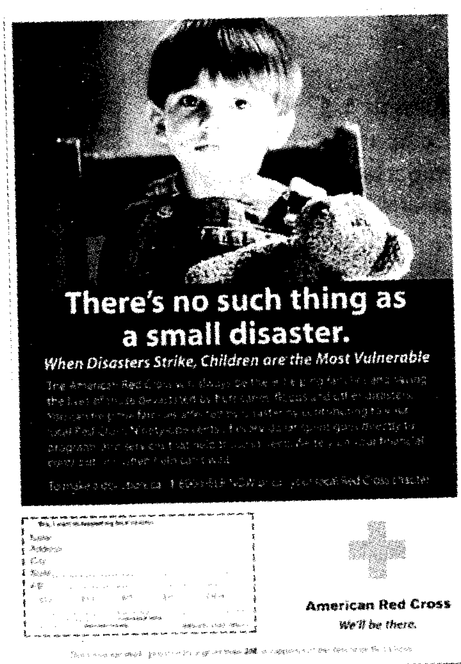
Effective marketing requires that managers recognize the interdependence of such activities as sales and promotion and how they can be combined to develop a marketing program.

## Marketing Focuses on Exchange

The AMA definition recognizes that **exchange** is a central concept in marketing.[4] For exchange to occur, there must be two or more parties with something of value to one another, a desire and ability to give up that something to the other party, and a way to communicate with each other. Advertising and promotion play an important role in the exchange process by informing consumers of an organization's product or service and convincing them of its ability to satisfy their needs or wants.

Not all marketing transactions involve the exchange of money for a tangible product or service. Nonprofit organizations such as charities, religious groups, the arts, and colleges and universities (probably including the one you are attending) receive millions of dollars in donations every year. Nonprofits often use ads like the one in Exhibit 1-2 to solicit contributions from the public. Donors generally do not receive any material benefits for their contributions; they donate in exchange for intangible social and psychological satisfactions such as feelings of goodwill and altruism.

**Exhibit 1-2** Nonprofit organizations use advertising to solicit contributions and support




## Relationship Marketing

Today, most marketers are seeking more than just a one-time exchange or transaction with customers. The focus of market-driven companies is on developing and sustaining *relationships* with their customers. This has led to a new emphasis on **relationship marketing,** which involves creating, maintaining, and enhancing long-term relationships with individual customers as well as other stakeholders for mutual benefit.[5]

The movement toward relationship marketing is due to several factors. First, companies recognize that customers have become much more demanding. Consumers desire *superior customer value,* which includes quality products and services that are competitively priced, convenient to purchase, delivered on time, and supported by excellent customer service. They also want personalized products and services that are tailored to their specific needs and wants. Advances in information technology, along with flexible manufacturing systems and new marketing processes, have led to **mass customization,** whereby a company can make a product or deliver a service in response to a particular customer's needs in a cost-effective way.[6] New technology is making it possible to configure and personalize a wide array of products and services including computers, automobiles, clothing, golf clubs, cosmetics, mortgages, and vitamins. Consumers can log on to websites such as Mattel Inc.'s barbie.com and design their own Barbie pal doll or Fingerhut's myjewelry.com to design their own rings. Technological developments are also likely to make the mass customization of advertising more practical as well.[7]

Another major reason why marketers are emphasizing relationships is that it is often more cost-effective to retain customers than to acquire new ones. Marketers are giving more attention to the *lifetime value* of a customer because studies have shown that reducing customer defections by just 5 percent can increase future profit by as much as 30 to 90 percent.[8] Exhibit 1-3 shows an ad for Dell Computer, a company that recognizes the importance of developing long-term relationships with its customers.

## The Marketing Mix

Marketing facilitates the exchange process and the development of relationships by carefully examining the needs and wants of consumers, developing a product or service that satisfies these needs, offering it at a certain price, making it available through a particular place or channel of distribution, and developing a program of promotion or communication to create awareness and interest. These four Ps—product, price, place (distribution), and promotion—are elements of the **marketing mix.** The basic task of marketing is combining these four elements into a marketing program to facilitate the potential for exchange with consumers in the marketplace.

The proper marketing mix does not just happen. Marketers must be knowledgeable about the issues and options involved in each element of the mix. They must also be aware of how these elements can be combined to provide an effective marketing program. The market must be analyzed through consumer research, and the resulting information must be used to develop an overall marketing strategy and mix.

The primary focus of this book is on one element of the marketing mix: the promotional variable. However, the promotional program must be part of a viable marketing strategy and be coordinated with other marketing activities. A firm can spend large sums on advertising or sales promotion, but it stands little chance of success if the product is of poor quality, is priced improperly, or does not have adequate distribution to consumers. Marketers have long recognized the importance of combining the elements of the marketing mix into a cohesive marketing strategy. Many companies also recognize the need to integrate their various marketing communications efforts, such as media advertising, direct marketing, sales promotion, and public relations, to achieve more effective marketing communications.

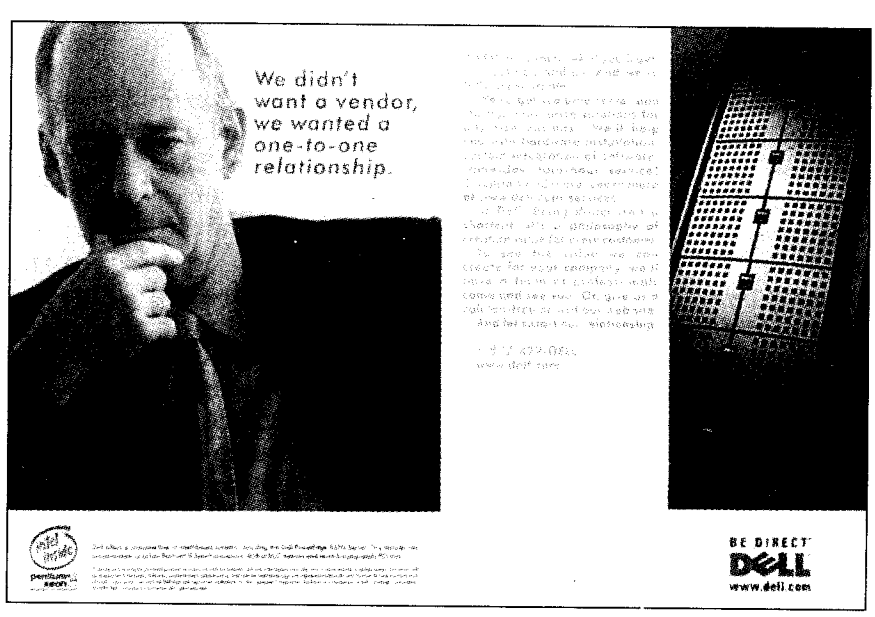



**Exhibit 1-3** Dell Computer recognizes the importance of developing relationships with customers

# Integrated Marketing Communications

For many years, the promotional function in most companies was dominated by mass-media advertising. Companies relied primarily on their advertising agencies for guidance in nearly all areas of marketing communication. Most marketers did use additional promotional and marketing communication tools, but sales promotion and direct-marketing agencies as well as package design firms were generally viewed as auxiliary services and often used on a per-project basis. Public relations agencies were used to manage the organization's publicity, image, and affairs with relevant publics on an ongoing basis but were not viewed as integral participants in the marketing communications process.

Many marketers built strong barriers around the various marketing and promotional functions and planned and managed them as separate practices, with different budgets, different views of the market, and different goals and objectives. These companies failed to recognize that the wide range of marketing and promotional tools must be coordinated to communicate effectively and present a consistent image to target markets.

## The Evolution of IMC

During the 1980s, many companies came to see the need for more of a strategic integration of their promotional tools. These firms began moving toward the process of **integrated marketing communications (IMC),** which involves coordinating the various promotional elements and other marketing activities that communicate with a firm's customers.[9] As marketers embraced the concept of integrated marketing communications, they began asking their ad agencies to coordinate the use of a variety of promotional tools rather than relying primarily on media advertising. A number of companies also began to look beyond traditional advertising agencies and use other types of promotional specialists to develop and implement various components of their promotional plans.

Many agencies responded to the call for synergy among the promotional tools by acquiring PR, sales promotion, and direct-marketing companies and touting themselves as IMC agencies that offer one-stop shopping for all their clients' promotional needs.[10] Some agencies became involved in these nonadvertising areas to gain control over their clients' promotional programs and budgets and struggled to offer any real value beyond creating advertising. However, the advertising industry soon recognized that IMC was more than just a fad. Terms such as *new advertising, orchestration,* and *seamless communication* were used to describe the concept of integration.[11] A task force from the American Association of Advertising Agencies (the "4As") developed one of the first definitions of integrated marketing communications:

> a concept of marketing communications planning that recognizes the added value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines—for example, general advertising, direct response, sales promotion, and public relations—and combines these disciplines to provide clarity, consistency, and maximum communications impact.[12]

The 4As' definition focuses on the process of using all forms of promotion to achieve maximum communication impact. However, advocates of the IMC concept, such as Don Schultz of Northwestern University, argue for an even broader perspective that considers *all sources of brand or company contact* that a customer or prospect has with a product or service.[13] Schultz and others note that the process of integrated marketing communications calls for a "big-picture" approach to planning marketing and promotion programs and coordinating the various communication functions. It requires that firms develop a total marketing communications strategy that recognizes how all of a firm's marketing activities, not just promotion, communicate with its customers.

Consumers' perceptions of a company and/or its various brands are a synthesis of the bundle of messages they receive or contacts they have, such as media advertisements, price, package design, direct-marketing efforts, publicity, sales promotions, websites, point-of-purchase displays, and even the type of store where a product or service is sold. The integrated marketing communications approach seeks to have all of a company's marketing and promotional activities project a consistent, unified image to the marketplace. It calls for a centralized messaging function so that everything a company says and does communicates a common theme and positioning.

Many companies have adopted this broader perspective of IMC. They see it as a way to coordinate and manage their marketing communications programs to ensure that they give customers a consistent message about the company and/or its brands. For these companies, the IMC approach represents an improvement over the traditional method of treating the various marketing and communications elements as virtually separate activities. However, as marketers become more sophisticated in their understanding of IMC, they recognize that it offers more than just ideas for coordinating all elements of the marketing and communications programs. The IMC approach helps companies identify the most appropriate and effective methods for communicating and building relationships with their customers as well as other stakeholders such as employees, suppliers, investors, interest groups, and the general public.

Tom Duncan and Sandra Moriarty note that IMC is one of the "new-generation" marketing approaches being used by companies to better focus their efforts in acquiring, retaining, and developing relationships with customers and other stakeholders. They have developed a communication-based marketing model that emphasizes the importance of managing *all* corporate or brand communications, as they collectively create, maintain, or weaken the customer and stakeholder relationships that drive brand value.[14] Messages can originate at three levels—corporate, marketing, and marketing communications—since all of a company's corporate activities, marketing-mix activities, and marketing communications efforts have communication dimensions and play a role in attracting and keeping customers.

At the corporate level, various aspects of a firm's business practices and philosophies, such as its mission, hiring practices, philanthropies, corporate culture, and ways of responding to inquiries, all have dimensions that communicate with customers and other stakeholders and affect relationships. For example, Ben & Jerry's is a company that is rated very high in social responsibility and is perceived as a very good corporate citizen in its dealings with communities, employees, and the environment.[15] Ben & Jerry's capitalizes on its image as a socially responsible company by supporting various causes as well as community events (Exhibit 1-4).

At the marketing level, as was mentioned earlier, companies send messages to customers and other stakeholders through all aspects of their marketing mixes, not just promotion. Consumers make inferences about a product on the basis of elements such as its design, appearance, performance, pricing, service support, and where and how it is distributed. For example, a high price may symbolize quality to customers, as may the shape or design of a product, its packaging, its brand name, or the image of the stores in which it is sold. Montblanc uses classic design and a distinctive brand name as well as a

**Exhibit 1-4** Ben & Jerry's has a very strong image and reputation as a socially responsible company

high price to position its watches and pens as high-quality, high-status products. This upscale image is enhanced by the company's strategy of distributing its products only through boutiques, jewelry stores, and other exclusive retail shops. Notice how the marketing-mix elements that help shape the brand's distinctive image are reflected in the Montblanc ad shown in Exhibit 1-5.

At the marketing communications level, Duncan and Moriarty note that all messages should be delivered and received on a platform of executional and strategic consistency in order to create coherent perceptions among customers and other stakeholders. This requires the integration of the various marketing communication's messages and the functions of various promotional facilitators such as ad agencies, public relations firms, sales promotion specialists, package design firms, direct-response specialists, and interactive agencies. The goal is to communicate with one voice, look, and image across all the marketing communications functions and to identify and position the company and/or the brand in a consistent manner.

Many companies are realizing that communicating effectively with customers and other stakeholders involves more than traditional marketing communications tools. Many marketers, as well as advertising agencies, are embracing the IMC approach and adopting total communication solutions to create and sustain relationships between companies or brands and their customers. Some academics and practitioners have questioned whether the IMC movement is just another management fad.[16] However, the IMC approach is proving to be a permanent change that offers significant value to marketers in the rapidly changing communications environment they are facing in the new millennium.[17] We will now discuss some of the reasons for the growing importance of IMC.

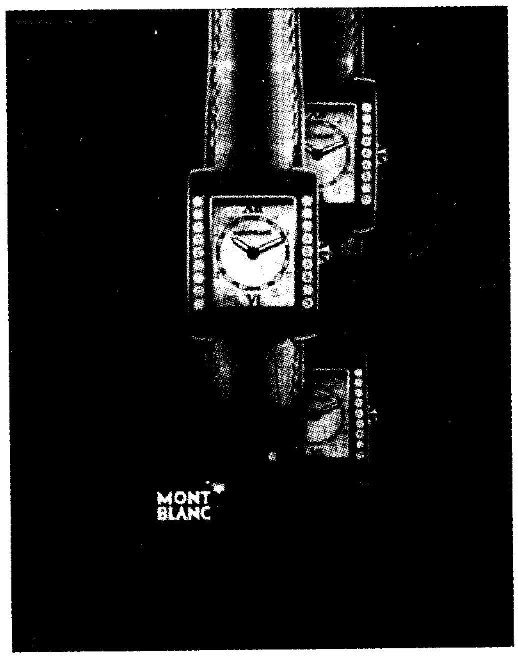



**Exhibit 1-5** Montblanc uses a variety of marketing mix elements including price, product design, brand name, and distribution strategy to create a high-quality, upscale image for its watches

## Reasons for the Growing Importance of IMC

The move toward integrated marketing communications is one of the most significant marketing developments that occurred during the 1990s, and the shift toward this approach is continuing as we begin the new century. The IMC approach to marketing communications planning and strategy is being adopted by both large and small companies and has become popular among firms marketing consumer products and services as well as business-to-business marketers. There are a number of reasons why marketers are adopting the IMC approach. A fundamental reason is that they understand the value of strategically integrating the various communications functions rather than having them operate autonomously. By coordinating their marketing communications efforts, companies can avoid duplication, take advantage of synergy among promotional tools, and develop more efficient and effective marketing communications programs. Advocates of IMC argue that it is one of the easiest ways for a company to maximize the return on its investment in marketing and promotion.[18]

The move to integrated marketing communications also reflects an adaptation by marketers to a changing environment, particularly with respect to consumers, technology, and media. Major changes have occurred among consumers with respect to demographics, lifestyles, media use, and buying and shopping patterns. For example, cable TV and more recently digital satellite systems have vastly expanded the number of channels available to households. Some of these channels offer 24-hour shopping networks; others contain 30- or 60-minute direct-response appeals known as *infomercials,* which look more like TV shows than ads. Every day more consumers are surfing the Internet's World Wide Web. Online services such as America Online and Microsoft Network provide information and entertainment as well as the opportunity to shop for and order a vast array of products and services. Marketers are responding by developing home pages on which they can advertise their products and services interactively as well as transact sales. For example, travelers can use American Airlines' AA.com website to plan flights, check for special fares, purchase tickets, and reserve seats, as well as make hotel and car-rental reservations (Exhibit 1-6).

Even as new technologies and formats create new ways for marketers to reach consumers, they are affecting the more traditional media. Television, radio, magazines,

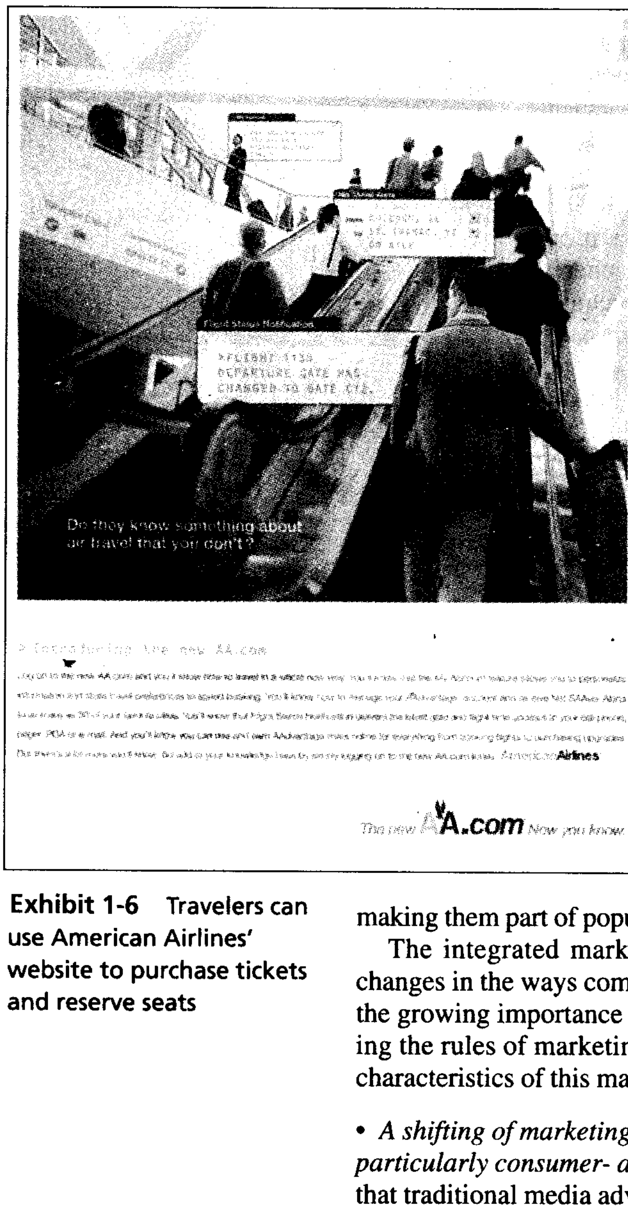



Exhibit 1-6 Travelers can use American Airlines' website to purchase tickets and reserve seats

and newspapers are becoming more fragmented and reaching smaller and more selective audiences. A recent survey of leading U.S. advertising executives on trends that will shape the industry identified the segmentation of media audiences by new media technologies as the most important development.[19]

In addition to facing the decline in audience size for many media, marketers are facing the problem of consumers' being less responsive to traditional advertising. They recognize that many consumers are turned off by advertising and tired of being bombarded with sales messages. These factors are prompting many marketers to look for alternative ways to communicate with their target audiences, such as making their selling messages part of popular culture. For example, marketers often hire product placement firms to get their brands into TV shows and movies. MGM/United Artists created special scenes in the recent James Bond movie *Die Another Day* to feature the Aston Martin V12 Vanquish sports car. It is estimated that the British automaker, which is owned by Ford Motor Company, paid $70 million to have the car featured in the movie. In an arrangement with Columbia Pictures, Daimler-Benz agreed to spend several million dollars on commercials, private screenings, and other promotions to have the redesigned Mercedes-Benz E500 automobile featured in the movie *Men in Black II*.[20] IMC Perspective 1-1 discusses how marketers are finding new ways to reach consumers and disguise their promotional messages by making them part of popular culture.

The integrated marketing communications movement is also being driven by changes in the ways companies market their products and services. A major reason for the growing importance of the IMC approach is the ongoing revolution that is changing the rules of marketing and the role of the traditional advertising agency.[21] Major characteristics of this marketing revolution include:

- *A shifting of marketing dollars from media advertising to other forms of promotion, particularly consumer- and trade-oriented sales promotions.* Many marketers feel that traditional media advertising has become too expensive and is not cost-effective. Also, escalating price competition in many markets has resulted in marketers' pouring more of their promotional budgets into price promotions rather than media advertising.

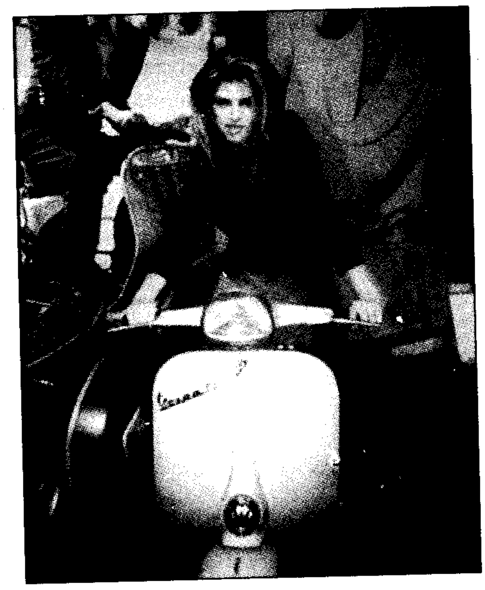
- *A movement away from relying on advertising-focused approaches, which emphasize mass media such as network television and national magazines, to solve communication problems.* Many companies are turning to lower-cost, more targeted communication tools such as event marketing and sponsorships, direct mail, sales promotion, and the Internet as they develop their marketing communications strategies.

- *A shift in marketplace power from manufacturers to retailers.* Due to consolidation in the retail industry, small local retailers are being replaced by regional, national, and international chains. These large retailers are using their clout to demand larger promotional fees and allowances from manufacturers, a practice that often siphons money away from advertising. Moreover, new technologies such as checkout scanners give retailers information on the effectiveness of manufacturers' promotional programs. This is leading many marketers to shift their focus to promotional tools that can produce short-term results, such as sale promotion.

- *The rapid growth and development of database marketing.* Many companies are building databases containing customer names; geographic, demographic, and psychographic profiles; purchase patterns; media preferences; credit ratings; and other characteristics. Marketers are using this information to target consumers through a variety of

## IMC PERSPECTIVE 1-1

# What's the Buzz?



Consumers have long had a love-hate relationship with advertising. We enjoy watching music- and celebrity-laden commercials that are often more entertaining, humorous, or interesting than the programs they are sponsoring. We purchase magazines such as *Glamour, Vogue,* and *GQ,* which contain more ad pages than articles. But many consumers are tired of being bombarded with sales messages and are turned off by advertising. This is especially true of Generation Y, the age cohort born between 1979 and 1994, which is 60 million strong. The Generation Y cohort is three times the size of its Gen X predecessor, and its members constitute the biggest group to hit the U.S. market since the 72 million baby boomers, who are their parents. Having grown up in an even more media-saturated, brand-conscious world than their parents did, they respond to advertising differently and prefer to encounter marketing messages in different places or from different sources.

Marketers recognize that to penetrate the skepticism and capture the attention of the Gen Ys they have to bring their messages to these people in a different way. To do so, many companies are turning to a stealth-type strategy known as *buzz marketing,* whereby brand come-ons become part of popular culture and consumers themselves are lured into spreading the message. Marketers are turning their brands into carefully guarded secrets that are revealed to only a few people in each community. Each carefully cultivated recipient of the brand message becomes a powerful carrier, spreading the word to yet more carriers, who tell a few more, and so on. The goal of the marketer is to identify the trendsetters in each community and push them into talking up the brand to their friends and admirers. As the senior vice president at Bates U.S.A., who developed a buzz campaign for Lucky Strike cigarettes, notes, "Ultimately, the brand benefits because an accepted member of the social circle will always be far more credible than any communication that could come directly from the brand."

A number of marketers have used buzz marketing successfully. Rather than blitzing the airways with 30-second commercials for its new Focus subcompact, Ford Motor Company recruited 120 trendsetters in five key markets and gave them each a Focus to drive for six months. According to Ford's marketing communications manager, who planned and implemented the program, "We weren't looking for celebrities. We were looking for the assistants to celebrities, party planners, disc jockeys—the people who really seemed to influence what was cool." The recruits' duties were simply to be seen with the car, to hand out Focus-themed trinkets to anyone who expressed an interest in the car, and to keep a record of where they took the car. The program helped Ford get the Focus off to a brisk start, selling 286,166 units in its first full year.

Vespa motor scooter importer Piagio U.S.A. hired a group of attractive models to find the right cafes in and around Los Angeles and to interact with people over a cup of coffee or iced latte and generate buzz for the European bikes.

Even ad agencies that are heavily invested in traditional brand-building techniques acknowledge that buzz marketing has become a phenomenon. Malcolm Gladwell's book *The Tipping Point: How Little Things Can Make a Big Difference*—which describes how a small number of consumers can ignite a trend, if they're the right ones—has become must reading among ad agency personnel. The chairperson and CEO of Grey Global Group notes, "Everybody has read *The Tipping Point* and is trying to figure out the underground streams to reach consumers. Everybody is experimenting with it." For example, Reebok conducted more than 1,000 interviews to identify young Canadian women who were trendsetters among their peers. The company then gave 90 of these women a pair of $150 U-Shuffle DMX cross-trainers to get the funky shoes on the feet of these urban trendsetters. The product seeding campaign helped make the product-line launch one of the most successful in the company's history.

Some experts note that the growing popularity of buzz marketing could well spell its downfall. If everyone does it, it will no longer be buzz; it will simply be obscure and annoying advertising. And when consumers recognize that every company is trying to create a buzz for its brand, they are likely to be turned off to the technique. By then, of course, marketers will have found another stealth way to deliver their sales messages.

Sources: Garry Khermouch and Jeff Green, "Buzz Marketing," *BusinessWeek,* July 30, 2001, pp. 50-56; "Firms Reap Fruits of Product Seeding," *The Montreal Gazette,* Sept. 11, 2001, p. D6.

direct-marketing methods such as telemarketing, direct mail, and direct-response advertising, rather than relying on mass media. Advocates of the approach argue that database marketing is critical to the development and practice of effective IMC.[22]

- *Demands for greater accountability from advertising agencies and changes in the way agencies are compensated.* Many companies are moving toward incentive-based systems whereby compensation of their ad agencies is based, at least in part, on objective measures such as sales. market share, and profitability. Demands for accountability are motivating many agencies to consider a variety of communication tools and less expensive alternatives to mass-media advertising.
- *The rapid growth of the Internet, which is changing the very nature of how companies do business and the ways they communicate and interact with consumers.* The Internet revolution is well under way, and the Internet audience is growing rapidly. The Internet is an interactive medium that is becoming an integral part of communication strategy, and even business strategy, for many companies.

This marketing revolution is affecting everyone involved in the marketing and promotional process. Companies are recognizing that they must change the ways they market and promote their products and services. They can no longer be tied to a specific communication tool (such as media advertising); rather, they should use whatever contact methods offer the best way of delivering the message to their target audiences. Ad agencies continue to reposition themselves as offering more than just advertising expertise; they strive to convince their clients that they can manage all or any part of clients' integrated communications needs. Most agencies recognize that their future success depends on their ability to understand all areas of promotion and help their clients develop and implement integrated marketing communications programs.

## The Role of IMC in Branding

One of the major reasons for the growing importance of integrated marketing communications over the past decade is that it plays a major role in the process of developing and sustaining brand identity and equity. As branding expert Kevin Keller notes, "Building and properly managing brand equity has become a priority for companies of all sizes, in all types of industries, in all types of markets."[23] With more and more products and services competing for consideration by customers who have less and less time to make choices, well-known brands have a major competitive advantage in today's marketplace. Building and maintaining brand identity and equity require the creation of well-known brands that have favorable, strong, and unique associations in the mind of the consumer.[24] IMC Perspective 1-2 discusses the important role that branding now plays in the marketing process.

*Brand identity* is a combination of many factors, including the name, logo, symbols, design, packaging, and performance of a product or service as well as the image or type of associations that comes to mind when consumers think about a brand. It encompasses the entire spectrum of consumers' awareness, knowledge, and image of the brand as well as the company behind it. It is the sum of all points of encounter or contact that consumers have with the brand, and it extends beyond the experience or outcome of using it. These contacts can also result from various forms of integrated marketing communications activities used by a company, including mass-media advertising, sales promotion offers, sponsorship activities at sporting or entertainment events, websites on the Internet, and direct-mail pieces such as letters, brochures, catalogs, or videos. Consumers can also have contact with or receive information about a brand in stores at the point of sale; through articles or stories they see, hear, or read in the media; or through interactions with a company representative, such as a salesperson.

Marketers recognize that in the modern world of marketing there are many different opportunities and methods for *contacting* current and prospective customers to provide them with information about a company and/or brands. The challenge is to understand how to use the various IMC tools to make such contacts and deliver the branding message effectively and efficiently. A successful IMC program requires that marketers find the right combination of communication tools and techniques, define their role and the extent to which they can or should be used, and coordinate their use. To accomplish this, the persons responsible for the company's communication efforts must have an understanding of the IMC tools that are available and the ways they can be used.

## IMC PERSPECTIVE 1-2

# The Power of Brands

Consider for a moment what consumers' reactions would be to a pair of running or basketball shoes if the Nike name or "swoosh" was taken off of them or to a bottle of cola without the Coke or Pepsi name. Would a Godiva chocolate by any other name taste as sweet? Do plain blue jeans carry the same cachet as those bearing the Diesel or Calvin Klein label? There was a time when consumers were proudly declaring their independence from the appeal of name-brand names by favoring the more practical generics and private labels. However, in today's marketplace the appeal of brand names is greater than ever, and marketers recognize that building and reinforcing the image of their brands is a key to profitability and growth. Many companies now know that brand equity is as important an asset as factories, inventory, and cash because strong brands have the power to command a premium price from consumers as well as investors. The table below shows the world's most valuable brands as measured by Interbrand Corp., a leading brand consultancy company.

There are a number of reasons why brands are more important than ever before. Consumers have a tremendous number of choices available in nearly every product and service category but have less and less time to shop and make selections. Well-known and trusted brand names are a touchstone for consumers and help simplify their decision-making process. Branding guru Larry Light notes that the key to all successful brands is that they stand for something and are much more than simply trademarks or logos. A brand is a promise to the customer. As one executive has stated: "Consumers don't go shopping for a 24-valve, 6-cylinder, 200-horsepower, fuel-injected engine. They shop for a Taurus, a Lexus, a BMW, a Jeep Cherokee, a Hummer, whatever. They shop for well-known, trusted brands."

Having a strong brand name and identity is also important to companies competing in the global economy as they must reach customers far from their home base. Companies such as Nokia, which is based in Finland, or Samsung, which is headquartered in South Korea, rely heavily on markets outside their home countries to sell their cellular phones and other electronic products. A strong brand name is also important for companies entering new markets or introducing new products. For example, Boeing recently began its first-ever corporate branding campaign as part of its overall strategy to expand beyond the commercial-aviation market and into new industries such as military aircraft, rockets, satellites, and broadband communications. Everything from Boeing's logo to its decision to relocate its corporate headquarters from Seattle to Chicago has been devised with the Boeing brand in mind.

While marketers recognize the importance of brand building, many are finding it difficult to commit themselves to the effort as the global economy slows and budgets tighten. Media sales staff, advertising agencies, and other marketing communications specialists have been doing their best to convince companies not to cut back on their spending but, rather, to continue to support their brands. They point to the last economic downturn, in the early 1990s, during which private-label brands leaped to prominence when many packaged-goods companies slashed their advertising budgets. Today, while many companies are avoiding the temptation to cut back on advertising and promotion to help meet earnings forecasts, others have shown less willingness to support their brands. Experts note that these firms run the risk of losing their pricing power and, more important, their connection with their customers. Moreover, they run the risk of losing market share to well-funded competitors that are eager to grab market share from weaker rivals. As marketing professor Kevin Keller notes, "People who starve their brands now will be paying in the future."

**The world's 10 most valuable brands, 2002**

| Rank | Brand | 2002 Brand Value (Billions) |
|---|---|---|
| 1 | Coca-Cola | $69.6 |
| 2 | Microsoft | 64.1 |
| 3 | IBM | 51.2 |
| 4 | GE | 41.3 |
| 5 | Intel | 30.9 |
| 6 | Nokia | 30.0 |
| 7 | Disney | 29.3 |
| 8 | McDonald's | 26.4 |
| 9 | Marlboro | 24.2 |
| 10 | Mercedes | 21.0 |

*Source:* Interbrand Corp., J.P. Morgan Chase & Co.

Sources: Gerry Khermouch, "The Best Global Brands," *BusinessWeek*, Aug. 5, 2002, pp. 92–94; Gerry Khermouch, "Why Advertising Matters More than Ever," *BusinessWeek*, Aug. 6, 2001, pp. 50–57; Scott Ward, Larry Light, and Jonathon Goldstine, "What High-Tech Managers Need to Know about Brands," *Harvard Business Review*, July–August, 1999, pp. 85–95.


**Advertising investments undeniably help build a brand. The American Advertising Federation reminds companies of this through its Great Brands campaign. The parent companies of these brands gave unprecedented permission to modify their logos for use in this campaign.**

## The Promotional Mix: The Tools for IMC

**Promotion** has been defined as the coordination of all seller-initiated efforts to set up channels of information and persuasion in order to sell goods and services or promote an idea.[25] While implicit communication occurs through the various elements of the marketing mix, most of an organization's communications with the marketplace take place as part of a carefully planned and controlled promotional program. The basic tools used to accomplish an organization's communication objectives are often referred to as the **promotional mix** (Figure 1-1).

Traditionally the promotional mix has included four elements: advertising, sales promotion, publicity/public relations, and personal selling. However, in this text we view direct marketing as well as interactive media as major promotional-mix elements that modern-day marketers use to communicate with their target markets. Each element of the promotional mix is viewed as an integrated marketing communications tool that plays a distinctive role in an IMC program. Each may take on a variety of forms. And each has certain advantages.



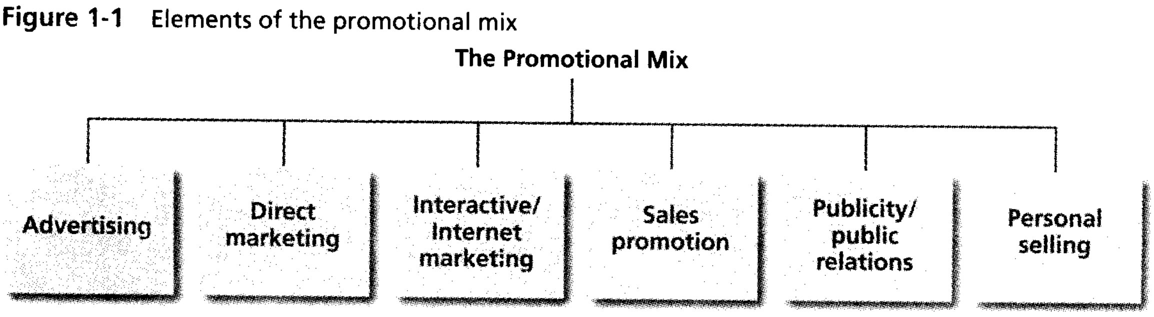
### Advertising

**Advertising** is defined as any paid form of nonpersonal communication about an organization, product, service, or idea by an identified sponsor.[26] The *paid* aspect of this definition reflects the fact that the space or time for an advertising message generally must be bought. An occasional exception to this is the public service announcement (PSA), whose advertising space or time is donated by the media.

The *nonpersonal* component means that advertising involves mass media (e.g., TV, radio, magazines, newspapers) that can transmit a message to large groups of individuals, often at the same time. The nonpersonal nature of advertising means that there is generally no opportunity for immediate feedback from the message recipient (except in direct-response advertising). Therefore, before the message is sent, the advertiser must consider how the audience will interpret and respond to it.

Advertising is the best-known and most widely discussed form of promotion, probably because of its pervasiveness. It is also a very important promotional tool, particu-

**Figure 1-1** Elements of the promotional mix



larly for companies whose products and services are targeted at mass consumer markets. More than 200 companies each spend over $100 million a year on advertising in the United States. Figure 1-2 shows the advertising expenditures of the 25 leading national advertisers in 2001.

There are several reasons why advertising is such an important part of many marketers' promotional mixes. First, it can be a very cost-effective method for communicating with large audiences. For example, the average 30-second spot on the four major networks during prime-time network television reaches nearly 10 million households. The cost per thousand households reached is around $14.[27]

Advertising can be used to create brand images and symbolic appeals for a company or brand, a very important capability for companies selling products and services that are difficult to differentiate on functional attributes. For example, since 1980 Absolut has used creative advertising to position its vodka as an upscale, fashionable, sophisticated drink and differentiate it from other brands. The advertising strategy has been to focus attention on two unique aspects of the product: the Absolut name and the distinctive shape of the bottle (Exhibit 1-7). Most of the print ads used in this long-running campaign are specifically tailored for the magazine or region where they appear. The campaign, one of the most successful and recognizable in advertising history, has made the Absolut brand nearly synonymous with imported vodka. While all other spirits sales have declined by more than 40 percent over the past 15 years, Absolut sales have increased 10-fold and the various Absolut brands have a combined 70 percent market share.[28]

**Figure 1-2** 25 leading advertisers in the United States, 2001

| Rank | Advertiser | Ad Spending (Millions) |
|---|---|---|
| 1 | General Motors Corp. | $3,374.4 |
| 2 | Procter & Gamble | 2,540.6 |
| 3 | Ford Motor Co. | 2,408.2 |
| 4 | PepsiCo | 2,210.4 |
| 5 | Pfizer | 2,189.5 |
| 6 | DaimlerChrysler | 1,985.3 |
| 7 | AOL Time Warner | 1,885.3 |
| 8 | Philip Morris Cos. | 1,815.7 |
| 9 | Walt Disney Co. | 1,757.3 |
| 10 | Johnson & Johnson | 1,618.1 |
| 11 | Unilever | 1,483.6 |
| 12 | Sears, Roebuck & Co. | 1,480.1 |
| 13 | Verizon Communications | 1,461.6 |
| 14 | Toyota Motor Corp. | 1,399.1 |
| 15 | AT&T Corp. | 1,371.9 |
| 16 | Sony Corp. | 1,310.1 |
| 17 | Viacom | 1,282.8 |
| 18 | McDonald's Corp. | 1,194.7 |
| 19 | Diageo | 1,180.8 |
| 20 | Sprint Corp. | 1,160.1 |
| 21 | Merck & Co. | 1,136.6 |
| 22 | Honda Motor Co. | 1,102.9 |
| 23 | J.C. Penney Corp. | 1,085.7 |
| 24 | U.S. government | 1,056.8 |
| 25 | L'Oreal | 1,040.7 |

*Source: Advertising Age*, June 24, 2002, p. S-2.

Exhibit 1-7 Creative advertising has made Absolut the most popular brand of imported vodka in the United States

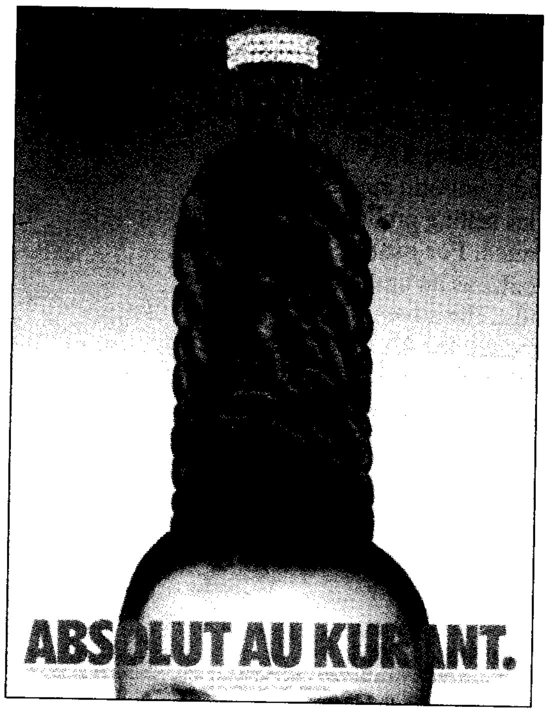
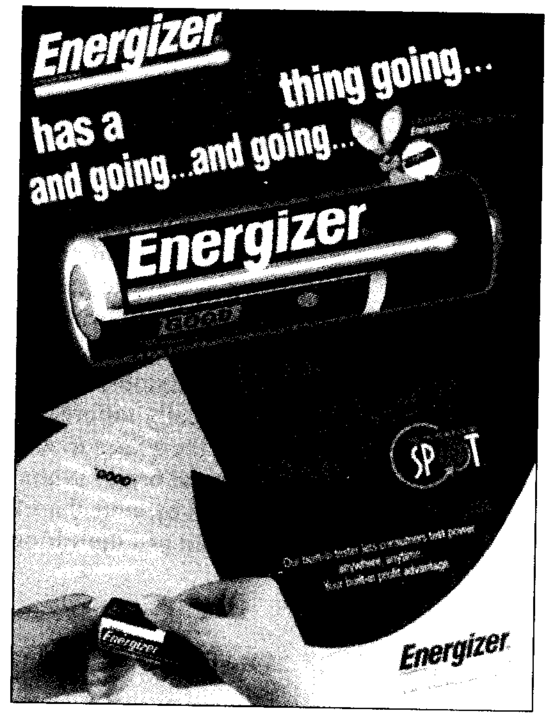


Exhibit 1-8 Eveready uses the popularity of its pink bunny campaign to generate support from retailers




Another advantage of advertising is its ability to strike a responsive chord with consumers when differentiation across other elements of the marketing mix is difficult to achieve. Popular advertising campaigns attract consumers' attention and can help generate sales. These popular campaigns can also sometimes be leveraged into successful integrated marketing communications programs. For example, Eveready used the popularity of its Energizer Bunny campaign to generate support from retailers in the form of shelf space, promotional displays, and other merchandising activities (Exhibit 1-8). Consumer promotions such as in-store displays, premium offers, and sweepstakes feature the pink bunny. Pictures of the Energizer Bunny appear on Energizer packages to ensure brand identification and extend the campaign's impact to the point of purchase. Eveready has extended its integrated marketing efforts to include tie-ins with sports marketing and sponsorships.

Exhibit 1-9 The goals of the "milk mustache" campaign are to change the image of milk and increase sales of the product


The nature and purpose of advertising differ from one industry to another and/or across situations. The targets of an organization's advertising efforts often vary, as do advertising's role and function in the marketing program. One advertiser may seek to generate immediate response or action from the customer; another may want to develop awareness or a positive image for its product or service over a longer period. For example, Exhibit 1-9 shows one of the ads from the popular "milk mustache" campaign. The goal of this campaign, which began in 1995, has been to change the image of milk and help reverse the decline in per-capita milk consumption in the United States.

Marketers advertise to the consumer market with national and retail/local advertising, which may stimulate primary or selective demand. For business/professional markets, they use business-to-business, professional, and trade advertising. Figure 1-3 describes the most common types of advertising.

## Direct Marketing

One of the fastest-growing sectors of the U.S. economy is **direct marketing,** in which organizations communicate directly with target customers to generate a response and/or a transaction. Traditionally, direct marketing

**Figure 1-3** Classifications of advertising

## ADVERTISING TO CONSUMER MARKETS

**National Advertising**
Advertising done by large companies on a nationwide basis or in most regions of the country. Most of the ads for well-known companies and brands that are seen on prime-time TV or in other major national or regional media are examples of national advertising. The goals of national advertisers are to inform or remind consumers of the company or brand and its features, benefits, advantages, or uses and to create or reinforce its image so that consumers will be predisposed to purchase it.

**Retail/Local Advertising**
Advertising done by retailers or local merchants to encourage consumers to shop at a specific store, use a local service, or patronize a particular establishment. Retail or local advertising tends to emphasize specific patronage motives such as price, hours of operation, service, atmosphere, image, or merchandise assortment. Retailers are concerned with building store traffic, so their promotions often take the form of direct-action advertising designed to produce immediate store traffic and sales.

**Primary- versus Selective-Demand Advertising**
Primary-demand advertising is designed to stimulate demand for the general product class or entire industry. Selective-demand advertising focuses on creating demand for a specific company's brands. Most advertising for products and services is concerned with stimulating selective demand and emphasizes reasons for purchasing a particular brand.

An advertiser might concentrate on stimulating primary demand when, for example, its brand dominates a market and will benefit the most from overall market growth. Primary-demand advertising is often used as part of a promotional strategy to help a new product gain market acceptance, since the challenge is to sell customers on the product concept as much as to sell a particular brand. Industry trade associations also try to stimulate primary demand for their members' products, among them cotton, milk, orange juice, pork, and beef.

## ADVERTISING TO BUSINESS AND PROFESSIONAL MARKETS

**Business-to-Business Advertising**
Advertising targeted at individuals who buy or influence the purchase of industrial goods or services for their companies. Industrial goods are products that either become a physical part of another product (raw material or component parts), are used in manufacturing other goods (machinery), or are used to help a company conduct its business (e.g., office supplies, computers). Business services such as insurance, travel services, and health care are also included in this category.

**Professional Advertising**
Advertising targeted to professionals such as doctors, lawyers, dentists, engineers, or professors to encourage them to use a company's product in their business operations. It might also be used to encourage professionals to recommend or specify the use of a company's product by end-users.

**Trade Advertising**
Advertising targeted to marketing channel members such as wholesalers, distributors, and retailers. The goal is to encourage channel members to stock, promote, and resell the manufacturer's branded products to their customers.


Exhibit 1-10 The Bose Corporation uses direct-response advertising to promote its audio products

has not been considered an element of the promotional mix. However, because it has become such an integral part of the IMC program of many organizations and often involves separate objectives, budgets, and strategies, we view direct marketing as a component of the promotional mix.

Direct marketing is much more than direct mail and mail-order catalogs. It involves a variety of activities, including database management, direct selling, telemarketing, and direct-response ads through direct mail, the Internet, and various broadcast and print media. Some companies, such as Tupperware, Discovery Toys, and Amway, do not use any other distribution channels, relying on independent contractors to sell their products directly to consumers. Companies such as L.L. Bean, Lands' End, and J. Crew have been very successful in using direct marketing to sell their clothing products. Dell Computer and Gateway have experienced tremendous growth in the computer industry by selling a full line of personal computers through direct marketing.

One of the major tools of direct marketing is **direct-response advertising,** whereby a product is promoted through an ad that encourages the consumer to purchase directly from the manufacturer. Traditionally, direct mail has been the primary medium for direct-response advertising, although television and magazines have become increasingly important media. For example, Exhibit 1-10 shows a direct-response ad for the Bose Corporation's Acoustic Waveguide products. Direct-response advertising and other forms of direct marketing have become very popular over the past two decades, owing primarily to changing lifestyles, particularly the increase in two-income households. This has meant more discretionary income but less time for in-store shopping. The availability of credit cards and toll-free phone numbers has also facilitated the purchase of products from direct-response ads. More recently, the rapid growth of the Internet is fueling the growth of direct marketing. The convenience of shopping through catalogs or on a company's website and placing orders by mail, by phone, or online has led the tremendous growth of direct marketing.

Direct-marketing tools and techniques are also being used by companies that distribute their products through traditional distribution channels or have their own sales force. Direct marketing plays a big role in the integrated marketing communications programs of consumer-product companies and business-to-business marketers. These companies spend large amounts of money each year developing and maintaining databases containing the addresses and/or phone numbers of present and prospective customers. They use telemarketing to call customers directly and attempt to sell them products and services or qualify them as sales leads. Marketers also send out direct-mail pieces ranging from simple letters and flyers to detailed brochures, catalogs, and videotapes to give potential customers information about their products or services. Direct-marketing techniques are also used to distribute product samples or target users of a competing brand.

## Interactive/Internet Marketing

As the new millennium begins, we are experiencing perhaps the most dynamic and revolutionary changes of any era in the history of marketing, as well as advertising and promotion. These changes are being driven by advances in technology and developments that have led to dramatic growth of communication through interactive media, particularly the Internet. **Interactive media** allow for a back-and-forth flow of information whereby users can participate in and modify the form and content of the information they receive in real time. Unlike traditional forms of marketing communications such as advertising, which are one-way in nature, the new media allow users to perform a variety of functions such as receive and alter information and images, make inquiries, respond to questions, and, of course, make purchases. In addition to the Internet, other forms of interactive media include CD-ROMs, kiosks, and interactive television. However, the interactive medium that is having the greatest impact on marketing is the Internet, especially through the component known as the World Wide Web.

While the Internet is changing the ways companies design and implement their entire business and marketing strategies, it is also affecting their marketing communications programs. Thousands of companies, ranging from large multinational corporations to small local firms, have developed websites to promote their products and services, by providing current and potential customers with information, as well as to entertain and interact with consumers. Perhaps the most prevalent perspective on the Internet is that it is an advertising medium, as many marketers advertise their products and services on the websites of other companies and/or organizations. Actually, the Internet is a medium that can be used to execute all the elements of the promotional mix. In addition to advertising on the Web, marketers offer sales promotion incentives such as coupons, contests, and sweepstakes online, and they use the Internet to conduct direct marketing, personal selling, and public relations activities more effectively and efficiently. For example, Exhibit 1-11 shows a page from the Web site for Lands' End which informs consumers how they can get personalized service when they shop online.

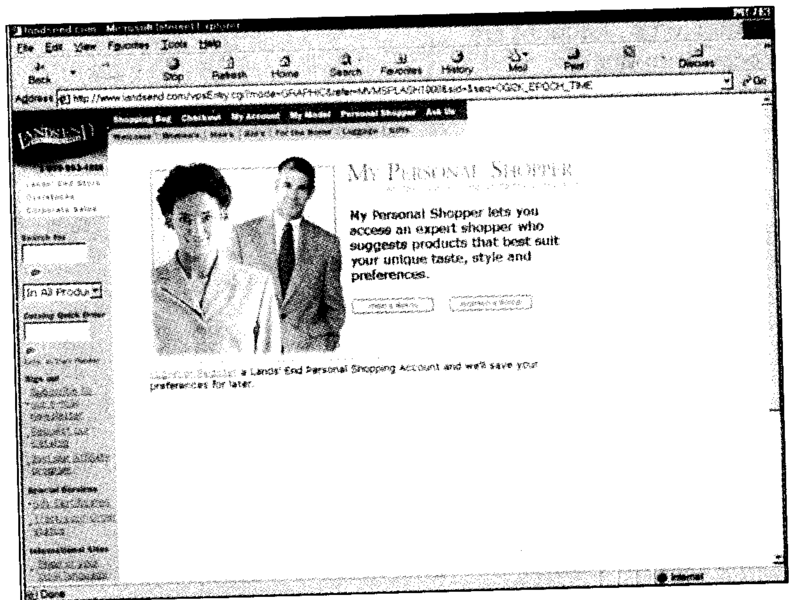
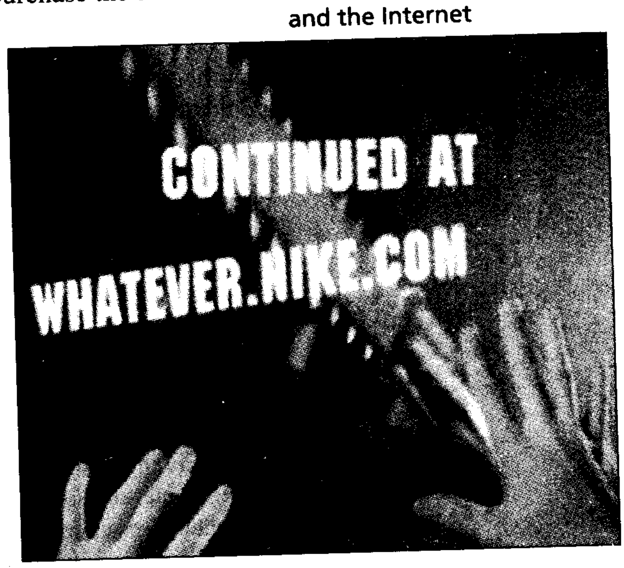


**Exhibit 1-11** Lands' End uses its website as part of its direct-marketing efforts

While the Internet is a promotional medium, it can also be viewed as a marketing communications tool in its own right. Because of its interactive nature, it is a very effective way of communicating with customers. Many companies recognize the advantages of communicating via the Internet and are developing Web strategies and hiring interactive agencies specifically to develop their websites and make them part of their integrated marketing communications program. However, companies that are using the Internet effectively are integrating their Web strategies with other aspects of their IMC programs.

An excellent example of this is the award-winning "Whatever" campaign developed by Nike and its advertising agency, Weiden & Kennedy, to introduce the Air Cross Trainer II shoes. The ads featured star athletes such as sprinter Marion Jones in dramatic situations, and as each spot ended, the words "Continue at Whatever.Nike.com" appeared on the screen (Exhibit 1-12). When viewers visited the site, they could select from six or seven possible endings to the commercial, read information on the sports and athletes featured in the ads, or purchase the shoes. The integrated campaign was very effective in driving traffic to both Nike's main website and the whatever.nike.com site created specifically for the campaign. The "Whatever" campaign was also very effective in terms of sales as it helped make the Air Cross Trainer II Nike's best-selling shoe soon after the ads debuted.[29]

**Exhibit 1-12** Nike's "Whatever" campaign creatively integrated the use of television advertising and the Internet




## Sales Promotion

The next variable in the promotional mix is **sales promotion,** which is generally defined as those marketing activities that provide extra value or incentives to the sales force, the distributors, or the ultimate consumer and can stimulate immediate sales. Sales promotion is generally broken into two major categories: consumer-oriented and trade-oriented activities.

*Consumer-oriented sales promotion* is targeted to the ultimate user of a product or service and includes couponing, sampling, premiums, rebates, contests, sweepstakes,

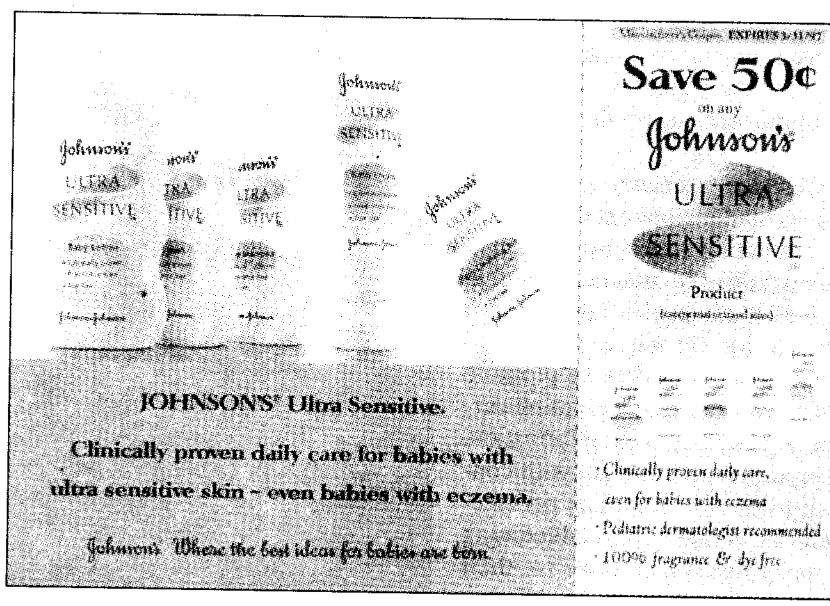



**Exhibit 1-13** Coupons are a popular consumer-oriented sales promotion tool

and various point-of-purchase materials (Exhibit 1-13). These promotional tools encourage consumers to make an immediate purchase and thus can stimulate short-term sales. *Trade-oriented sales promotion* is targeted toward marketing intermediaries such as wholesalers, distributors, and retailers. Promotional and merchandising allowances, price deals, sales contests, and trade shows are some of the promotional tools used to encourage the trade to stock and promote a company's products.

Among many consumer packaged-goods companies, sales promotion is often 60 to 70 percent of the promotional budget.[30] In recent years many companies have shifted the emphasis of their promotional strategy from advertising to sales promotion. Reasons for the increased emphasis on sales promotion include declining brand loyalty and increased consumer sensitivity to promotional deals. Another major reason is that retailers have become larger and more powerful and are demanding more trade promotion support from companies.

*Promotion* and *sales promotion* are two terms that often create confusion in the advertising and marketing fields. As noted, promotion is an element of marketing by which firms communicate with their customers; it includes all the promotional-mix elements we have just discussed. However, many marketing and advertising practitioners use the term more narrowly to refer to sales promotion activities to either consumers or the trade (retailers, wholesalers). In this book, *promotion* is used in the broader sense to refer to the various marketing communications activities of an organization.

## Publicity/Public Relations

Another important component of an organization's promotional mix is publicity/public relations.

### Publicity

**Publicity** refers to nonpersonal communications regarding an organization, product, service, or idea not directly paid for or run under identified sponsorship. It usually comes in the form of a news story, editorial, or announcement about an organization and/or its products and services. Like advertising, publicity involves nonpersonal communication to a mass audience, but unlike advertising, publicity is not directly paid for by the company. The company or organization attempts to get the media to cover or run a favorable story on a product, service, cause, or event to affect awareness, knowledge, opinions, and/or behavior. Techniques used to gain publicity include news releases, press conferences, feature articles, photographs, films, and videotapes.

An advantage of publicity over other forms of promotion is its credibility. Consumers generally tend to be less skeptical toward favorable information about a product or service when it comes from a source they perceive as unbiased. For example, the success (or failure) of a new movie is often determined by the reviews it receives from film critics, who are viewed by many moviegoers as objective evaluators.

Another advantage of publicity is its low cost, since the company is not paying for time or space in a mass medium such as TV, radio, or newspapers. While an organization may incur some costs in developing publicity items or maintaining a staff to do so, these expenses will be far less than those for the other promotional programs.

Publicity is not always under the control of an organization and is sometimes unfavorable. Negative stories about a company and/or its products can be very damaging. For example, a few years ago negative stories about abdominal exercise machines appeared on ABC's "20/20" and NBC's "Dateline" newsmagazine TV shows. Before these stories aired, more than $3 million worth of the machines were being sold each week, primarily through infomercials. After the negative stories aired, sales of the machines dropped immediately; within a few months the product category was all but dead.[31]

**Public Relations** It is important to recognize the distinction between publicity and public relations. When an organization systematically plans and distributes information in an attempt to control and manage its image and the nature of the publicity it receives, it is really engaging in a function known as public relations. **Public relations** is defined as "the management function which evaluates public attitudes, identifies the policies and procedures of an individual or organization with the public interest, and executes a program of action to earn public understanding and acceptance."[32] Public relations generally has a broader objective than publicity, as its purpose is to establish and maintain a positive image of the company among its various publics.

Public relations uses publicity and a variety of other tools—including special publications, participation in community activities, fund-raising, sponsorship of special events, and various public affairs activities—to enhance an organization's image. Organizations also use advertising as a public relations tool. For example, in Exhibit 1-14 a corporate ad for DuPont shows how the company uses science to make life better.

Traditionally, publicity and public relations have been considered more supportive than primary to the marketing and promotional process. However, many firms have begun making PR an integral part of their predetermined marketing and promotional strategies. PR firms are increasingly touting public relations as a communications tool that can take over many of the functions of conventional advertising and marketing.[33]



## Personal Selling

The final element of an organization's promotional mix is **personal selling,** a form of person-to-person communication in which a seller attempts to assist and/or persuade prospective buyers to purchase the company's product or service or to act on an idea. Unlike advertising, personal selling involves direct contact between buyer and seller, either face-to-face or through some form of telecommunications such as telephone sales. This interaction gives the marketer communication flexibility; the seller can see

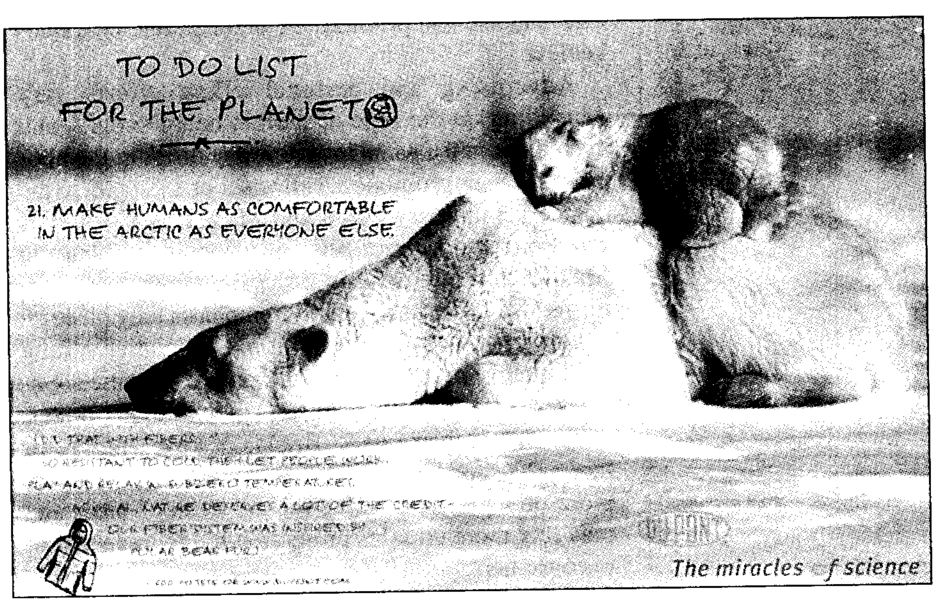



**Exhibit 1-14** Advertising is often used to enhance companies' corporate images

or hear the potential buyer's reactions and modify the message accordingly. The personal, individualized communication in personal selling allows the seller to tailor the message to the customer's specific needs or situation.

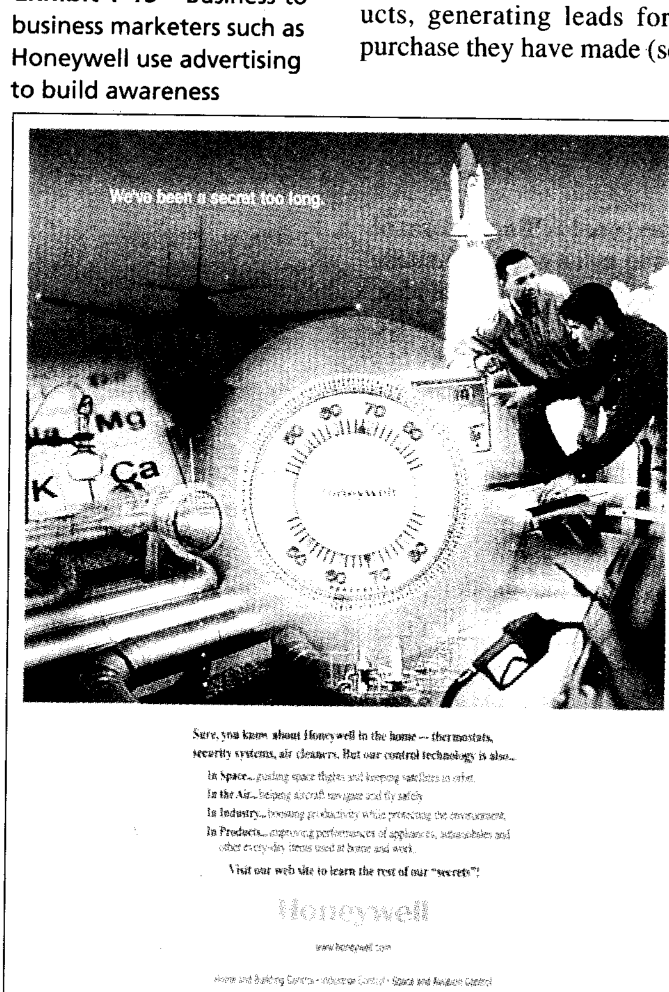
Personal selling also involves more immediate and precise feedback because the impact of the sales presentation can generally be assessed from the customer's reactions. If the feedback is unfavorable, the salesperson can modify the message. Personal selling efforts can also be targeted to specific markets and customer types that are the best prospects for the company's product or service.

## Promotional Management

In developing an integrated marketing communications strategy, a company combines the promotional-mix elements, balancing the strengths and weaknesses of each, to produce an effective promotional campaign. **Promotional management** involves coordinating the promotional-mix elements to develop a controlled, integrated program of effective marketing communications. The marketer must consider which promotional tools to use and how to combine them to achieve its marketing and promotional objectives. Companies also face the task of distributing the total promotional budget across the promotional-mix elements. What percentage of the budget should they allocate to advertising, sales promotion, the Internet, direct marketing, and personal selling?

Companies consider many factors in developing their IMC programs, including the type of product, the target market, the buyer's decision process, the stage of the product life cycle, and the channels of distribution. Companies selling consumer products and services generally rely on advertising through mass media to communicate with ultimate consumers. Business-to-business marketers, who generally sell expensive, risky, and often complex products and services, more often use personal selling. Business-to-business marketers such as Honeywell do use advertising to perform important functions such as building awareness of the company and its products, generating leads for the sales force, and reassuring customers about the purchase they have made (see Exhibit 1-15).

**Exhibit 1-15** Business-to-business marketers such as Honeywell use advertising to build awareness




Conversely, personal selling also plays an important role in consumer-product marketing. A consumer-goods company retains a sales force to call on marketing intermediaries (wholesalers and retailers) that distribute the product or service to the final consumer. While the company sales reps do not communicate with the ultimate consumer, they make an important contribution to the marketing effort by gaining new distribution outlets for the company's product, securing shelf position and space for the brand, informing retailers about advertising and promotion efforts to users, and encouraging dealers to merchandise and promote the brand at the local market level.

Advertising and personal-selling efforts vary depending on the type of market being sought, and even firms in the same industry may differ in the allocation of their promotional efforts. For example, in the cosmetics industry, Avon and Mary Kay Cosmetics concentrate on direct selling, whereas Revlon and Max Factor rely heavily on consumer advertising. Firms also differ in the relative emphasis they place on advertising and sales promotion. Companies selling high-quality brands use advertising to convince consumers of their superiority, justify their higher prices, and maintain their image. Brands of lower quality, or those that are hard to differentiate, often compete more on a price or "value for the money" basis and may rely more on sales promotion to the trade and/or to consumers.

The marketing communications program of an organization is generally developed with a specific purpose in mind and is the end product of a detailed marketing and promotional planning process. We will now look at a model of the promotional planning process that shows the sequence of decisions made in developing and implementing the IMC program.

# The IMC Planning Process

As with any business function, planning plays a fundamental role in the development and implementation of an effective promotional program. The individuals involved in promotion design a **promotional plan** that provides the framework for developing, implementing, and controlling the organization's integrated marketing communications programs and activities. Promotional planners must decide on the role and function of the specific elements of the promotional mix, develop strategies for each element, and implement the plan. Promotion is but one part of, and must be integrated into, the overall marketing plan and program.

A model of the IMC planning process is shown in Figure 1-4. The remainder of this chapter presents a brief overview of the various steps involved in this process.

## Review of the Marketing Plan

The first step in the IMC planning process is to review the marketing plan and objectives. Before developing a promotional plan, marketers must understand where the company (or the brand) has been, its current position in the market, where it intends to go, and how it plans to get there. Most of this information should be contained in the **marketing plan,** a written document that describes the overall marketing strategy and programs developed for an organization, a particular product line, or a brand. Marketing plans can take several forms but generally include five basic elements:

1. A detailed situation analysis that consists of an internal marketing audit and review and an external analysis of the market competition and environmental factors.
2. Specific marketing objectives that provide direction, a time frame for marketing activities, and a mechanism for measuring performance.
3. A marketing strategy and program that include selection of target market(s) and decisions and plans for the four elements of the marketing mix.
4. A program for implementing the marketing strategy, including determining specific tasks to be performed and responsibilities.
5. A process for monitoring and evaluating performance and providing feedback so that proper control can be maintained and any necessary changes can be made in the overall marketing strategy or tactics.

For most firms, the promotional plan is an integral part of the marketing strategy. Thus, the promotional planners must know the roles advertising and other promotional-mix elements will play in the overall marketing program. The promotional plan is developed similarly to the marketing plan and often uses its detailed information. Promotional planners focus on information in the marketing plan that is relevant to the promotional strategy.

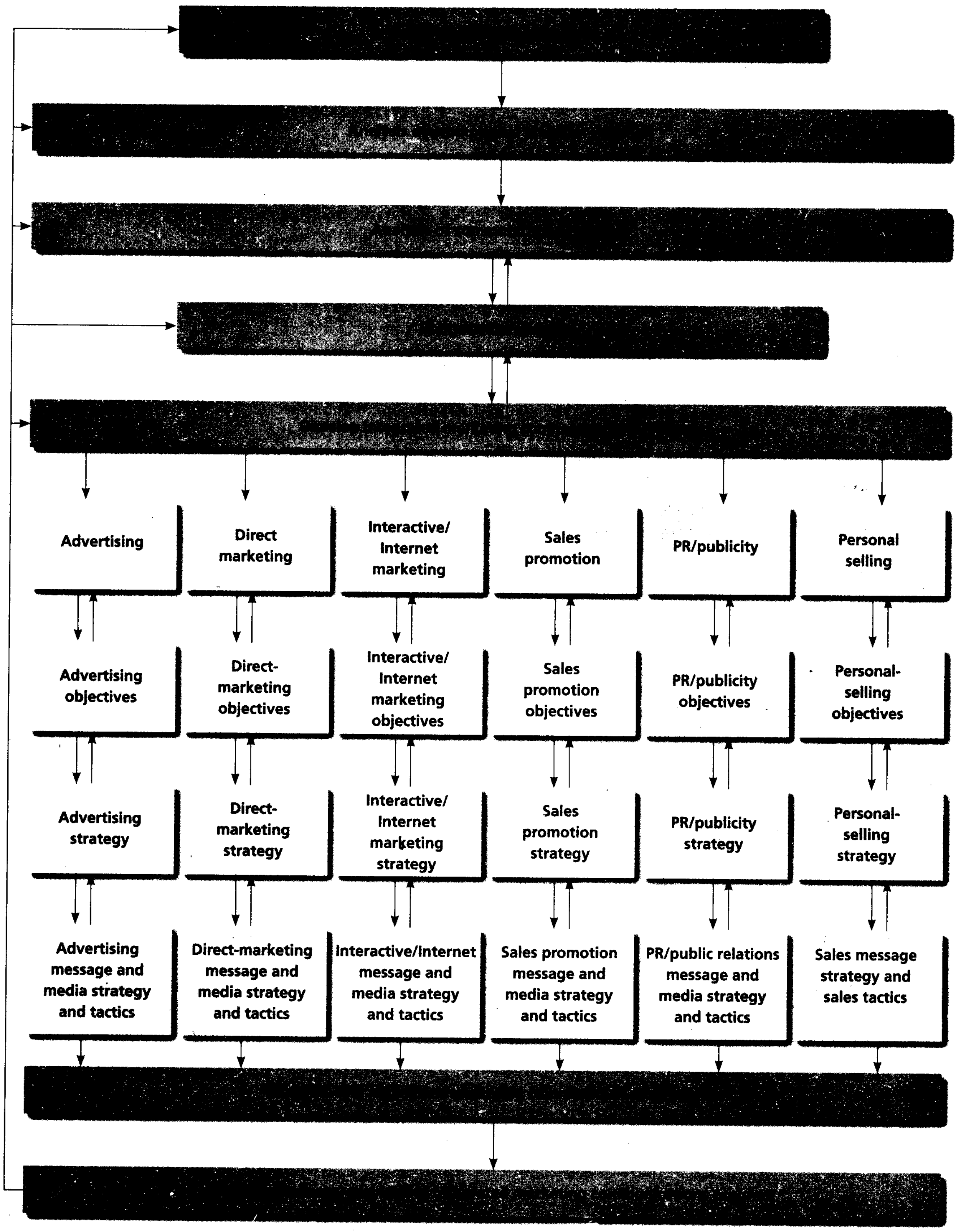
## Promotional Program Situation Analysis

After the overall marketing plan is reviewed, the next step in developing a promotional plan is to conduct the situation analysis. In the IMC program, the situation analysis focuses on the factors that influence or are relevant to the development of a promotional strategy. Like the overall marketing situation analysis, the promotional program situation analysis includes both an internal and an external analysis.

### Internal Analysis

The **internal analysis** assesses relevant areas involving the product/service offering and the firm itself. The capabilities of the firm and its ability to develop and implement a successful promotional program, the organization of the promotional department, and the successes and failures of past programs should be reviewed. The analysis should study the relative advantages and disadvantages of

Figure 1-4 An integrated marketing communications planning model



**Review of Marketing Plan**
Examine overall marketing plan and objectives
Role of advertising and promotion
Competitive analysis
Assess environmental influences

**Analysis of Promotional Program Situation**
Internal analysis
- Promotional department organization
- Firm's ability to implement promotional program
- Agency evaluation and selection
- Review of previous program results

External analysis
- Consumer behavior analysis
- Market segmentation and target marketing
- Market positioning

**Analysis of Communications Process**
Analyze receiver's response processes
Analyze source, message, channel factors
Establish communications goals and objectives

**Budget Determination**
Set tentative marketing communications budget
Allocate tentative budget

**Develop Integrated Marketing Communications Program**
Advertising
- Set advertising objectives
- Determine advertising budget
- Develop advertising message
- Develop advertising media strategy

Direct marketing
- Set direct-marketing objectives
- Determine direct-marketing budget
- Develop direct-marketing message
- Develop direct-marketing media strategy

Interactive/Internet marketing
- Set interactive/Internet marketing objectives
- Determine interactive/Internet marketing budget
- Develop interactive/Internet message
- Develop interactive/Internet media strategy

Sales promotion
- Set sales promotion objectives
- Determine sales promotion budget
- Determine sales promotion tools and develop messages
- Develop sales promotion media strategy

Public relations/publicity
- Set PR/publicity objectives
- Determine PR/publicity budget
- Develop PR/publicity messages
- Develop PR/publicity media strategy

Personal selling
- Set personal-selling and sales objectives
- Determine personal-selling/sales budget
- Develop sales message
- Develop selling roles and responsibilities

**Integrate and Implement Marketing Communications Strategies**
Integrate promotional-mix strategies
Create and produce ads
Purchase media time, space, etc.
Design and implement direct-marketing programs
Design and distribute sales promotion materials
Design and implement public relations/publicity programs
Design and implement interactive/Internet marketing programs

**Monitor, Evaluate, and Control Integrated Marketing Communications Program**
Evaluate promotional program results/effectiveness
Take measures to control and adjust promotional strategies

performing the promotional functions in-house as opposed to hiring an external agency (or agencies). For example, the internal analysis may indicate the firm is not capable of planning, implementing, and managing certain areas of the promotional program. If this is the case, it would be wise to look for assistance from an advertising agency or some other promotional facilitator. If the organization is already using an ad agency, the focus will be on the quality of the agency's work and the results achieved by past and/or current campaigns.

In this text we will examine the functions ad agencies perform for their clients, the agency selection process, compensation, and considerations in evaluating agency performance. We will also discuss the role and function of other promotional facilitators such as sales promotion firms, direct-marketing companies, public relations agencies, and marketing and media research firms.

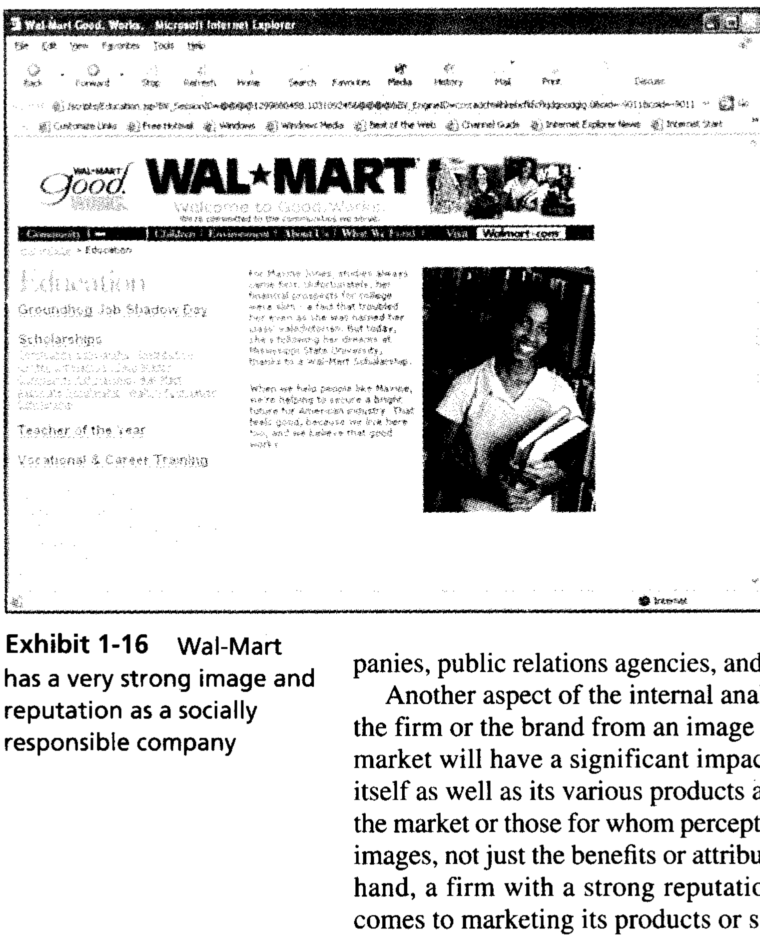



**Exhibit 1-16** Wal-Mart has a very strong image and reputation as a socially responsible company

Another aspect of the internal analysis is assessing the strengths and weaknesses of the firm or the brand from an image perspective. Often the image a firm brings to the market will have a significant impact on the way the firm can advertise and promote itself as well as its various products and services. Companies or brands that are new to the market or those for whom perceptions are negative may have to concentrate on their images, not just the benefits or attributes of the specific product or service. On the other hand, a firm with a strong reputation and/or image is already a step ahead when it comes to marketing its products or services. For example, a nationwide survey found that the companies with the best overall reputations among American consumers include Johnson & Johnson, Coca-Cola, Hewlett-Packard, Intel, Ben & Jerry's, and Wal-Mart.[34] Wal-Mart was rated very high in the area of social responsibility, which involves perceptions of the company as a good citizen in its dealings with communities, employees, and the environment. Wal-Mart enhances its image as a socially responsible company by supporting various causes at both local and national levels (Exhibit 1-16).

The internal analysis also assesses the relative strengths and weaknesses of the product or service; its advantages and disadvantages; any unique selling points or benefits it may have; its packaging, price, and design; and so on. This information is particularly important to the creative personnel who must develop the advertising message for the brand.

Figure 1-5 is a checklist of some of the areas one might consider when performing analyses for promotional planning purposes. Addressing internal areas may require information the company does not have available internally and must gather as part of the external analysis.

## External Analysis

The **external analysis** focuses on factors such as characteristics of the firm's customers, market segments, positioning strategies, and competitors, as shown in Figure 1-5. An important part of the external analysis is a detailed consideration of customers' characteristics and buying patterns, their decision processes, and factors influencing their purchase decisions. Attention must also be given to consumers' perceptions and attitudes, lifestyles, and criteria for making purchase decisions. Often, marketing research studies are needed to answer some of these questions.

A key element of the external analysis is an assessment of the market. The attractiveness of various market segments must be evaluated and the segments to target must be identified. Once the target markets are chosen, the emphasis will be on determining how the product should be positioned. What image or place should it have in consumers' minds?

This part of the promotional program situation analysis also includes an in-depth examination of both direct and indirect competitors. While competitors were analyzed in the overall marketing situation analysis, even more attention is devoted to promo-

Figure 1-5 Areas covered in the situation analysis

| Internal Factors | External Factors |
| --- | --- |
| ***Assessment of Firm's Promotional Organization and Capabilities*** | ***Customer Analysis*** |
| Organization of promotional department | Who buys our product or service? |
| Capability of firm to develop and execute promotional programs | Who makes the decision to buy the product? |
| Determination of role and function of ad agency and other promotional facilitators | Who influences the decision to buy the product? |
| ***Review of Firm's Previous Promotional Programs and Results*** | How is the purchase decision made? Who assumes what role? |
| Review previous promotional objectives | What does the customer buy? What needs must be satisfied? |
| Review previous promotional budgets and allocations | Why do customers buy a particular brand? |
| Review previous promotional-mix strategies and programs | Where do they go or look to buy the product or service? |
| Review results of previous promotional programs | When do they buy? Any seasonality factors? |
| ***Assessment of Firm or Brand Image and Implications for Promotion*** | What are customers' attitudes toward our product or service? |
| ***Assessment of Relative Strengths and Weaknesses of Product or Service*** | What social factors might influence the purchase decision? |
| What are the strengths and weaknesses of product or service? | Do the customers' lifestyles influence their decisions? |
| What are its key benefits? | How is our product or service perceived by customers? |
| Does it have any unique selling points? | How do demographic factors influence the purchase decision? |
| Assessment of packaging, labeling, and brand image | ***Competitive Analysis*** |
| How does our product or service compare with competition? | Who are our direct and indirect competitors? |
| | What key benefits and positioning are used by our competitors? |
| | What is our position relative to the competition? |
| | How big are competitors' ad budgets? |
| | What message and media strategies are competitors using? |
| | ***Environmental Analysis*** |
| | Are there any current trends or developments that might affect the promotional program? |

tional aspects at this phase. Focus is on the firm's primary competitors: their specific strengths and weaknesses; their segmentation, targeting, and positioning strategies; and the promotional strategies they employ. The size and allocation of their promotional budgets, their media strategies, and the messages they are sending to the marketplace should all be considered.

The external phase also includes an analysis of the marketing environment and current trends or developments that might affect the promotional program. IMC Perspective 1-3 discusses how marketers responded to the marketing environment that emerged after the terrorist attacks on September 11, 2002.

## Analysis of the Communications Process

This stage of the promotional planning process examines how the company can effectively communicate with consumers in its target markets. The promotional planner must think about the process consumers will go through in responding to marketing communications. The response process for products or services for which consumer decision making is characterized by a high level of interest is often different from that for low-involvement or routine purchase decisions. These differences will influence the promotional strategy.

Communication decisions regarding the use of various source, message, and channel factors must also be considered. The promotional planner should recognize the different effects various types of advertising messages might have on consumers and whether they are appropriate for the product or brand. Issues such as whether a celebrity spokesperson should be used and at what cost may also be studied. Preliminary discussion of media-mix options (print, TV, radio, newspaper, direct marketing) and their cost implications might also occur at this stage.

## IMC PERSPECTIVE 1-3

# Marketers Respond to 9/11

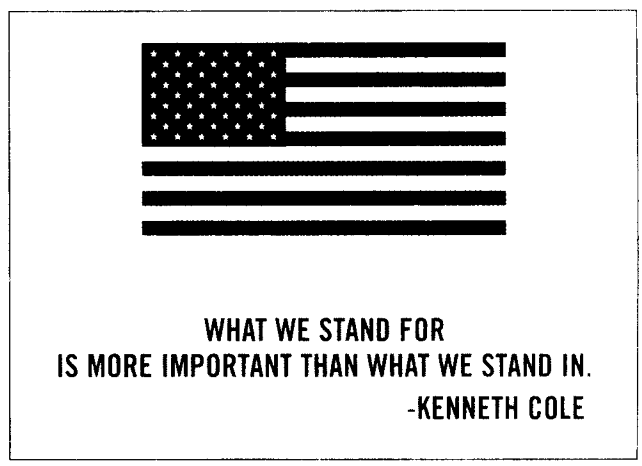
Marketers often have to deal with events that have a significant impact on the economy as well as the psyche of the consumer. However, the tragedy created by the horrific events of September 11, 2001, caused an environment unlike anything most businesspeople have ever experienced. The aftershocks of the terrorist attacks rippled through nearly every sector of the U.S. economy, with certain industries, such as travel, tourism, media, and entertainment, being particularly hard hit.

After the attacks, the major television networks, including CBS, NBC, ABC, and Fox, went commercial-free for several days, an approach costing them a combined $35 to $40 million a day in lost revenue. Adding in cable news networks and local stations, the television industry's cost for covering the attacks and their immediate aftermath was more than $700 million in canceled advertising. The major broadcast and cable news operations face growing expenses to cover the war on terrorism, including the costs of creating new bureaus abroad, improving technology, and widening coverage.

The terrorist attacks also have had a significant impact on the advertising industry and created major problems for ad agencies as well as media companies, both of which were already reeling from the soft economy and dot-com bust that resulted in lower advertising spending. Advertising agencies and their clients have had to determine how to appeal to consumers facing economic uncertainty, rethinking their priorities, and feeling anxious about their safety. Marketing after a tragedy is always a tricky business and was even more so because of the scale of the September 11 events. Marketers who alluded to the tragedy risked alienating consumers who might think they were trying to capitalize on it, while those who ignored it ran the risk of seeming insensitive and out of touch.

Consumers emitted mixed signals regarding their feelings about the terrorist attacks. Researchers found a resurgence of patriotism, a renewed desire to connect with family and friends, and a strengthened belief in old-fashioned values such as community service and charity. In a survey conducted six months after the attacks, 80 percent of the consumer respondents indicated that 9/11 was still affecting their professional and personal lives. Though their lives were returning to normal and few people radically modified their day-to-day activities, changes included keeping cell phones handy, installing more locks, watching more 24-hour news channels, and looking more for products that were made in the United States.

Some marketers decided that the best way to respond to the new times was with messages offering appeals to patriotism, the promise of escape, or tribute to those who died or were involved with the tragedy. One of the most popular commercials during the 2002 Super Bowl was an Anheuser Busch spot featuring stately Clydesdales trotting across serene snowy landscapes and over the Brooklyn Bridge to pause before the Manhattan skyline and bow in tribute to New York City. Not surprisingly, New York City firefighters and police officers became popular advertising spokespersons.




The U.S. government used the public's outrage over the terrorist attacks as part of its efforts to fight drug abuse. The White House Office of National Drug Control Policy developed an advertising campaign suggesting that illegal drug sales have become a major means of raising money for terrorism. The idea behind the campaign is that people will be less likely to use drugs if they understand that by using them they may be supporting terrorism.

Marketers have now had time to reflect on how they responded to the nation's worst terrorist tragedy and how their marketing communications during the chaotic months after the attacks were received by consumers. Appeals to patriotism were unwelcome if they were seen as attempts to cash in on the tragedy. However, companies whose advertising programs were already identified with patriotism, the flag, and other U.S. symbols and those whose marketing efforts were tied to charitable donations destined to help the recovery effort were perceived favorably.

Sources: Steve Jarvis, "Red, White and the Blues," *Marketing News*, May 27, 2002, pp. 1, 9; Hillary Chura, "The New Normal," *Advertising Age*, Mar. 11, 2002, pp. 1, 4; Gwendolyn Bounds, "Marketers Tread Precarious Terrain," *The Wall Street Journal*, Feb. 5, 2002, pp. B1, 4; Jon E. Hilsenrath, "Terror's Toll on the Economy," *The Wall Street Journal*, Oct. 9, 2002, pp. B1, 4.

An important part of this stage of the promotional planning process is establishing communication goals and objectives. In this text, we stress the importance of distinguishing between communication and marketing objectives. **Marketing objectives** refer to what is to be accomplished by the overall marketing program. They are often stated in terms of sales, market share, or profitability.

**Communication objectives** refer to what the firm seeks to accomplish with its promotional program. They are often stated in terms of the nature of the message to be communicated or what specific communication effects are to be achieved. Communication objectives may include creating awareness or knowledge about a product and its attributes or benefits; creating an image; or developing favorable attitudes, preferences, or purchase intentions. Communication objectives should be the guiding force for development of the overall marketing communications strategy and of objectives for each promotional-mix area.

## Budget Determination

After the communication objectives are determined, attention turns to the promotional budget. Two basic questions are asked at this point: What will the promotional program cost? How will the money be allocated? Ideally, the amount a firm needs to spend on promotion should be determined by what must be done to accomplish its communication objectives. In reality, promotional budgets are often determined using a more simplistic approach, such as how much money is available or a percentage of a company's or brand's sales revenue. At this stage, the budget is often tentative. It may not be finalized until specific promotional-mix strategies are developed.

## Developing the Integrated Marketing Communications Program

Developing the IMC program is generally the most involved and detailed step of the promotional planning process. As discussed earlier, each promotional-mix element has certain advantages and limitations. At this stage of the planning process, decisions have to be made regarding the role and importance of each element and their coordination with one another. As Figure 1-4 shows, each promotional-mix element has its own set of objectives and a budget and strategy for meeting them. Decisions must be made and activities performed to implement the promotional programs. Procedures must be developed for evaluating performance and making any necessary changes.

For example, the advertising program will have its own set of objectives, usually involving the communication of some message or appeal to a target audience. A budget will be determined, providing the advertising manager and the agency with some idea of how much money is available for developing the ad campaign and purchasing media to disseminate the ad message.

Two important aspects of the advertising program are development of the message and the media strategy. Message development, often referred to as *creative strategy*, involves determining the basic appeal and message the advertiser wishes to convey to the target audience. This process, along with the ads that result, is to many students the most fascinating aspect of promotion. *Media strategy* involves determining which communication channels will be used to deliver the advertising message to the target audience. Decisions must be made regarding which types of media will be used (e.g., newspapers, magazines, radio, TV, billboards) as well as specific media selections (e.g., a particular magazine or TV program). This task requires careful evaluation of the media options' advantages and limitations, costs, and ability to deliver the message effectively to the target market.

Once the message and media strategies have been determined, steps must be taken to implement them. Most large companies hire advertising agencies to plan and produce their messages and to evaluate and purchase the media that will carry their ads. However, most agencies work very closely with their clients as they develop the ads and select media, because it is the advertiser that ultimately approves (and pays for) the creative work and media plan.

A similar process takes place for the other elements of the IMC program as objectives are set, an overall strategy is developed, message and media strategies are determined, and steps are taken to implement them. While the marketer's advertising agencies may be used to perform some of the other IMC functions, they may also hire other communication specialists such as direct-marketing and interactive and/or sales promotion agencies, as well as public relations firms.

### Monitoring, Evaluation, and Control

The final stage of the promotional planning process is monitoring, evaluating, and controlling the promotional program. It is important to determine how well the promotional program is meeting communications objectives and helping the firm accomplish its overall marketing goals and objectives. The promotional planner wants to know not only how well the promotional program is doing but also why. For example, problems with the advertising program may lie in the nature of the message or in a media plan that does not reach the target market effectively. The manager must know the reasons for the results in order to take the right steps to correct the program.

This final stage of the process is designed to provide managers with continual feedback concerning the effectiveness of the promotional program, which in turn can be used as input into the planning process. As Figure 1-3 shows, information on the results achieved by the promotional program is used in subsequent promotional planning and strategy development.

## Perspective and Organization of This Text

Traditional approaches to teaching advertising, promotional strategy, or marketing communications courses have often treated the various elements of the promotional mix as separate functions. As a result, many people who work in advertising, sales promotion, direct marketing, or public relations tend to approach marketing communications problems from the perspective of their particular specialty. An advertising person may believe marketing communications objectives are best met through the use of media advertising; a promotional specialist argues for a sales promotion program to motivate consumer response; a public relations person advocates a PR campaign to tackle the problem. These orientations are not surprising, since each person has been trained to view marketing communications problems primarily from one perspective.

In the contemporary business world, however, individuals working in marketing, advertising, and other promotional areas are expected to understand and use a variety of marketing communications tools, not just the one in which they specialize. Ad agencies no longer confine their services to the advertising area. Many are involved in sales promotion, public relations, direct marketing, event sponsorship, and other marketing communications areas. Individuals working on the client or advertiser side of the business, such as brand, product, or promotional managers, are developing marketing programs that use a variety of marketing communications methods.

This text views advertising and promotion from an integrated marketing communications perspective. We will examine all the promotional-mix elements and their roles in an organization's integrated marketing communications efforts. Although media advertising may be the most visible part of the communications program, understanding its role in contemporary marketing requires attention to other promotional areas such as the Internet and interactive marketing, direct marketing, sales promotion, public relations, and personal selling. Not all the promotional-mix areas are under the direct control of the advertising or marketing communications manager. For example, personal selling is typically a specialized marketing function outside the control of the advertising or promotional department. Likewise, publicity/public relations is often assigned to a separate department. All these departments should, however, communicate to coordinate all the organization's marketing communications tools.

The purpose of this book is to provide you with a thorough understanding of the field of advertising and other elements of a firm's promotional mix and show how they are combined to form an integrated marketing communications program. To plan, develop, and implement an effective IMC program, those involved must understand marketing, consumer behavior, and the communications process. The first part of this book is designed to provide this foundation by examining the roles of advertising and other forms of promotion in the marketing process. We examine the process of market segmentation and positioning and consider their part in developing an IMC strategy. We also discuss how firms organize for IMC and make decisions regarding ad agencies and other firms that provide marketing and promotional services.

We then focus on consumer behavior considerations and analyze the communications process. We discuss various communications models of value to promotional planners in developing strategies and establishing goals and objectives for advertising and other forms of promotion. We also consider how firms determine and allocate their marketing communications budget.

After laying the foundation for the development of a promotional program, this text will follow the integrated marketing communications planning model presented in Figure 1-4. We examine each of the promotional-mix variables, beginning with advertising. Our detailed examination of advertising includes a discussion of creative strategy and the process of developing the advertising message, an overview of media strategy, and an evaluation of the various media (print, broadcast, and support media). The discussion then turns to the other areas of the promotional mix: direct marketing, interactive/Internet marketing, sales promotion, public relations/publicity, and personal selling. Our examination of the IMC planning process concludes with a discussion of how the promotional program is monitored, evaluated, and controlled. Particular attention is given to measuring the effectiveness of advertising and other forms of promotion.

The final part of the text examines special topic areas and perspectives that have become increasingly important in contemporary marketing. We will examine the area of international advertising and promotion and the challenges companies face in developing IMC programs for global markets as well as various countries around the world. The text concludes with an examination of the environment in which integrated marketing communications operates, including the regulatory, social, and economic factors that influence, and in turn are influenced by, an organization's advertising and promotional program.

## Summary

Advertising and other forms of promotion are an integral part of the marketing process in most organizations. Over the past decade, the amount of money spent on advertising, sales promotion, direct marketing, and other forms of marketing communication has increased tremendously, both in the United States and in foreign markets. To understand the role of advertising and promotion in a marketing program, one must understand the role and function of marketing in an organization. The basic task of marketing is to combine the four controllable elements, known as the marketing mix, into a comprehensive program that facilitates exchange with a target market. The elements of the marketing mix are the product or service, price, place (distribution), and promotion.

For many years, the promotional function in most companies was dominated by mass-media advertising. However, more and more companies are recognizing the importance of integrated marketing communications, coordinating the various marketing and promotional elements to achieve more efficient and effective communication programs. A number of factors underlie the move toward IMC by marketers as well as ad agencies and other promotional facilitators. Reasons for the growing importance of the integrated marketing communications perspective include a rapidly changing environment with respect to consumers, technology, and media. The IMC movement is also being driven by changes in the ways companies market their products and services. A shift in marketing dollars from advertising to sales promotion, the rapid growth and development of database marketing, and the fragmentation of media markets are among the key changes taking place.

Promotion is best viewed as the communication function of marketing. It is accomplished through a promotional mix that includes advertising, personal selling, publicity/public relations, sales promotion, direct marketing, and interactive/Internet marketing. The inherent advantages and disadvantages of each of these promotional-mix elements influence the roles they play in the overall marketing program. In developing the promotional program, the marketer must decide which tools to use and how to combine them to achieve the organization's marketing and communication objectives.

Promotional management involves coordinating the promotional-mix elements to develop an integrated program of effective marketing communication. The model of the IMC planning process in Figure 1-4 contains a number of steps: a review of the marketing plan; promotional program situation analysis; analysis of the communications process; budget determination; development of an integrated marketing communications program; integration and implementation of marketing communications strategies; and monitoring, evaluation, and control of the promotional program.

# Key Terms

marketing, 7
exchange, 7
relationship marketing, 7
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# Discussion Questions

1. Analyze the role of integrated marketing communications in the recruitment efforts of various branches of the military such as the U.S. Army. How can each element of the promotional mix be used by the military in its recruitment marketing?

2. Discuss the role integrated marketing communications plays in relationship marketing. How might the mass customization of advertising and other forms of marketing communication be possible?

3. Choose a company or organization and discuss how it communicates with its customers at the corporate, marketing and the marketing communications levels.

4. Discuss how the integrated marketing communications perspective differs from traditional advertising and promotion. What are some of the reasons more marketers and more companies are taking an integrated marketing communications perspective in their advertising and promotional programs?

5. Discuss the concept of buzz marketing and some of the reasons markets are using the technique. Do you think there are any ethical issues that should be considered in using buzz marketing techniques?

6. Why are marketers putting so much emphasis on developing strong brands? Choose one of the top 10 brands listed in IMC Perspective 1-2 and discuss how the company has used integrated marketing communications to build a strong brand image.

7. Discuss the role of direct marketing as an IMC tool, giving attention to the various forms of direct marketing.

8. Analyze the role of the Internet in the integrated marketing communications program of a company. Discuss how the Internet can be used to execute the various elements of the promotional mix.

9. IMC Perspective 1-3 discusses how marketers responded to the tragedy resulting from the terrorist attack of September 11, 2001. Do you think that companies are still being influenced by this tragedy with respect to the planning and execution of their integrated marketing communication programs? If so, how are they being affected?

10. Why is it important for those who work in the field of advertising and promotion to understand and appreciate all various integrated marketing communications tools, not just the area in which they specialize?

# The Role of IMC in the Marketing Process

2

## Chapter Objectives

1. To understand the marketing process and the role of advertising and promotion in an organization's integrated marketing program.
2. To know the various decision areas under each element of the marketing mix and how they influence and interact with advertising and promotional strategy.
3. To understand the concept of target marketing in an integrated marketing communications program.
4. To recognize the role of market segmentation and its use in an integrated marketing communications program.
5. To understand the use of positioning and repositioning strategies.

# Look Out Sony—The Koreans Are Coming!

Have you ever heard of Samsung? Probably not, unless you own a microwave oven (the com-


pany's preeminent U.S. brand presence). But then again, not too many people had heard of Sony back in the early 1960s. Like Sony, which was initially known for its clock radios and small black-and-white TVs and was a secondary player relative to Motorola, Philips, and Zenith, Samsung has been known in the United States for low-end products, such as VCRs, TVs, and microwave ovens. Now the company wants to be like Sony in another way—by becoming a well-known, market-leading electronics brand. In fact, Korea-based Samsung has Sony in its crosshairs—its goal is to be a stronger brand name than Sony by the year 2005.

Not likely, you say? Well, don't tell that to Samsung. Consider this: While the Japanese companies Fujitsu, Hitachi, Matsushita, NEC, and Toshiba have all been losing money and Sony has been struggling, Samsung has been on a roll, turning a $2.2 billion profit on sales of $24.7 billion in 2001. Not only that, but Samsung now manufactures laptops, DVDs, cell phones, and flat-screen TVs (among many other products) and is ranked fifth in the world in patents, behind IBM, NEC, Canon, and Micron Technology. The firm's growth has caught the attention of the competition, who now no longer doubt that Samsung can do it.

Samsung's strategy is to reposition its current brands upward. The company's most well known brand, Sanyo, produced copycat products—cheaper versions of Sony or Mitsubishi products. But since 1997, the company has changed its image by producing more upscale, top-of-the line offerings. It is pulling out of big discount chains like Kmart and Wal-Mart, which focus on price over quality, and moving in to Best Buy, Circuit City, and other specialty stores. And while its brands are still slightly lower priced than the very top names, the Samsung label is right there with them in quality.

The change in image has been supported by changes in advertising and promotion. A new campaign, "DigitAll:Everyone's Invited," attempts to position Samsung products as exciting, cutting edge, and reasonably priced. The company's 55 different advertising agencies were consolidated into one. Over $900 million was to be spent on global IMC marketing campaigns in 2002, $70 million of it in the United States, including the cost of a redesigned 65-foot-high electronic billboard in New York's Times Square and a high-profile presence at the Olympic Games in Salt Lake City. The current advertising campaign is designed to raise awareness, as well as to enhance the brand image. The focus of the ads is surreal, many featuring the "snow woman"—a hauntingly beautiful woman who imparts an expensive and classy feeling to the viewer and, hopefully, to the brand. The ads will appear on television, in print, and on retail and outdoor billboards.

Samsung's Olympic sponsorship typifies the repositioning strategy the company has undertaken. Samsung's objectives in Salt Lake were "to provide Olympic fans, athletes and their families with entertaining and memorable Olympic experiences" and "to showcase [its] leadership in digital convergence by letting spectators touch and feel products that will soon be unveiled to the U.S. market" (Il-Hyung Chang, head of Samsung's Olympic projects). The Olympic Rendezvous was the centerpiece of the sponsorship. Located in Salt Lake Olympic Square, the sponsorship provided daily entertainment shows, athlete appearances, future product displays, free phone calls, and other forms of entertainment. More than 240,000 people visited the Rendezvous during the 16-day period, and it was rated the top attraction in Olympic Square by visiting fans. Perhaps more important, 74 percent of the visitors stated they now had a more positive image of Samsung, and 76 percent indicated a willingness to purchase a Samsung product in the future.

The Internet is also a major part of the new IMC program. Samsung will have front-page sponsorships on 50 major websites, including Fortune.com, Forbes.com, BusinessWeek.com, and other business publication sites. CNN.com and EW.com will also be included in an attempt to reach 300 million "hits" per month. By being on these sites, Samsung hopes to associate its brand with other well-known, and well-expected, brands. Joint product development ventures with strong-brand-image companies such as Sprint, Texas Instruments, and Dell are also working to reposition the brand.

So far, the efforts appear to have gone well. According to Interbrand—a brand consulting firm in New York—Samsung's brand-value rank is 43 (Sony's is 18). While still behind Sony, the brand's value rose 22 percent in 2001, with only Starbucks doing better. The Samsung brand ranks number 1 in flat-panel monitors and DRAM semiconductor memory chips. It is number 2, behind Sony, in DVD players and number 3 in mobile handsets. Samsung is, by far, the largest corporate presence in South Korea. Overall, Samsung is the second most recognizable consumer electronics brand in the world, according to Interbrand. A very strong player in China, Russia, and Korea, Samsung has now become a global brand as well, with 70 percent of its sales outside these three countries.

Can Samsung overtake Sony? As of now, the company has less than half the revenue of Sony, but it is no longer just making cheaper versions of Sony products. Robert Batt, of Nebraska Furniture Mart, thinks Samsung can outstrip Sony. To quote the $300 million retailer, "Someone shook that company up. It's moving up with the big boys." Look out big boys!

Sources: Christopher Saunders, "Samsung Ramps Up Web Efforts in New Campaign," InternetNews.com, May 24, 2002, pp.1–2; William J. Holstein, "Samsung's Golden Touch," *Fortune*, Apr. 1, 2002, pp. 89–94; Frank Gibney, Jr., "Samsung Moves Upmarket," *Time*, Mar. 25, 2002, pp. 49–52; Heidi Brown, "Look Out, Sony," *Forbes*, June 11, 2001, pp. 96–98.

The Samsung example is just one of many image-creating strategies that demonstrate a number of important marketing strategies that will be discussed in this chapter. These include the identification of market opportunities, market segmentation, target marketing and positioning, and marketing program development. Samsung's recognition of the importance of a strong brand image coupled with a strong IMC program reflects the solid marketing orientation required to be successful in today's marketplace.

In this chapter, we take a closer look at how marketing strategies influence the role of promotion and how promotional decisions must be coordinated with other areas of the marketing mix. In turn, all elements of the marketing mix must be consistent in a strategic plan that results in an integrated marketing communications program. We use the model in Figure 2-1 as a framework for analyzing how promotion fits into an organization's marketing strategy and programs.

This model consists of four major components: the organization's marketing strategy and analysis, the target marketing process, the marketing planning program development (which includes the promotional mix), and the target market. As the model shows, the marketing process begins with the development of a marketing strategy and analysis in which the company decides the product or service areas and particular markets where it wants to compete. The company must then coordinate the various elements of the marketing mix into a cohesive marketing program that will reach the target market effectively. Note that a firm's promotion program is directed not only to the final buyer but also to the channel or "trade" members that distribute its products to the ultimate consumer. These channel members must be convinced there is a demand for the company's products so they will carry them and will aggressively merchandise and promote them to consumers. Promotions play an important role in the marketing program for building and maintaining demand not only among final consumers but among the trade as well.

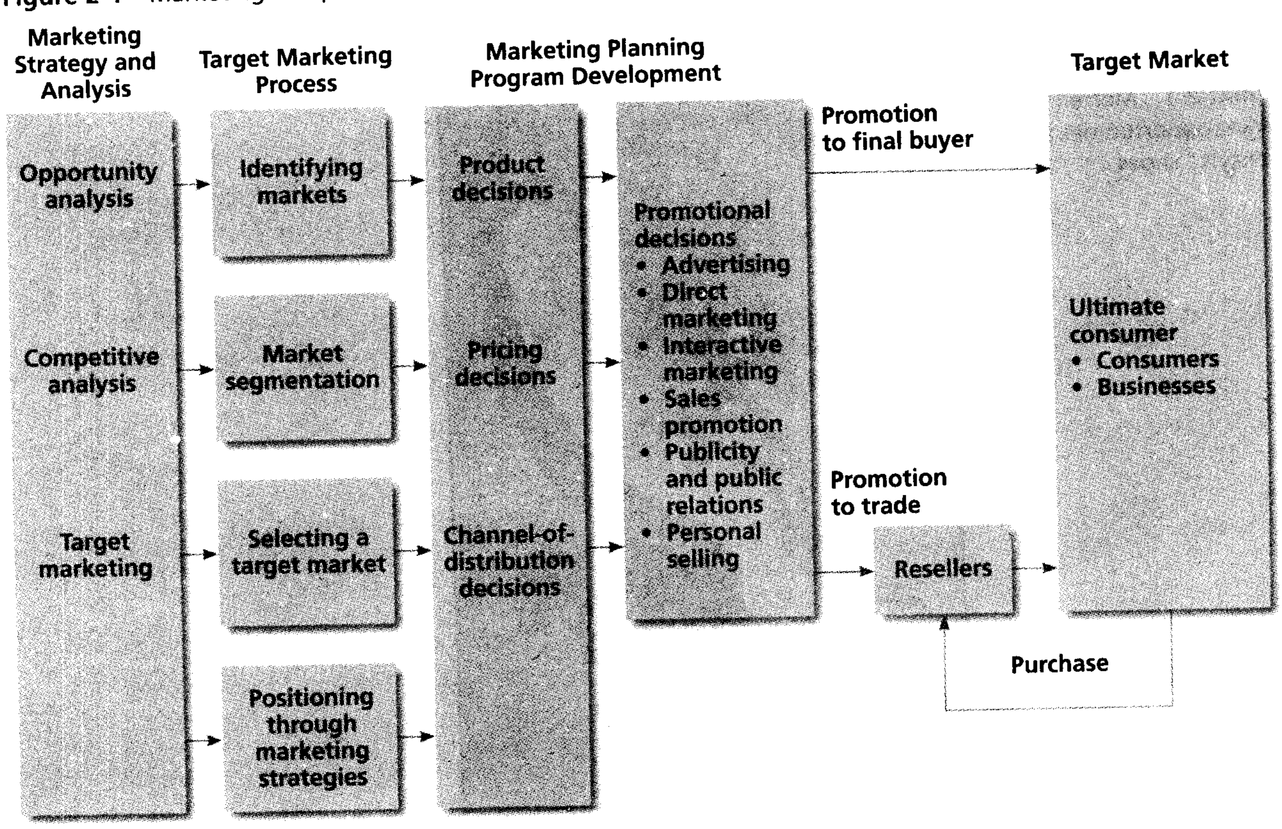
As noted in Chapter 1, all elements of the marketing mix—price, product, distribution, and promotions—must be integrated to provide consistency and maximum communications impact. Development of a marketing plan is instrumental in achieving this goal.

As Figure 2-1 shows, development of a marketing program requires an in-depth analysis of the market. This analysis may make extensive use of marketing research as an input into the planning process. This input, in turn, provides the basis for the development of marketing strategies in regard to product, pricing, distribution, and promotion decisions. Each of these steps requires a detailed analysis, since this plan serves as the road map to follow in achieving marketing goals. Once the detailed market analysis has been completed and marketing objectives have been established, each element in the marketing mix must contribute to a comprehensive integrated marketing program. Of course, the promotional program element (the focus of this text) must be combined with all other program elements in such a way as to achieve maximum impact.





**Figure 2-1** Marketing and promotions process model



# Marketing Strategy and Analysis

Any organization that wants to exchange its products or services in the marketplace successfully should have a **strategic marketing plan** to guide the allocation of its resources. A strategic marketing plan usually evolves from an organization's overall corporate strategy and serves as a guide for specific marketing programs and policies. For example, a few years ago Abercrombie & Fitch decided to reposition the brand as part of the overall corporate effort to attract a younger audience. As we noted earlier, marketing strategy is based on a situation analysis—a detailed assessment of the current marketing conditions facing the company, its product lines, or its individual brands. From this situation analysis, a firm develops an understanding of the market and the various opportunities it offers, the competition, and the **market segments** or target markets the company wishes to pursue. We examine each step of the marketing strategy and *planning* in this chapter.

## Opportunity Analysis

A careful analysis of the marketplace should lead to alternative market opportunities for existing product lines in current or new markets, new products for current markets, or new products for new markets. **Market opportunities** are areas where there are favorable demand trends, where the company believes customer needs and opportunities are not being satisfied, and where it can compete effectively. For example, the number of people who exercise has increased tremendously in recent years, and the market for athletic footwear has reached over $13.5 billion.[1] Athletic-shoe companies such as Nike, Reebok, and others see the shoe market as an opportunity to broaden their customer base both domestically and internationally. To capitalize on this growth, some companies spend millions of dollars on advertising alone. In 2001 New Balance spent "only" $13 million, Reebok spent $49 million and Nike spent over $155 million. All told, athletic-footwear companies spent over $5.9 billion on advertising and celebrity endorsements in 2001.[2] Changes in lifestyles have seen changes in the market for trail, running, basketball, and "lifestyle" shoes such as slip-ons (Exhibit 2-1).

A company usually identifies market opportunities by carefully examining the marketplace and noting demand trends and competition in various market segments. A market can rarely be viewed as one large homogeneous group of customers; rather, it consists of many heterogeneous groups, or segments. In recent years, many companies have recognized the importance of tailoring their marketing to meet the needs and demand trends of different market segments.



**Exhibit 2-1** Merrell sees market opportunities for "lifestyle" shoes

For example, different market segments in the personal computer (PC) industry include the home, education, science, and business markets. These segments can be even further divided. The business market consists of both small companies and large corporations; the education market can range from elementary schools to colleges and universities. A company that is marketing its products in the auto industry must decide in which particular market segment or segments it wishes to compete. This decision depends on the amount and nature of competition the brand will face in a particular market. For example, a number of companies that have been successful in the luxury-car segment have now introduced SUVs. Lincoln, Cadillac, Lexus, BMW, and Mercedes now offer models in this line. Porsche—a successful participant in the sports-car segment—will introduce its SUV in 2004. A competitive analysis is an important part of marketing strategy development and warrants further consideration.

## Competitive Analysis

In developing the firm's marketing strategies and plans for its products and services, the manager must carefully analyze the competition to be faced in the marketplace. This may range from direct brand competition (which can also include its own brands) to more indirect forms of competition, such as product substitutes. For example, when Lay's introduced Baked Lay's low-fat chips, the product ended up taking away sales from the regular Lay's potato chip brand. At the same time, new consumers were gained from competing brands of potato chips.

In addition to having direct potato chip competitors, Lay's faces competition from other types of snack foods, such as pretzels and crackers. One might argue that other low-fat products also offer the consumer a choice and compete with Lay's as well (e.g., fruits). The sale of bagels has declined in recent years as competitors have introduced breakfast bars (Nutri-Grain and Quaker Oats) and breakfast snacks such as Chex Morning Mix.

At a more general level, marketers must recognize they are competing for the consumer's discretionary income, so they must understand the various ways potential customers choose to spend their money. For example, sales of motorcycles in the United States had declined significantly in the late 1980s and early 1990s. This decline reflected shifting demographic patterns; aging baby boomers are less inclined to ride motorcycles, and the number of 18- to 34-year-old males has been declining. The drop in sales could also be attributed to the number of other options consumers could spend their discretionary income on, including Jet Skis, dirt bikes, home fitness equipment, spas, and home entertainment systems such as large-screen TVs and stereos. Thus, motorcycle marketers like Honda and Harley-Davidson had to convince potential buyers that a motorcycle was worth a sizable portion of their disposable income in comparison to other purchase options. Through successful marketing strategies, the industry was effective in reversing the downturn, increasing sales by over 25 percent by the late 1990s.[3]

An important aspect of marketing strategy development is the search for a **competitive advantage,** something special a firm does or has that gives it an edge over competitors. Ways to achieve a competitive advantage include having quality products that command a premium price, providing superior customer service, having the lowest production costs and lower prices, or dominating channels of distribution. Competitive advantage can also be achieved through advertising that creates and maintains product differentiation and brand equity, an example of which was the long-running advertising campaign for Michelin tires, which stressed security as well as performance. For example, the strong brand images of Colgate toothpaste, Campbell's soup, Nike shoes, Kodak, and McDonald's give them a competitive advantage in their respective markets (Exhibit 2-2).

Recently, there has been concern that some marketers have not been spending enough money on advertising to allow leading brands to sustain their competitive edge. Advertising proponents have been calling for companies to protect their brand equity and franchises by investing more money in advertising instead of costly trade promotions. Some companies, recognizing the important competitive advantage strong brands provide, have been increasing their investments in them. Capital One and McDonald's are just two of many examples. Capital One used public relations,

Exhibit 2-2 Campbell's campaign stresses taste and convenience

Exhibit 2-3 Capital One's new branding campaign also uses celebrities

direct marketing and $96 million in media spending on a new branding campaign designed to show the protection offered by their credit cards (Exhibit 2-3).

Companies must be concerned with the ever-changing competitive environment. Competitors' marketing programs have a major impact on a firm's marketing strategy, so they must be analyzed and monitored. The reactions of competitors to a company's marketing and promotional strategy are also very important. Competitors may cut price, increase promotional spending, develop new brands, or attack one another through comparative advertising. One of the more intense competitive rivalries is the battle between Coca-Cola and Pepsi. A number of other intense competitive rivalries exist in the marketplace, including Hertz and Avis and Ford and GM among others.

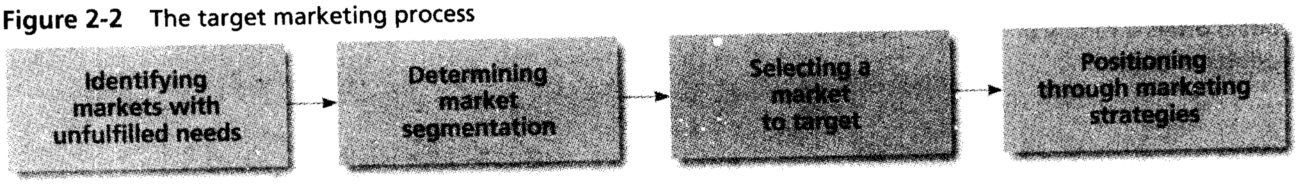
A final aspect of competition is the growing number of foreign companies penetrating the U.S. market and taking business from domestic firms. In products ranging from beer to cars to electronics, imports are becoming an increasingly strong form of competition with which U.S. firms must contend. As we move to a more global economy, U.S. companies must not only defend their domestic markets but also learn how to compete effectively in the international marketplace.

## Target Market Selection

After evaluating the opportunities presented by various market segments, including a detailed competitive analysis, the company may select one, or more, as a target market. This target market becomes the focus of the firm's marketing effort, and goals and objectives are set according to where the company wants to be and what it hopes to accomplish in this market. As noted in Chapter 1, these goals and objectives are set in terms of specific performance variables such as sales, market share, and profitability. The selection of the target market (or markets) in which the firm will compete is an important part of its marketing strategy and has direct implications for its advertising and promotional efforts.

Recall from our discussion of the integrated marketing communications planning program that the situation analysis is conducted at the beginning of the promotional planning process. Specific objectives—both marketing and communications—are derived from the situation analysis, and the promotional-mix strategies are developed to achieve these objectives. Marketers rarely go after the entire market with one product, brand, or service offering. Rather, they pursue a number of different strategies, breaking the market into segments and targeting one or more of these segments for marketing and promotional efforts. This means different objectives may be established, different budgets may be used, and the promotional-mix strategies may vary, depending on the market approach used.

Figure 2-2 The target marketing process




# The Target Marketing Process

Because few, if any, products can satisfy the needs of all consumers, companies often develop different marketing strategies to satisfy different consumer needs. The process by which marketers do this (presented in Figure 2-2) is referred to as **target marketing** and involves four basic steps: identifying markets with unfulfilled needs, segmenting the market, targeting specific segments, and positioning one's product or service through marketing strategies.

## Identifying Markets

When employing a target marketing strategy, the marketer identifies the specific needs of groups of people (or segments), selects one or more of these segments as a target, and develops marketing programs directed to each. This approach has found increased applicability in marketing for a number of reasons, including changes in the market (consumers are becoming much more diverse in their needs, attitudes, and lifestyles); increased use of segmentation by competitors; and the fact that more managers are trained in segmentation and realize the advantages associated with this strategy. Perhaps the best explanation, however, comes back to the basic premise that you must understand as much as possible about consumers to design marketing programs that meet their needs most effectively.

Target market identification isolates consumers with similar lifestyles, needs, and the like, and increases our knowledge of their specific requirements. The more marketers can establish this common ground with consumers, the more effective they will be in addressing these requirements in their communications programs and informing and/or persuading potential consumers that the product or service offering will meet their needs.

Let's use the beer industry as an example. Years ago, beer was just beer, with little differentiation, many local distributors, and few truly national brands. The industry began consolidating; many brands were assumed by the larger brewers or ceased to exist. As the number of competitors decreased, competition among the major brewers increased. To compete more effectively, brewers began to look at different tastes, lifestyles, and so on, of beer drinkers and used this information in their marketing strategies. This process resulted in the identification of many market segments, each of which corresponds to different customers' needs, lifestyles, and other characteristics.

As you can see in Figure 2-3, the beer market has become quite segmented, offering superpremiums, premiums, populars (low price), imports, lights (low calorie), and

Figure 2-3 Market breakdown by product in the beer industry

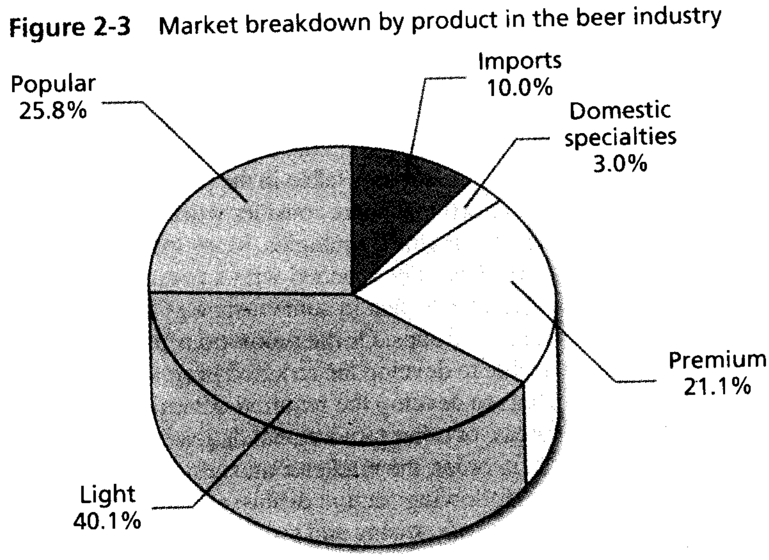



**Exhibit 2-4** Grupo Modelo offers a variety of products to market

malts. Low-alcohol and nonalcoholic brands have also been introduced, as has draft beer in bottles and cans. And there are now imported lights, superpremium drafts, dry beers, and on and on. As you can see in Exhibit 2-4, to market to these various segments, Grupo Modelo pursues a strategy whereby it offers a variety of products from which consumers can choose, varying the marketing mix for each. Each appeals to a different set of needs. Taste is certainly one; others include image, cost, and the size of one's waistline. A variety of other reasons for purchasing are also operating, including the consumer's social class, lifestyle, and economic status.

Marketers competing in nearly all product and service categories are constantly searching for ways to segment their markets in an attempt to better satisfy customers' needs. Diversity Perspective 2-1 discusses the increasing emphasis being placed on marketing to ethnic groups. The remainder of this section discusses ways to approach this task.

## Market Segmentation

It is not possible to develop marketing strategies for every consumer. Rather, the marketer attempts to identify broad classes of buyers who have the same needs and will respond similarly to marketing actions. As noted by Eric N. Berkowitz, Roger A. Kerin, and William Rudelius, **market segmentation** is "dividing up a market into distinct groups that (1) have common needs and (2) will respond similarly to a marketing action."[4] The segmentation process involves five distinct steps:

1. Finding ways to group consumers according to their needs.
2. Finding ways to group the marketing actions—usually the products offered—available to the organization.
3. Developing a market-product grid to relate the market segments to the firm's products or actions.
4. Selecting the target segments toward which the firm directs its marketing actions.
5. Taking marketing actions to reach target segments.

The more marketers segment the market, the more precise is their understanding of it. But the more the market becomes divided, the fewer consumers there are in each segment. Thus, a key decision is, How far should one go in the segmentation process? Where does the process stop? As you can see by the strategy taken in the beer industry, it can go far!

In planning the promotional effort, managers consider whether the target segment is substantial enough to support individualized strategies. More specifically, they consider whether this group is accessible. Can it be reached with a communications program? For example, you will see in Chapter 10 that in some instances there are no media that can be used to reach some targeted groups. Or the promotions manager may identify a number of segments but be unable to develop the required programs to reach them. The firm may have insufficient funds to develop the required advertising campaign, inadequate sales staff to cover all areas, or other promotional deficiencies. After determining that a segmentation strategy is in order, the marketer must establish the basis on which it will address the market. The following section discusses some of the bases for segmenting markets and demonstrates advertising and promotions applications.

DIVERSITY PERSPECTIVE 2-1

# Marketers Reach Out to Hispanics— A Multidimensional Segment


It seems that U.S. marketers have finally discovered the Hispanic market. Not that it hasn't been here for some time; it has. And not that it isn't of substantial size; it is. So what has suddenly woken Madison Avenue to the potential in this market? A number of things.

First, consider the size of the Hispanic market—35.3 million people. Second, consider the growth rate—58 percent in the past decade (four times that of the overall population). Third, throw in the estimated $400 billion in buying power, which "seems impervious to the Nasdaq's swoons" according to Marci McDonald of *U.S. News & World Report.* The end result is an extremely attractive market. And, unlike the case in the past, this market has finally attracted the attention of some big-time marketers.

CBS has noticed. Hoping that the Hispanic market will help reverse the downward trend in the size of its soap opera audience, the network has introduced a Spanish simulcast of *The Bold and the Beautiful* titled *Belleza y Poder* ("Beauty and Power"). Liz Claiborne Cosmetics introduced its new perfume, Mambo, with a $20 million campaign targeting Latinos (among others), and the American Association of Retired Persons (AARP) has more specifically targeted the over-50 Hispanic market with a $3 million campaign. Among the other firms now increasing their efforts in this market are MasterCard International, Reader's Digest, and Tillamook Cheese.

Even though there has been a significant increase in spending in the Hispanic market, Spanish-language and bilingual campaigns still account for only about one percent of the $200 billion advertisers spend yearly on broadcast media (another $250 million goes to magazines and newspapers). While some companies already spend heavily to attract this segment (e.g., Sears has targeted this market for over 10 years, and AT&T spent about $35 million on it in 2001), most have simply ignored the segment—until now. The fact that young Hispanics will become the largest ethnic youth population in the United States by 2005 has made more marketers take notice.

Reaching this segment may not be as easy as it seems, however. Roberto Ramos, president of the Ruido Group, a Hispanic-youth-focused communication agency in New York, notes: "One of the biggest misconceptions about Hispanic youth is that they are a homogeneous group. Puerto Ricans, Colombians and Cubans are not all the same. What works to attract one group may not work for another." Erasmo Arteaga, a Sears store manager in West Covina, California, adds: "People think Hispanic means one thing, ... But it's different from Miami to Southern California. And here in California, it's not just Mexicans; it's Guatemalans, Salvadorans, and other people from Central America." Arteaga notes that two Hispanic-designated stores in Los Angeles only 20 miles apart reflect very different buying motives. While this segment is certainly a challenging market, there is no doubt among many marketers that Hispanics are worth the effort. Consider some of the efforts being taken:

- Reader's Digest has launched *Selecciones* magazine, a magazine showcasing Latinos.
- MasterCard International maintains a Spanish-language website to encourage Latinos to apply for credit cards.
- AC Nielsen formed a Southern California Hispanic-consumer panel to learn more about the likes and dislikes of this audience.
- American Airlines has an in-flight magazine titled *NEXOS* that is targeted at Hispanics.
- The "Got Milk" campaign now includes Spanish versions of the ads.
- Galavision, a Spanish-language cable station, launched five youth programs aimed at bilingual and bicultural Hispanic youth.
- Throughout its bilingual TV, print, and radio campaigns, the Office of National Drug Control Policy focuses its antidrug message on the strong family values inherent in Hispanic cultures.

The above are just a few examples of the many companies and organizations targeting the Hispanic market. With the segment's strong growth rates in population and in spending power, you can be sure that many more will join in. The question is, will they take the time and effort required to understand the diversity of this market, or will they simply attempt to reach Hispanics through the appeals and media they employ for other ethnic groups. One thing is sure: If they pursue the latter strategy, they won't be in the Hispanic market for very long.

Sources: John Kerrigan "Playing to Hispanics garners rewards," *Marketing News*, July 22, 2002, p. 20; Jennifer Gonzalez McPherson, "Targeting Teens," *Hispanic Magazine*, September 2001, pp. 33–36; Marci McDonald, "Madison Avenue's New Latin Beat," *U.S. News & World Report*, June 4, 2001, p. 42; Greg Johnson, "Gaining Insight into the Latino Middle Class," *Los Angeles Times*, June 11, 2001, p. C-1.


**Exhibit 2-5** Big Red markets to a specific geographic region

**Bases for Segmentation** As shown in Figure 2-4, several methods are available for segmenting markets. Marketers may use one of the segmentation variables or a combination of approaches. Consider the market segmentation strategy that might be employed to market snow skis. The consumer's lifestyle—active, fun-loving, enjoys outdoor sports—is certainly important. But so are other factors, such as age (participation in downhill skiing drops off significantly at about age 30) and income (Have you seen the price of a lift ticket lately?), as well as marital status. Let us review the bases for segmentation and examine some promotional strategies employed in each.

**Geographic Segmentation** In the **geographic segmentation** approach, markets are divided into different geographic units. These units may include nations, states, counties, or even neighborhoods. Consumers often have different buying habits depending on where they reside. For example, General Motors, among other car manufacturers, considers California a very different market from the rest of the United States and has developed specific marketing programs targeted to the consumers in that state. Other companies have developed programs targeted at specific regions. Exhibit 2-5 shows an ad for Big Red, just one of the regional soft-drink "cult" brands—along with Cheerwine (the Carolinas), Vernors (Michigan), and Moxie (New England)—that have found success by marketing in regional areas (in this case, Texas). One company—Olde Brooklyn Beverage Company—has even gone so far as to promote a brand based on a specific section of New York City, differentiating it from bigger brands by promoting the product's "Brooklyn Attitude."

**Demographic Segmentation** Dividing the market on the basis of demographic variables such as age, sex, family size, education, income, and social class is called **demographic segmentation.** Secret deodorant and the Lady Schick shaver are products that have met with a great deal of success by using the demographic variable of sex as a basis for segmentation. iVillage, a website targeting women, may be one of the most successful websites on the Internet (Exhibit 2-6).

Although market segmentation on the basis of demographics may seem obvious, companies sometimes discover that they need to focus more attention on a specific demographic group. For example, Kodak and Procter & Gamble, among others, have had to redo their images for younger markets. Abercrombie changed its image to reach the "echo-boomer" (18- to 22-year-old) segment (Exhibit 2-7). Magazines like *Modern Maturity* are targeted to the estimated 76 million people in the "Be Generation," who are now in their fifties or older or are from the baby-boomer generation, the cohort born between 1946 and 1964, and *Segunda Juventud* to the 50+ Hispanic market (Exhibit 2-8).

Other products that have successfully employed demographic segmentation include Virginia Slims cigarettes (sex), Doan's Pills (age), JCPenney Co. (race), Mercedes-Benz and BMW cars (income), and prepackaged dinners (family size).

While demographics may still be the most common method of segmenting markets, it is important to recognize that other factors may be the underlying basis for homogeneity and/or consumer behavior. The astute marketer will identify additional bases for segmenting and will recognize the limitations of demographics.

**Figure 2-4** Some bases for market segmentation

| Main Dimension | Segmentation Variables | Typical Breakdowns |
|---|---|---|
| ***Customer Characteristics*** | | |
| Geographic | Region | Northeast; Midwest; South; West; etc. |
| | City size | Under 10,000; 10,000–24,999; 25,000–49,999; 50,000–99,999; 100,000–249,999; 250,000–499,999; 500,000–999,999; 1,000,000 or more |
| | Metropolitan area | Metropolitan statistical area (MSAs); etc. |
| | Density | Urban; suburban; small town; rural |
| Demographic | Gender | Male; female |
| | Age | Under 6 yrs; 6–11 yrs; 12–17 yrs; 18–24 yrs; 25–34 yrs; 35–44 yrs; 45–54 yrs; 55–64 yrs; 65–74 yrs; 75 yrs plus |
| | Race | African-American; Asian; Hispanic; White/Caucasian; etc. |
| | Life stage | Infant; preschool; child; youth; collegiate; adult; senior |
| | Birth era | Baby boomer (1949–1964); Generation X (1965–1976); baby boomlet/Generation Y (1977–present) |
| | Household size | 1; 2; 3–4; 5 or more |
| | Residence tenure | Own home; rent home |
| | Marital status | Never married; married; separated; divorced; widowed |
| Socioeconomic | Income | <\$15,000; \$15,000–\$24,999; \$25,000–\$34,999; \$35,000–\$49,999; \$50,000–\$74,999; \$75,000+ |
| | Education | Some high school or less; high school graduate (or GED); etc. |
| | Occupation | Managerial and professional specialty; technical, sales, and administrative support; service; farming, forestry, and fishing; etc. |
| Psychographic | Personality | Gregarious; compulsive; introverted; aggressive; ambitious; etc. |
| | Values (VALS) | Actualizers; fulfilleds; achievers; experiencers; believers; strivers; makers; strugglers |
| | Lifestyle (Claritas) | Settled in; white picket fence; and 46 other household segments |
| ***Buying Situations*** | | |
| Outlet type | In-store | Department; specialty; outlet; convenience; supermarket; superstore/mass merchandiser; catalog |
| | Direct | Mail order/catalog; door-to-door; direct response; Internet |
| Benefits sought | Product features | Situation specific; general |
| | Needs | Quality; service; price/value; financing; warranty; etc. |
| Usage | Usage rate | Light user; medium user; heavy user |
| | User status | Nonuser; ex-user; prospect; first-time user; regular user |
| Awareness and intentions | Product knowledge | Unaware; aware; informed; interested; intending to buy; purchaser; rejection |
| Behavior | Involvement | Minimum effort; comparison; special effort |

Exhibit 2-6 iVillage initiated a website targeted at women


**Psychographic Segmentation** Dividing the market on the basis of personality and/or lifestyles is referred to as **psychographic segmentation.** While there is some disagreement as to whether personality is a useful basis for segmentation, lifestyle factors have been used effectively. Many consider lifestyle the most effective criterion for segmentation.

The determination of lifestyles is usually based on an analysis of the activities, interests, and opinions (AIOs) of consumers. These lifestyles are then correlated with the consumers' product, brand, and/or media usage. For many products and/or services, lifestyles may be the best discriminator between use and nonuse, accounting for differences in food, clothing, and car selections, among numerous other consumer behaviors.[5]

Exhibit 2-7 Abercrombie & Fitch changed its image to appeal to echo boomers

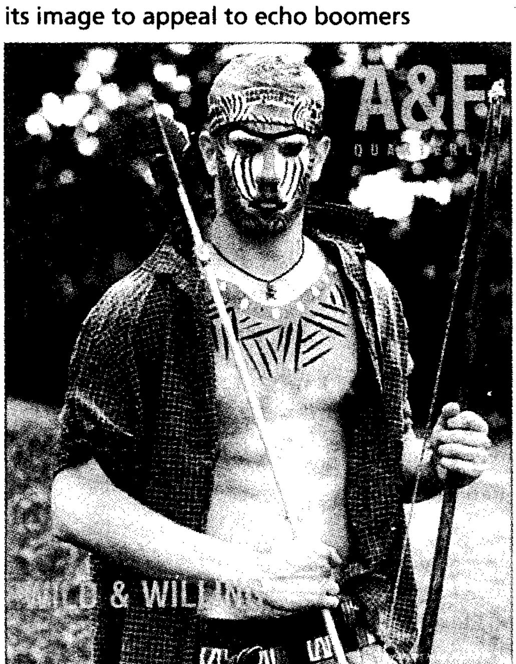



Exhibit 2-8 *Segunda Juventud* targets the 50+ Hispanic segment

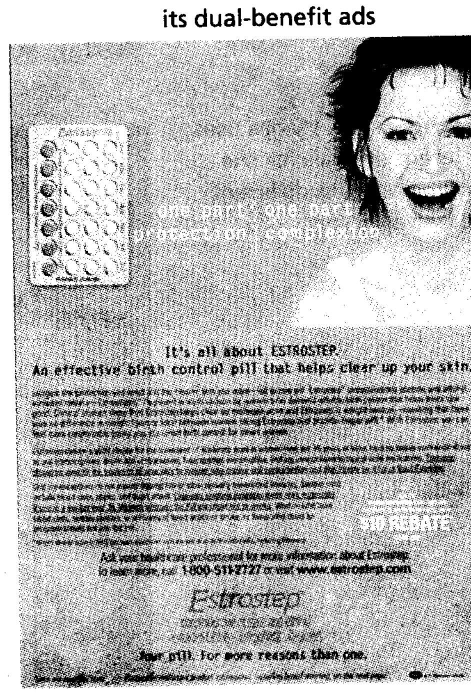
Psychographic segmentation has been increasingly accepted with the advent of the values and lifestyles (VALS) program. Although marketers employed lifestyle segmentation long before VALS and although a number of alternatives—for example, PRIZM—are available, VALS remains one of the more popular options. Developed by the Stanford Research Institute (SRI), VALS has become a very popular method for applying lifestyle segmentation. VALS 2 divides Americans into eight lifestyle segments that exhibit distinctive attitudes, behaviors, and decision-making patterns.[6] SRI believes that when combined with an estimate of the resources the consumer can draw on (education, income, health, energy level, self-confidence, and degree of consumerism), the VALS 2 system is an excellent predictor of consumer behaviors. A number of companies, including Chevron, Mercedes, and Eastman Kodak, have employed the VALS 2 program for a variety of purposes, including advertising, positioning, and media planning.

**Behavioristic Segmentation** Dividing consumers into groups according to their usage, loyalties, or buying responses to a product is **behavioristic segmentation.** For example, product or brand usage, degree of use (heavy versus light), and/or brand loyalty are combined with demographic and/or psychographic criteria to develop profiles of market segments. In the case of usage, the marketer assumes that nonpurchasers of a brand or product who have the same characteristics as purchasers hold greater potential for adoption than nonusers with different characteristics. A profile (demographic or psychographic) of the user is developed, which serves as the basis for promotional strategies designed to attract new users. For example, teenagers share certain similarities in their consumption behaviors. Those who do not currently own a Sony Discman are more likely to be potential buyers than people in other age groups.

Degree of use relates to the fact that a few consumers may buy a disproportionate amount of many products or brands. Industrial marketers refer to the **80-20 rule,** meaning 20 percent of their buyers account for 80 percent of their sales volume. Again, when the characteristics of these users are identified, targeting them allows for a much greater concentration of efforts and less wasted time and money. The same heavy-half strategy is possible in the consumer market as well. The majority of purchases of many products (e.g., soaps and detergents, shampoos, cake mixes, beer, dog food, colas, bourbon, and toilet tissue—yes, toilet tissue!) are accounted for by a small proportion of the population. Perhaps you can think of some additional examples.

**Benefit Segmentation** In purchasing products, consumers are generally trying to satisfy specific needs and/or wants. They are looking for products that provide specific benefits to satisfy these needs. The grouping of consumers on the basis of attributes sought in a product is known as **benefit segmentation** and is widely used (Exhibit 2-9).

Exhibit 2-9 Estrostep takes a unique approach in its dual-benefit ads




Consider the purchase of a wristwatch. While you might buy a watch for particular benefits such as accuracy, water resistance, or stylishness, others may seek a different set of benefits. Watches are commonly given as gifts for birthdays, Christmas, and graduation. Certainly some of the same benefits are considered in the purchase of a gift, but the benefits the purchaser derives are different from those the user will obtain. Ads that portray watches as good gifts stress different criteria to consider in the purchase decision. The next time you see an ad or commercial for a watch, think about the basic appeal and the benefits it offers.

Another example of benefit segmentation can be seen in the toothpaste market. Some consumers want a product with fluoride (Crest, Colgate); others prefer one that freshens their breath (Close-Up, Aqua-Fresh). More recent benefit segments offer tartar control (Crest) and plaque reduction (Viadent). The Den-Mat Corp. introduced Rembrandt whitening toothpaste for consumers who want whiter teeth, and other brands followed with their own whitening attributes.

## The Process of Segmenting a Market

The segmentation process develops over time and is an integral part of the situation analysis. It is in this stage that marketers attempt to determine as much as they can about the market: What needs are not being fulfilled? What benefits are being sought? What characteristics distinguish among the various groups seeking these products and services? A number of alternative segmentation strategies may be used. Each time a specific segment is identified, additional information is gathered to help the marketer understand this group.

For example, once a specific segment is identified on the basis of benefits sought, the marketer will examine lifestyle characteristics and demographics to help characterize this group and to further its understanding of this market. Behavioristic segmentation criteria will also be examined. In the purchase of ski boots, for example, specific benefits may be sought—flexibility or stiffness—depending on the type of skiing the buyer does. All this information will be combined to provide a complete profile of the skier.

A number of companies now offer research services to help marketing managers define their markets and develop strategies targeting them. The VALS and PRIZM systems discussed earlier are just a few of the services offered; others use demographic, socioeconomic, and geographic data to cluster consumer households into distinct "microgeographic" segments.

Whether these microunits meet the criteria for useful segmentation is determined by the user of the system. A national company might not attempt to define such small segments, but it could be useful for companies operating within one city or geographic area.

After completing the segmentation analysis, the marketer moves to the third phase shown in Figure 2-2: targeting a specific market.

## Selecting a Target Market

The outcome of the segmentation analysis will reveal the market opportunities available. The next phase in the target marketing process involves two steps: (1) determining how many segments to enter and (2) determining which segments offer the most potential.

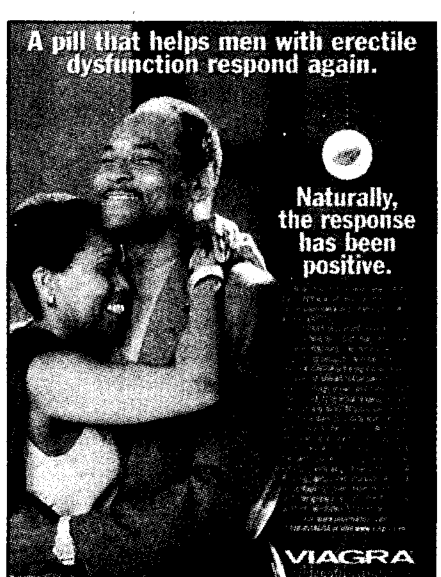
### Determining How Many Segments to Enter

Three market coverage alternatives are available. **Undifferentiated marketing** involves ignoring segment differences and offering just one product or service to the entire market. For example, when Henry Ford brought out the first assembly-line automobile, all potential consumers were offered the same basic product: a black Ford. For many years, Coca-Cola offered only one product version. While this standardized strategy saves the company money, it does not allow the opportunity to offer different versions of the product to different markets.

**Differentiated marketing** involves marketing in a number of segments, developing separate marketing strategies for each. The Viagra ads in Exhibit 2-10 reflect this strategy. Notice how the two ads differ given alternate target markets and media.



**Exhibit 2-10** Viagra uses different appeals for the same product in different segments




While an undifferentiated strategy offers reduced costs through increased production, it does not allow for variety or tailoring to specific needs. Through differentiation, products—or advertising appeals—may be developed for the various segments, increasing the opportunity to satisfy the needs and wants of various groups.

The third alternative, **concentrated marketing,** is used when the firm selects one segment and attempts to capture a large share of this market. Volkswagen used this strategy in the 1950s when it was the only major automobile company competing in the economy-car segment in the United States. While Volkswagen has now assumed a more differentiated strategy, other companies have found the concentrated strategy effective. For example, Maxwell Business Systems has focused its business exclusively on providing software for job cost accounting/MIS systems for government contractors through its JAMIS product line (Exhibit 2-11).

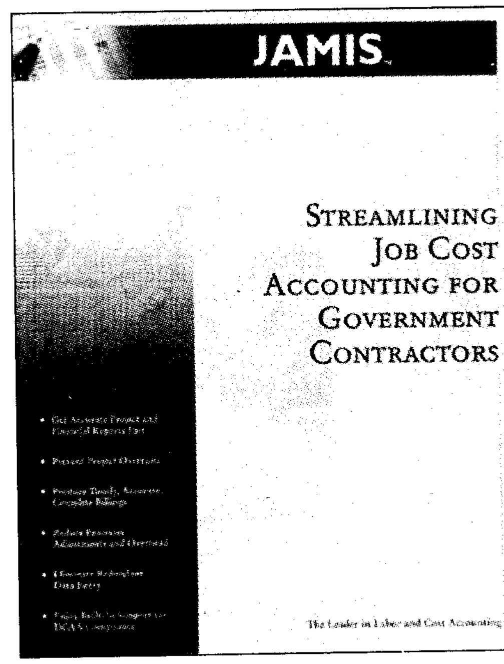



Exhibit 2-11 Maxwell Business Systems pursues a concentrated marketing strategy with JAMIS

### Determining Which Segments Offer Potential

The second step in selecting a market involves determining the most attractive segment. The firm must examine the sales potential of the segment, the opportunities for growth, the competition, and its own ability to compete. Then it must decide whether it can market to this group. Stories abound of companies that have entered new markets only to find their lack of resources or expertise would not allow them to compete successfully. For example, Royal Crown (RC) Cola has often been quite successful in identifying new segment opportunities but because of limited resources has been less able to capitalize on them than Coke and Pepsi. RC was the first to bring to market diet colas and caffeine-free colas, but it has not been able to establish itself as a market leader in either market. After selecting the segments to target and determining that it can compete, the firm proceeds to the final step in Figure 2-2: the market positioning phase.

## Market Positioning

**Positioning** has been defined as "the art and science of fitting the product or service to one or more segments of the broad market in such a way as to set it meaningfully apart from competition."[7] As you can see, the position of the product, service, or even store is the image that comes to mind and the attributes consumers perceive as related to it. This communication occurs through the message itself, which explains the benefits, as well as the media strategy employed to reach the target group. Take a few moments to think about how some products are positioned and how their positions are conveyed to you. For example, what comes to mind when you hear the name Mercedes, Dr. Pepper, or Sony? What about department stores such as Neiman Marcus, Sears, and JCPenney? Now think of the ads for each of these products and companies. Are their approaches different from their competitors'? When and where are these ads shown?

Exhibit 2-12 Positioning that focuses on the consumer

### Approaches to Positioning

Positioning strategies generally focus on either the consumer or the competition. While both approaches involve the association of product benefits with consumer needs, the former does so by linking the product with the benefits the consumer will derive or creating a favorable brand image, as shown in Exhibit 2-12. The latter approach positions the product by comparing it and the benefit it offers with the competition, as shown in Exhibit 2-13. Products like Scope mouthwash (positioning itself as better tasting than Listerine) and Poweraid (comparing their rehydration capabilities and caloric content to the leading brand) have employed this strategy successfully.

Many advertising practitioners consider market positioning the most important factor in establishing a brand in the marketplace.

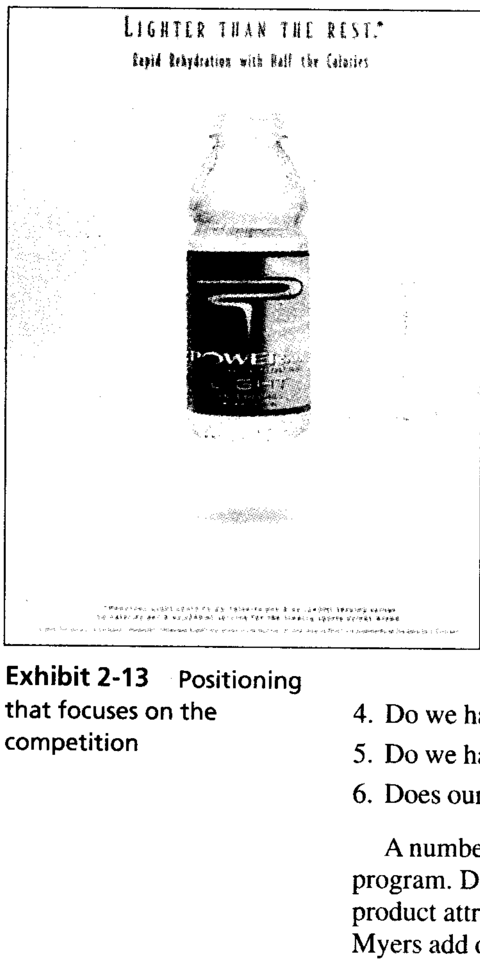



**Exhibit 2-13** Positioning that focuses on the competition

David Aaker and John Myers note that the term *position* has been used to indicate the brand's or product's image in the marketplace.[8] Jack Trout and Al Ries suggest that this brand image must contrast with competitors. They say, "In today's marketplace, the competitors' image is just as important as your own. Sometimes more important."[9] Thus, *positioning,* as used in this text, relates to the image of the product and or brand relative to competing products or brands. The position of the product or brand is the key factor in communicating the benefits it offers and differentiating it from the competition. Let us now turn to strategies marketers use to position a product.

## Developing a Positioning Strategy

To create a position for a product or service, Trout and Ries suggest that managers ask themselves six basic questions:[10]

1. What position, if any, do we already have in the prospect's mind? (This information must come from the marketplace, not the managers' perceptions.)
2. What position do we want to own?
3. What companies must be outgunned if we are to establish that position?
4. Do we have enough marketing money to occupy and hold the position?
5. Do we have the guts to stick with one consistent positioning strategy?
6. Does our creative approach match our positioning strategy?

A number of positioning strategies might be employed in developing a promotional program. David Aaker and J. Gary Shansby discuss six such strategies: positioning by product attributes, price/quality, use, product class, users, and competitor.[11] Aaker and Myers add one more approach, positioning by cultural symbols.[12]



### Positioning by Product Attributes and Benefits

A common approach to positioning is setting the brand apart from competitors on the basis of the specific characteristics or benefits offered. Sometimes a product may be positioned on more than one product benefit. Marketers attempt to identify **salient attributes** (those that are important to consumers and are the basis for making a purchase decision). For example, when Apple first introduced its computers, the key benefit stressed was ease of use—an effective strategy, given the complexity of computers in the market at that time.

### Positioning by Price/Quality

Marketers often use price/quality characteristics to position their brands. One way they do this is with ads that reflect the image of a high-quality brand where cost, while not irrelevant, is considered secondary to the quality benefits derived from using the brand. Premium brands positioned at the high end of the market use this approach to positioning.

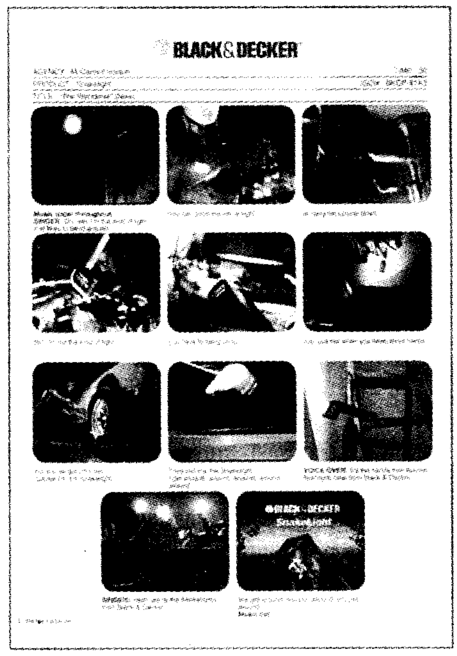
Another way to use price/quality characteristics for positioning is to focus on the quality or value offered by the brand at a very competitive price. For example, the Lands' End ad shown in Exhibit 2-14 uses this strategy by suggesting that quality need not be unaffordable. Remember that although price is an important consideration, the product quality must be comparable to, or even better than, competing brands for the positioning strategy to be effective.

### Positioning by Use or Application

Another way to communicate a specific image or position for a brand is to associate it with a specific use or application. For example, Black & Decker introduced the Snakelight as an innovative solution to the problem of trying to hold a flashlight while working. A TV commercial showed various uses for the product, while creative packaging and in-store displays were used to communicate the uses (Exhibit 2-15).

Exhibit 2-14 Lands' End positions its brand as having high quality for the right price


Exhibit 2-15 Black & Decker shows the various uses of the Snakelight




While this strategy is often used to enter a market on the basis of a particular use or application, it is also an effective way to expand the usage of a product. For example, Arm & Hammer baking soda has been promoted for everything from baking to relieving heartburn to eliminating odors in carpets and refrigerators (Exhibit 2-16).

**Positioning by Product Class** Often the competition for a product comes from outside the product class. For example, airlines know that while they compete with other airlines, trains and buses are also viable alternatives. Amtrak has positioned itself as an alternative to airplanes, citing cost savings, enjoyment, and other advantages. Manufacturers of music CDs must compete with MP3 players; many margarines position themselves against butter. Rather than positioning against another brand, an alternative

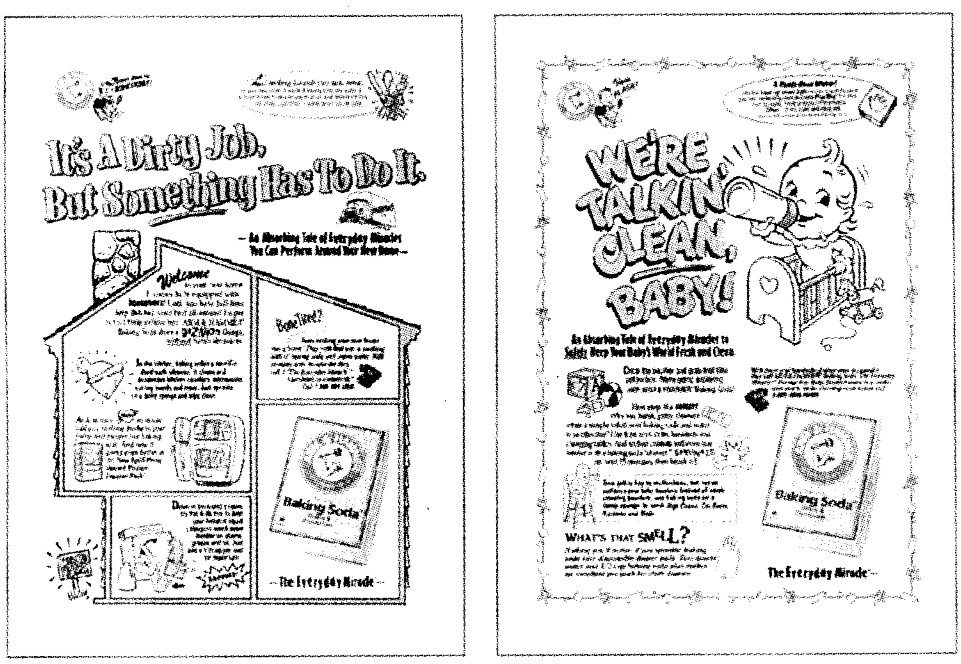



Exhibit 2-16 Arm & Hammer baking soda demonstrates numerous product uses


**Exhibit 2-17** An example of positioning by product class

strategy is to position oneself against another product category, as shown in Exhibit 2-17.

**Positioning by Product User** Positioning a product by associating it with a particular user or group of users is yet another approach. An example would be the Valvoline ad shown in Exhibit 2-18. This campaign emphasizes identification or association with a specific group, in this case, people who receive pleasure from working on their cars.

**Positioning by Competitor** Competitors may be as important to positioning strategy as a firm's own product or services. As Trout and Ries observe, the old strategy of ignoring one's competition no longer works.[13] (Advertisers used to think it was a cardinal sin to mention a competitor in their advertising.) In today's market, an effective positioning strategy for a product or brand may focus on specific competitors. This approach is similar to positioning by product class, although in this case the competition is within the same product category. Perhaps the best-known example of this strategy was Avis, which positioned itself against the car-rental leader, Hertz, by stating, "We're number two, so we try harder." The Powerade ad shown earlier (Exhibit 2-13) is an example of positioning a brand against the competition. When positioning by competitor, a marketer must often employ another positioning strategy as well to differentiate the brand.

**Positioning by Cultural Symbols** Aaker and Myers include an additional positioning strategy in which cultural symbols are used to differentiate brands. Examples are the Jolly Green Giant, the Keebler elves, Speedy Alka-Seltzer, the Pillsbury Doughboy, Buster Brown, Ronald McDonald, Chiquita Banana, and Mr. Peanut. Each of these symbols has successfully differentiated the product it represents from competitors' (Exhibit 2-19).



**Exhibit 2-18** Valvoline positions by product user

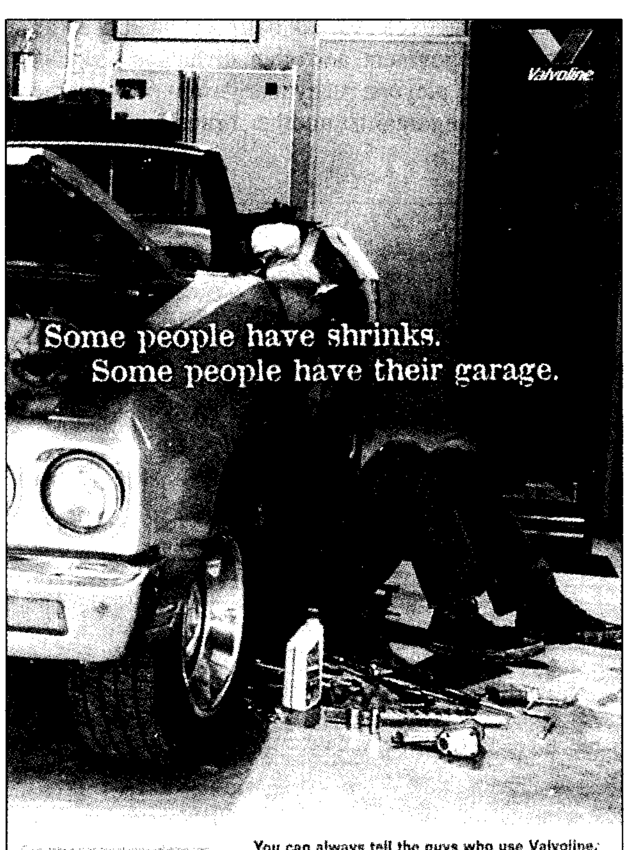
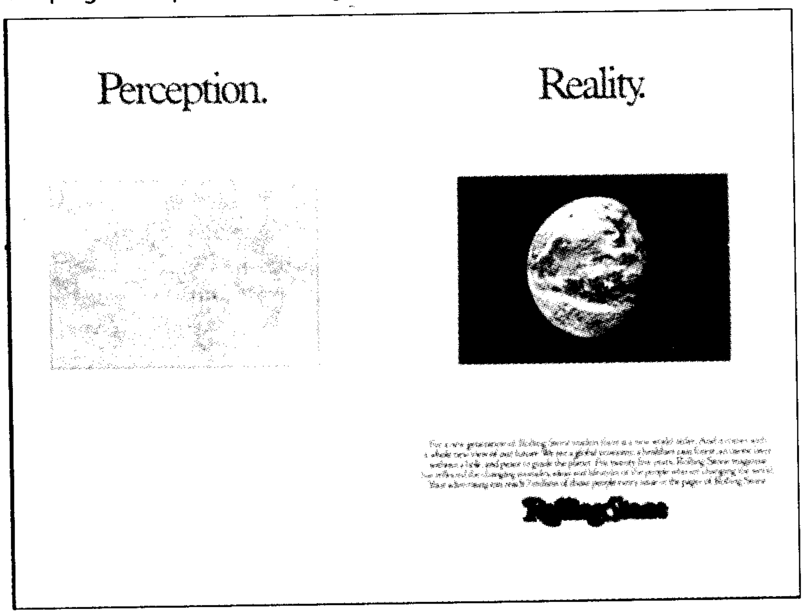


**Exhibit 2-19** The Jolly Green Giant is a cultural symbol


**Exhibit 2-20** This ad is one of a series used in the successf campaign to reposition *Rolling Stone* magazine






**Repositioning** One final positioning strategy involves altering or changing a product's or brand's position. **Repositioning** a product usually occurs because of declining or stagnant sales or because of anticipated opportunities in other market positions. Repositioning is often difficult to accomplish because of entrenched perceptions about and attitudes toward the product or brand. Many companies' attempts to change their positions have met with little or no success. For example, Kmart (the store) and Aurora (the Oldsmobile) have both attempted to reposition themselves to a level of higher quality, appealing to younger and more well-to-do customers. Both have met with limited success. (Kmart is in bankruptcy and the Oldsmobile line will be discontinued). Nutri-Grain Bars—originally positioned as a convenience snack ("Good food to go")—have been repositioned as a breakfast substitute ("Respect yourself in the morning"). Buick has repositioned in an attempt to reach a younger market (using Tiger Woods, in his twenties, as a spokesperson), while La-Z-Boy is attempting to move away from its blue-collar image and to a more affluent one. Sears has changed its positioning so often in recent years that consumers may not know exactly what image the company is trying to convey.

One extremely successful effort at repositioning was employed by *Rolling Stone* magazine. In an attempt to change advertisers' image of the type of person who reads *Rolling Stone,* the company embarked on an extensive advertising campaign directed at potential advertisers. The ad shown in Exhibit 2-20 is just one example of how this strategy was successfully implemented.

IMC Perspective 2-1 describes how Jet Blue has been successful in its positioning efforts in a very competitive market.

## Determining the Positioning Strategy

Having explored the alternative positioning strategies available, the marketer must determine which strategy is best suited for the firm or product and begin developing the positioning platform. As you remember from the promotional planning process in Chapter 1, the input into this stage will be derived from the situation analysis—specifically, the marketing research conducted therein. Essentially, the development of a positioning platform can be broken into a six-step process:[14]

1. *Identifying competitors.* This process requires broad thinking. Competitors may not be just those products and/or brands that fall into our product class or with which we compete directly. For example, a red wine competes with other red wines of various positions. It may also compete with white, sparkling, and nonalcoholic wines. Wine coolers provide an alternative, as do beer and other alcoholic drinks. Other

## IMC PERSPECTIVE 2-1

# JetBlue—the "Unairline"

At a time when most of the airlines of the world are struggling, one carrier is seeing nothing but "blue skies." Despite the simultaneous problems of September 11, a recession, and war, the airline—aptly named JetBlue—has continued to succeed where competitors have faltered. For the second quarter of 2002, JetBlue reported a net income of $14.6 million on operating revenues of $149.3 million, while nearly all major airlines reported record losses.

What's the secret behind JetBlue's success? It's a combination of successful branding, unique positioning, and integrated marketing communications that transcends seemingly every aspect of the "antiairline" approach. JetBlue flies at about 80 percent full on every flight (versus the industry average of 64 percent) and attracts travelers from all segments—students, grandmothers, and business travelers (Everybody who likes low fares and a great flying experience). JetBlue has adopted a unique positioning in the industry, and takes every effort conceivable to maintain that image and attitude.

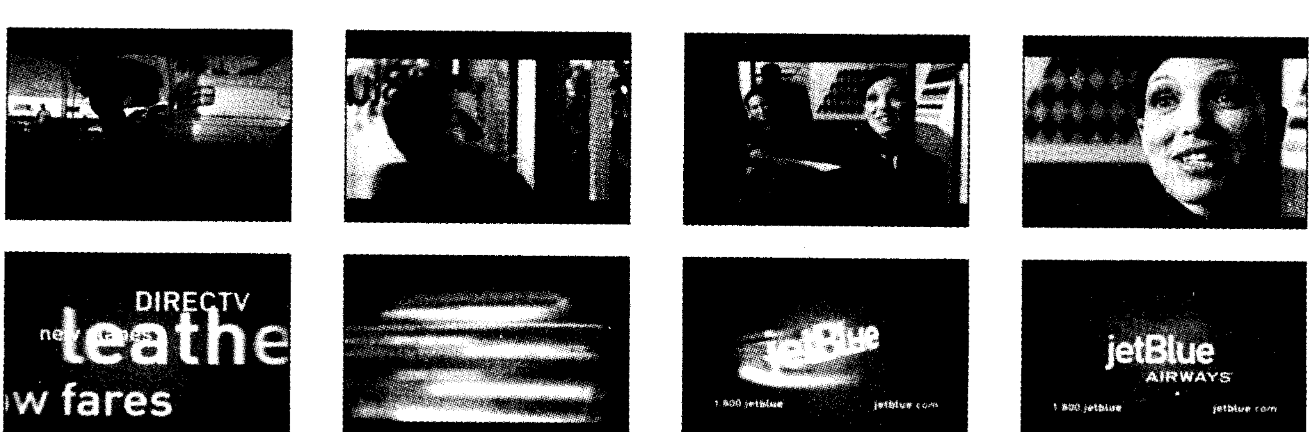
First, there is the unique positioning. Initially positioned as a low-fare, all-coach carrier, the airline has evolved into what one writer has described as a cross between Southwest Airlines (low price, all coach) and Virgin Atlantic (hip and sassy). This means that fares generally are lower than those of competitors flying the same routes but the product itself is more attractive. The planes are new and feature leather seats, each of which offers free satellite TV on a personal video screen. The pilots are efficient and honest about delays, and the flight attendants offer excellent service and go about with a "fun" attitude. JetBlue claims to bring pleasure and style back into flying—and they usually do.

JetBlue has also focused on branding. Its strategy has been to emphasize the things that distinguish the brand from other carriers but cost little—things like courtesy, comfort, and punctuality—while paying less attention to those items that do not, like food. Service is a top priority, including updates on flight status every 15 minutes. *Vanity Fair* magazine named JetBlue its top airline of 2000, and readers of *Condé Nast Traveler* and *Zagat* rated it number 2 behind Midwest Express—an all-business airline that charges much higher prices.

The communication mix for JetBlue supports the brand image and positioning. From the blue potato chips to the stylish blue uniforms, all communications attempt to appeal to its "aspirational audience"—frugal, yet style-conscious consumers. For example, the JetBlue website is simple, functional, and user-friendly. It doesn't look like other airlines' sites, nor does it have the same impact. (More than 60 percent of JetBlue's customers book on the airline's website, while other airlines average about 10 percent.) The original advertising message—"Somebody up there likes you"—attempted to be "un-airline," focusing on big-city swagger and wit rather than the typical "small-world" theme used by others. The post-September 11 campaign—"reasons to fly," which included both TV and radio spots, featured sentimental and nonsentimental reasons for flying—but did so in a humorous style to maintain JetBlue's personality.

The question in the minds of many travelers and industry pundits is, How long can JetBlue keep this up? With its strong identity, positioning, and brand image, and consumers' increasing hatred for other airlines, the future looks pretty bright. Let's hope so!

Sources: Amy Goldwasser, "Something Stylish, Something Blue," *Business 2.0*, February 2002, pp. 94–95; Sally B. Donnelly, "Blue Skies," *Time*, July 30, 2001, pp. 24–27; Scott Donaton, "Flying Lessons: JetBlue Soars When Front Lines Value Brand," *Advertising Age*, Feb. 11, 2002, p. 16.



nonalcoholic drinks may come into consideration at various times and/or in certain situations. The marketer must consider all likely competitors, as well as the diverse effects of use and situations on the consumer.

2. *Assessing consumers' perceptions of competitors.* Once we define the competition, we must determine how they are perceived by consumers. Which attributes are important to consumers in evaluating a product and/or brand? As you might expect, for many products, consumers consider a wide variety of attributes or product benefits—most if not all of which are important. Much of marketing firms' research is directed at making such determinations. Consumers are asked to take part in focus groups and/or complete surveys indicating which attributes are important in their purchase decisions. For example, attributes considered important in the selection of a bank may include convenience, teller friendliness, financial security, and a host of other factors. This process establishes the basis for determining competitive positions.

3. *Determining competitors' positions.* After identifying the relevant attributes and their relative importance to consumers, we must determine how each competitor (including our own entry) is positioned with respect to each attribute. This will also show how the competitors are positioned relative to each other. Consumer research is required to make this assessment.

4. *Analyzing the consumers' preferences.* Our discussion of segmentation noted various factors that may distinguish among groups of consumers, including lifestyles, purchase motivations, and demographic differences. Each of these segments may have different purchase motivations and different attribute importance ratings. One way to determine these differences is to consider the *ideal brand* or *product*, defined as the object the consumer would prefer over all others, including objects that can be imagined but do not exist. Identifying the ideal product can help us identify different ideals among segments or identify segments with similar or the same ideal points.

5. *Making the positioning decision.* Going through the first four steps should let us decide which position to assume in the marketplace. Such a decision is not always clear and well defined, however, and research may provide only limited input. In that case, the marketing manager or groups of managers must make some subjective judgments. These judgments raise a number of questions:

- *Is the segmentation strategy appropriate?* Positioning usually entails a decision to segment the market. Consider whether the market segment sought will support an entry and whether it is in the best interests of the company to de-emphasize the remaining market. When a specific position is chosen, consumers may believe this is what the product is for. Those not looking for that specific benefit may not consider the brand. If the marketer decides on an undifferentiated strategy, it may be possible to be general in the positioning platform. For example, Toyota's slogan, "Get the feeling" allows receivers to project their feelings about the brand—all of which (hopefully) involve a positive image of Toyota.

- *Are there sufficient resources available to communicate the position effectively?* It is very expensive to establish a position. One ad, or even a series of ads, is not likely to be enough. The marketer must commit to a long-range effort in all aspects of the marketing campaign to make sure the objectives sought are obtained. Too often, the firm abandons a position and/or advertising campaign long before it can establish a position successfully. The *Rolling Stone* repositioning discussed earlier is an excellent example of sticking with a campaign: The basic theme ran for a number of years. In contrast, Sears has switched campaigns so often in the past few years that it has been impossible to establish a distinct position in the consumer's mind. Further, once a successful position is attained, it is likely to attract competitors. It may become expensive to ward off "me-too" brands and continue to hold on to the brand distinction.

- *How strong is the competition?* The marketing manager must ask whether a position sought is likely to be maintained, given the strengths of the competition. For example, General Foods often made it a practice not to be the first entry into a market. When competitors developed new markets with their entries, General Foods would simply improve on the product and capture a large percentage of the market share. This leads to two basic questions: First, if our firm is first into the market, will we be able to maintain the position (in terms of quality, price, etc.)? Second, if a product is positioned as finest quality, it must be. If it is positioned as lowest cost, it has to be. Otherwise, the position claimed is sure to be lost.

- *Is the current positioning strategy working?* There is an old saying, "If it ain't broke, don't fix it." If current efforts are not working, it may be time to consider an alternative positioning strategy. But if they are working, a change is usually unwise. Sometimes executives become bored with a theme and decide it is time for a change, but this change causes confusion in the marketplace and weakens a brand's position. Unless there is strong reason to believe a change in positioning is necessary, stick with the current strategy.

6. *Monitoring the position.* Once a position has been established, we want to monitor how well it is being maintained in the marketplace. Tracking studies measure the image of the product or firm over time. Changes in consumers' perceptions can be determined, with any slippage immediately noted and reacted to. At the same time, the impact of competitors can be determined.

Before leaving this section, you might stop to think for a moment about the positioning (and repositioning) strategies pursued by different companies. Any successful product that comes to mind probably occupies a distinct market position.

# Developing the Marketing Planning Program

The development of the marketing strategy and selection of a target market(s) tell the marketing department which customers to focus on and what needs to attempt to satisfy. The next stage of the marketing process involves combining the various elements of the marketing mix into a cohesive, effective marketing program. Each marketing-mix element is multidimensional and includes a number of decision areas. Likewise, each must consider and contribute to the overall IMC program. We now examine product, price, and distribution channels and how each influences and interacts with the promotional program.



## Product Decisions

An organization exists because it has some product, service, or idea to offer consumers, generally in exchange for money. This offering may come in the form of a physical product (such as a soft drink, pair of jeans, or car), a service (banking, airlines, or legal assistance), a cause (United Way, March of Dimes), or even a person (a political candidate). The product is anything that can be marketed and that, when used or supported, gives satisfaction to the individual.

A *product* is not just a physical object; it is a bundle of benefits or values that satisfies the needs of consumers. The needs may be purely functional, or they may include social and psychological benefits. For example, the campaign for Michelin tires shown earlier stresses the quality built into Michelin tires (value) as well as their performance and durability (function). The term **product symbolism** refers to what a product or brand means to consumers and what they experience in purchasing and using it.[15] For many products, strong symbolic features and social and psychological meaning may be more important than functional utility.[16] For example, designer clothing such as Versace, Gucci, and Bebe is often purchased on the basis of its symbolic meaning and image, particularly by teenagers and young adults. Advertising plays an important role in developing and maintaining the image of these brands (Exhibit 2-21).

Product planning involves decisions not only about the item itself, such as design and quality, but also about aspects such as service and warranties as well as brand name and package design. Consumers look beyond the reality of the product and its ingredients. The product's quality, branding, packaging, and even the company standing behind it all contribute to consumers' perceptions.[17] In an effective IMC program, advertising, branding, and packaging are all designed to portray the product as more than just a bundle of attributes. All are coordinated to present an image or positioning of the product that extends well beyond its physical attributes. Think for a minute about the ads for Nike; the product benefits and attributes are usually not even mentioned—yet information about the brand is communicated effectively.

Exhibit 2-21 Advertising for designer clothing

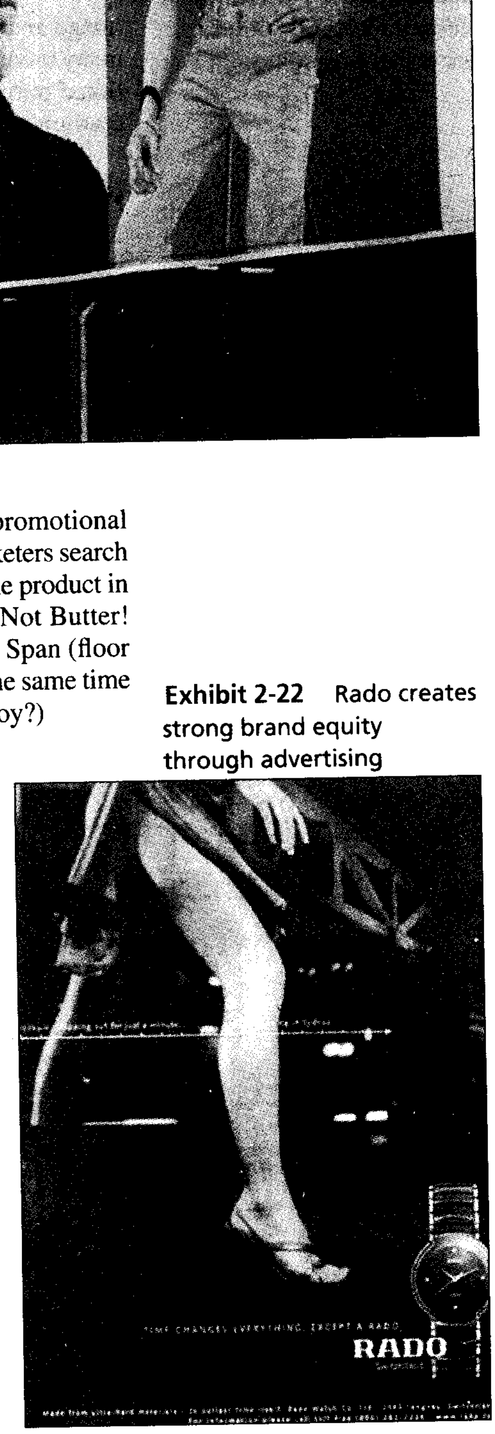



## Branding

Choosing a brand name for a product is important from a promotional perspective because brand names communicate attributes and meaning. Marketers search for brand names that can communicate product concepts and help position the product in customers' minds. Names such as Safeguard (soap), I Can't Believe It's Not Butter! (margarine), Easy-Off (oven cleaner), Arrid (antiperspirant), and Spic and Span (floor cleaner) all clearly communicate the benefits of using these products and at the same time create images extending beyond the names themselves. (What about La-Z-Boy?)

One important role of advertising in respect to branding strategies is creating and maintaining **brand equity,** which can be thought of as an intangible asset of added value or goodwill that results from the favorable image, impressions of differentiation, and/or the strength of consumer attachment to a company name, brand name, or trademark. Brand equity allows a brand to earn greater sales volume and/or higher margins than it could without the name, providing the company with a competitive advantage. The strong equity position a company and/or its brand enjoys is often reinforced through advertising. For example, Rado watches command a premium price because of their high quality as well as the strong brand equity they have developed through advertising (Exhibit 2-22).

Exhibit 2-22 Rado creates strong brand equity through advertising




## Packaging

Packaging is another aspect of product strategy that has become increasingly important. Traditionally, the package provided functional benefits such as economy, protection, and storage. However, the role and function of the package have changed because of the self-service emphasis of many stores and the fact that more and more buying decisions are made at the point of purchase. One study estimated that as many as two-thirds of all purchases made in the supermarket are unplanned. The package is often the consumer's first exposure to the product, so it must make a favorable first impression. A typical supermarket has more

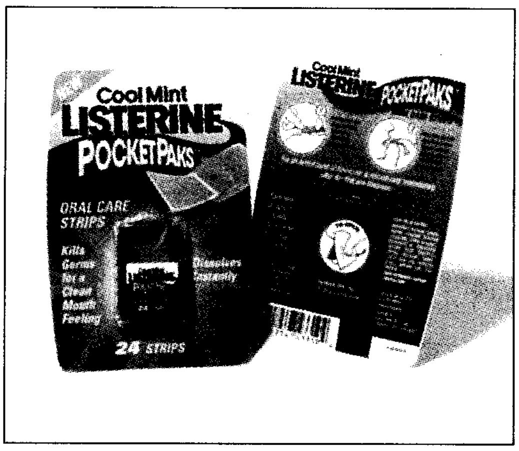



**Exhibit 2-23** Listerine communicates through effective packaging

than 20,000 items competing for attention. Not only must a package attract and hold the consumer's attention, but it must also communicate information on how to use the product, divulge its composition and content, and satisfy any legal requirements regarding disclosure. Moreover, many firms design the package to carry a sales promotion message such as a contest, sweepstakes, or premium offer.

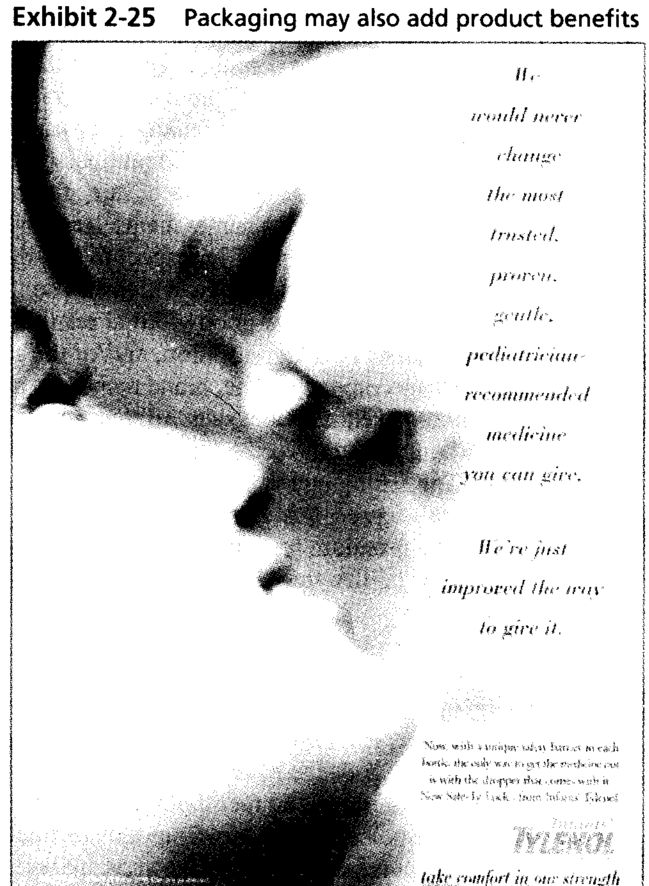
Many companies view the package as an important way to communicate with consumers and create an impression of the brand in their minds. In other instances packages can extend the brand by offering new uses. For example, Listerine's PocketPaks (Exhibit 2-23) have created new opportunities for the mouthwash. Design factors such as size, shape, color, and lettering all contribute to the appeal of a package and can be as important as a commercial in determining what goes from the store shelf to the consumer's shopping cart. Many products use packaging to create a distinctive brand image and identity. The next time you walk by a perfume counter, stop to look at the many unique package designs (see Exhibit 2-24). Packaging can also serve more functional purposes. For example, Tylenol's Safe-Ty-Lock bottle protects children from consuming the medicine when they shouldn't (Exhibit 2-25).

## Price Decisions

The *price variable* refers to what the consumer must give up to purchase a product or service. While price is discussed in terms of the dollar amount exchanged for an item, the cost of a product to the consumer includes time, mental activity, and behavioral effort.[18] The marketing manager is usually concerned with establishing a price level, developing pricing policies, and monitoring competitors' and consumers' reactions to prices in the marketplace. A firm must consider a number of factors in determining the price it charges for its product or service, including costs, demand factors, competi-

**Exhibit 2-24** The packaging creates product image


**Exhibit 2-25** Packaging may also add product benefits



tion, and perceived value. From an IMC perspective, the price must be consistent with the perceptions of the product, as well as the communications strategy. Higher prices, of course, will communicate a higher product quality, while lower prices reflect bargain or "value" perceptions (Exhibit 2-26). A product positioned as highest quality but carrying a lower price than competitors will only confuse consumers. In other words, the price, the advertising, and the distribution channels must present one unified voice speaking to the product's positioning.

### Relating Price to Advertising and Promotion

Factors such as product quality, competition, and advertising all interact in determining what price a firm can and should charge. The relationship among price, product quality, and advertising was examined in one study using information on 227 consumer businesses from the Profit Impact of Marketing Strategies (PIMS) project of the Strategic Planning Institute.[19] Several interesting findings concerning the interaction of these variables emerged from this study:

- Brands with high relative advertising budgets were able to charge premium prices, whereas brands that spent less than their competitors on advertising charged lower prices.
- Companies with high-quality products charged high relative prices for the extra quality, but businesses with high quality and high advertising levels obtained the highest prices. Conversely, businesses with low quality and low advertising charged the lowest prices.
- The positive relationship between high relative advertising and price levels was stronger for products in the late stage of the product life cycle, for market leaders, and for low-cost products (under $10).
- Companies with relatively high prices and high advertising expenditures showed a higher return on investment than companies with relatively low prices and high advertising budgets.
- Companies with high-quality products were hurt the most, in terms of return on investment, by inconsistent advertising and pricing strategies.


**Exhibit 2-26** Some products compete on the basis of quality rather than price

The study concluded that pricing and advertising strategies go together. High relative ad expenditures should accompany premium prices, and low relative ad expenditures should be tailored to low prices. These results obviously support the IMC perspective that one voice must be conveyed.

## Distribution Channel Decisions

As consumers, we generally take for granted the role of marketing intermediaries or channel members. If we want a six-pack of soda or a box of detergent, we can buy it at a supermarket, a convenience store, or even a drugstore. Manufacturers understand the value and importance of these intermediaries.

One of a marketer's most important marketing decisions involves the way it makes its products and services available for purchase. A firm can have an excellent product at a great price, but it will be of little value unless it is available where the customer wants it, when the customer wants it, and with the proper support and service. **Marketing channels,** the place element of the marketing mix, are "sets of interdependent organizations involved in the process of making a product or service available for use or consumption."[20]

Channel decisions involve selecting, managing, and motivating intermediaries such as wholesalers, distributors, brokers, and retailers that help a firm make a product or service available to customers. These intermediaries, sometimes called **resellers,** are critical to the success of a company's marketing program.

The distribution strategy should also take into consideration the communication objectives and the impact that the channel strategy will have on the IMC program. Stewart and colleagues discuss the need for "integrated channel management," which "reflects the blurring of the boundaries of the communications and distribution functions."[21] Consistent with the product and pricing decisions, where the product is distributed will send a communications message. Does the fact that a product is sold at Neiman Marcus or Saks convey a different message regarding its image than if it were distributed at Kmart or Wal-Mart? If you think about it for a moment, the mere fact that the product is distributed in these channels communicates an image about it in your mind. (Think about the Samsung discussion at the beginning of this chapter.) Stewart gives examples of how channel elements contribute to communication—for example, grocery store displays, point-of-purchase merchandising, and shelf footage. The distribution channel in a well-integrated marketing program serves as a form of reminder advertising. The consumer sees the brand name and recalls the advertising. (Think about the last time you passed a McDonald's. Did it remind you of any of McDonald's ads?)

A company can choose not to use any channel intermediaries but, rather, to sell to its customers through **direct channels.** This type of channel arrangement is sometimes used in the consumer market by firms using direct-selling programs, such as Avon, Tupperware, and Mary Kay, or firms that use direct-response advertising or telemarketing to sell their products. Direct channels are also frequently used by manufacturers of industrial products and services, which are often selling expensive and complex products that require extensive negotiations and sales efforts, as well as service and follow-up calls after the sale. The ad for Titleist putters shown earlier reflects the higher cost and quality associated with the brand.

Chapter 15 provides a discussion of the role of the Internet in an IMC program. As will be seen, the Internet is relied upon by many companies as a direct channel of distribution, since they offer products and services for sale on their websites. Amazon.com and Barnes&Noble.com are just two of the many examples of such efforts.

Most consumer-product companies distribute through **indirect channels,** usually using a network of wholesalers (institutions that sell to other resellers) and/or retailers (which sell primarily to the final consumer).

## Developing Promotional Strategies: Push or Pull?

Most of you are aware of advertising and other forms of promotion directed toward ultimate consumers or business customers. We see these ads in the media and are often part of the target audience for the promotions. In addition to developing a consumer

# Fiona Morrisson

## Director, Corporate Communications JetBlue Airways

My career-path, especially the first ten years of it, has been one that text books never recommend, guidance counselors are paid to discourage, and parents fear the most.

I grew up in a small country town in Australia where it wasn't a given that everyone would graduate from high school and go on to university. I left school after grade ten and spent the next eight years of my working life in jobs that provided me with an extremely useful work skill: a typing speed of 120 words per minute. I held positions in everything from dental clinics to multinational computing companies, with a myriad of temporary jobs in between.

In my early twenties, I headed to Japan. My first real job in Tokyo was with a science publishing company where I worked "polishing" English language research papers submitted by Japanese scientists before the reports were sent for publication in Europe.

After leaving then returning to Tokyo, I was fortunate to find work in two industries that have since become the foundation for my career: media and travel.

"A friend's recommendation and successful interviews landed me the JetBlue job."

Every morning I was employed by a travel tour consolidator to write English language marketing plans and proposals aimed at their U.S., Australian, and South East Asian airline and tour partners. Every afternoon, I worked in the International Relations department of Nihon Television (NTV), Japan's oldest network station.

At NTV, my job was to "culturally translate" scripts for programs that the station was hoping to sell overseas.

While I loved living in Japan, I began to feel that there was something that school could offer me. I felt that a university degree would give me a theoretical base from which to understand and utilize the experiences and skills I'd gained.

I returned to Australia to earn a BA in Communications from the University of Technology in Sydney. After graduation, I was off to New York.

My first job in New York was with an Australian corporate finance company. I soon realized that I was not suited to the finance industry, so when the opportunity to interview at a public relations agency came along, I jumped at it.

Porter Novelli had just won the Australian Tourist Commission (ATC) account and was looking for an account executive with a knowledge of the country. Thanks to my nationality, my writing skills and my experience "translating" between two cultures, I got the job. Along with the ATC, I worked on the Princess Cruises, Bermuda Tourism, and Southwest Airlines accounts, learning media relations, co-ordinating major events, and organizing press trips.

I spent two happy years with Porter Novelli before landing the position of Manager of Corporate Communications with JetBlue Airways.

The first day with JetBlue I worked on the inauguration of new service to Orlando, Florida, the fourth city on the route network. By the end of my first year, we'd launched ten more destinations around the country. Since then JetBlue has gone from being an "upstart" to a successful low-fare competitor to being voted the Best US Airline by Conde Nast Traveler readers. Three of us handle all JetBlue's PR in-house—which means that we do everything, from media pitching to event planning to internal communications.

So while it might not have been as fast as the traditional route, my career path, with its roundabout ways and spontaneous detours, has brought me to a job and a company that I love, and given me some unique experiences along the way. I'm excited about where it could take me next.

marketing mix, a company must have a program to motivate the channel members. Programs designed to persuade the trade to stock, merchandise, and promote a manufacturer's products are part of a **promotional push strategy.** The goal of this strategy is to push the product through the channels of distribution by aggressively selling and promoting the item to the resellers, or trade.

Promotion to the trade includes all the elements of the promotional mix. Company sales representatives call on resellers to explain the product, discuss the firm's plans for building demand among ultimate consumers, and describe special programs being offered to the trade, such as introductory discounts, promotional allowances, and cooperative ad programs. The company may use **trade advertising** to interest wholesalers and retailers and motivate them to purchase its products for resale to their customers. Trade advertising usually appears in publications that serve the particular industry.

A push strategy tries to convince resellers they can make a profit on a manufacturer's product and to encourage them to order the merchandise and push it through to their customers. Sometimes manufacturers face resistance from channel members who do not want to take on an additional product line or brand. In these cases, companies may turn to a **promotional pull strategy,** spending money on advertising and sales promotion efforts directed toward the ultimate consumer. The goal of a pull strategy is to create demand among consumers and encourage them to request the product from the retailer. Seeing the consumer demand, retailers will order the product from wholesalers (if they are used), which in turn will request it from the manufacturer. Thus, stimulating demand at the end-user level pulls the product through the channels of distribution.

Whether to emphasize a push or a pull strategy depends on a number of factors, including the company's relations with the trade, its promotional budget, and demand for the firm's products. Companies that have favorable channel relationships may prefer to use a push strategy and work closely with channel members to encourage them to stock and promote their products. A firm with a limited promotional budget may not have the funds for advertising and sales promotion that a pull strategy requires and may find it more cost-effective to build distribution and demand by working closely with resellers. When the demand outlook for a product is favorable because it has unique benefits, is superior to competing brands, or is very popular among consumers, a pull strategy may be appropriate. Companies often use a combination of push and pull strategies, with the emphasis changing as the product moves through its life cycle.

## The Role of Advertising and Promotion

As shown in the marketing model in Figure 2-1, the marketing program includes promotion both to the trade (channel members) and to the company's ultimate customers. And interactive marketers use the various promotional-mix elements—advertising, sales promotion, direct marketing, publicity/public relations, and personal selling—to inform consumers about their products, their prices, and places where the products are available. Each promotional-mix variable helps marketers achieve their promotional objectives, and all variables must work together to achieve an integrated marketing communications program.

To this point, we have discussed the various elements of the marketing plan that serves as the basis for the IMC program. The development and implementation of an IMC program is based on a strong foundation that includes market analysis, target marketing and positioning, and coordination of the various marketing-mix elements. Throughout the following chapters of this text, we will explore the role of advertising and promotion in helping to achieve marketing objectives.

## Summary

Promotion plays an important role in an organization's efforts to market its product, service, or ideas to its customers. Figure 2-1 shows a model for analyzing how promotions fit into a company's marketing program. The model includes a marketing strategy and analysis, target marketing, program development, and the target market. The marketing process begins with a marketing strategy that is based on a detailed situation analysis and guides for target market selection and development of the firm's marketing program.

In the planning process, the situation analysis requires that the marketing strategy be assumed. The promotional program is developed with this strategy as a guide. One of the key decisions to be made pertains to the target marketing process, which includes identifying, segmenting, targeting, and positioning to target markets. There are several bases for segmenting the market and various ways to position a product.

Once the target marketing process has been completed, marketing program decisions regarding product, price, distribution, and promotions must be made. All of these must be coordinated to provide an integrated marketing communications perspective, in which the positioning strategy is supported by one voice. Thus all product strategies, pricing strategies, and distribution choices must be made with the objective of contributing to the overall image of the product or brand. Advertising and promotion decisions, in turn, must be integrated with the other marketing-mix decisions to accomplish this goal.

## Key Terms

- strategic marketing plan, 40
- market segments, 40
- market opportunities, 40
- competitive advantage, 41
- target marketing, 43
- market segmentation, 44
- geographic segmentation, 46
- demographic segmentation, 46
- psychographic segmentation, 48
- behavioristic segmentation, 49
- 80-20 rule, 49
- benefit segmentation, 49
- undifferentiated marketing, 50
- differentiated marketing, 50
- concentrated marketing, 51
- positioning, 51
- salient attributes, 52
- repositioning, 55
- product symbolism, 58
- brand equity, 59
- marketing channels, 62
- resellers, 62
- direct channels, 62
- indirect channels, 62
- promotional push strategy, 64
- trade advertising, 64
- promotional pull strategy, 64

## Discussion Questions

1. Recently, some marketers have noted that it is easier to develop communications programs to Generation X members than Generation Y. Briefly describe the characteristics of Gen X and Gen Y, and whether or not you believe this to be true.

2. The text discusses Samsung's attempt to reposition to be competitive with companies like Sony. Discuss what factors might promote and/or inhibit their success in this endeavor.

3. As companies increase their efforts to target the Hispanic segment, they are likely to encounter differences from other subcultural groups. Discuss some of the differences that they might expect to notice in the Hispanic subculture.

4. Changing lifestyles can create both opportunities and threats for the marketer. Provide an example of a change in lifestyle that poses a threat to marketers, and one that provides an opportunity. Give an example of a product or brand that has been affected in both of these ways.

5. The text discusses the positioning of JetBlue and their success so far. Describe some of the things that JetBlue has done effectively to lead to their success. What will JetBlue need to do in the future to maintain this success?

6. Some marketers contend that demographics is not really a basis for segmentation but is a descriptor of the segment. Discuss examples to support both positions.

7. Establishing brand image is often difficult for new companies. Explain what these companies must do to establish a strong brand image.

8. More and more business-to-business companies have gone away from purely trade advertising to advertising on consumer media. Is this likely to be a successful strategy? Why or why not?

9. A number of approaches to segmentation have been cited in the text. Provide examples of companies and/or brands that employ each.

10. Describe how the positioning strategy adopted for a brand would need to be supported by all other elements of the marketing mix.

# Organizing for Advertising and Promotion: The Role of Ad Agencies and Other Marketing Communication Organizations

# 3

## Chapter Objectives

1. To understand how companies organize for advertising and other aspects of integrated marketing communications.
2. To examine methods for selecting, compensating, and evaluating advertising agencies.
3. To explain the role and functions of specialized marketing communications organizations.
4. To examine various perspectives on the use of integrated services and responsibilities of advertisers versus agencies.

# Madison Avenue Goes Hollywood

In the spring of 2000, the creative group at the Fallon Worldwide agency assigned to the BMW North America account was in the process of developing a new branding campaign for the German automaker. Both the BMW and Fallon people were becoming increasingly concerned with their ability to reach their core market of overachieving, hard-working consumers via traditional methods such as network television. BMW had done three different campaigns recently emphasizing responsive performance with product-focused ads designed to show what it's like behind the wheel of a BMW. However, from the perspective of both the client and the agency, the look and feel of the ads had begun to be copied by competitors and wannabes, making them less distinctive than before. Meanwhile, their research indicated that many Bimmer buyers were tech-savvy and had fast, reliable access to the Internet; most importantly, 85 percent of them had researched their car purchase on the Web before stepping into a dealer showroom.


As the creative team worked to develop a new branding campaign for BMW, concern over the effectiveness of traditional media advertising and curiosity over how to exploit the popularity of the Internet among car buyers were two key factors they were considering. Another creative team at Fallon had recently completed a campaign for Timex that incorporated an Internet element by featuring short video clips developed specifically for the Web. So the idea emerged of doing something for the Web that would be not only entertaining but also cinematic. However, the associative creative director for the BMW group at Fallon noted that the goal was to do a different level of web film—one that by its very nature would call attention to itself and could be promoted like regular films. The agency took the web film concept to Anonymous Content, a Hollywood production company, where director David Fincher is a partner. Fincher took the original concept for a longer film that would be shot in segments and suggested instead a series of stand-alone shorts, each directed by a marquee name. He also came up with the idea for a central character, the Driver, played by young British actor Clive Owen, who appears in all the films as a James Bond–type driver who takes such costars as Madonna, Mickey Rourke, and Stellan Skarsgaard for the ride of their lives in a BMW.

The series of five- to seven-minute films created by Fallon and Anonymous Content is called "The Hire," and the films have been directed by big names such as Ang Lee, John Franeheimer, and Guy Ritchie. The most popular film in the series was Ritchie's seven-minute short called "Star," which starred his wife, Madonna, portraying a spoiled pop diva who is taken on a wild ride to her hotel in a BMW 540i by the hired driver. Each film shows a different BMW model pushing the envelope of performance by showing what the car can do in extreme conditions and situations that could never be conveyed in a traditional TV commercial.

A special website, BMWFilms.com, was created to show the five films in "The Hire" series. The site also includes five "substories," which are two-minute vignettes that introduce additional characters, as well as a behind-the-scenes look at how the films were made, interviews with the stunt drivers, and commentaries by the directors on their individual shoots. Fallon also created an integrated campaign to drive consumers to the website that included television, print and Internet ads, viral marketing efforts, and an aggressive public relations effort. "The Hire" film series has been singled out as the first high-profile, big-budget, celebrity-laden marriage of advertising and entertainment. Since its launch in April 2001, more than 13 million people have logged on to BMWFilms.com to view the five films in the series, and its success prompted BMW to commission three new films, which debuted in fall 2002.

BMW Films was awarded the Super Reggie Award in 2002 by the Promotion Marketing Association (PMA) for the best promotional campaign. The PMA director noted: "BMW Films has truly established a creative benchmark in integrated and interactive promotions, allowing consumers to interact with the BMW name on their own terms. The promotion helped drive increases in brand measures and dealership visits as well as vehicle sales numbers." The film series also won the Cyber Grand Prix award at the 2002 Cannes Advertising Festival for the best online marketing campaign.

BMW is not the only marketer that has turned to the *advertainment* genre to promote its products. Skyy Vodka, which has a history of support for independent filmmakers and film festivals, was one of the first companies to use the genre, with its "Skyy Short Film Series." The three short films, which were created by the company's ad agency Lambesis, also used top directors and talent including model-actress Claudia Schiffer and Dian Merrill. The short films, which are featured on the "Skyy Cinema" section of the company's website, are seen as a way to build its brand image with its primary target audience of young, technologically savvy adults. Bartle Bogle Hegarty, a London agency, has also created short films for several clients including Levi's jeans and Microsoft's Xbox video game. The long-form ad for the Xbox, called "Champagne," shows a baby being shot out of a window at birth and morphing into old age and has been downloaded more than 4 million times.

Experts note that these digital short films signal the way toward the long-awaited convergence of television and the personal computer. They note that other technological developments such as the personal video recorder, digital cable, and satellite TV will allow consumers to watch what they want when they want to and this will change how they relate to advertisers. Thus, advertisers and their agencies will continue to use the short-film advertainments as a way to make their messages more compelling and to encourage consumers to actually choose to view their ads rather than avoid them.

Sources: Michael McCarthy, "Ads Go Hollywood with Short Films," *USA Today,* June 20, 2002, p. 3b; Anthony Vagnoi, "Behind the Wheel," *Advertising Age,* July 23, 2001, pp. 10, 12; Benny Evangelista, "Marketers Turn to Web Films to Push Their Products," *San Francisco Chronicle,* July 23, 2001, p. E2.

Developing and implementing an integrated marketing communications program is usually a complex and detailed process involving the efforts of many persons. As consumers, we generally give little thought to the individuals or organizations that create the clever advertisements that capture our attention or the contests or sweepstakes we hope to win. But for those involved in the marketing process, it is important to understand the nature of the industry and the structure and functions of the organizations involved. As can be seen from the opening vignette, the advertising and promotions business is changing as marketers search for better ways to communicate with their customers. These changes are impacting the way marketers organize for marketing communications, as well as their relationships with advertising agencies and other communication specialists.

This chapter examines the various organizations that participate in the IMC process, their roles and responsibilities, and their relationship to one another. We discuss how companies organize internally for advertising and promotion. For most companies, advertising is planned and executed by an outside ad agency. Many large agencies offer a variety of other IMC capabilities, including public relations, sales promotion, and direct marketing. Thus, we will devote particular attention to the ad agency's role and the overall relationship between company and agency.

Other participants in the promotional process (such as direct-response, sales promotion, and interactive agencies and public relations firms) are becoming increasingly important as more companies take an integrated marketing communications approach to promotion. We examine the role of these specialized marketing communications organizations in the promotional process as well. The chapter concludes with a discussion of whether marketers are best served by using the integrated services of one large agency or the separate services of a variety of communications specialists.

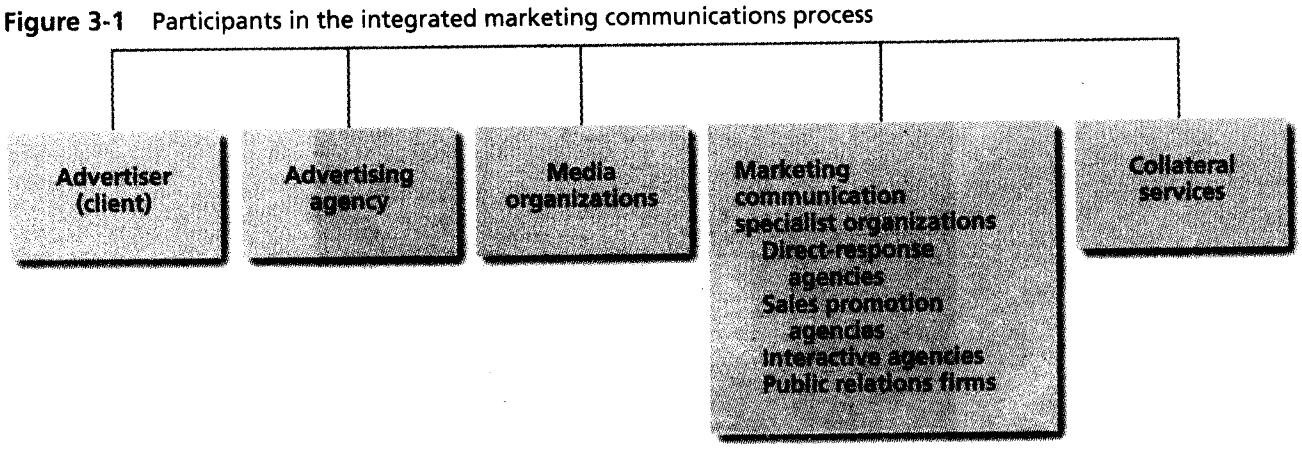
## Participants in the Integrated Marketing Communications Process: An Overview

Before discussing the specifics of the industry, we'll provide an overview of the entire system and identify some of the players. As shown in Figure 3-1, participants in the integrated marketing communications process can be divided into five major groups: the advertiser (or client), advertising agencies, media organizations, specialized communication services, and collateral services. Each group has specific roles in the promotional process.

The advertisers, or **clients,** are the key participants in the process. They have the products, services, or causes to be marketed, and they provide the funds that pay for advertising and promotions. The advertisers also assume major responsibility for developing the marketing program and making the final decisions regarding the advertising and promotional program to be employed. The organization may perform most of these efforts itself, either through its own advertising department or by setting up an in-house agency.

However, many organizations use an **advertising agency,** an outside firm that specializes in the creation, production, and/or placement of the communications message and that may provide other services to facilitate the marketing and promotions

**Figure 3-1** Participants in the integrated marketing communications process



process. Many large advertisers retain the services of a number of agencies, particularly when they market a number of products. For example, Kraft Foods uses as many as 8 advertising agencies for its various brands, while Procter & Gamble uses 12 ad agencies and 2 major media buying services companies. More and more, ad agencies are acting as partners with advertisers and assuming more responsibility for developing the marketing and promotional programs.

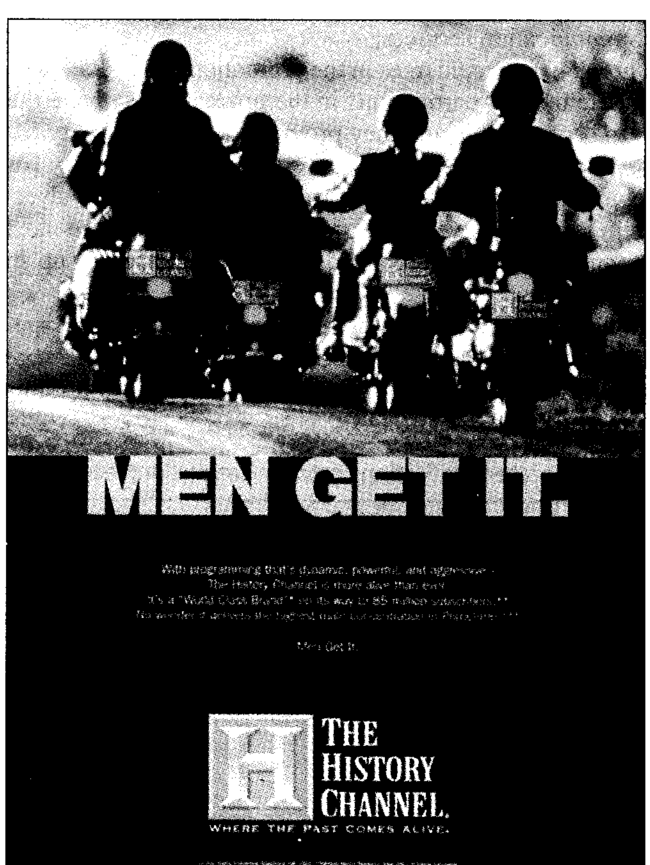
**Media organizations** are another major participant in the advertising and promotions process. The primary function of most media is to provide information or entertainment to their subscribers, viewers, or readers. But from the perspective of the promotional planner, the purpose of media is to provide an environment for the firm's marketing communications message. The media must have editorial or program content that attracts consumers so that advertisers and their agencies will want to buy time or space with them. Exhibit 3-1 shows an ad run in advertising trade publications promoting the value of The History Channel magazine as a media vehicle for reaching men. While the media perform many other functions that help advertisers understand their markets and their customers, a medium's primary objective is to sell itself as a way for companies to reach their target markets with their messages effectively.

The next group of participants are organizations that provide **specialized marketing communications services.** They include direct-marketing agencies, sales promotion agencies, interactive agencies, and public relations firms. These organizations provide services in their areas of expertise. A direct-response agency develops and implements direct-marketing programs, while sales promotion agencies develop promotional programs such as contests and sweepstakes, premium offers, or sampling programs. Interactive agencies are being retained to develop websites for the Internet and help marketers as they move deeper into the realm of interactive media. Public relations firms are used to generate and manage publicity for a company and its products and services as well as to focus on its relationships and communications with its relevant publics.

The final participants shown in the promotions process of Figure 3-1 are those that provide **collateral services,** the wide range of support functions used by advertisers,



**Exhibit 3-1** The History Channel advertises its ability to reach male television viewers



agencies, media organizations, and specialized marketing communications firms. These individuals and companies perform specialized functions the other participants use in planning and executing advertising and other promotional functions. We will now examine the role of each participant in more detail. (Media organizations will be examined in Chapters 10 through 14.)

# Organizing for Advertising and Promotion in the Firm: The Client's Role

Virtually every business organization uses some form of marketing communications. However, the way a company organizes for these efforts depends on several factors, including its size, the number of products it markets, the role of advertising and promotion in its marketing mix, the advertising and promotion budget, and its marketing organization structure. Many individuals throughout the organization may be involved in the promotions decision-making process. Marketing personnel have the most direct relationship with advertising and are often involved in many aspects of the decision process, such as providing input to the campaign plan, agency selection, and evaluation of proposed programs. Top management is usually interested in how the advertising program represents the firm, and this may also mean being involved in advertising decisions even when the decisions are not part of its day-to-day responsibilities.

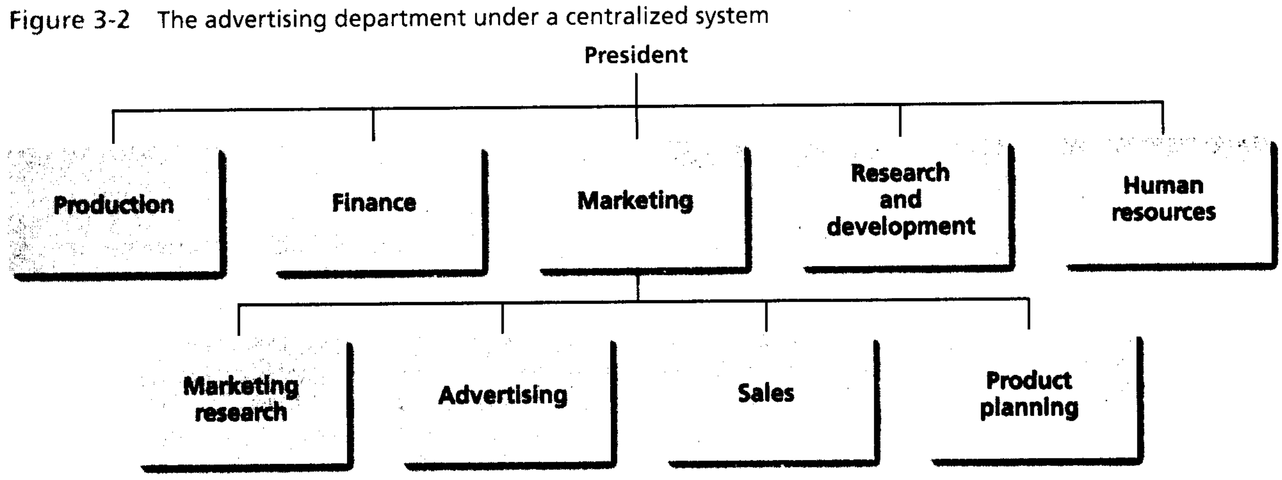
While many people both inside and outside the organization have some input into the advertising and promotion process, direct responsibility for administering the program must be assumed by someone within the firm. Many companies have an advertising department headed by an advertising or communications manager operating under a marketing director. An alternative used by many large multiproduct firms is a decentralized marketing (brand management) system. A third option is to form a separate agency within the firm, an in-house agency. Each of these alternatives is examined in more detail in the following sections.

## The Centralized System

In many organizations, marketing activities are divided along functional lines, with advertising placed alongside other marketing functions such as sales, marketing research, and product planning, as shown in Figure 3-2. The **advertising manager** is responsible for all promotions activities except sales (in some companies this individual has the title of Marketing Communications Manager). In the most common example of a **centralized system,** the advertising manager controls the entire promotions operation, including budgeting, coordinating creation and production of ads, planning media schedules, and monitoring and administering the sales promotions programs for all the company's products or services.

The specific duties of the advertising manager depend on the size of the firm and the importance it places on promotional programs. Basic functions the manager and staff perform include the following.

Figure 3-2 The advertising department under a centralized system



**Planning and Budgeting** The advertising department is responsible for developing advertising and promotions plans that will be approved by management and recommending a promotions program based on the overall marketing plan, objectives, and budget. Formal plans are submitted annually or when a program is being changed significantly, as when a new campaign is developed. While the advertising department develops the promotional budget, the final decision on allocating funds is usually made by top management.

**Administration and Execution** The manager must organize the advertising department and supervise and control its activities. The manager also supervises the execution of the plan by subordinates and/or the advertising agency. This requires working with such departments as production, media, art, copy, and sales promotion. If an outside agency is used, the advertising department is relieved of much of the executional responsibility; however, it must review and approve the agency's plans.

**Coordination with Other Departments** The manager must coordinate the advertising department's activities with those of other departments, particularly those involving other marketing functions. For example, the advertising department must communicate with marketing research and/or sales to determine which product features are important to customers and should be emphasized in the company's communications. Research may also provide profiles of product users and nonusers for the media department before it selects broadcast or print media. The advertising department may also be responsible for preparing material the sales force can use when calling on customers, such as sales promotion tools, advertising materials, and point-of-purchase displays.

**Coordination with Outside Agencies and Services** Many companies have an advertising department but still use many outside services. For example, companies may develop their advertising programs in-house while employing media buying services to place their ads and/or use collateral services agencies to develop brochures, point-of-purchase materials, and so on. The department serves as liaison between the company and any outside service providers and also determines which ones to use. Once outside services are retained, the manager will work with other marketing managers to coordinate their efforts and evaluate their performances.

A centralized organizational system is often used when companies do not have many different divisions, product or service lines, or brands to advertise. For example, airlines such as Southwest, American, and Continental have centralized advertising departments. Many companies prefer a centralized advertising department because developing and coordinating advertising programs from one central location facilitates communication regarding the promotions program, making it easier for top management to participate in decision making. A centralized system may also result in a more efficient operation because fewer people are involved in the program decisions, and as their experience in making such decisions increases, the process becomes easier.

At the same time, problems are inherent in a centralized operation. First, it is difficult for the advertising department to understand the overall marketing strategy for the brand. The department may also be slow in responding to specific needs and problems of a product or brand. As companies become larger and develop or acquire new products, brands, or even divisions, the centralized system may become impractical.

## The Decentralized System

In large corporations with multiple divisions and many different products, it is very difficult to manage all the advertising, promotional, and other functions through a centralized department. These types of companies generally have a **decentralized system,** with separate manufacturing, research and development, sales, and marketing departments for various divisions, product lines, or businesses. Many companies that use a decentralized system, such as Procter & Gamble, Gillette Co., and Nestlé, assign each product or brand to a **brand manager** who is responsible for the total management of the brand, including planning, budgeting, sales, and profit performance. (The


**Exhibit 3-2** Many of Procter & Gamble's brands compete against each other

term *product manager* is also used to describe this position.) The brand manager, who may have one or more assistant brand managers, is also responsible for the planning, implementation, and control of the marketing program.[1]

Under this system, the responsibilities and functions associated with advertising and promotions are transferred to the brand manager, who works closely with the outside advertising agency and other marketing communications specialists as they develop the promotional program.[2] In a multiproduct firm, each brand may have its own ad agency and may compete against other brands within the company, not just against outside competitors. For example, Exhibit 3-2 shows ads for Tide and ERA, which are both Procter & Gamble products that compete for a share of the laundry detergent market.

As shown in Figure 3-3, the advertising department is part of marketing services and provides support for the brand managers. The role of marketing services is to assist the brand managers in planning and coordinating the integrated marketing communications program. In some companies, the marketing services group may include sales promotion. The brand managers may work with sales promotion people to develop budgets, define strategies, and implement tactical executions for both trade and consumer promotions. Marketing services may also provide other types of support services, such as package design and merchandising.

Some companies may have an additional layer(s) of management above the brand managers to coordinate the efforts of all the brand managers handling a related group of products. An example is the organizational structure of Procter & Gamble, shown in Figure 3-4. This system—generally referred to as a **category management system**—includes category managers as well as brand and advertising managers. The category manager oversees management of the entire product category and focuses on the strategic role of the various brands in order to build profits and market share.[3]

The advertising manager may review and evaluate the various parts of the program and advise and consult with the brand managers. This person may have the authority to override the brand manager's decisions on advertising. In some multiproduct firms that spend a lot on advertising, the advertising manager may coordinate the work of the various agencies to obtain media discounts for the firm's large volume of media purchases.

An advantage of the decentralized system is that each brand receives concentrated managerial attention, resulting in faster response to both problems and opportunities. The brand manager system is also more flexible and makes it easier to adjust various aspects of the advertising and promotional program, such as creative platforms and media and sales promotion schedules.[4] For example, General Motors began using a brand manager system in 1996 as a way to create stronger identities and positioning platforms for its 40-plus models of cars, trucks, minivans, and sport utility vehicles. The brand managers have full responsibility for the marketing of their vehicles,

**Figure 3-3** A decentralized brand management system

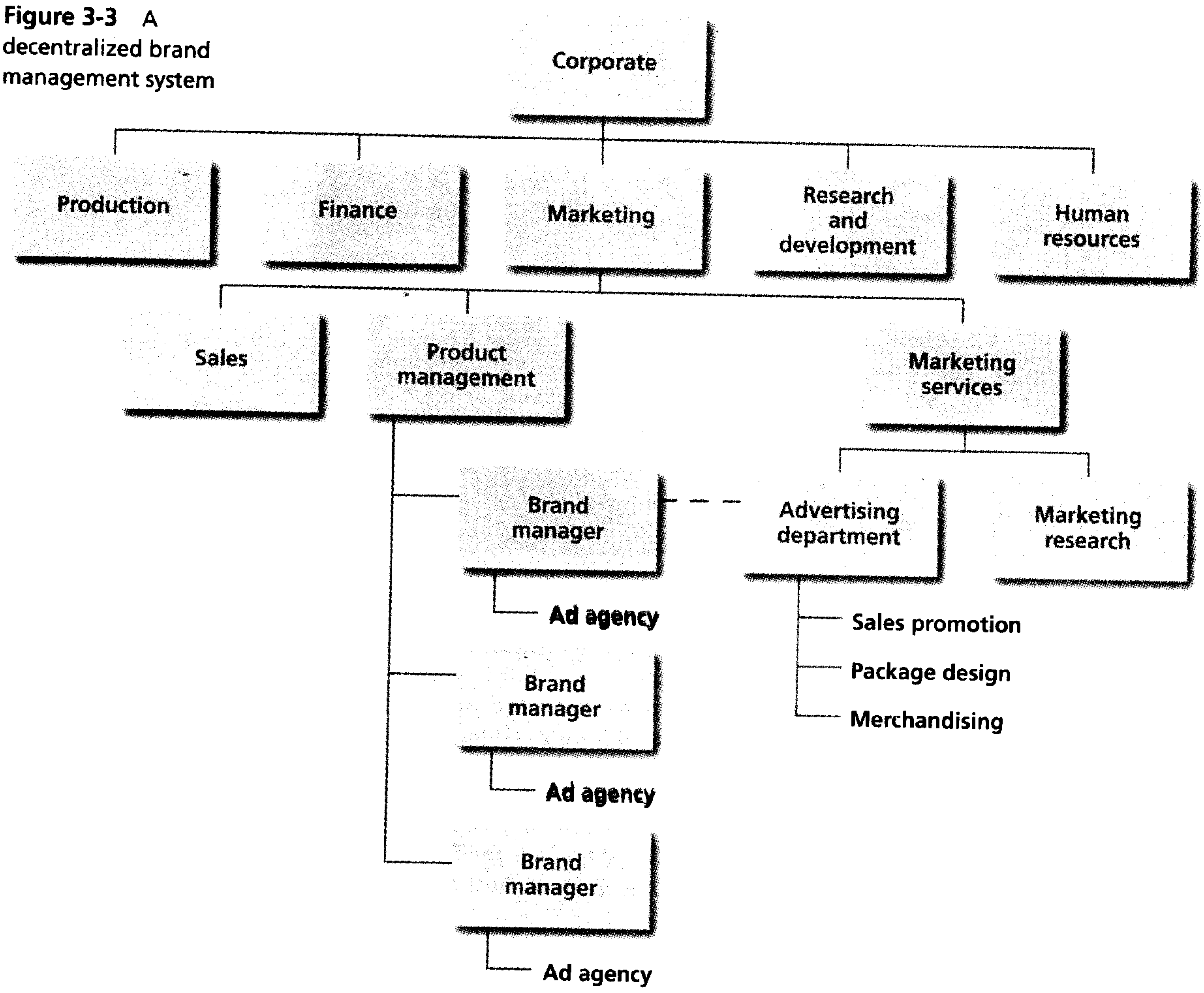
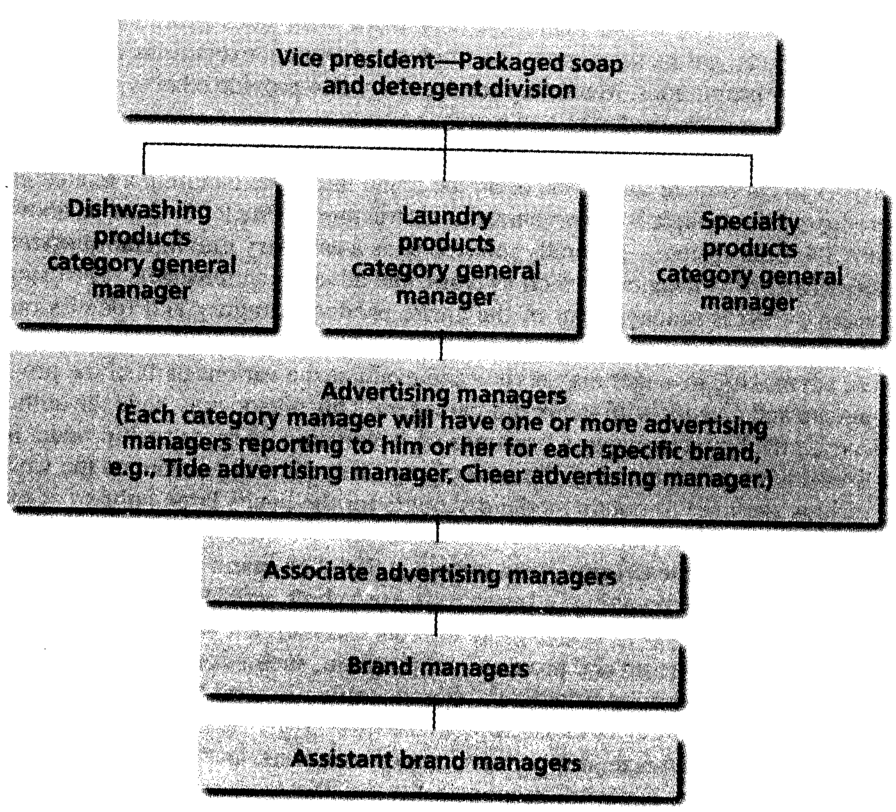



**Figure 3-4** A Procter & Gamble division, using the category management system



including the identification of target markets as well as the development of integrated marketing communications programs that will differentiate the brand.[5]

There are some drawbacks to the decentralized approach. Brand managers often lack training and experience. The promotional strategy for a brand may be developed by a brand manager who does not really understand what advertising or sales promotion can and cannot do and how each should be used. Brand managers may focus too much on short-run planning and administrative tasks, neglecting the development of long-term programs.

Another problem is that individual brand managers often end up competing for management attention, marketing dollars, and other resources, which can lead to unproductive rivalries and potential misallocation of funds. The manager's persuasiveness may become a bigger factor in determining budgets than the long-run profit potential of the brands. These types of problems were key factors in Procter & Gamble's decision to switch to a category management system.

Finally, the brand management system has been criticized for failing to provide brand managers with authority over the functions needed to implement and control the plans they develop.[6] Some companies have dealt with this problem by expanding the roles and responsibilities of the advertising and sales promotion managers and their staff of specialists. The staff specialists counsel the individual brand managers, and advertising or sales promotion decision making involves the advertising and/or sales promotion manager, the brand manager, and the marketing director.

## In-House Agencies

Some companies, in an effort to reduce costs and maintain greater control over agency activities, have set up their own advertising agencies internally. An **in-house agency** is an advertising agency that is set up, owned, and operated by the advertiser. Some in-house agencies are little more than advertising departments, but in other companies they are given a separate identity and are responsible for the expenditure of large sums of advertising dollars. Large advertisers that use in-house agencies include Calvin Klein, The Gap, Avon, Revlon, and Benetton. Many companies use in-house agencies exclusively; others combine in-house efforts with those of outside agencies. For example, No Fear handles most of its advertising in-house, but it does use an outside agency for some of its creative work (Exhibit 3-3). (The specific roles performed by in-house agencies will become clearer when we discuss the functions of outside agencies.)

A major reason for using an in-house agency is to reduce advertising and promotion costs. Companies with very large advertising budgets pay a substantial amount to outside agencies in the form of media commissions. With an internal structure, these commissions go to the in-house agency. An in-house agency can also provide related work such as sales presentations and sales force materials, package design, and public

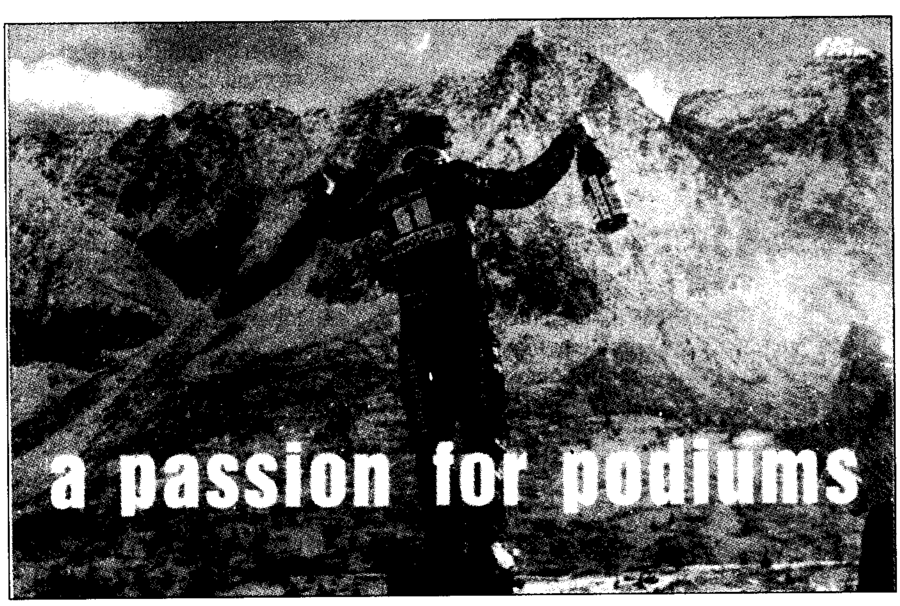



**Exhibit 3-3** Most of the advertising for No Fear is done by an in-house agency

relations at a lower cost than outside agencies. A study by M. Louise Ripley found that creative and media services were the most likely functions to be performed outside, while merchandising and sales promotion were the most likely to be performed in-house.[7]

Saving money is not the only reason companies use in-house agencies. Time savings, bad experiences with outside agencies, and the increased knowledge and understanding of the market that come from working on advertising and promotion for the product or service day by day are also reasons. Companies can also maintain tighter control over the process and more easily coordinate promotions with the firm's overall marketing program. Some companies use an in-house agency simply because they believe it can do a better job than an outside agency could.[8]

Opponents of in-house agencies say they can give the advertiser neither the experience and objectivity of an outside agency nor the range of services. They argue that outside agencies have more highly skilled specialists and attract the best creative talent and that using an external firm gives a company a more varied perspective on its advertising problems and greater flexibility. In-house personnel may become narrow or grow stale while working on the same product line, but outside agencies may have different people with a variety of backgrounds and ideas working on the account. Flexibility is greater because an outside agency can be dismissed if the company is not satisfied, whereas changes in an in-house agency could be slower and more disruptive.

The cost savings of an in-house agency must be evaluated against these considerations. For many companies, high-quality advertising is critical to their marketing success and should be the major criterion in determining whether to use in-house services. Companies like Rockport and Redken Laboratories have moved their in-house work to outside agencies in recent years. Redken cited the need for a "fresh look" and objectivity as the reasons, noting that management gets too close to the product to come up with different creative ideas. Companies often hire outside agencies as they grow and their advertising budgets and needs increase. For example, Gateway hired a full-service outside agency to handle its advertising as the personal computer company experienced rapid growth during the 90s.[9]

The ultimate decision as to which type of advertising organization to use depends on which arrangement works best for the company. The advantages and disadvantages of the three systems are summarized in Figure 3-5. We now turn our attention to the functions of outside agencies and their roles in the promotional process.



**Figure 3-5** Comparison of advertising organization systems

| Organizational system | Advantages | Disadvantages |
|---|---|---|
| *Centralized* | • Facilitated communications<br>• Fewer personnel required<br>• Continuity in staff<br>• Allows for more top-management involvement | • Less involvement with and understanding of overall marketing goals<br>• Longer response time<br>• Inability to handle multiple product lines |
| *Decentralized* | • Concentrated managerial attention<br>• Rapid response to problems and opportunities<br>• Increased flexibility | • Ineffective decision making<br>• Internal conflicts<br>• Misallocation of funds<br>• Lack of authority |
| *In-house agencies* | • Cost savings<br>• More control<br>• Increased coordination | • Less experience<br>• Less objectivity<br>• Less flexibility |

# Advertising Agencies

Many major companies use an advertising agency to assist them in developing, preparing, and executing their promotional programs. An ad agency is a service organization that specializes in planning and executing advertising programs for its clients. Over 13,000 U.S. and international agencies are listed in the *Standard Directory of Advertising Agencies* (the "Red Book"); however, most are individually owned small businesses employing fewer than five people. The U.S. ad agency business is highly concentrated. Nearly two-thirds of the domestic **billings** (the amount of client money agencies spend on media purchases and other equivalent activities) are handled by the top 500 agencies. In fact, just 10 U.S. agencies handle nearly 30 percent of the total volume of business done by the top 500 agencies in the United States. The top agencies also have foreign operations that generate substantial billings and income. The top 25 agencies, ranked by their U.S. gross incomes, are listed in Figure 3-6. The table shows that the advertising business is also geographically concentrated, with 20 of the top 25 agencies headquartered in New York City or the surrounding area. Nearly 40 percent of U.S. agency business is handled by New York–based agencies. Other leading advertising centers in the United States include Boston, Chicago, Los Angeles, Detroit, San Francisco, and Minneapolis.[10]

During the late 1980s and into the 90s, the advertising industry underwent major changes as large agencies merged with or acquired other agencies and support organizations to form large advertising organizations, or superagencies. These **superagencies**

**Figure 3-6** Top 25 agencies ranked by U.S. gross income, 2001

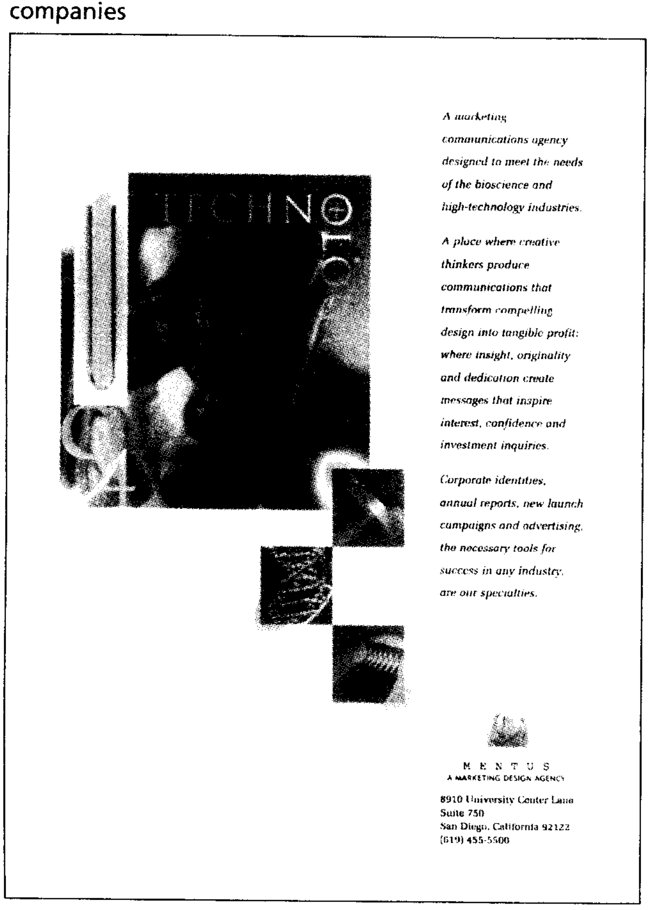
| Rank | Agency | Headquarters | Gross Income (Millions) |
|---|---|---|---|
| 1 | Grey Worldwide | New York | $581.0 |
| 2 | J. Walter Thompson | New York | 565.5 |
| 3 | McCann-Erickson Worldwide | New York | 528.1 |
| 4 | Leo Burnett Worldwide | Chicago | 472.1 |
| 5 | BBDO Worldwide | New York | 458.9 |
| 6 | Y&R Advertising | New York | 432.2 |
| 7 | DDB Worldwide Communications | New York | 428.9 |
| 8 | Euro RSCG Worldwide | New York | 418.2 |
| 9 | Ogilvy & Mather Worldwide | New York | 384.8 |
| 10 | Foote, Cone & Belding Worldwide | New York | 376.3 |
| 11 | D'Arcy Masius Benton & Bowles | New York | 316.8 |
| 12 | TMP Worldwide | New York | 227.9 |
| 13 | Campbell-Ewald | Warren, MI | 214.0 |
| 14 | TBWA Worldwide | New York | 206.1 |
| 15 | Deutsch | New York | 202.5 |
| 16 | Arnold Worldwide | Boston | 193.8 |
| 17 | CommonHealth | Parsippany, N.J. | 190.8 |
| 18 | Lowe & Partners Worldwide | New York | 184.9 |
| 19 | Saatchi & Saatchi | New York | 176.0 |
| 20 | Bates U.S.A. | New York | 154.5 |
| 21 | Publicis U.S.A. | New York | 139.6 |
| 22 | Nelson Communications Worldwide | New York | 131.9 |
| 23 | Hill, Holliday, Connors, Cosmopulos | Boston | 125.0 |
| 24 | Low Healthcare Worldwide | Parsippany, N.J. | 124.0 |
| 25 | Campbell Mithun | Minneapolis | 118.0 |

Source: *Advertising Age*, Apr. 22, 2002, p. S-4.

were formed so that agencies could provide clients with integrated marketing communications services worldwide. Some advertisers became disenchanted with the superagencies and moved to smaller agencies that were flexible and more responsive.[11] However, during the mid-90s the agency business went through another wave of consolidation as a number of medium-size agencies were acquired and became part of large advertising organizations such as Omnicom Group, WPP Group, and the Interpublic Group of Cos. Many of the mid-size agencies were acquired by or forged alliances with larger agencies because their clients wanted an agency with international communications capabilities and their alignment with larger organizations gave them access to a network of agencies around the world. For example, TBWA and Chiat/Day merged and became part of the TBWA Worldwide agency, which is part of the Omnicom Group, the world's largest agency holding company. The acquisition of mid-size agencies by large advertising organizations has continued into the new millenium. In early 2000, Fallon McElligott, one of the largest and hottest independent U.S. ad agencies, was acquired by French advertising giant Publicis Groupe, as was London-based Saatchi & Saatchi. In 2002 Publicis acquired the Bcom3 Group, whose holdings include the Leo Burnett Co.; D'Arcy Masius Benton & Bowles; Manning Selvage & Lee; Bartle Bogel Hegarty; and the Starcom Media Vest Group. The deal also includes a partnership with Dentsu, Japan's largest advertising agency.[12]

Many of the advertising organizations and major agencies have been acquiring companies specializing in areas such as interactive communications, public relations, direct marketing, and sales promotion so that they can offer their clients an ever-broader range of integrated marketing communication services.[13] Recently the activity of the advertising holding companies has moved in a new direction as they have begun pursuing alliances with talent agencies. A new agreement negotiated between the Screen Actors Guild and the Association of Talent Agents in 2002 allows outside investors such as advertising agencies to own stakes in talent agencies that seek and negotiate work on behalf of actors, directors, and writers as well as some athletes.[14] By having a stake in the talent business, ad agencies can negotiate deals with current, as well as up-and-coming, celebrities for their clients.

**Exhibit 3-4** Mentus Communications specializes in creating ads for high-tech companies






## The Ad Agency's Role

The functions performed by advertising agencies might be conducted by the clients themselves through one of the designs discussed earlier in this chapter, but most large companies use outside firms. This section discusses some reasons advertisers use external agencies.

### Reasons for Using an Agency

Probably the main reason outside agencies are used is that they provide the client with the services of highly skilled individuals who are specialists in their chosen fields. An advertising agency staff may include artists, writers, media analysts, researchers, and others with specific skills, knowledge, and experience who can help market the client's products or services. Many agencies specialize in a particular type of business and use their knowledge of the industry to assist their clients. For example, Mentus Inc. is an agency that specializes in integrated marketing communications for the high-technology, e-commerce, and bioscience industries (Exhibit 3-4).

An outside agency can also provide an objective viewpoint of the market and its business that is not subject to internal company policies, biases, or other limitations. The agency can draw on the broad range of experience it has gained while working on a diverse set of marketing problems for various clients. For example, an ad agency that is handling a travel-related account may have individuals who have worked with airlines, cruise ship companies, travel agencies, hotels, and other travel-related industries. The agency may have experience in this area or may even have previously worked on the advertising account of one of the client's competitors. Thus, the agency can provide the client with insight into the industry (and, in some cases, the competition).

## Types of Ad Agencies

Since ad agencies can range in size from a one- or two-person operation to large organizations with over 1,000 employees, the services offered and functions performed will vary. This section examines the different types of agencies, the services they perform for their clients, and how they are organized.

### Full-Service Agencies

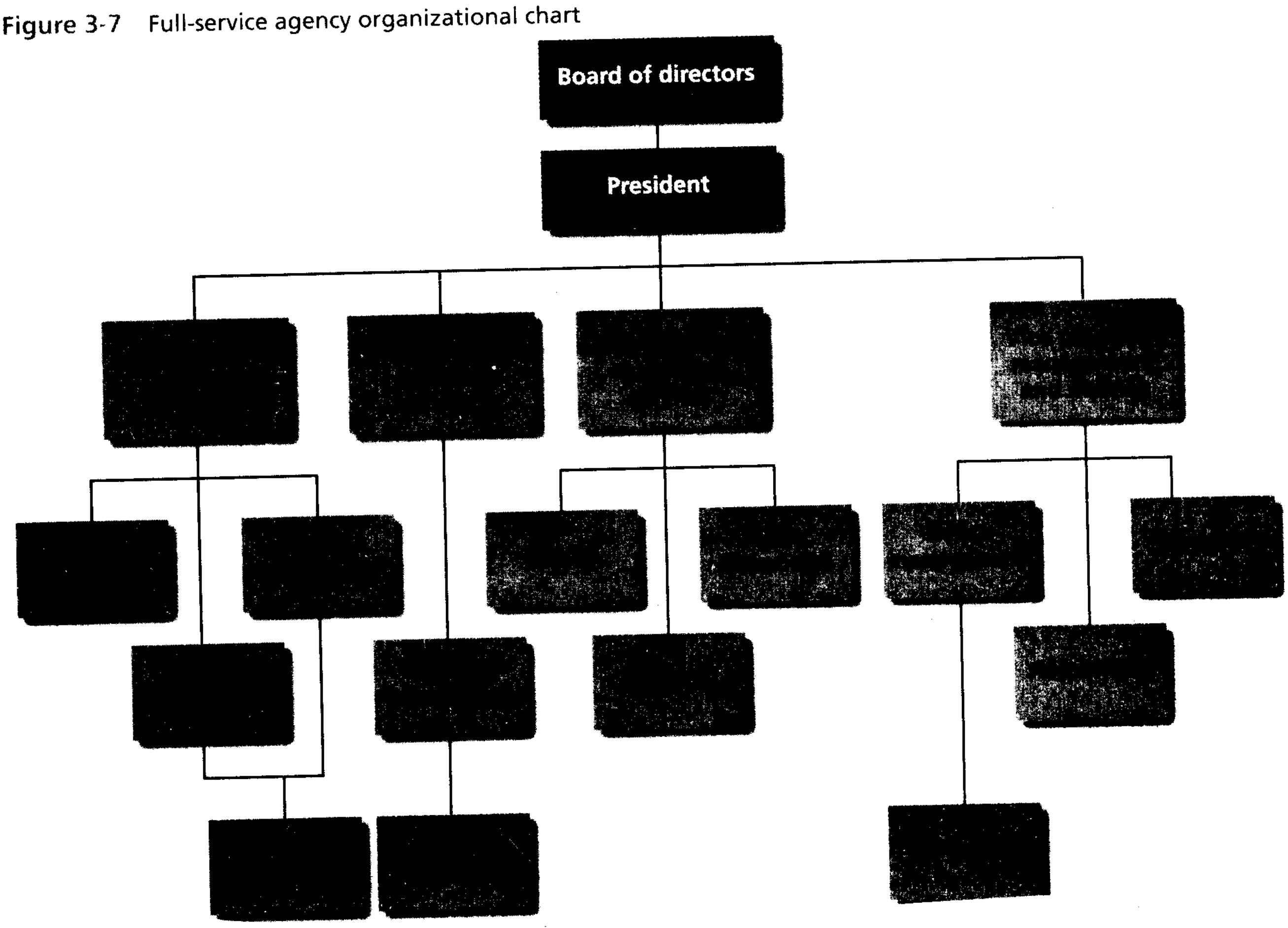
Many companies employ what is known as a **full-service agency,** which offers its clients a full range of marketing, communications, and promotions services, including planning, creating, and producing the advertising; performing research; and selecting media. A full-service agency may also offer nonadvertising services such as strategic market planning; sales promotions, direct marketing, and interactive capabilities; package design; and public relations and publicity.

The full-service agency is made up of departments that provide the activities needed to perform the various advertising functions and serve the client, as shown in Figure 3-7.

### Account Services

Account services, or account management, is the link between the ad agency and its clients. Depending on the size of the client and its advertising budget, one or more account executives serve as liaison. The **account executive** is responsible for understanding the advertiser's marketing and promotions needs and interpreting them to agency personnel. He or she coordinates agency efforts in planning, creating, and producing ads. The account executive also presents agency recommendations and obtains client approval.

Figure 3-7 Full-service agency organizational chart



As the focal point of agency-client relationships, the account executive must know a great deal about the client's business and be able to communicate this to specialists in the agency working on the account.[15] The ideal account executive has a strong marketing background as well as a thorough understanding of all phases of the advertising process.

**Marketing Services** Over the past two decades, use of marketing services has increased dramatically. One service gaining increased attention is research, as agencies realize that to communicate effectively with their clients' customers, they must have a good understanding of the target audience. As shown in Chapter 1, the advertising planning process begins with a thorough situation analysis, which is based on research and information about the target audience.

Most full-service agencies maintain a *research department* whose function is to gather, analyze, and interpret information that will be useful in developing advertising for their clients. This can be done through primary research—where a study is designed, executed, and interpreted by the research department—or through the use of secondary (previously published) sources of information. Sometimes the research department acquires studies conducted by independent syndicated research firms or consultants. The research staff then interprets these reports and passes on the information to other agency personnel working on that account.

The research department may also design and conduct research to pretest the effectiveness of advertising the agency is considering. For example, copy testing is often conducted to determine how messages developed by the creative specialists are likely to be interpreted by the receiving audience.

The *media department* of an agency analyzes, selects, and contracts for space or time in the media that will be used to deliver the client's advertising message. The media department is expected to develop a media plan that will reach the target market and effectively communicate the message. Since most of the client's ad budget is spent on media time and/or space, this department must develop a plan that both communicates with the right audience and is cost-effective.

Media specialists must know what audiences the media reach, their rates, and how well they match the client's target market. The media department reviews information on demographics, magazine and newspaper readership, radio listenership, and consumers' TV viewing patterns to develop an effective media plan. The media buyer implements the media plan by purchasing the actual time and space.

The media department is becoming an increasingly important part of the agency business. An agency's ability to negotiate prices and effectively use the vast array of media vehicles, as well as other sources of customer contact, is becoming as important as its ability to create ads. Some of the major agencies and/or their holding companies have formed independent media services companies to better serve their clients. For example, the Leo Burnett agency formed Starcom as a full service media planning and buying company, while McCann Erickson Worldwide formed Universal McCann, and Foote Cone and Belding Worldwide formed Horizon.FCB. These media companies primarily serve the agency's clients but may also offer media services separately to other clients as well. A number of large advertisers have consolidated their media buying with these large media services companies to save money and improve media efficiency. General Motors consolidated its $3.6 billion media business with Starcom, while the Interpublic Group's Universal McCann handles close to $1 billion in Nestlé media business around the world.[16]

The research and media departments perform most of the functions that full-service agencies need to plan and execute their clients' advertising programs. Some agencies offer additional marketing services to their clients to assist in other promotional areas. An agency may have a sales promotion department, or merchandising department, that specializes in developing contests, premiums, promotions, point-of-sale materials, and other sales materials. It may have direct-marketing specialists and package designers, as well as a PR/publicity department. Many agencies have developed interactive media departments to create websites for their clients. The growing popularity of integrated marketing communications has prompted many full-function agencies to develop capabilities and offer services in these other promotional areas. IMC Perspective 3-1 discusses how traditional advertising agencies are developing integrated marketing capabilities that extend beyond media advertising.

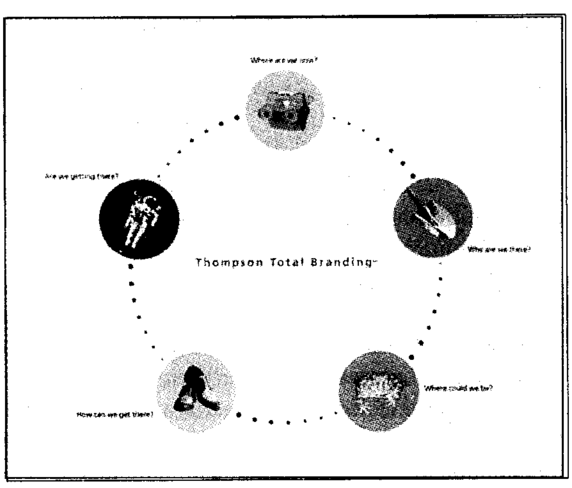
## IMC PERSPECTIVE 3-1

# Agencies Learn That It's about More Than Advertising

During the late 1980s many of the world's largest advertising agencies recognized that their clients were shifting more and more of their promotional budgets away from traditional media advertising to other areas of marketing communication such as direct marketing, public relations, sales promotion, and event sponsorship. In response to this trend, many of these agencies began acquiring companies that were specialists in these areas and ended up turning them into profit-centered departments or subsidiaries that often ended up battling one another for a piece of their client's promotional budget. While the agencies could point to these specialists when touting their IMC capabilities, there was really little emphasis on integrating the various communication functions.

During the 90s some agencies began taking steps to place more of an emphasis on IMC by truly integrating it into all aspects of their operations. For example, the Leo Burnett agency brought in direct-marketing, sales promotion, event marketing, and public relations professionals and dispersed them throughout the agency. Burnetters were expected to interact with clients not as advertising specialists who happened to know about sales promotion, direct marketing, or public relations but as generalists able to work with a variety of integrated marketing tools. Another agency that embraced IMC was Fallon McElligott, which hired a president of integrated marketing and expanded its capabilities in areas such as PR, events, and interactive advertising.

As we begin the new millennium, the shift toward IMC is taking place at a number of major ad agencies that are recognizing they must embrace a way of doing business that doesn't always involve advertising. Many companies are developing campaigns and strategies using event marketing, sponsorships, direct marketing, targeted radio, and the Internet with only peripheral use of print and TV advertising. The Internet poses a particular threat to traditional agencies as it is not well understood by many agency veterans and is taking yet another slice from the marketing communications budget pie.




Foote, Cone & Belding is remaking itself as a New Economy ad agency by building up its capabilities in areas such as direct marketing, interactive, customer relationship, management/database, event marketing, and sports marketing. FCB touts its ability to offer clients a broad spectrum of integrated marketing communications services through its "Model of One," which ensures that all these services are seamlessly integrated and unified. All efforts are managed under one team and based on one strategy and one broad creative idea.

At J. Walter Thompson, the agency's CEO, Chris Jones, has championed a program called Thompson Total Branding (TTB) that makes JWT the manager of a client's brand. TTB involves taking what the agency calls a "Branding Idea" and developing a total communications plan that helps decide which integrated marketing tools can most powerfully and persuasively communicate it. One of the company executives notes, "Agencies are finally realizing that our job is creating branding solutions and, while those may involve advertising, it's not necessarily about advertising. That's a fundamental change in the way we operate." The ability to use various IMC tools has helped the agency secure new accounts and strengthen relationships with existing clients.

While traditional agencies have been preaching integrated marketing for years, many have not been really practicing it. However, these agencies are realizing they must alter their course if they plan to be competitive in the future. They are retraining their staffers in the use and best practices of various IMC tools and getting them, at long last, to focus on total communications solutions to their clients' businesses. The move toward integrated marketing communications appears to be for real this time around.

Sources: Laura Q. Hughes, "Measuring Up," *Advertising Age*, Feb. 5, 2001, pp. 1, 34; Kathryn Kranhold, "FCB Makes Itself a New Economy Shop," *The Wall Street Journal*, June 14, 2000, p. B8; Ellen Newborne, "Mad Ave: A Star Is Reborn," *BusinessWeek*, July 26, 1999, pp. 54-64.

**Creative Services** The creative services department is responsible for the creation and execution of advertisements. The individuals who conceive the ideas for the ads and write the headlines, subheads, and body copy (the words constituting the message) are known as **copywriters.** They may also be involved in determining the basic appeal or theme of the ad campaign and often prepare a rough initial visual layout of the print ad or television commercial.

While copywriters are responsible for what the message says, the *art department* is responsible for how the ad looks. For print ads, the art director and graphic designers prepare *layouts,* which are drawings that show what the ad will look like and from which the final artwork will be produced. For TV commercials, the layout is known as a *storyboard,* a sequence of frames or panels that depict the commercial in still form.

Members of the creative department work together to develop ads that will communicate the key points determined to be the basis of the creative strategy for the client's product or service. Writers and artists generally work under the direction of the agency's creative director, who oversees all the advertising produced by the organization. The director sets the creative philosophy of the department and may even become directly involved in creating ads for the agency's largest clients.

Once the copy, layout, illustrations, and mechanical specifications have been compieted and approved, the ad is turned over to the *production department.* Most agencies do not actually produce finished ads; they hire printers, engravers, photographers, typographers, and other suppliers to complete the finished product. For broadcast production, the approved storyboard must be turned into a finished commercial. The production department may supervise the casting of people to appear in the ad and the setting for the scenes as well as choose an independent production studio. The department may hire an outside director to turn the creative concept into a commercial. For example, several companies, including Nike and Kmart, have used film director Spike Lee to direct their commercials; Airwalk shoes has used John Glen, who directed many of the James Bond films, for its TV spots. Copywriters, art directors, account managers, people from research and planning, and representatives from the client side may all participate in production decisions, particularly when large sums of money are involved.

Creating an advertisement often involves many people and takes several months. In large agencies with many clients, coordinating the creative and production processes can be a major problem. A *traffic department* coordinates all phases of production to see that the ads are completed on time and that all deadlines for submitting the ads to the media are met. The traffic department may be located in the creative services area of the agency, or be part of media or account management, or be separate.

**Management and Finance** Like any other business, an advertising agency must be managed and perform basic operating and administrative functions such as accounting, finance, and human resources. It must also attempt to generate new business. Large agencies employ administrative, managerial, and clerical people to perform these functions. The bulk of an agency's income (approximately 64 percent) goes to salary and benefits for its employees. Thus, an agency must manage its personnel carefully and get maximum productivity from them.

**Agency Organization and Structure** Full-function advertising agencies must develop an organizational structure that will meet their clients' needs and serve their own internal requirements. Most medium-size and large agencies are structured under either a departmental or a group system. Under the **departmental system,** each of the agency functions shown in Figure 3-7 is set up as a separate department and is called on as needed to perform its specialty and serve all of the agency's clients. Ad layout, writing, and production are done by the creative department, marketing services is responsible for any research or media selection and purchases, and the account services department handles client contact. Some agencies prefer the departmental system because it gives employees the opportunity to develop expertise in servicing a variety of accounts.

Many large agencies use the **group system,** in which individuals from each department work together in groups to service particular accounts. Each group is headed by an account executive or supervisor and has one or more media people, including media planners and buyers; a creative team, which includes copywriters, art directors, artists, and production personnel; and one or more account executives. The group may also include individuals from other departments such as marketing research, direct marketing, or sales promotion. The size and composition of the group varies depending on the client's billings and the importance of the account to the agency. For very important accounts, the group members may be assigned exclusively to one client. In some agencies, they may serve a number of smaller clients. Many agencies prefer the group system because employees become very knowledgeable about the client's business and there is continuity in servicing the account.

## Other Types of Agencies and Services

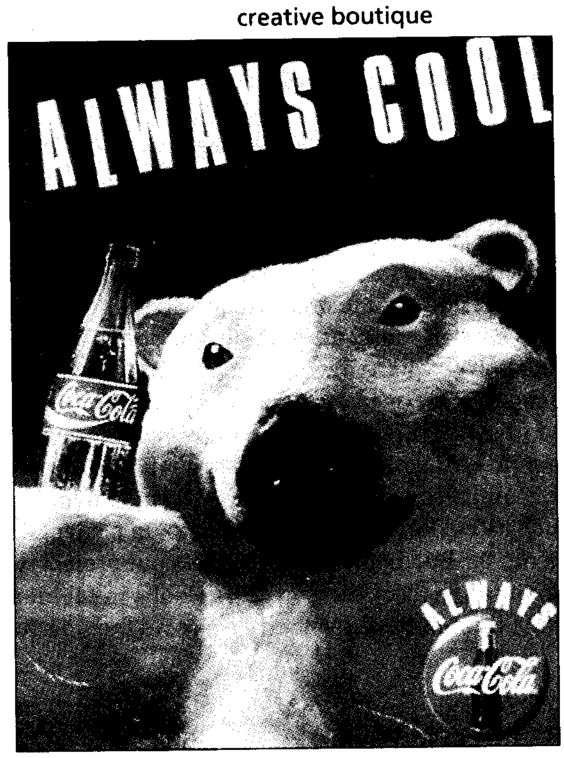
Not every agency is a large full-service agency. Many smaller agencies expect their employees to handle a variety of jobs. For example, account executives may do their own research, work out their own media schedule, and coordinate the production of ads written and designed by the creative department. Many advertisers, including some large companies, are not interested in paying for the services of a full-service agency but are interested in some of the specific services agencies have to offer. Over the past few decades, several alternatives to full-service agencies have evolved, including creative boutiques and media buying services.

### Creative Boutiques

A **creative boutique** is an agency that provides only creative services. These specialized companies have developed in response to some clients' desires to use only the creative talent of an outside provider while maintaining the other functions internally. The client may seek outside creative talent because it believes an extra creative effort is required or because its own employees do not have sufficient skills in this regard. Some advertisers have been bypassing traditional agencies and tapping into the movie industry for creative ideas for their commercials.[17] For example, a few years ago Coca-Cola entered into a joint venture with Disney and three former employees of Creative Artists Agency (CAA), a Hollywood talent agency, to create an in-house agency called Edge Creative. The agency created several commercials for Coca-Cola's flagship brand, including the popular polar bears spot (Exhibit 3-5). However, in 2000 the Coca-Cola Company sold off its interest in Edge Creative and shifted the Coke account back to a traditional agency.

Full-service agencies often subcontract work to creative boutiques when they are very busy or want to avoid adding full-time employees to their payrolls. Creative boutiques are usually founded by members of the creative departments of full-service agencies who leave the firm and take with them clients who want to retain their creative talents. These boutiques usually perform the creative function on a fee basis. IMC Perspective 3-2 discusses the challenges faced by creative boutiques and some of the small shops that have been successful recently.

**Exhibit 3-5** This popular Coca-Cola spot was done by the company's in-house creative boutique




### Media Buying Services

**Media buying services** are independent companies that specialize in the buying of media, particularly radio and television time. The task of purchasing advertising media has grown more complex as specialized media proliferate, so media buying services have found a niche by specializing in the analysis and purchase of advertising time and space. Agencies and clients usually develop their own media strategies and hire the buying service to execute them. Some media buying services do help advertisers plan their media strategies. Because media buying services purchase such large amounts of time and space, they receive large discounts and can save the small agency or client money on media purchases. Media buying services are paid a fee or commission for their work.

Media buying services have been experiencing strong growth in recent years as clients seek alternatives to full-service agency

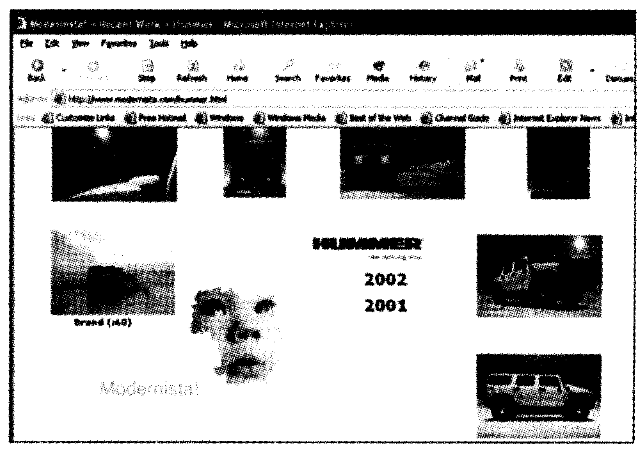
## IMC PERSPECTIVE 3-2

# Tough Times for Creative Boutiques

Creative boutiques have long been an important part of the advertising industry. The competitive advantage for boutiques has always been their ability to turn out inventive creative work quickly, without the cumbersome bureaucracy and politics of larger agencies. Large and small shops coexisted successfully because boutiques usually pursued smaller accounts than large agencies were interested in. And even as the agency business was reshaped by consolidation and the creation of large mega-agencies that now dominate the industry, creative boutiques were riding high on the dot-com boom of the late 90s that provided a boost in billings, profile, and morale for small shops. However, the dot-com wave crashed even faster than it appeared, and then came the terrorist attacks of September 11, which were followed by the worst advertising recession in decades.

Today's creative boutiques are facing major challenges, and many are struggling to identify and differentiate themselves and attract clients. They find themselves competing against the larger agencies for accounts that would have been passed over by top-tier shops during better economic times. Moreover, selling the creativity of a boutique's work is not enough, as many clients want the range of services that larger agencies provide. Creative work does not capture the imagination of the industry the way it used to, as marketers are looking for business-building ideas rather than creative home runs. As the new business director at a large New York agency notes: "Boutiques can't compete in terms of offering integrated solutions, and don't have the resources to mount serious pitches for even the smaller pieces of business that might go to a mid-size agency. They will be forever mired in project work."

Despite these obstacles, there are still those brave or foolhardy enough to believe that with a dollar and a dream they can open their own creative boutique, and they are hanging out shingles. The advertising business has always been grounded in creativity and entrepreneurship, and most boutique partners see the small shop as still relevant in an age of consolidation and multinational clients. They note that there still is a niche for creative boutiques, citing the number of big-client-small-agency relationships across the industry. Anheuser Busch, which has large multinational agencies on its roster, also works with small hybrid shops such as Fusion Idea Lab in Chicago on project assignments for Bud Light. Target parcels out project work to small shops like Peterson Milla Hooks in Minneapolis, while Boston-based Velocity's clients include Just For




Feet and the Bruegger's Bagels chain. Many of these hope to become the Next Modernista!, the Boston shop that was founded by former creative directors from Arnold Advertising and Wieden & Kennedy, New York, and in less than two years has managed to land clients such as the Gap, MTV, and General Motors' Hummer.

Many clients recognize the benefits of working directly with a smaller creative boutique where they can get more attention and better access to creative talent than they would at a larger agency. For example, the marketing director for Culver Franchising System, the parent of Culver's Frozen Custard, hired the small One and All Shop because the company was looking for an agency where the partners would be involved and there would not be a lot of layers of bureaucracy with which to deal. Creative duties on the Boston Beer Co.'s $30 million account went to a former Lowe Lintas & Partners creative director who left to form his own agency, called Big Chair. The vice president of brand development at Boston Beer explained: "I was looking for people who had beer experience, who had good experience with humor, and a shop that was unconventional and small. The creative so far has met my expectations and so has the relationship with very quick response time a very high level of thinking."

Many creative boutique owners still feel they can beat the odds and carve out a niche for themselves in the advertising agency business. Those who can survive the tough times facing the advertising industry may find a bright future, as there will always be clients who want key-principal involvement and creative people who are doing breakthrough creative work.

Sources: Anthony Vagnoni, "Small Fries," *Advertising Age,* March 4, 2002, pp. 20, 22; Eleftheria Parpis, "The Little League," *Adweek,* Nov. 26, 2001, p. 3.

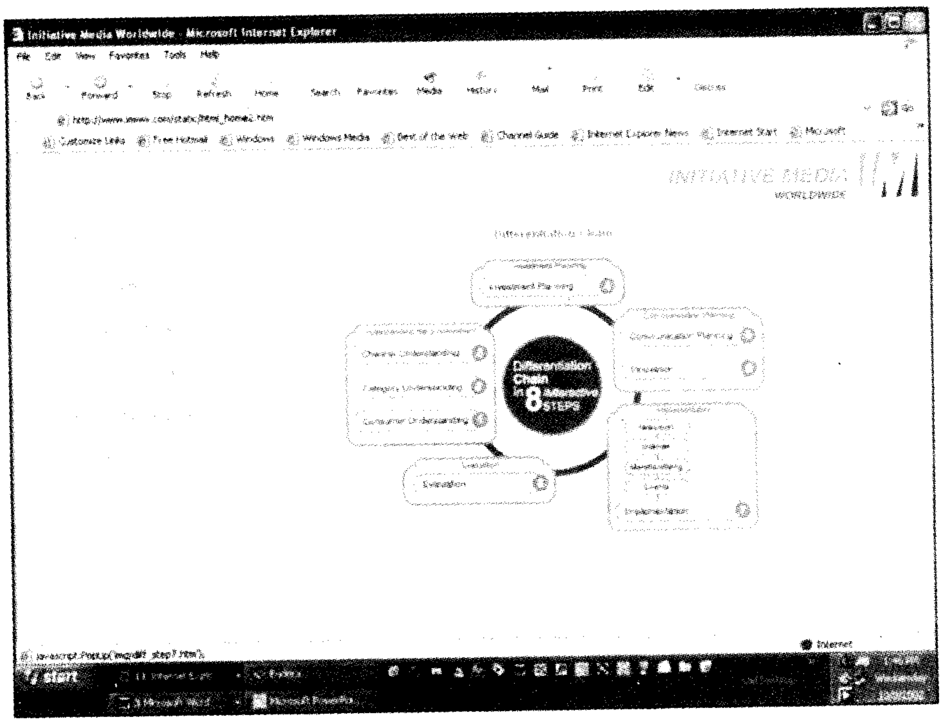



**Exhibit 3-6** Initiative Media is the leading independent media buying service

relationships. Many companies have been unbundling agency services and consolidating media buying to get more clout from their advertising budgets. Nike, Maytag, and Gateway are among those that have switched some or all of their media buying from full-service agencies to independent media buyers. As noted earlier, many of the major agencies have formed independent media services companies that handle the media planning and buying for their clients and also offer their services separately to companies interested in a more specialized or consolidated approach to media planning, research, and/or buying. Exhibit 3-6 shows a page from the website of Initiative Media Worldwide, the largest media services company in the world.

## Agency Compensation

As you have seen, the type and amount of services an agency performs vary from one client to another. As a result, agencies use a variety of methods to get paid for their services. Agencies are typically compensated in three ways: commissions, some type of fee arrangement, or percentage charges.

### Commissions from Media

The traditional method of compensating agencies is through a **commission system,** where the agency receives a specified commission (usually 15 percent) from the media on any advertising time or space it purchases for its client. (For outdoor advertising, the commission is 16⅔ percent.) This system provides a simple method of determining payments, as shown in the following example.

Assume an agency prepares a full-page magazine ad and arranges to place the ad on the back cover of a magazine at a cost of $100,000. The agency places the order for the space and delivers the ad to the magazine. Once the ad is run, the magazine will bill the agency for $100,000, less the 15 percent ($15,000) commission. The media will also offer a 2 percent cash discount for early payment, which the agency may pass along to the client. The agency will bill the client $100,000 less the 2 percent cash discount on the net amount, or a total of $98,300, as shown in Figure 3-8. The $15,000 commission represents the agency's compensation for its services.

#### Appraisal of the Commission System

Use of the commission system to compensate agencies has been quite controversial for many years. A major problem centers on whether the 15 percent commission represents equitable compensation for services performed. Two agencies may require the same amount of effort to create

**Figure 3-8** Example of commission system payment

| Media Bills Agency | | Agency Bills Advertiser | |
|---|---|---|---|
| Costs for magazine space | $100,000 | Costs for magazine space | $100,000 |
| Less 15% commission | −15,000 | Less 2% cash discount | −1,700 |
| Cost of media space | 85,000 | Advertiser pays agency | $ 98,300 |
| Less 2% cash discount | −1,700 | | |
| Agency pays media | $ 83,300 | Agency income | $ 15,000 |

and produce an ad. However, one client may spend $2 million on commissionable media, which results in a $300,000 agency income, while the other spends $20 million, generating $3 million in commissions. Critics argue that the commission system encourages agencies to recommend high media expenditures to increase their commission level.

Another criticism of the commission system is that it ties agency compensation to media costs. In periods of media cost inflation, the agency is (according to the client) disproportionately rewarded. The commission system has also been criticized for encouraging agencies to ignore cost accounting systems to justify the expenses attributable to work on a particular account. Still others charge that this system tempts the agency to avoid noncommissionable media such as direct mail, sales promotions, or advertising specialties, unless they are requested by the client.

Defenders of the commission system argue that it is easy to administer and it keeps the emphasis in agency competition on nonprice factors such as the quality of the advertising developed. Proponents argue that agency services are proportional to the size of the commission, since more time and effort are devoted to the large accounts that generate high revenue for the agency. They also say the system is more flexible than it appears because agencies often perform other services for large clients at no extra charge, justifying such actions by the large commission they receive.

The commission system has been a highly debated topic among advertisers and agencies for years. Critics of the system have argued that it provides an incentive for agencies to do the wrong thing, such as recommending mass-media advertising when other forms of communication such as direct marketing or public relations might do a better job.[18] They argue that the commission system is outdated and must be changed. This does indeed appear to be happening. A recent study of agency compensation conducted by the Association of National Advertisers (ANA) indicates that agency compensation based on the traditional 15 percent commission is becoming rare.[19] The survey found that only 21 percent of advertisers paid commissions to their agencies and only 16 percent paid the standard 15 percent. The clients who have stuck with commissions do so either from inertia or from administrative simplicity. However, the survey also found that most clients and agencies use the 15 percent commission standard as a starting point for determining other compensation agreements such as labor- and performance-based plans.

While the use of the 15 percent commission is on the wane, many advertisers still use some form of media commission to compensate their agencies. Many advertisers have gone to a **negotiated commission** system to compensate their agencies. This commission structure can take the form of reduced percentage rates, variable commission rates, and commissions with minimum and maximum profit rates. Negotiated commissions are designed to consider the needs of the clients as well as the time and effort exerted by the agency, thereby avoiding some of the problems inherent in the traditional 15 percent sytem. Some of the leading agencies now receive a commission based on a sliding rate that becomes lower as the clients' media expenditures increase and end up receiving average commissions of 8 to 10 percent versus the traditional 15 percent.[20] Agencies are also relying less on media commissions for their income as their clients expand their integrated marketing communications programs to include other forms of promotion and cut back on mass-media advertising. The percentage of agency income from media commissions is declining, and a greater percentage is coming through other methods such as fees and performance incentives.

## Fee, Cost, and Incentive-Based Systems

Since many believe the commission system is not equitable to all parties, many agencies and their clients have developed some type of fee arrangement or cost-plus agreement for agency compensation. Some are using incentive-based compensation, which is a combination of a commission and a fee system.

### Fee Arrangement

There are two basic types of fee arrangement systems. In the straight or **fixed-fee method,** the agency charges a basic monthly fee for all of its services and credits to the client any media commissions earned. Agency and client agree on the specific work to be done and the amount the agency will be paid for it. Sometimes agencies are compensated through a **fee-commission combination,** in which the media commissions received by the agency are credited against the fee. If the commissions are less than the agreed-on fee, the client must make up the difference. If the agency does much work for the client in noncommissionable media, the fee may be charged over and above the commissions received.

Both types of fee arrangements require that the agency carefully assess its costs of serving the client for the specified period, or for the project, plus its desired profit margin. To avoid any later disagreement, a fee arrangement should specify exactly what services the agency is expected to perform for the client. Fee arrangements have become the primary type of agreement used by advertisers with their agencies, accounting for 68 percent of the compensation plans in the recent ANA survey.

### Cost-Plus Agreement

Under a **cost-plus system,** the client agrees to pay the agency a fee based on the costs of its work plus some agreed-on profit margin (often a percentage of total costs). This system requires that the agency keep detailed records of the costs it incurs in working on the client's account. Direct costs (personnel time and out-of-pocket expenses) plus an allocation for overhead and a markup for profits determine the amount the agency bills the client.

Fee agreements and cost-plus systems are commonly used in conjunction with a commission system. The fee-based system can be advantageous to both the client and the agency, depending on the size of the client, advertising budget, media used, and services required. Many clients prefer fee or cost-plus systems because they receive a detailed breakdown of where and how their advertising and promotion dollars are being spent. However, these arrangements can be difficult for the agency, as they require careful cost accounting and may be difficult to estimate when bidding for an advertiser's business. Agencies are also reluctant to let clients see their internal cost figures.

### Incentive-Based Compensation

Many clients these days are demanding more accountability from their agencies and tying agency compensation to performance through some type of **incentive-based system.** While there are many variations, the basic idea is that the agency's ultimate compensation level will depend on how well it meets predetermined performance goals. These goals often include objective measures such as sales or market share as well as more subjective measures such as evaluations of the quality of the agency's creative work. Companies using incentive-based systems determine agency compensation through media commissions, fees, bonuses, or some combination of these methods. The use of performance incentives varies by the size of the advertiser, with large advertisers the most likely to use them. Figure 3-9 shows the various performance criteria used along with the basis for the incentive and the use of performance incentives by advertiser size.

Recognizing the movement toward incentive-based systems, most agencies have agreed to tie their compensation to performance.[21] Agency executives note that pay for performance works best when the agency has complete control over a campaign. Thus, if a campaign fails to help sell a product or service, the agency is willing to assume complete responsibility and take a reduction in compensation. On the other hand, if sales increase, the agency can receive greater compensation for its work.

Figure 3-9 Use of performance incentives by advertisers

| | |
|---|---|
| ***Performance Criteria Used for Incentive Systems*** | |
| Sales goals | 73% |
| Market share | 29 |
| Profit | 25 |
| Brand/ad awareness | 50 |
| Brand perceptions | 23 |
| Copy test results | 25 |
| Performance reviews | 58 |
| Other criteria | 11 |
| ***Basis for Incentive*** | |
| Agency performance | 14% |
| Company performance | 17 |
| Both agency and company performance | 69 |
| ***Performance incentive use by size of advertiser*** | |
| Under $4 million | 13% |
| $4 million–$20 million | 10 |
| $20 million–$100 million | 33 |
| More than $100 million | 44 |

Source: Association of National Advertisers: Trend in Compensation Survey: 2000.

## Percentage Charges

Another way to compensate an agency is by adding a markup of **percentage charges** to various services the agency purchases from outside providers. These may include market research, artwork, printing, photography, and other services or materials. Markups usually range from 17.65 to 20 percent and are added to the client's overall bill. Since suppliers of these services do not allow the agency a commission, percentage charges cover administrative costs while allowing a reasonable profit for the agency's efforts. (A markup of 17.65 percent of costs added to the initial cost would yield a 15 percent commission. For example, research costs of $100,000 × 17.65% = $100,000 + $17,650 = $117,650. The $17,650 markup is about 15 percent of $117,650.)

## The Future of Agency Compensation

As you can see there is no one method of agency compensation to which everyone subscribes. The recent ANA survey found that nearly half of advertisers made significant changes in their compensation plans in the past three years, while 21 percent plan more changes soon. One of the most significant findings from the recent ANA survey is the rapid rise in incentive-based compensation agreements, as 35 percent of advertisers are using some type of performance-based system versus only 13 percent 10 years ago.

As more companies adopt IMC approaches, they are reducing their reliance on traditional media advertising, and this is leading to changes in the way they compensate their agencies. For example, Procter & Gamble, which has traditionally been a heavy user of television advertising, was one of the largest major advertisers to move away from the standard 15 percent commission system. In 2000 P&G implemented a major change in its compensation structure from one based entirely on media commissions to one based entirely on sales-based incentives. One of the reasons for the change in P&G's compensation system is to encourage agencies to focus less on expensive commissionable media such as television and magazines and make use of other IMC tools such as direct mail, event marketing, public relations, and the Internet.[22] P&G joins a list of other major consumer products advertisers, such as Colgate-Palmolive, Unilever, and Campbell Soup, that have changed their systems to more closely link agency compensation to a product's performance in the market. Many automobile advertisers, including Nissan, Ford, BMW, and General Motors, are also using incentive-based systems.[23] GM made the change to encourage its agencies to look beyond traditional mass-media advertising and develop other ways of reaching consumers.[24]

Many companies are changing their compensation systems as they move away from traditional mass media and turn to a wider array of marketing communication tools. They are also trying to make their agencies more accountable and reduce agency compensation costs. However, advertisers must recognize that their compensation policies should provide agencies with a reasonable profit if they want quality work and the best results from their agencies.

# Evaluating Agencies

Given the substantial amounts of money being spent on advertising and promotion, demand for accountability of the expenditures has increased. Regular reviews of the agency's performance are necessary. The agency evaluation process usually involves two types of assessments, one financial and operational and the other more qualitative. The **financial audit** focuses on how the agency conducts its business. It is designed to verify costs and expenses, the number of personnel hours charged to an account, and payments to media and outside suppliers. The **qualitative audit** focuses on the agency's efforts in planning, developing, and implementing the client's advertising programs and considers the results achieved.

The agency evaluation is often done on a subjective, informal basis, particularly in smaller companies where ad budgets are low or advertising is not seen as the most critical factor in the firm's marketing performance. However some companies have developed formal, systematic evaluation systems, particularly when budgets are large and the advertising function receives much emphasis. The top management of these companies wants to be sure money is being spent efficiently and effectively. As the costs of advertising and other forms of promotion rises, more companies are adopting formal procedures for evaluating the performance of their agencies.

One example of a formal agency evaluation system is that used by Whirlpool, which markets a variety of consumer products. Whirlpool management meets once a year with the company's agencies to review their performance. Whirlpool managers complete an advertising agency performance evaluation, part of which is shown in Exhibit 3-7. These reports are compiled and reviewed with the agency at each annual meeting. Whirlpool's evaluation process covers six areas of performance. The company and the agency develop an action plan to correct areas of deficiency.

Companies develop evaluation procedures that emphasize different areas. For example, R. J. Reynolds emphasizes creative development and execution, marketing counsel and ideas, promotion support, and cost controls, without any mention of sales figures. Sears focuses on the performance of the agency as a whole in an effort to establish a partnership between the agency and the client. These and other evaluation methods are being used more regularly by advertisers. As fiscal controls tighten, clients will require more accountability from their providers and adopt formal evaluation procedures.

**Exhibit 3-7** Whirlpool's ad agency performance evaluation

**CREATIVE SERVICES**

| Always | Often | Occasionally | Seldom | Never | NA | Marks Scored |
|---|---|---|---|---|---|---|
| 4 | 3 | 2 | 1 | 0 | | |

1. Agency produces fresh ideas and original approaches
2. Agency accurately interprets facts, strategies and objectives into usable advertisements and plans
3. Creative group is knowledgeable about company's products, markets and strategies
4. Creative group is concerned with good advertising communications and develops campaigns and ads that exhibit this concern
5. Creative group produces on time
6. Creative group performs well under pressure
7. Creative group operates in a businesslike manner to control production costs and other creative charges
8. Agency presentations are well organized with sufficient examples of proposed executions
9. Creative group participates in major campaign presentations
10. Agency presents ideas and executions not requested but felt to be good opportunities
11. Agency willingly accepts ideas generated by other locations/agency offices vs. being over-protective of its own creative product
12. Other areas not mentioned
13. Agency demonstrates commitment to client's business
14. Agency creative proposals are relevant and properly fulfill creative brief

Value—(marks)

| Rating: | | | |
|---|---|---|---|
| Excellent | 90–100% | Total marks scored | |
| Good | 80–89% | | |
| Average | 70–79% | Total possible marks | |
| Fair | 60–69% | | |
| Poor | below 60% | Score | |

**ACCOUNT REPRESENTATION & SERVICE**

| Always | Often | Occasionally | Seldom | Never | NA | Marks Scored |
|---|---|---|---|---|---|---|
| 4 | 3 | 2 | 1 | 0 | | |

1. Account representatives act with personal initiative
2. Account representatives anticipate needs in advance of direction by client (ie: are proactive)
3. Account group takes direction well
4. Agency is able to demonstrate results of programs implemented
5. Account representatives function strategically rather than as creative advisors only
6. Account representatives are knowledgeable about competitive programs and share this information along with their recommendations in a timely manner
7. Account representatives respond to client requests in a timely fashion
8. Account group operates in a business-like manner to control costs
9. Agency recommendations are founded on sound reasoning and supported factually, and appropriately fit within budget constraints
10. Agency is able to advise the client on trends and developments in technology
11. Account representatives demonstrate a high degree of professionalism in both written and oral communication
12. Agency presents ideas and executions not requested by felt to be good opportunities
13. Agency makes reasoned recommendations on allocation of budgets
14. Agency demonstrates commitment to client's business
15. There is a positive social relationship between client and agency

Value—(marks)

| Rating: | | | |
|---|---|---|---|
| Excellent | 90–100% | Total marks scored | |
| Good | 80–89% | | |
| Average | 70–79% | Total possible marks | |
| Fair | 60–69% | | |
| Poor | below 60% | Score | |

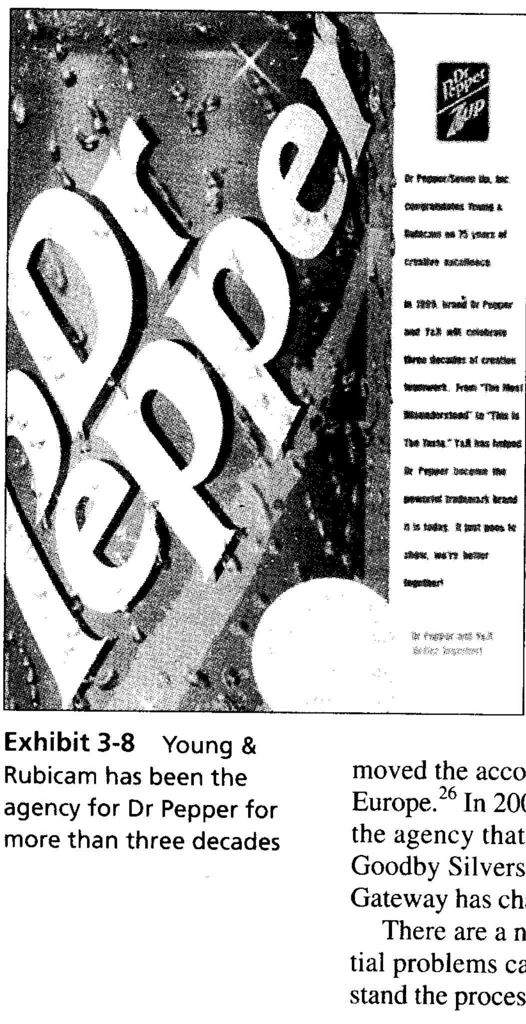



**Exhibit 3-8** Young & Rubicam has been the agency for Dr Pepper for more than three decades

## Gaining and Losing Clients

The evaluation process described above provides valuable feedback to both the agency and the client, such as indicating changes that need to be made by the agency and/or the client to improve performance and make the relationship more productive. Many agencies have had very long-lasting relationships with their clients. For example, General Electric has been with the BBDO Worldwide agency for over 80 years. Other well-known companies or brands that have had long-lasting relationships include Marlboro/Leo Burnett (50 years), McDonald's/DDB Needham Worldwide (34 years), and PepsiCo/BBDO (44 years). Exhibit 3-8 shows an ad run by Dr Pepper/Seven Up Inc. celebrating its long-term relationship with the Young & Rubicam agency.

While many successful client-agency relationships go on for a number of years, long-term relationships are becoming less common. A survey conducted a few years ago by the American Association of Advertising Agencies found that the average tenure of client-agency relationships declined from 7.2 years in 1984 to 5.3 years in the late 90s.[25] In recent years a number of long-standing client-agency relationships were terminated. Levi Strauss & Co. terminated its 68-year relationship with Foote, Cone & Belding, of San Francisco, in 1998 when it transferred its U.S. jeans account to TBWA/Chiat/Day. However, just three years later the company moved the account to Bartle Bogle Hegarty, the agency that handles its advertising in Europe.[26] In 2002 Saturn Corp. ended its long relationship with Hal Riney & Partners, the agency that had been with the automaker since its debut in 1990, and moved to Goodby Silverstein & Partners, San Francisco.[27] IMC Perspective 3-3 discusses how Gateway has changed agencies four times in the past 10 years.

There are a number of reasons clients switch agencies. Understanding these potential problems can help the agency avoid them.[28] In addition, it is important to understand the process agencies go through in trying to win new clients.





### Why Agencies Lose Clients

Some of the more common reasons agencies lose clients follow:

- *Poor performance or service.* The client becomes dissatisfied with the quality of the advertising and/or the service provided by the agency.
- *Poor communication.* The client and agency personnel fail to develop or maintain the level of communication necessary to sustain a favorable working relationship.
- *Unrealistic demands by the client.* The client places demands on the agency that exceed the amount of compensation received and reduce the account's profitability.
- *Personality conflicts.* People working on the account on the client and agency sides do not have enough rapport to work well together.
- *Personnel changes.* A change in personnel at either the agency or the advertiser can create problems. New managers may wish to use an agency with which they have established ties. Agency personnel often take accounts with them when they switch agencies or start their own.
- *Changes in size of the client or agency.* The client may outgrow the agency or decide it needs a larger agency to handle its business. If the agency gets too large, the client may represent too small a percentage of its business to command attention.
- *Conflicts of interest.* A conflict may develop when an agency merges with another agency or when a client is part of an acquisition or merger. In the United States, an agency cannot handle two accounts that are in direct competition with each other. In some cases, even indirect competition will not be tolerated.
- *Changes in the client's corporate and/or marketing strategy.* A client may change its marketing strategy and decide that a new agency is needed to carry out the new program. As more companies adapt an integrated marketing communications

## IMC PERSPECTIVE 3-3

# Gateway Searches for the Right Ad Agency


While some companies have long-lasting relationships with their advertising agencies, others often find themselves changing agencies more frequently. Decisions to switch ad agencies can be driven by a variety of factors including increases in the client's size, changes in the markets it serves, reorganizations that lead to changes in top management, and/or changes in its advertising strategy or philosophy. One company that found itself changing agencies quite frequently during the past 10 years is Gateway, which is one of the world's largest computer companies.

Founded in 1985, Gateway was a pioneer in the build-to-order, direct-marketing segment of the personal computer business. The company's chairman and CEO, Ted Waitt, started Gateway on his family's cattle farm in Iowa and built it into a multibillion-dollar company. The Holstein dairy cows on the Waitt farm inspired the company's distinctive and nationally recognized logo and the cow-spot patterns on its boxes. The spots serve as a constant reminder of Gateway's midwestern roots and the company's values: hard work, honesty, friendliness, quality—and putting people first.

Until 1993, Gateway relied solely on print advertising that was produced in-house. However, as the company's rapid growth continued, it decided to add television ads to the media mix and to retain the services of an outside agency to work with its in-house advertising department. The agency, Carmichael Lynch of Minneapolis, hired a New York commercial director and filmmaker, Henry Corra, to direct the first Gateway commercials. Ted Waitt liked the unscripted, folksy ads that Corra was shooting, with their emphasis on "real people," and the visionary entrepreneur and artist developed a strong personal relationship.

As Gateway grew and its international sales increased, the company decided it needed a global agency. In 1997 the company moved its account to D'Arcy Masius Benton & Bowles. However, Waitt quickly became dissatisfied with DMB&B's traditional campaigns and dropped the agency after a year. He brought back Henry Corra to work on Gateway's advertising with a new agency, DiMassimo Brand Advertising, a small but aggressive creative boutique. Corra and the new agency produced a number of unscripted TV commercials throughout 1998. However, that same year Jeff Weitzen, a former AT&T executive, was brought in to run Gateway when Waitt decided to step back from the day-to-day operations of the company. The new CEO quickly moved the entire Gateway account again—this time to McCann-Erickson, one of the largest agencies in the world.

McCann worked on the Gateway account for three years and developed the "People Rule" campaign, which included actor Michael J. Fox as a spokesperson and also featured Waitt touting the company's services for small businesses. However, in January 2001, Weitzen resigned as CEO and Waitt once again took the helm. A few days after Waitt resumed control of the company, Gateway dismissed McCann-Erickson as its agency. A Gateway spokesman described the parting as "amicable," while McCann viewed the dismissal as part of the wholesale changes and management shake-up that accompanied Ted Waitt's return.

A few days later several agencies made presentations to Waitt and the vice president of advertising for Gateway's consumer business, including former agency DiMassimo Brand Advertising; Fallon, Minneapolis; and Siltanen/Keehn. However, Gateway decided to move its advertising back in-house. Once again, Ted Waitt turned to his friend Henry Corra to direct the company's commercials. While Corra continued to direct and shoot the TV commercials for Gateway, the company also began working with yet another agency, Siltanen/Keehn, whose founders worked on Apple Computer's "Think Different" campaign at TBWA/Chiat/Day. After working with Gateway on a project basis for five months, Siltanen/Keehn became the company's agency of record for print and broadcast advertising in early 2002.

The relationship with Siltanen/Keehn was also short-lived as Gateway parted ways with the agency after only 10 months and moved its account to the Arnell Group, New York. The change was part of Gateway's decision to move away from the folksy, rural image and brand itself as a more modern and hip company. The new advertising tagline is "Gateway a better way" and the ads show computer users in a series of vignettes with an urban look and feel. Gateway is also touting a new logo as the old one, which featured a cow-spotted shipping box, has been replaced. The new logo is a computer power button rotated on its side to form a stylized "G" but still retains a hint of a cow spot. However, the talking cow has been retired and Gateway feels that it has found the right image for the future as well as the right agency. Hopefully the company will no longer have to keep looking for an udder agency.

Sources: Bruce V. Bigelow, "How now Gateway cow?," *The San Diego Union Tribune*, December 8, 2002, pp. H1, 10; Richard Linnett, "Regarding Henry," *Advertising Age*, Mar. 26, 2001, pp. 1, 37, 41; Tobi Elkin, "Troubled Gateway Turns to New Shop as Earnings Fall," *Advertising Age*, Feb. 12, 2001, p. 4.

approach, they are looking for agencies that have integrated capabilities and can handle more than just their media advertising.

- *Declining sales.* When sales of the client's product or service are stagnant or declining, advertising may be seen as contributing to the problem. A new agency may be sought for a new creative approach.
- *Conflicting compensation philosophies.* Disagreement may develop over the level or method of compensation. As more companies move toward incentive-based compensation systems, disagreement over compensation is becoming more commonplace.
- *Changes in policies.* Policy changes may result when either party reevaluates the importance of the relationship, the agency acquires a new (and larger) client, or either side undergoes a merger or acquisition.

If the agency recognizes these warning signs, it can try to adapt its programs and policies to make sure the client is satisfied. Some of the situations discussed here are unavoidable, and others are beyond the agency's control. But to maintain the account, problems within the agency's control must be addressed.

The time may come when the agency decides it is no longer in its best interest to continue to work with the client. Personnel conflicts, changes in management philosophy, and/or insufficient financial incentives are just a few of the reasons for such a decision. Then the agency may terminate the account relationship.

### How Agencies Gain Clients

Competition for accounts in the agency business is intense, since most companies have already organized for the advertising function and only a limited number of new businesses require such services each year. While small agencies may be willing to work with a new company and grow along with it, larger agencies often do not become interested in these firms until they are able to spend at least $1 million per year on advertising. Many of the top 15 agencies won't accept an account that spends less than $5 million per year. Once that expenditure level is reached, competition for the account intensifies.

In large agencies, most new business results from clients that already have an agency but decide to change their relationships. Thus, agencies must constantly search and compete for new clients. Some of the ways they do this follow.

**Referrals** Many good agencies obtain new clients as a result of referrals from existing clients, media representatives, and even other agencies. These agencies maintain

good working relationships with their clients, the media, and outside parties that might provide business to them.

**Solicitations** One of the more common ways to gain new business is through direct solicitation. In smaller agencies, the president may solicit new accounts. In most large agencies, a new business development group seeks out and establishes contact with new clients. The group is responsible for writing solicitation letters, making cold calls, and following up on leads. The cutbacks in ad spending by many companies during the recent recession have resulted in many agencies' pitching their services on an unsolicited basis to marketers who are satisfied with their agencies. Senior executives recognize that new business is the lifeblood of their agencies and are encouraging their business development teams to pursue advertisers who have not even put their accounts up for review.[29]

**Presentations** A basic goal of the new business development group is to receive an invitation from a company to make a presentation. This gives the agency the opportunity to sell itself—to describe its experience, personnel, capabilities, and operating procedures, as well as to demonstrate its previous work.

The agency may be asked to make a speculative presentation, in which it examines the client's marketing situation and proposes a tentative communications campaign. Because presentations require a great deal of time and preparation and may cost the agency a considerable amount of money without a guarantee of gaining the business, many firms refuse to participate in "creative shootouts." They argue that agencies should be selected on the basis of their experience and the services and programs they have provided for previous clients.[30] Nevertheless, most agencies do participate in this form of solicitation, either by choice or because they must do so to gain accounts.

Due in part to the emphasis on speculative presentations, a very important role has developed for *ad agency review consultants,* who specialize in helping clients choose ad agencies. These consultants are often used to bring an objective perspective to the agency review process and to assist advertisers who may lack the resources, experience, or organizational consensus needed to successfully conduct a review.[31] Because their opinions are respected by clients, the entire agency review process may be structured according to their guidelines. As you might imagine, these consultants wield a great deal of power with both clients and agencies.

**Public Relations** Agencies also seek business through publicity/public relations efforts. They often participate in civic and social groups and work with charitable organizations pro bono (at cost, without pay) to earn respect in the community. Participation in professional associations such as the American Association of Advertising Agencies and the Advertising Research Foundation can also lead to new contacts. Successful agencies often receive free publicity throughout the industry as well as in the mass media.

**Image and Reputation** Perhaps the most effective way an agency can gain new business is through its reputation. Agencies that consistently develop excellent campaigns are often approached by clients. Agencies may enter their work in award competitions or advertise themselves to enhance their image in the marketing community. In some cases the clients themselves may provide valuable testimonials. For example, Exhibit 3-9 shows an ad from IBM congratulating its agency, Ogilvy & Mather, for winning the Grand EFFIE in the annual competition sponsored by the New York American Marketing Association that recognizes the most effective advertising campaigns.

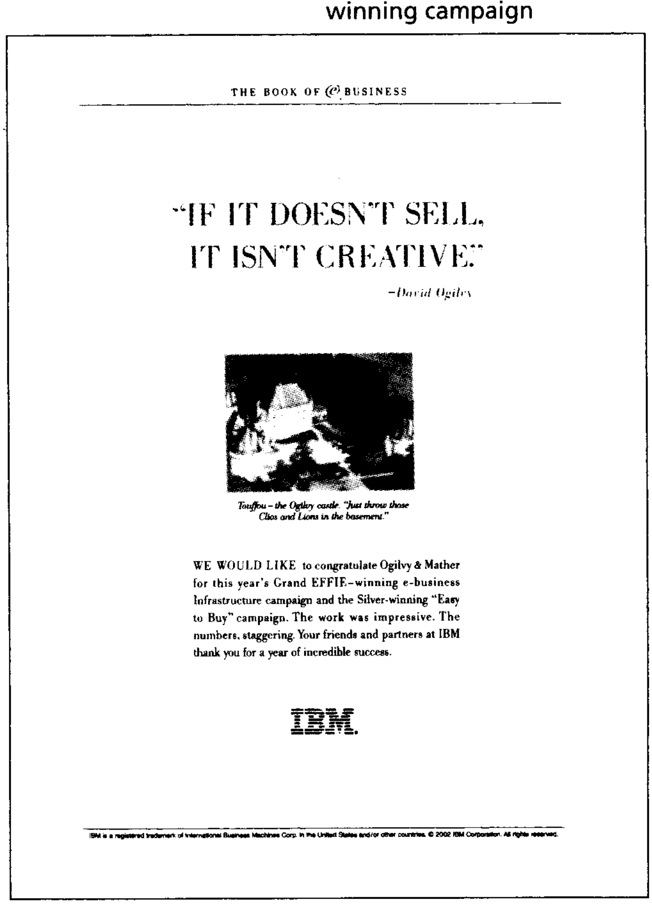



**Exhibit 3-9** IBM congratulates its agency for developing an award-winning campaign

# Specialized Services

Many companies assign the development and implementation of their promotional programs to an advertising agency. But several other types of organizations provide specialized services that complement the efforts of ad agencies. Direct-response agencies, sales promotion agencies, and public relations firms are important to marketers in developing and executing IMC programs in the United States as well as international markets. Let us examine the functions these organizations perform.

## Direct-Response Agencies

One of the fastest-growing areas of IMC is direct marketing, where companies communicate with consumers through telemarketing, direct mail, and other forms of direct-response advertising. As this industry has grown, numerous direct-response agencies have evolved that offer companies their specialized skills in both consumer and business markets. Figure 3-10 shows the top 10 direct-response agencies (several of which, including OgilvyOne, DraftWorldwide, and Grey Direct Marketing, are divisions or subsidiaries of large ad agencies).

**Direct-response agencies** provide a variety of services, including database management, direct mail, research, media services, and creative and production capabilities. While direct mail is their primary weapon, many direct-response agencies are expanding their services to include such areas as infomercial production and database management. Database development and management is becoming one of the most important services provided by direct-response agencies. Many companies are using database marketing to pinpoint new customers and build relationships and loyalty among existing customers.[32]

A typical direct-response agency is divided into three main departments: account management, creative, and media. Some agencies also have a department whose function is to develop and manage databases for their clients. The account managers work with their clients to plan direct-marketing programs and determine their role in the overall integrated marketing communications process. The creative department consists of copywriters, artists, and producers. Creative is responsible for developing the direct-response message, while the media department is concerned with its placement.

Like advertising agencies, direct-response agencies must solicit new business and have their performance reviewed by their existing clients, often through formal assessment programs. Most direct-response agencies are compensated on a fee basis, although some large advertisers still prefer the commission system.

## Sales Promotion Agencies

Developing and managing sales promotion programs such as contests, sweepstakes, refunds and rebates, premium and incentive offers, and sampling programs is a very complex task. Most companies use a **sales promotion agency** to develop and administer

**Figure 3-10** Top 10 direct-response agencies

| Rank | Agency (Affiliation) | Headquarters |
|---|---|---|
| 1 | Euro RSCG Marketing Services | New York |
| 2 | Draft Worldwide | Chicago |
| 3 | OgilvyOne Worldwide Interactive | New York |
| 4 | Rapp Collins Worldwide | New York |
| 5 | Wunderman | New York |
| 6 | Digitas | New York |
| 7 | MRM Partners Worldwide | New York |
| 8 | Brann Worldwide | New York |
| 9 | Proximity Worldwide | New York |
| 10 | Grey Direct Marketing Group | New York |

these programs. Some large ad agencies have created their own sales promotion department or acquired a sales promotion firm. However, most sales promotion agencies are independent companies that specialize in providing the services needed to plan, develop, and execute a variety of sales promotion programs.

Sales promotion agencies often work in conjunction with the client's advertising and/or direct-response agencies to coordinate their efforts with the advertising and direct-marketing programs. Services provided by large sales promotion agencies include promotional planning, creative, research, tie-in coordination, fulfillment, premium design and manufacturing, catalog production, and contest/sweepstakes management. Many sales promotion agencies are also developing direct/database marketing and telemarketing to expand their integrated marketing services capabilities. Sales promotion agencies are generally compensated on a fee basis. Exhibit 3-10 shows an ad for DVC, which was selected as the promotional agency of the decade a few years ago by *Promo Magazine*.

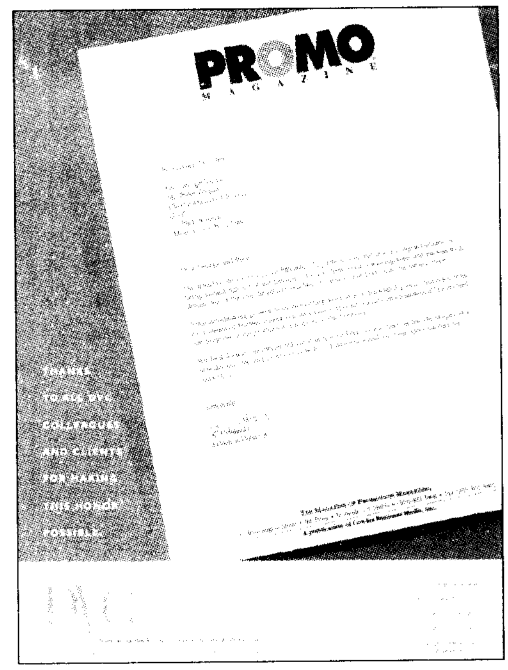



**Exhibit 3-10** DVC is one of the leading promotional agencies

## Public Relations Firms

Many large companies use both an advertising agency and a PR firm. The **public relations firm** develops and implements programs to manage the organization's publicity, image, and affairs with consumers and other relevant publics, including employees, suppliers, stockholders, government, labor groups, citizen action groups, and the general public. The PR firm analyzes the relationships between the client and these various publics, determines how the client's policies and actions relate to and affect these publics, develops PR strategies and programs, implements these programs using various public relations tools, and evaluates their effectiveness.

The activities of a public relations firm include planning the PR strategy and program, generating publicity, conducting lobbying and public affairs efforts, becoming involved in community activities and events, preparing news releases and other communications, conducting research, promoting and managing special events, and managing crises. As companies adopt an IMC approach to promotional planning, they are coordinating their PR activities with advertising and other promotional areas. Many companies are integrating public relations and publicity into the marketing communications mix to increase message credibility and save media costs.[33] Public relations firms are generally compensated by retainer. We will examine their role in more detail in Chapter 17.

## Interactive Agencies

With the rapid growth of the Internet and other forms of interactive media, a new type of specialized marketing communications organization has evolved—the interactive agency. Many marketers are using **interactive agencies** that specialize in the development and strategic use of various interactive marketing tools such as websites for the Internet, banner ads, CD-ROMs, and kiosks. They recognize that the development of successful interactive marketing programs requires expertise in technology as well as areas such as creative website design, database marketing, digital media, and customer relationship management. Many traditional advertising agencies have established interactive capabilities, ranging from a few specialists within the agency to an entire interactive division. Some of the largest interactive agencies such as EuroRSCG Interaction, Grey Digital Marketing, and Ogilvy Interactive are affiliates of major agencies, while others such as Agency.com, Modern Media, and R/GA are owned by major holding companies (see Figure 3-11). Many agencies work closely with their interactive affiliates in developing integrated marketing campaigns for their clients. For example, iDeutsch, the interactive arm of the Deutsch agency, has developed the websites and online campaigns for clients such as Snapple, Almay, Mitsubishi automobiles and the California Milk Processor Board; the parent agency handles the off-line campaign in traditional media for these companies (Exhibit 3-11).

While many agencies have or are developing interactive capabilities, a number of marketers are turning to more specialized interactive agencies to develop websites and

Figure 3-11 Top 10 U.S. interactive agencies

| Rank | Agency (Affiliation) | Headquarters |
|---|---|---|
| 1 | EuroRSCG Worldwide Interaction | New York |
| 2 | Grey Digital Marketing | New York |
| 3 | Ogilvy Interactive (WPP Group) | New York |
| 4 | Digitas | Boston |
| 5 | Modem Media (Interpublic Group) | Norwalk, Conn. |
| 6 | Answerthink Interactive Marketing | Miami |
| 7 | Agency.com (Omnicom Group) | New York |
| 8 | Tribal DDB (Omnicom Group) | New York |
| 9 | Dentropy Partners (Interpublic Group) | Cambridge, Mass. |
| 10 | R/GA (Interpublic Group) | New York |

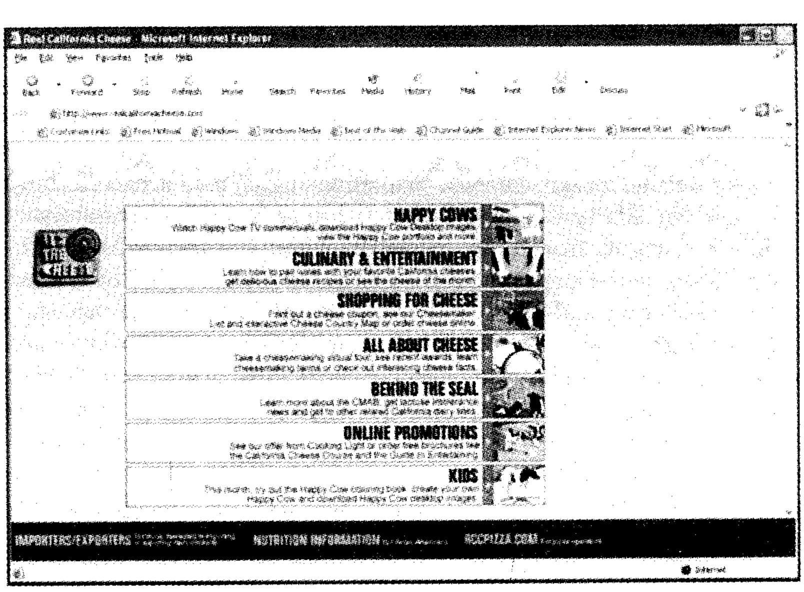
interactive media. They feel these companies have more expertise in designing and developing websites as well as managing and supporting them. Interactive agencies range from smaller companies that specialize in website design and creation to full-service interactive agencies that provide all the elements needed for a successful Internet/interactive marketing program. These services include strategic consulting regarding the use of the Internet and online branding, technical knowledge, systems integration, and the development of electronic commerce capabilities.

Full-service interactive agencies, such as AGENCY.COM, have created successful Internet marketing programs for a number of companies, including Nike, MetLife, Ford Motor Company, McDonald's, and British Airways. For example, AGENCY.COM developed the website and various online promotions that support the new global brand positioning strategy for British Airways. As the Internet becomes an increasingly important marketing tool, more companies will be turning to interactive agencies to help them develop successful interactive marketing programs. The number of interactive agencies will continue to grow, as will their importance in the development and implementation of Internet-based strategies and initiatives.

## Collateral Services

The final participants in the promotional process are those that provide various collateral services. They include marketing research companies, package design firms, consultants, photographers, printers, video production houses, and event marketing services companies.

Exhibit 3-11 iDeutsch developed the website and various online promotions for its California Cheese account

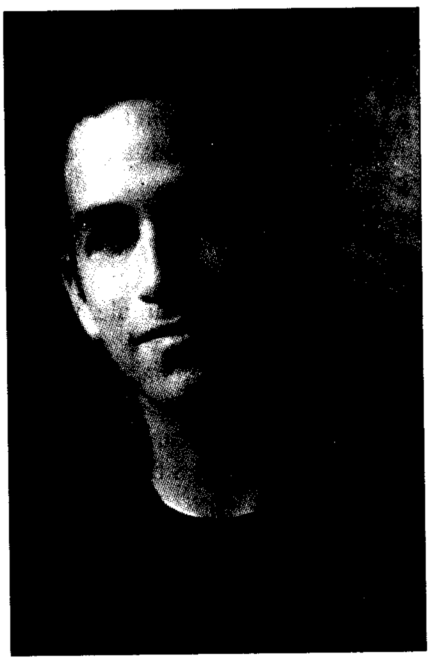


# CAREER PROFILE

## Josh Rose

### Senior Vice President, Director of iDeutsch

I graduated from the University of California at Santa Cruz in 1991. And only a year late! I got my bachelor's degree in fine art, determined to make it as an artist. I moved to Los Angeles that same year and took a temp job with The Walt Disney Company in the marketing department for their motion picture division which includes Walt Disney Pictures, Hollywood Pictures and Touchstone. It was supposed to just be a temporary job but I stayed for 4 years. My time at Disney allowed me to learn about marketing and promotion at one of the biggest marketing machines in the world. I spent much of my time with the artists and got them to teach me the basics of graphic design: photo-retouching, typography, layout and color. I bought my first Mac in 1994 and I stayed up every night teaching myself every application I could get my hands on: Photoshop, Illustrator, Freehand and Quark. I would go to Kinko's and print my work and, in about 6 months, I had a modest little portfolio of mock ads and photo-retouching work.



I was unsure as to what I wanted to do with my newfound skills but doing graphic art work gave me as much pleasure as working with clay or chalk pastels. In 1995 I offered to work for free at a small photo retouching shop called Outerspace in Santa Monica. I apprenticed there under the tutelage of a renowned re-toucher named Tom Slatky. Through the fine details of graphic design and art direction, Tom taught me how to really see and I had the opportunity to work with just about every ad agency in Los Angeles on their image-intensive movie posters and print ads. I learned how to work quick and in front of clients. I also learned how to pull the all-nighter (Hint: 7-11 Big Gulps).

"My role is to ensure that all of our clients are getting the most out of the Internet."

Eventually, I was hired by American Cybercast which was a division of the Fattal & Collins advertising agency. I basically reinvented myself and many more opportunities began to open for me. I became very involved with the Internet, working on the first online "shows", *The Spot* and *EON-4* (a sci-fi episodic web show) and eventually became the creative director for the largest Internet consulting firm in the country, iXL. Along the way, I created online brands for The Experience Music Project (Microsoft co-founder Paul Allen's multi-million dollar interactive music museum in Seattle), Spinner (the internet's largest streaming music site), Playboy.com, Alanis Morissette.com, Wherehouse Music, Nike.com, and many others.

My work at iXL made it relatively easy for me to transition to Deutsch, one of the most prominent advertising agencies in the country. My role as the head of the agency's interactive division, iDeutsch, is to ensure that all of our clients are getting the most out of the Internet. This can mean different things to different accounts. For example, one of the agency's clients is The California Milk Advisory Board for whom we have developed a campaign touting Real California Cheese. Maybe you've seen the talking cows on TV in the commercials which use the tagline "Great cheese comes from happy cows. Happy cows come from California." The goal of the website (www.realcaliforniacheese.com) is to support the branding effort for California cheese so we integrated the talking cow concept into the site.

Creating a website for a company is a lot like creating an ad. You have to develop a thorough understanding of your client's business, marketing objectives and consumer goals. When you do it well, you create something that's really entertaining as well as useful. And it sure beats flippin' burgers.

## Marketing Research Companies

One of the more widely used collateral service organizations is the marketing research firm. Companies are increasingly turning to marketing research to help them understand their target audiences and to gather information that will be of value in designing and evaluating their advertising and promotions programs. Even companies with their own marketing research departments often hire outside research agencies to perform some services. Marketing research companies offer specialized services and can gather objective information that is valuable to the advertiser's promotional programs. They conduct *qualitative* research such as in-depth interviews and focus groups, as well as *quantitative* studies such as market surveys.

# Integrated Marketing Communications Services

You have seen that marketers can choose from a variety of specialized organizations to assist them in planning, developing, and implementing an integrated marketing communications program. But companies must decide whether to use a different organization for each marketing communications function or consolidate them with a large advertising agency that offers all of these services under one roof.

As noted in Chapter 1, during the 1980s many of the large agencies realized that their clients were shifting their promotional dollars away from traditional advertising to other forms of promotion and began developing IMC capabilities. Some did this through mergers and acquisitions and became superagencies consisting of advertising, public relations, sales promotion, and direct-response agencies.

Many large agencies are continuing to expand their IMC capabilities by acquiring specialists in various fields. All the major agency holding companies either own or have substantial investments in interactive and direct-response agencies as well as public relations firms. For example, Omnicom Group acquired Fleishman-Hillard Inc.; WPPGroup bought Hill & Knowlton; and Interpublic Group purchased Golin/Harris International. Nonadvertising business accounts for nearly half of Interpublic's revenue, and the company, along with its competitors, continues to acquire public relations firms, direct-marketing companies, interactive agencies, and other specialized marketing services firms.[34]

## Pros and Cons of Integrated Services

It has been argued that the concept of integrated marketing is nothing new, particularly in smaller companies and communication agencies that have been coordinating a variety of promotional tools for years. And larger advertising agencies have been trying to gain more of their clients' promotional business for over 20 years. However, in the past, the various services were run as separate profit centers. Each was motivated to push its own expertise and pursue its own goals rather than develop truly integrated marketing programs. Moreover, the creative specialists in many agencies resisted becoming involved in sales promotion or direct marketing. They preferred to concentrate on developing magazine ads or television commercials rather than designing coupons or direct-mail pieces.

Proponents of integrated marketing services contend that past problems are being solved and the various individuals in the agencies and subsidiaries are learning to work together to deliver a consistent message to the client's customers. They argue that maintaining control of the entire promotional process achieves greater synergy among each of the communications program elements. They also note that it is more convenient for the client to coordinate all of its marketing efforts—media advertising, direct mail, special events, sales promotions, and public relations—through one agency. An agency with integrated marketing capabilities can create a single image for the product or service and address everyone, from wholesalers to consumers, with one voice.

But not everyone wants to turn the entire IMC program over to one agency. Opponents say the providers become involved in political wrangling over budgets, do not communicate with each other as well and as often as they should, and do not achieve synergy. They also claim that agencies' efforts to control all aspects of the promotional program are nothing more than an attempt to hold on to business that might otherwise be lost to independent providers. They note that synergy and economies of scale, while nice in theory, have been difficult to achieve and competition and conflict among agency subsidiaries have been a major problem.[35]

Many companies use a variety of vendors for communication functions, choosing the specialist they believe is best suited for each promotional task, be it advertising, sales promotion, or public relations. While many ad agencies are working to master integration and compete against one another, they still must compete against firms that offer specialized services. As marketing consultant Jack Trout notes, "As long as there are a lot of specialized players, integrating an agency will be tricky. Specialists walk in the door and say 'this is all we do and we're good at it,' which is a hell of an argument. An agency that has all marketing operations in-house will never be perceived as the best in breed."[36]

## Responsibility for IMC: Agency versus Client

Surveys of advertisers and agency executives have shown that both groups believe integrated marketing is important to their organizations' success and that it will be even more important in the future.[37] One agency executive recently noted that 75 percent of the requests for proposals the agency now receives are from clients seeking total communication solutions.[38] However, marketers and agency executives have very different opinions regarding who should be in charge of the integrated marketing communications process. Many advertisers prefer to set strategy for and coordinate their own IMC campaigns, but most agency executives see this as their domain.

While agency executives believe their shops are capable of handling the various elements an integrated campaign requires, many marketers, particularly larger firms, disagree. Marketing executives say the biggest obstacle to implementing IMC is the lack of people with the broad perspective and skills to make it work. Internal turf battles, agency egos, and fear of budget reductions are also cited as major barriers to successful integrated marketing campaigns.[39]

Many ad agencies are adding more resources to offer their clients a full line of services. They are expanding their agencies' capabilities in interactive and multimedia advertising, database management, direct marketing, public relations, and sales promotion. However, many marketers still want to set the strategy for their IMC campaigns and seek specialized expertise, more quality and creativity, and greater control and cost efficiency by using multiple providers.

Most marketers do recognize that ad agencies will no longer stick primarily to advertising and will continue to expand their IMC capabilities. There is an opportunity for agencies to broaden their services beyond advertising—but they will have to develop true expertise in a variety of integrated marketing communications areas. They will also have to create organizational structures that make it possible for individuals with expertise in a variety of communications areas to work well together both internally and externally. One thing is certain: as companies continue to shift their promotional dollars away from media advertising to other IMC tools, agencies will continue to explore ways to keep these monies under their roofs.

# Summary

The development, execution, and administration of an advertising and promotions program involve the efforts of many individuals, both within the company and outside it. Participants in the integrated marketing communications process include the advertiser or client, ad agencies, media organizations, specialized marketing communications firms, and providers of collateral services.

Companies use three basic systems to organize internally for advertising and promotion. Centralized systems offer the advantages of facilitated communications, lower personnel requirements, continuity in staff, and more top-management involvement. Disadvantages include a lower involvement with overall marketing goals, longer response times, and difficulties in handling multiple product lines.

Decentralized systems offer the advantages of concentrated managerial attention, more rapid responses to problems, and increased flexibility, though they may be limited by ineffective decision making, internal conflicts, misallocation of funds, and a lack of authority. In-house agencies, while offering the advantages of cost savings, control, and increased coordination, have the disadvantage of less experience, objectivity, and flexibility.

Many firms use advertising agencies to help develop and execute their programs. These agencies may take on a variety of forms, including full-service agencies, creative boutiques, and media buying services. The first offers the client a full range of services (including creative, account, marketing, and financial and management services); the other two specialize in creative services and media buying, respectively. Agencies are compensated through commission systems, percentage charges, and fee- and cost-based systems. Recently, the emphasis on agency accountability has increased. Agencies are being evaluated on both financial and qualitative aspects, and some clients are using incentive-based compensation systems that tie agency compensation to performance measures such as sales and market share.

In addition to using ad agencies, marketers use the services of other marketing communication specialists, including direct-marketing agencies, sales promotion agencies, public relations firms, and interactive agencies. A marketer must decide whether to use a different specialist for each promotional function or have all of its integrated marketing communications done by an advertising agency that offers all of these services under one roof.

Recent studies have found that most marketers believe it is their responsibility, not the ad agency's, to set strategy for and coordinate IMC campaigns. The lack of a broad perspective and specialized skills in nonadvertising areas is seen as the major barrier to agencies' increased involvement in integrated marketing communications.

## Key Terms

clients, 69
advertising agency, 69
media organizations, 70
specialized marketing communications services, 70
collateral services, 70
advertising manager, 71
centralized system, 71
decentralized system, 72
brand manager, 72
category management system, 73
in-house agency, 75
billings, 77
superagencies, 77
full-service agency, 79
account executive, 79
copywriters, 82
departmental system, 82
group system, 82
creative boutique, 83
media buying services, 83
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fixed-fee method, 87
fee-commission combination, 87
cost-plus system, 87
incentive-based system, 87
percentage charges, 88
financial audit, 88
qualitative audit, 88
direct-response agency, 94
sales promotion agency, 94
public relations firm, 95
interactive agencies, 95

## Discussion Questions

1. Evaluate the decision by BMW and its advertising agency, Fallon Worldwide, to develop short-films that can be viewed at the BMWFilms.com website. Do you think more companies will be using the "advertainment" concept to promote their products?

2. Identify the various organizations that participate in the integrated marketing communications process and briefly discuss their roles and responsibilities.

3. What are some of the specific responsibilities and duties of an advertising manager under a centralized advertising department structure? Why is an advertising manager needed if a company uses an outside agency?

4. Discuss the pros and cons of using an in-house advertising agency. What are some of the reasons why companies might change from using an in-house agency and hire an outside agency?

5. Discuss some of the reasons why traditional advertising agencies have been developing more integrated marketing communication capabilities. What changes might traditional agencies have to make to improve their IMC capabilities?

6. Why might a company choose to use a creative boutique rather than a larger, full-service agency? Find an example of a company that uses a creative boutique and discuss why the decision to use a smaller agency may be appropriate for this firm.

7. Discuss the various methods by which advertising agencies are compensated. What factors will determine the type of compensation arrangement a company uses with an agency?

8. Why are many companies moving away from the traditional commission system and using