

## LECTURE NOTES

### CHAPTER OPENING EXAMPLE

#### MAKING THE “WRITE” CHOICE . . . WITH PILOT

- Namiki Manufacturing was founded in Japan in 1918 and manufactured and sold fountain pens and ink throughout Japan. By 1926, it had overseas branches and offices in London, New York, Shanghai, and Singapore. In 1938, the company changed its name to Pilot Pen Company Limited.
- Today, Pilot is a diversified company both from product and market perspectives. It has branched into many other types of writing instruments as well as other products such as toys and jewelry, and has offices and product distribution in over a hundred countries in Asia, Europe, North America and South America.
- Pilot achieves extensive awareness and adoption of its products through various communication messages, channels, and tools. Pilot uses tools such as trade incentives and point-of-purchase displays in its sales promotions. It uses consumer sales promotion tools such as product bundling, price promotion, contests, and seasonal discounts. It also collaborates with other well-known brands such as McDonald’s and 3M to jointly promote each other’s products.
- Another communication method used by Pilot is direct marketing. Pilot uses publicity activities such as community involvement projects and sponsorships for local sports events. Pilot has also been actively promoting socially responsible actions, such as protection of the environment.
- The many types of promotion used by Pilot demonstrate the opportunity for creativity in communicating with potential customers and the importance of integrating the various elements of a communication program.
- Promotion represents the fourth element of the marketing mix and consists of advertising, personal selling, sales promotion, public relations, and direct marketing.
- The **promotional mix** is the combination of one or more communication tools used to: (1) inform prospective buyers about the benefits of the product, (2) persuade them to try it, and (3) remind them later about the benefits they enjoyed by using the product.
- In the past, marketers often viewed the communication tools as separate and independent.

- a. The advertising department often designed and managed its activities without consulting departments or agencies that had responsibility for sales promotion or public relations.
- b. The result was often an overall communication effort that was usually uncoordinated and inconsistent.
- **Integrated marketing communications (IMC)** is the concept of designing marketing communications programs that coordinate all promotional activities—advertising, personal selling, sales promotion, public relations, and direct marketing—to provide a consistent message across all audiences.

## I. THE COMMUNICATION PROCESS [LO1]

- **Communication** is the process of conveying a message to others and requires six elements: a source, a message, a channel of communication, a receiver, and the processes of encoding and decoding.
- A **source** is a company or person who has information to convey.
- A **message** is the information sent by a source to a receiver.
- A **channel of communication** is the means (e.g., a salesperson, advertising media, or public relations tools) of conveying a message to a receiver.
- **Receivers** are consumers who read, hear, or see the message sent by a source.

### A. Encoding and Decoding

- **Encoding** is the process of having the sender transform an idea into a set of symbols.
- **Decoding** is the reverse, or the process of having the receiver take a set of symbols, the message, and transform them back to an idea. Receivers perform this according to their own frame of reference (attitudes, values, and beliefs).
- Errors during the communication process occur in several ways:
  - a. The source may not adequately transform the idea into an effective set of symbols.
  - b. A properly encoded message may be sent through the wrong channel and never make it to the receiver.
  - c. The receiver may not properly transform the set of symbols into the intended idea.
  - d. Feedback may be so delayed or distorted that it is of no use to the sender.

- A **field of experience** is a mutually shared understanding and knowledge that a sender and receiver apply to a message so that it can be communicated effectively. Misinterpretations can occur when messages are taken to cultures with different fields of experience or are the result of bad translations.

### **B. Feedback**

- A *feedback loop* consists of a response and feedback.
- A **response** is the impact the message had on the receiver's knowledge, attitudes, or behaviors.
- **Feedback** is the sender's interpretation of the response, which indicates whether a message was decoded and understood as intended.
- *Pretesting* consists of approaches to ensure that messages are decoded properly.

### **C. Noise**

- **Noise** consists of extraneous factors that can work against effective communication by distorting a message or the feedback received.
- Noise are simple errors that occur when:
  - a. A printing mistake affects the meaning of a newspaper ad.
  - b. Words or pictures are used that fail to communicate the message clearly.
  - c. A salesperson's message is misunderstood by a prospective buyer, such as when a salesperson's accent, use of slang terms, or communication style make hearing and understanding the message difficult.

## **LEARNING REVIEW**

### **1. What are the six elements required for communication to occur?**

Answer: They are a source, a message, a channel of communication, a receiver, and the processes of encoding and decoding.

### **2. A difficulty for companies advertising in markets in other countries is that the audience does not share the same \_\_\_\_\_.**

Answer: field of experience

### **3. A misprint in a newspaper ad is an example of \_\_\_\_\_.**

Answer: noise

## II. THE PROMOTIONAL ELEMENTS [LO2]

Firms use one or more of five promotional alternatives to communicate with consumers:

- Advertising, sales promotion, and public relations use *mass selling* because they are used with groups of prospective buyers.
- Personal selling uses *customized interaction* between a seller and a prospective buyer, and includes face-to-face, telephone, and interactive electronic communication.
- Direct marketing also uses messages customized for specific customers.

### A. Advertising

- **Advertising** is any paid form of nonpersonal communication about an organization, good, service, or idea by an identified sponsor.
  - a. The *paid* aspect of advertising is important because the space for the advertising message normally must be bought.
  - b. The *nonpersonal* component of advertising involves mass media, which are nonpersonal and do not have an immediate feedback loop as does personal selling.
- The advantages of using advertising are:
  - a. It is attention-getting.
  - b. It communicates specific product benefits to prospective buyers.
  - c. By paying for ad space to communicate a message, a firm controls *what* is said, to *whom* it is sent, and *when* to send it.
  - d. Once the pictorial, text, and brand elements of the message are created and properly tested, an advertiser can that the advertisement's ability to capture the attention of and be decoded by all receivers in a market segment.
- The disadvantages of using advertising are:
  - a. The costs to produce and place a message are expensive.
  - b. The lack of direct feedback makes it difficult to know how well the message was received.

## B. Personal Selling

- **Personal selling** is the two-way flow of communication between a buyer and seller, often in a face-to-face encounter, designed to influence a person's or group's purchase decision.
- Unlike advertising, personal selling is usually face-to-face communication between the sender and receiver.
- The advantages of using personal selling are:
  - a. A salesperson can control to *whom* a presentation is made.
  - b. This reduces *wasted coverage* or communication with consumers who are not in the target audience.
  - c. The seller can see or hear the potential buyer's reaction to the message and if the feedback is unfavorable, the salesperson can modify the message.
- The disadvantages of using personal selling are:
  - a. Flexibility—different salespeople can change the message so no consistent communication is given to all customers.
  - b. On a cost-per-contact basis, it is the most expensive promotional element.

## C. Public Relations

- **Public relations** is a form of communication management that seeks to influence the feelings, opinions, or beliefs held by customers, prospective customers, stockholders, suppliers, employees, and other publics about a company and its products or services.
- A public relations department's tools include special events, lobbying efforts, annual reports, press conferences, and image management, although publicity is often most important.
- **Publicity** is a nonpersonal, indirectly paid presentation of an organization, good, or service and can take the form of a news story, editorial, or product announcement.
  - a. A difference between publicity and both advertising and personal selling is the "indirectly paid" dimension. With publicity, a firm does not pay for space in a mass medium (such as television or radio) but attempts to get that medium to run a favorable story on it.

- b.** The advantage of using publicity is credibility—people tend to believe media stories, reports, and product reviews.
  - c.** The disadvantage of using publicity is the user’s lack of control over what is said, to whom, or when.
- Social media, such as blogs, have grown dramatically and allow uncontrollable public discussions of almost any company activity. Many public relations departments now focus on facilitating and responding to online discussions.
- According to research, publicity followed by advertising with the same message increases the positive response to the message.

#### **D. Sales Promotion**

- **Sales promotion** is a short-term inducement of value offered to arouse interest in buying a good or service. Examples include coupons, samples, and contests.
- Sales promotion, used with advertising or personal selling, sales promotions are offered to intermediaries as well as to ultimate consumers.
- The advantage of using sales promotion is that:
  - a.** The short-term nature of these programs, such as a coupon or sweepstakes with an expiration date, often increases sales for their duration.
  - b.** Offering value to the consumer in terms of a cents-off coupon or rebate may increase store traffic from consumers who are not store-loyal.
- The disadvantages of using sales promotion are.
  - a.** Sales gains are often temporary and drop off after it ends.
  - b.** Advertising support is needed to convert the customer who tried the product because of a sales promotion into a long-term buyer.
  - c.** If used continuously, sales promotions lose their effectiveness. Customers begin to delay purchase until a coupon is offered.
  - d.** The federal government regulates some aspects of sales promotions.

#### **E. Direct Marketing**

- **Direct marketing** promotion alternative that uses direct communication with consumers to generate a response in the form of an order, a request for further information, or a visit to a retail outlet.

- This fast-growing form of communication can take many forms: face-to-face selling, direct mail, catalogs, telemarketing, direct response advertising (in TV, radio, and print), and online marketing.
- The advantages of using direct marketing are:
  - a. It consists of interactive communication.
  - b. Messages can be developed and adapted quickly to facilitate one-to-one relationships with customers.
- The disadvantages of using direct marketing are:
  - a. It requires a comprehensive and up-to-date database with information about the target market, which is expensive and time consuming.
  - b. Customer concerns about privacy have led to a decline in response rates.

### LEARNING REVIEW

- 4. Explain the difference between advertising and publicity when both appear on television.**

Answer: Since advertising space on TV is paid for, a firm can control what it wants to say and to whom the message is sent. Since publicity is an indirectly paid presentation of a message about a firm or its goods or services, there is little control over what is said to whom or when.

- 5. Which promotional element should be offered only on a short-term basis?**

Answer: sales promotion

- 6. Cost per contact is high with the \_\_\_\_\_ element of the promotional mix.**

Answer: personal selling

### **III. INTEGRATED MARKETING COMMUNICATIONS— DEVELOPING THE PROMOTIONAL MIX**

In putting together the promotional mix, a marketer must:

- Determine the balance of the promotional elements used based on the target audience for the promotion, the stage of the product's life cycle, characteristics of the product, decision stage of the buyer, and the channel of distribution.
- Coordinate a consistent promotional effort since the elements are often the responsibility of different departments, which is the essence of an integrated marketing communications approach.

#### **A. The Target Audience**

- Promotional programs are directed to the ultimate consumer, an intermediary (retailer, wholesaler, or distributor), or both.
- Promotional programs directed to buyers of consumer products use:
  - a. Mass media to reach large numbers of potential buyers.
  - b. Personal selling at the place of purchase.
  - c. Direct marketing to encourage first-time or repeat purchases.
  - d. Combinations to reach some target audiences.

## **MARKETING MATTERS**

### **Mobile Marketing Reaches Generation Y, 32/7!**

Consumers have applied multitasking to media use to cope with the volume of messages from television, radio, magazines, newspapers, cell phones, social networks, satellite links, and blogs. A recent study found that 58 percent of consumers were instant messaging, e-mailing, texting, or talking on the phone while they watched TV. This simultaneous media use is so common it has created 32-hour "media days." Generation Y is particularly adept: 72 percent is "connected" while watching television.

As a result, advertisers and broadcasters must change their views of consumers' ability to receive and remember advertising messages. Marketers can still communicate with Generation Y by integrating new media into their campaigns and facilitating the connected conversations.



- Promotional programs directed to business buyers:
  - a. Advertising is used selectively in trade magazines.
  - b. Personal selling is used because business buyers often have specialized needs or technical questions. A salesperson can provide information and any needed support after the sale.
- Personal selling is also the major promotional ingredient for intermediaries. Salespeople:
  - a. Assist intermediaries in coordinating promotional campaigns sponsored by the manufacturer.
  - b. Provide marketing advice and expertise.

## **B. The Product Life Cycle [LO3]**

Figure 18-3 shows how the composition of the promotional mix for Purina Dog Chow changes over the four stages of its product life cycle.

1. **Introduction Stage.** The objective is to inform and generate awareness.
  - a. All the promotional mix elements are used at this time, although the use of specific mix depends on the product.
  - b. Advertising is used to reach target consumers to build up awareness and interest in the product.
  - c. Publicity may even begin slightly before the product is commercially available.
2. **Growth Stage.** The objective is to persuade the consumer to buy the product rather than substitutes to gain brand preference and solidify distribution.
  - a. Sales promotion assumes less importance and publicity is not a factor because it depends on novelty of the product.
  - b. Advertising stresses brand differences.
  - c. Personal selling is used:
    - For consumer products. To solidify the channel of distribution, the salesforce calls on wholesalers to increase inventory levels and retailers to gain shelf space.
    - For business products. The salesforce tries to obtain contracts to be the sole source of supply for the buyer.

3. **Maturity Stage.** The objective is to maintain existing buyers.
  - a. Advertising is used to remind buyers of the product.
  - b. Sales promotion, in the form of discounts and coupons, is offered to both ultimate consumers and intermediaries.
  - c. Direct mail is used to maintain involvement with existing customers and to encourage repeat purchases.
  - d. Price cuts and discounts can increase a mature brand's sales.
  - e. The salesforce seeks to satisfy intermediaries.
4. **Decline Stage.** Because the objective is to phase out the product, little money is spent on promotion.

### C. Product Characteristics

The proper blend of elements in the promotional mix depends on the type of product. Three specific characteristics are considered:

- *Complexity.* Refers to the technical sophistication of the product and hence the amount of understanding required to use it. The more complex the product, the greater the emphasis on personal selling and less on advertising.
- *Risk to the buyer* (financial, social, and physical). Although advertising helps, the greater the risk, the greater the need for personal selling.
- *Ancillary services.* Pertains to the degree of service or support required after the sale, which is common to many industrial and consumer products.
  - a. Advertising's role is to establish the seller's reputation.
  - b. Direct marketing explains how a product can be customized to specific needs.
  - c. Personal selling builds buyer confidence and provides evidence of customer service.

### D. Stages of the Buying Decision

Figure 18–4 shows how the promotional mix elements vary with the three stages in a consumer's purchase decision.

**1. Prepurchase Stage.**

- a. Advertising informs the potential customer of the existence of the product and the seller.
- b. Sales promotion in the form of free samples is used to gain low-risk trial.
- c. After heavy advertising, the customer has an awareness of the product when the salesperson calls.

**2. Purchase Stage.**

- a. Personal selling is most important, whereas the impact of advertising is lowest.
- b. Sales promotion in the form of coupons, deals, point-of-purchase displays, and rebates stimulate demand.
- c. Although advertising is not an active influence on the purchase, it is the means of delivering the sales promotion.
- d. Direct marketing activities shorten the time consumers take to adopt a product or service.

**3. Postpurchase Stage.**

- a. The more personal selling is used to provide post sales support, the more the buyer is satisfied.
- b. Advertising also provides post sales assurance to reduce a customer's cognitive dissonance.
- c. Sales promotion in the form of coupons and direct marketing reminders encourages repeat purchases.
- d. Public relations play only a minor role.

**E. Channel Strategies**

Two types of promotional strategies help marketers achieve control of and can assist in moving a product through the marketing channel.

**1. Push Strategy.**

- a. A **push strategy** directs the promotional mix to channel members to gain their cooperation in ordering and stocking the product.
- b. Salespeople call on wholesalers and retailers to encourage orders and provide sales assistance.

- c. Sales promotions, such as case discounts, are offered to intermediaries to stimulate demand.
- d. Marketers push product to channel members so they will push them to their customers.

**2. Pull Strategy.**

- a. A **pull strategy** directs the promotional mix at ultimate consumers to encourage them to ask the retailer for a product.
- b. Sometimes, manufacturers face resistance from channel members who do not want to order a new product or increase inventory levels of an existing brand.
- c. Seeing demand from consumers, retailers order the product from wholesalers, pulling the item through intermediaries.
- d. Many firms use *direct-to-consumer* advertising that complements traditional personal selling and free samples. The strategy is designed to encourage consumers to ask their retailer for the product—pulling it through the channel.

## **LEARNING REVIEW**

**7. Describe the promotional objective for each stage of the product life cycle.**

Answer: Introduction—to inform; growth—to persuade; maturity—to remind; and decline—none.

**8. At what stage of the consumer purchase decision is the importance of personal selling highest? Why?**

Answer: The purchase stage because salespeople can provide sales assistance to prospective customers and negotiate terms of the sale.

**9. Explain the differences between a push strategy and a pull strategy.**

Answer: In a push strategy, a firm directs the promotional mix to channel members to gain their cooperation to carry the product. In a pull strategy, a firm directs the promotional mix at ultimate consumers to encourage them to ask retailers for the product, who then orders it from wholesalers.

## IV. DEVELOPING AN IMC PROGRAM [LO4]

Due to high media costs, promotion decisions must be made carefully using a systematic approach like the strategic marketing process.

- The promotion decision process is divided into developing, executing, and evaluating the promotion program.
- Development of the promotion program focuses on the four *Ws*:
  - a. *Who* is the target audience?
  - b. *What* (1) are the promotion objectives, (2) is the budget for the promotion program, and (3) kinds of promotion should be used?
  - c. *Where* should the promotion be run?
  - d. *When* should the promotion be run?

### A. Identifying the Target Audience

- The first decision in developing the promotion program is to identify the *target audience*, the group of prospective buyers toward which the program is directed.
- Market segmentation studies help identify a firm's target audience.
- Knowing a firm's target audience's profile (lifestyle, attitudes, and values) makes it easier to develop a promotion program.

### B. Specifying Promotion Objectives

- After the target audience is identified, a decision must be reached on what the promotion should accomplish.
- Consumers respond in terms of a **hierarchy of effects**, which is the sequence of stages a prospective buyer goes through from initial awareness of a product to eventual action—either trial or adoption of the product. These stages are:
  - a. *Awareness*. The consumer's ability to recognize and remember the product or brand name.
  - b. *Interest*. An increase in the consumer's desire to learn about some of the features of the product or brand.

- c. *Evaluation*. The consumer's appraisal of the product or brand on important attributes.
- d. *Trial*. The consumer's actual first purchase and use of the product or brand.
- e. *Adoption*. The consumer's repeated purchase and use of the product or brand based on a favorable experience on the first trial.
- For a totally new product, the sequence applies to the entire product category.
- For a new brand competing in an established product category, it applies to the brand itself.
- Promotion objectives should: (1) be designed for a well-defined target audience, (2) be measurable, and (3) cover a specified time period.

### C. Setting the Promotion Budget

- After setting the promotion objectives, a company must decide on how much to spend, using one of several budgeting methods.
- Determining the ideal amount for the promotion budget is difficult because there is no precise way to measure the results.

### ***[SLN 18-1: The Accountants Ask, "Are Promotional Expenditures a Cost or a Reduction in Sales?"]***

#### 1. Percentage of Sales.

- a. **Percentage of sales budgeting** allocates funds to promotion as a percentage of past or anticipated sales, in terms of either dollars or units sold.
- b. The advantages of this approach are that it's simple and ties the promotion budget to sales.
- c. The major fallacy is that "sales cause promotion." By using this method, a firm may reduce its promotion budget because of downturns in actual past or projected future sales—situations when promotion may be needed the most.

## USING MARKETING DASHBOARDS

### How Much Should You Spend on IMC?

#### Promotion-to-Sales Ratio Percent

Marketers often use the promotion-to-sales ratio to assess how effective the IMC program expenditures are at generating sales. Specifically, the promotion-to-sales ratio can compare programs (1) on a year-to-year basis, (2) with competitor's programs, and (3) with industry averages.

#### Your Challenge.

You decide to calculate the promotion-to-sales ratio for General Motors, Ford, and the entire automobile industry. The ratio is calculated as follows:

$$\text{Promotion-to-Sales Ratio (\%)} = \frac{\text{Total Promotion Expenditures}}{\text{Total Sales}}$$

#### Your Findings.

The graph on the marketing dashboard is generated from information needed for these calculations obtained from trade publications and annual reports. The chart shows the promotion-to-sales ratio for General Motors, Ford and the automotive industry. General Motors spent \$3.296 billion on its IMC program to generate \$129 billion in U.S. sales for a ratio of 2.6%. Ford's ratio was 3.2% and the industry average was 2.7%.

#### Your Actions.

General Motor's promotion-to-sales ratio is substantially lower than Ford's and slightly lower than the industry average (lower is better). This suggests that GM's current mix of promotional activities and the level of expenditures are both creating an effective IMC program to generate sales of its vehicles.

### 2. Competitive Parity.

- a. **Competitive parity budgeting** funds to promotion by matching the competitor's absolute level of spending or the proportion per point of market share. Also called *matching competitors* or *share of market*.
- b. An advantage is that considers the competition in budgeting because consumers are affected by competing promotional activities.
- c. The disadvantage is that the competition may have very different promotional objectives that require a different level of expenditures by the firm.

**3. All You Can Afford.**

- a. **All-you-can-afford budgeting** allocates funds to promotion only after all other budget items are covered.
- b. While simple and conservative, it has little else to offer.

**4. Objective and Task.**

- a. **Objective and task budgeting** allocates funds whereby the firm:
  - Determines its promotion objectives.
  - Outlines the tasks to accomplish these objectives.
  - Determines the promotion cost of performing these tasks.
- b. The advantages of this method are:
  - Takes into account what the company wants to accomplish and requires that the objectives be specified.
  - Integrates the strengths of the other budgeting approaches.
- c. The disadvantage of this method is the judgment required to determine the tasks needed to accomplish objectives.

**D. Selecting the Right Promotional Tools**

- Once a budget has been set, the relative importance of the five basic IMC tools is analyzed based on the objectives specified.
- Due to the number and variety of promotional tools available to marketers, there are many possible combinations that can achieve any specific objective.
- Therefore, marketers use an analytical approach and their experience in selecting the appropriate tools for each promotional objective.
- Thus, the promotion mix can vary from a simple program using a single tool to a comprehensive program using all forms.

**E. Designing the Promotion**

- The central element of a promotion program is the promotion itself:
  - a. Advertising consists of advertising copy and the artwork that the target audience is intended to see or hear.
  - b. Personal selling depends on the characteristics and skills of the salesperson.



- c. Sales promotion activities consist of the specific details of inducements.
  - d. Public relations efforts are seen in tangible elements such as news releases.
  - e. Direct marketing depends on written, verbal, and electronic forms of delivery.
- The design of the promotion determines the message that is communicated to the target audience and requires the most creativity. Successful designs are the result of insights into consumers' interests and behavior.
  - One of the challenges of IMC is to design each promotional activity to communicate the same message.

#### **F. Scheduling the Promotion**

- Once the design of promotional elements is complete, it is important to determine the most effective timing of their use.
- The promotion schedule describes the order in which each promotional tool is introduced and the frequency of its use during the campaign.
- Seasonality and competitive factors can influence the promotion schedule.

### **V. EXECUTING AND EVALUATING THE PROMOTION PROGRAM**

- Promotion programs are expensive and time consuming.
- Firms with a market orientation are more likely to implement an IMC program.
- IMC agencies have adopted "total communications solutions," such as media management, Internet and digital communications, direct response media, entertainment, sports, and event marketing, and multicultural marketing.
- To evaluate its IMC programs, a firm uses an IMC audit, which:
  - a. Analyzes the internal communication network.
  - b. Identifies key target audiences and evaluates customer databases.
  - c. Assesses messages in recent ads, public relations releases, packaging, video news releases, signage, sales promotion pieces, and direct mail.

- d. Determines the IMC expertise of company and agency personnel.
- e. This process is becoming increasingly important as consumer-generated media such as blogs, RSS, podcasts, and social networks become more popular.
- Few firms are successful at implementing IMC because of a lack of expertise, budget, and management approval.
- A promotion program should pretest each design before it is actually used to make changes that improve its effectiveness.
- Similarly, posttests should evaluate the impact of each promotion and its contribution toward achieving objectives.
- To fully benefit from IMC programs, companies must create and maintain a test-result database that allows comparisons of the relative impact of the promotional tools in various situations. Information from the database will allow informed design and execution decisions and provide support for IMC activities during internal reviews by financial or administrative personnel.
- The trend today is clearly toward a long-term perspective in which all forms of promotion are integrated. Therefore, the assessment should focus on the effectiveness created by the synergy created by multiple promotional tools and not just on a single one, which is what many firms do.
- Another level of assessment is necessary when firms have international promotion programs.

***[SLN 18-2: Is Your Marketing Communication Program Integrated?]***

**LEARNING REVIEW**

**10. What are the characteristics of good promotion objectives?**

Answer: Promotion objectives should possess three important qualities. They should (1) be designed for a well-defined target audience, (2) be measurable, and (3) cover a specified time period.

**11. What is the weakness of the percentage of sales budgeting approach?**

Answer: The major fallacy is that sales cause promotion. By using this method, a company may reduce its promotion budget because of downturns in actual past or projected future sales—situations where promotion may be needed the most.

**12. How have advertising agencies changed to facilitate the use of IMC programs?**

Answer: Some agencies have adopted: (1) a total communications solutions approach; (2) a long-term perspective in which all forms of promotion are integrated; and (3) an IMC audit to analyze the internal communication network of their clients.

## **VI. DIRECT MARKETING [LO5]**

Direct marketing has many forms (direct mail, catalogs, direct response advertising, telemarketing, and interactive marketing) and uses a variety of media.

### **A. The Growth of Direct Marketing**

- The increasing interest in customer relationship management is reflected in the dramatic growth in direct marketing.
- The ability to customize communication efforts and create one-to-one interactions is appealing to most marketers, particularly those with IMC programs due to the availability of databases.
- In recent years, direct marketing growth (in terms of spending, revenue generated, and employment) has outpaced total economic growth, in part due to the popularity of the Internet.

### **B. The Value of Direct Marketing**

- Consumers benefit from direct marketing efforts, which enables them to order goods or services by phone or mail, respond to a TV offer, access online services, and make three to five purchases from a catalog each year.
- Direct marketing has several benefits. Consumers: don't have to go to a store; can shop 24 hours a day; save time and money; avoid hassles with salespeople; have more fun and privacy than in-store shopping; and receive excellent customer service.
- Toll-free telephone numbers, representatives with access to purchase preference information, overnight delivery, and unconditional guarantees all help create customer value.
- The value of direct marketing for sellers can be described in terms of the responses it generates:
  - a. Direct orders** are the result of direct marketing offers that contain all the information necessary for a prospective buyer to make a decision to purchase and complete the transaction.

- b. Lead generation** is the result of a direct marketing offer designed to generate interest in a product or service and a request for additional information.
- c. Traffic generation** is the outcome of a direct marketing offer designed to motivate people to visit a business.

### **C. Technological, Global, and Ethical Issues in Direct Marketing**

- Databases are the result of organizations' efforts to collect demographic, media, and consumption profiles of customers so that direct marketing tools can be directed at specific customers.
- The data must be unbiased, timely, pertinent, accessible, and organized in a way that helps the marketing manager make decisions that lead to direct marketing actions.
- Consumer data collected as follows:
  - a.** Lifestyle, media use, and consumption behavior data must be collected in consumers' homes.
  - b.** Other types of data (can be collected from the businesses where purchases are made).
  - c.** Optical scanners help collect data with as little intrusion on the customer as possible.
  - d.** Transactional websites and online search services can be sources of information.
- Technology, deregulation, and improved payment systems may help the global growth of direct marketing.
- Direct marketers face ethical challenges that are of increasing concern to consumers, governments, and direct marketers. Some of these issues include telephone solicitations, privacy of personal data, and the proliferation of e-mail advertising, also known as spam.

## **MAKING RESPONSIBLE DECISIONS**

### **Leaked Personal Data and Unwelcome E-Mail**

Japan's convenience store chain, Lawson, experienced a leakage of more than half a million customer data records, which resulted in customers receiving massive unsolicited mailing from a direct mail company.

The leak was discovered when customers complained of receiving suspicious direct mail. Police investigations began. Japan's Ministry of Economy, Trade, and Industry takes a serious view of unsolicited e-mail and has modified the law governing mail order and direct marketing.

Once a recipient has given notice that he or she does not wish to receive further mail, the company cannot use a different address from which to send the advertisements.

## **LEARNING REVIEW**

13. **The ability to design and use direct marketing programs has increased with the availability of \_\_\_\_\_ and \_\_\_\_\_.**

Answer: computers; databases

14. **What are the three types of responses generated by direct marketing activities?**

Answer: They are direct orders, lead generation, and traffic generation.

## **APPLYING MARKETING KNOWLEDGE**

1. **After listening to a recent sales presentation, Mary Lee signed up for membership at the local health club. On arriving at the facility, she learned there was an additional fee for racquetball court rentals. "I don't remember that in the sales talk; I thought they said all facilities were included with the membership fee," complained Mary. Describe the problem in terms of the communication process.**

Answer: The problem is miscommunication between the sender (the health club representative) and the receiver (Mary Lee) as a result of improper encoding or decoding of the message (the sales presentation). There may have been noise in the channel that prevented proper decoding of the message.

2. **Develop a matrix to compare the five elements of the promotional mix on three criteria—to *whom* you deliver the message, *what* you say, and *when* you say it.**

Answer:

PROMOTIONAL ELEMENT					
	ADVERTISING	PERSONAL SELLING	PUBLIC RELATIONS	SALES PROMOTION	DIRECT MARKETING
<b>Whom</b>	Some control based on where ad is placed	Great control: depends who salesperson contacts	No control over who sees it	Some control over where sent, used, displayed, etc.	Great control with data base selection of recipients
<b>What</b>	Great control: company develops message	Some control: salesperson can vary presentation	Little control over what media transmits	Great control over type of promotion and message	Great control: company develops message
<b>When</b>	Great control: space may not be available	Great control based on salesperson's timing of call	Little control except for timing of when it occurs	Some control over duration	Great control of timing

3. Explain how the promotional tools used by an airline would differ if the target audience were (a) consumers who travel for pleasure and (b) corporate travel departments that select the airlines to be used by company employees.

Answers:

- a. **Consumers.** When promoting to pleasure travelers, mass advertising would be used because of the large number of potential customers and their wide geographical dispersion.
  - b. **Corporate travel departments.** An airline selling to corporate travel departments may rely more on a personal sales calls, since the number of potential customers is relatively small who require complex information that could not be addressed in advertising.
4. Suppose you introduced a new consumer food product and invested heavily both in national advertising (pull strategy) and in training and motivating your field salesforce to sell the product to food stores (push strategy). What kinds of feedback would you receive from both the advertising and your salesforce? How could you increase both the quality and quantity of each?

Answers: In general, you should expect little feedback from your national advertising campaign and better feedback from your salesforce. In either case, if you want to get high quality, representative feedback, you as the sender must take some proactive steps.

**Advertising feedback.** For the national advertising campaign, you can get some estimate of response by including a web site address for prospective consumers to visit, or a coupon in any print ads that you run. To get more detailed feedback, marketers

often use marketing research to measure how many people were exposed to the ad, how they felt about the ad, what they remember about the message, and how likely they are to buy and use the product. This information can be obtained through various survey techniques.

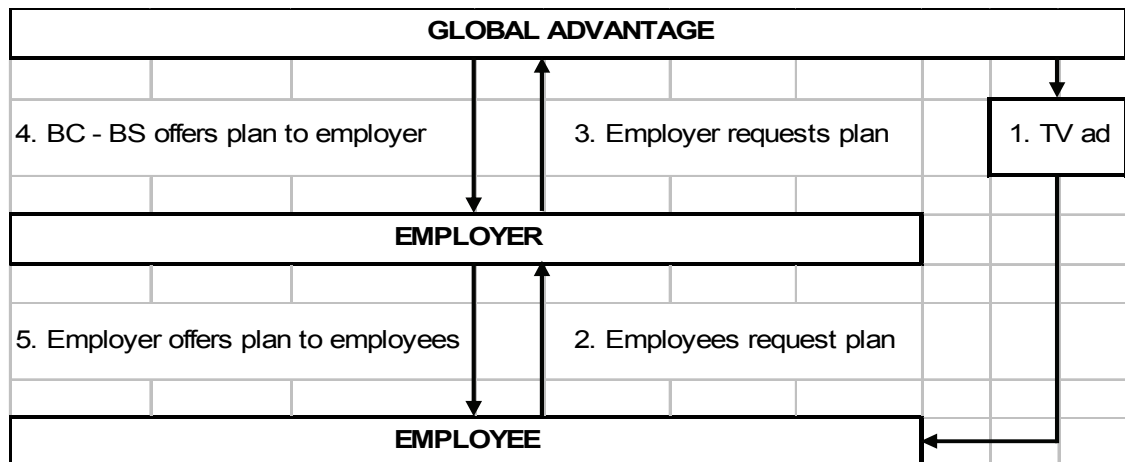
**Salesforce feedback.** To obtain feedback from the salesforce, the marketer again must spend time and effort. Call reports can be analyzed to see how much time the salesforce is giving to selling the new product. Invoices can be examined to see how many retailers are accepting the product. The salesforce can also be surveyed to get its reaction to selling this product in terms of both problems and successes.

**5. Fisher-Price Company, long known as a manufacturer of children’s toys, has introduced a line of clothing for children. Outline a promotional plan to get this product introduced in the marketplace.**

Answer: Fisher-Price should begin to generate publicity targeted at wholesalers and retailers (push strategy) as well as ultimate consumers (pull strategy) regarding this extension of their product line. Moreover, when the product is offered, mass advertising on television and in magazines (such as *Parents* and *Good Housekeeping*) may be valuable. Sales promotion should be used in the form of coupons placed in boxes of Fisher-Price toys for purchases of clothing. The salesforce should begin to work aggressively to get retailers to stock the line, and a trade allowance might be offered to these intermediaries.

**6. Many insurance companies sell health insurance plans to companies. In these companies the employees pick the plan, but the set of offered plans is determined by the company. Great Eastern Company offers a medical plan termed Global Advantage. The company runs a television ad stating, “If your employer doesn’t offer you Global Advantage coverage, ask why.” Explain the promotional strategy behind the advertisement.**

Answer: The promotional strategy used is a pull strategy. The channel might be viewed as:



If the employer does not offer the Global Advantage plan, the employee cannot choose it. Getting employees to ask why the plan is not offered may pull the plan into the company's offering.

**7. Identify the sales promotion tools that might be useful for (a) Tastee Yogurt, a new brand introduction, (b) 3M self-sticking Post-It Notes, and (c) Wrigley's Spearmint Gum.**

Answers:

- a. **Tastee Yogurt.** The Tastee Yogurt product is in the introductory stage of the product life cycle. As a result, coupons and in-store free samples may help the introduction.
- b. **3M self-sticking Post-It Notes.** 3M Post-It Notes are in the mature stage of the product life cycle. As a result, point-of-purchase displays will serve as reminders of a consumer's need for the product.
- c. **Wrigley's Spearmint Gum.** Wrigley's Spearmint Gum is a mature, well-known brand. A premium, which ties this brand into another product or product line, may encourage additional purchases. Additionally, a point-of-purchase display at the counter will encourage impulse purchases.

**8. Design an integrated marketing communications program—using each of the five promotional elements—for Music Boulevard, the online music store.**

Answers:

- a. **Advertising.** Ads placed in *Billboard*, *Rolling Stone*, *Wired*, and *PC Magazine*.
- b. **Personal selling.** Sales calls by a salesperson to record companies to get tracks online.
- c. **Public relations.** Video news releases and press conferences.
- d. **Sales promotion.** Online contest to win free downloads or discounts for first-time users or coupons shrink-wrapped in CD cases.
- e. **Direct marketing.** E-mails to potential customers who have "opted-in" for such contact.

The tagline, "Millions of songs. Thousands of artists. Listen all you want. Whenever you want." would be part of all advertising, promotions, direct mail pieces, brochures, and packaging. Customers can: hear song clips; view cover art and photos; read bios, interviews and reviews; and order CDs and DVD music videos, if desired.



- 9. BMW recently introduced its first sport-utility vehicle, the X5, to compete with other popular all-wheel-drive vehicles such as the Mercedes-Benz M-class. Design a direct marketing program to generate (a) leads, (b) traffic in dealerships, and (c) direct orders.**

Answers: Students should consider the many forms of direct marketing including direct mail and catalogs, television, telemarketing, direct selling, direct response advertising and interactive online marketing. Instructors can remind students of the discussion of nonstore retailing in Chapter 17 and alert them to the online discussion in Chapter 21.

- a. **Leads.** Lead generation discussions should focus on creating interest and generating requests for additional information. Direct mail and advertising that encourages consumers to visit a web page for additional information are effective.
- b. **Traffic in dealerships.** Building traffic in dealerships could include sweepstakes and events promotions that require a visit to a dealership or a test drive to enter the sweepstakes or participate in the event. Be sure geographical directions, locations, and contact numbers are included.
- c. **Direct Orders.** Direct order generation should be built around calls to action and reinforcement promotions. In general, an integrated approach based on the student's statement of objectives and tasks for the program would be an acceptable solution.

This is a good opportunity for the instructor to incorporate the necessity for good planning and a way to impress students with the need for the objective and task approach.

- 10. Develop a privacy policy for database managers that provide a balance of consumer and seller perspectives. How would you encourage voluntary compliance with your policy? What methods of enforcement would you recommend?**

Answer: Students' answers will vary. To begin the discussion, ask students to consider the guidelines provided in the European Union Data Protection Directive. The directive suggests that consumers have the right (1) to be informed of any data processing when they are the data subject, (2) of access to data about them, and (3) to access to the logic on which automated decisions are based. Students should be encouraged to discuss the value of self-regulation versus enforcement by outside bodies in terms of penalties and breadth of items covered. Methods of enforcement discussions should bring out the difficulties and advantages of enforcement in a voluntary membership group. A good strategy would be to compare and contrast well-known examples and to bring the discussion to current topics, such as the regulation of the Internet and e-mail advertising.

## BUILDING YOUR MARKETING PLAN

To develop the promotion strategy for your marketing plan, follow the steps suggested in the planning phase of the promotion decision process described in Figure 18–6.

1. You should (a) identify the target audience, (b) specify the promotion objectives, (c) set the promotion budget, (d) select the right promotion tools, (e) design the promotion, and (f) schedule the promotion.

Answers:

- a. **Target audience.** Is there more than one? Who are they? Does the same promotional approach work for all?
  - b. **Promotion objectives.** Do promotion objectives differ by target audiences? Is the main objective increased awareness? Trial? Repeat purchase?
  - c. **Promotion budget.** In the break-even analysis developed earlier, was the promotion budget included? Is it reasonable in light of the promotion objectives?
  - d. **Promotion tools.** Is our stress on advertising, personal selling, etc.? Are these tools the ones most effective in reaching our target audience and achieving our promotional objectives?
  - e. **Promotion design.** If we are using a yellow page ad or a direct mail ad, what should it look like?
  - f. **Promotion schedule.** Does demand for our offering vary seasonally? If yes, shouldn't this be reflected in our scheduling decisions?
2. Also, specify the pretesting and posttesting procedures needed in the implementation and control phases.

Answer: In Question #2, pretesting and posttesting of promotional ideas is often difficult for small businesses because of cost. It may simply involve a question to ask new customers, such as “How did you hear about us?”

3. Finally, describe how each of your promotion tools are integrated to provide a consistent message.

Answer: Question #3 really addresses the main topic of Chapter 15: How to have an integrated marketing communication program in which each promotional tool complements and supports the others.

### Helping with Common Student Problems

What students are asked to do in Questions #1, #2, and #3 above is a very, very big order. In fact, if done in detail for a large business, this could be a complete promotional plan written for a promotion or advertising course. However, this experience could be both fun and frightening for students if they are actually trying their hands at writing a promotional piece to include in their marketing plans. For simplicity, have student outline a public relations, sales promotion, or direct marketing strategy.

### SLN 18-1: SUPPLEMENTAL LECTURE NOTE

#### The Accountants Ask, “Are Promotional Expenditures a Cost or a Reduction in Sales?”

As marketers’ interest in integrated communications campaigns has increased, many agencies have attempted to facilitate the integration by linking the traditionally separate departments (e.g. advertising, promotion, public relations, etc.). The collaboration is intended to increase the communication between the departments and create synergy in the campaign efforts. Some experts have observed, however, that the different departments compete with each other for the same budget, and, therefore, remain financially separate. To make the situation even more interesting new regulations are changing how organizations must account for various marketing costs and expenses. In fact, many firms such as Proctor & Gamble have recently issued restatements of their marketing and advertising expenditures to accommodate changing standards and definitions.

In response to the creative accounting practices used by many now closed [dot.com](http://dot.com) businesses, the Securities & Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) began an evaluation of accounting procedures. The FASB created the Emerging Issues Task Force (EITF) to facilitate the evaluation. Their goal was to require that the reporting of income and expenses better reflect the true value of a company. The result has been new definitions of terms and many new accounting rules. For example, the FASB recently introduced new regulations titled “Accounting for Certain Sales Incentives” and “Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor’s Products.”

These regulations (EITF 0014 and EITF 0025) mean that traditional sales, marketing, and promotional expenses such as slotting allowances, buy-backs, coupons, and continuity programs must now be taken as a reduction in sales. That is, if your company has sales of \$1 million and spent \$100,000 on promotional expenses, the accounting procedures will now report sales of \$900,000!

The most important implication for marketing and communications managers is the likely increase in accountability for communication and promotion expenditure’s impact on sales. For many years, experts have struggled to demonstrate the direct relationship between advertising and sales or promotion and sales. Since the new accounting standards mean that promotion expenditures definitely have the potential to *reduce* sales (from an accounting

perspective), the positive impact of promotional budget allocations on sales will receive much more attention in the future!

Sources: "Marketers Must Adhere to Single Ad-Spending Standard," *Advertising Age* (September 10, 2007), p. 22; Don E. Schultz, "Salespeople Require Retraining," *Marketing News* (June 15, 2004), p. 9; and Don E. Schultz, "Accounting Rules Mean It's Time To Grow Up," *Marketing News* (February 4, 2002), p. 8.

## **SLN 18-2: SUPPLEMENTAL LECTURE NOTE**

### **Is Your Marketing Communication Program Integrated?**

Many experts today suggest that integration of marketing communication activities is essential to success. The marketplace is interactive, networked, and often uses consumer-driven content, increasing the importance of consistent messages about the customer experience. To help firms assess how well they have integrated their communication activities, Professors Tom Duncan and Sandra Moriarty have developed a series of questions they call an IMC audit. The questions also allow managers to identify areas for improvement. They include the following:

#### **1. Organizational infrastructure.**

- Is managing reputation a cross-functional responsibility?
- Do managers understand all communication tools?
- Is internal marketing effective?
- Do communication agencies have a monthly contact?

#### **2. Interactivity.**

- Is there a balance between mass media and one-to-one media?
- Do special programs facilitate customer inquiries and complaints?
- Do databases capture inquiries, complaints, and sales behavior?
- Are databases accessible?

#### **3. Mission marketing.**

- Is the mission considered in communication planning?
- Does the mission provide a reason for customers to believe the message?
- Are philanthropic efforts concentrated?

#### **4. Strategic consistency.**

- Are messages reviewed for consistency?
- Is the general message broad enough to allow for compatible subcampaigns?
- Are pricing, distribution, service, and other messages considered?

#### **5. Planning and evaluation.**

- Is a SWOT analysis used in communication planning?
- Is a zero-based approach used?

- Are brand contact points utilized?
- Are tracking studies used to evaluate customer relationships?
- Do marketing strategies maximize the strengths of the communication tools?
- Is the overall objective to create customer relationships?

One firm embracing IMC is Dell. It recently combined its 860 worldwide agencies and accounts into a single agency called DaVinci. The new agency will start with 1,000 employees!

Sources: "Will DaVinci Live Up To Its Name?" *PR Week* (March 7, 2008), p. 15; Derek Holder, "The Age of Convergence," *Campaign* (October 5, 2007), p. 15; Don E. Schultz, "Marcom Model Reverses Traditional Pattern," *Marketing News* (April 1, 2002), p. 8; and Tom Duncan, *Principles of Advertising and IMC* (New York: McGraw-Hill, 2005), p. 721.