

## **LECTURE NOTES**

### **CHAPTER OPENING EXAMPLE**

#### **A PROVOCATIVE ADVERTISEMENT WITH A SERIOUS MESSAGE**

- Advertising takes place in many forms. It can carry a serious message while carrying an eye-catching background that draws people's attention. The ad concerning the use of a condom for protection against AIDS is one such example.
- Some people felt that the ads used in the campaign looked too much like sexual services and might distract the audience from the real message, but it serves the purpose of catching their attention. The 20,000 calls generated within 2 weeks proved this point. The campaign producers believe that the bold ad draws attention to the serious message.
- The concept of viral marketing – individuals sending messages to their friends, urging them to call that hotline – was in play.
- The decisions regarding objectives, message, media and execution are all parts of an advertising campaign.

## I. TYPES OF ADVERTISEMENTS [LO1]

- **Advertising** is any paid form of nonpersonal communication about an organization, good, service, or idea by an identified sponsor.
- Advertisements are prepared for different purposes, but they basically consist of two basic types: product and institutional.

### A. Product Advertisements

**Product advertisements** focus on selling a good or service and which take three forms: (1) pioneering (or informational), (2) competitive (or persuasive), and (3) reminder.

- a. *Pioneering* advertisements tell people what a product is, what it can do, and where it can be found.
  - Used in the introductory stage of the product life cycle.
  - The key objective is to inform the target market.
  - Informative ads have been found to be interesting, convincing, and effective.
- b. *Competitive* advertisements promote a specific brand's features and benefits.
  - The objective of these ads is to persuade the target market to select the firm's brand over a competitor's.
  - An increasingly form of competitive advertising is *comparative* advertising, which shows one brand's strengths relative to those of competitors.
    - Comparative ads attract more attention and increase the perceived quality of the advertiser's brand.
    - Firms that use comparative advertising need market research to provide legal support for their claims.
- c. *Reminder* advertising:
  - Is used to reinforce previous knowledge of a product.
  - Is good for products that have achieved a well-recognized position and are in the mature phase of their product life cycle.
  - *Reinforcement* advertising, another type of reminder ad, is used to assure current users they made the right choice.

## **B. Institutional Advertisements**

- **Institutional advertisements** are designed to build goodwill or an image for an organization rather than promote a specific good or service.
- Often this form of advertising is used to support the public relations plan or counter adverse publicity.
- Four alternative forms of institutional advertisements are used:
  - a. *Advocacy* advertisements state the position of a company on an issue and are used when firms make a request related to a particular action or behavior.
  - b. *Pioneering institutional* advertisements, like the pioneering ads for consumer products, announce what a company is, what it can do, or where it is located.
  - c. *Competitive institutional* advertisements promote the advantages of one product class over another and are used in markets where different product classes compete for the same buyers.
  - d. *Reminder institutional* advertisements simply bring the company's name to the attention of the target market again.

## **LEARNING REVIEW**

### **1. What is the difference between pioneering and competitive ads?**

Answer: Pioneering ads tell people what a product is, what it can do, and where it can be found. Competitive ads promote a specific brand's features and benefits to persuade the target market to select the firm's brand rather than that of a competitor.

### **2. What is the purpose of an institutional advertisement?**

Answer: To build goodwill or an image for an organization.

## **II. DEVELOPING THE ADVERTISING PROGRAM [LO2]**

The promotion decision process described in Chapter 18 can be applied to each of the promotional elements.

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

- To develop an effective advertising program, advertisers must identify the target audience.
- All aspects of an advertising program are influenced by the lifestyles, attitudes, and demographics of target consumers.
- The scheduling (time of year, geographic area, etc.) of ads also depends on the audience.
- To eliminate possible bias that might result from subjective judgments about some population segments, the Federal Communications Commission suggests that advertising program decisions be based on market research about the target audience.

### **B. Specifying Advertising Objectives**

- Setting advertising objectives helps advertisers with other choices in the promotion decision process, such as selecting media and evaluating a campaign.
- Factors such as product category, brand, and consumer involvement in the purchase decision may change the importance—and, possibly, the sequence—of the stages of the hierarchy of effects.

### **C. Setting the Advertising Budget**

- The advertising budget is a portion of the overall promotion budget.
- Under the pull strategy, the advertising budget will constitute a larger proportion of the promotion budget.
- Depending on the advertising medium used, a company's advertising budget may be quite high. For example, top Indian television channels are demanding 350,000 rupees (about US\$8,178) for a prime-time 10-second spot.

## **D. Designing the Advertisement**

An advertising message:

- Focuses on the key benefits of the product that are important to prospective buyers making trial and adoption decisions.
- Depends on the general appeal used and the actual words included in the ad.

### **1. Message Content.**

- a.** Most ad messages are made up of both informational and persuasive elements, which are intertwined, making it difficult to distinguish them.
  - Information contained in ads, such as the product name, benefits, features, and price, is presented to attract attention and encourage purchase.
  - Most persuasive advertisements have to contain at least some basic information to be successful.
  - Information and persuasive content can be combined in an appeal to provide a reason for the consumer to act.
- b.** *Fear appeals.*
  - Suggests that consumers can avoid some negative experience through the purchase and use of a product or service or a change in behavior.
  - Advertisers must be sure that the appeal is strong enough get the audience's attention and concern but not so strong that it will lead them to tune out the message.
- c.** *Sex appeals.*
  - Suggest to the audience that the product will increase the attractiveness of the user.
  - Can be found in almost any product category.
  - Are successful at gaining the attention of the audience but have little impact on how consumers think, feel, or act, and may even distract them from the ad's purpose.

**d.** *Humorous appeals.*

- Imply either directly or more subtly that the product is more fun or exciting than competitors' offerings.
- Is widespread and found in many product categories.
- Humor tends to wear out quickly, boring the consumer.
- Their effectiveness varies across cultures if used in a global campaign.

**2. Creating the Actual Message.**

- a.** In 2007, Advertising agency Hakuhodo swept the Platinum Spike and Gold Spike awards at the Asian Advertising Awards for its "Oxyride Manned Airplane Project" campaign for Matsushita Electric Industrial Company Limited
- b.** Many firms use athletes, movie and TV stars, musicians, and other celebrities to talk to consumers through their ads.
- Advertisers who use a celebrity spokesperson believe that the ads are more likely to influence sales.
  - Popular Asian stars that have been called for advertisements are Jackie Chan, Jerry Yan, Jay Chou, Leslie Cheung and Priyanka Chopra.
  - One potential shortcoming is that the spokesperson's image may change to be inconsistent with the image of the company or brand.
  - Many companies now probe the backgrounds of potential endorsers and only consider retired athletes and legacy (deceased) athletes who are low risk and still have a lasting appeal in the marketplace.
- c.** Copywriters are responsible for creating the text portion of an advertisement's message.
- d.** Translating a copywriter's ideas into an actual ad is a complex process.
- e.** Designing quality artwork, layout, and production for ads is costly and time consuming. Actors are also expensive. High-quality 30-second TV ads cost vary from US\$200,000 to US\$500,000.
- f.** One reason for the high costs is that as companies have developed global campaigns and may need to shoot commercials in exotic locations.

## LEARNING REVIEW

### 3. What other decisions can advertising objectives influence?

Answer: Advertising objectives can influence the decisions such as selecting media, evaluating an advertising campaign, establishing the importance and sequence of the stages of the hierarchy of effects, and choosing the type and appeal of the advertisement that is designed.

### 4. What is a potential shortcoming of using a celebrity spokesperson?

Answer: The spokesperson's image may change to be inconsistent with the image of the company or brand.

#### E. Selecting the Right Media

- *Advertising media* are the means by which the message is communicated to the target audience and include newspapers, magazines, radio, and TV.
- The media selection decision is related to the target audience, type of product, nature of the message, campaign objectives, available budget, and the costs of the alternative media.

#### 1. Choosing a Medium and a Vehicle within That Medium.

Advertisers use a mix of media forms and vehicles to maximize the exposure of the message to the target audience while at the same time minimizing costs. These two conflicting goals are critically important to media planning.

#### 2. Basic Terms.

- Reach** is the number of different people or households exposed to an advertisement. Newspapers often use reach to describe their total circulation or the number of different households that buy the paper.
- Television and radio stations describe their reach using the term **rating**—the percentage of households in a market that are tuned to a particular TV show or radio station. In general, advertisers try to maximize reach in their target market at the lowest cost.
- Advertisers are interested in exposing their target audience to a message more than once because consumers often do not pay close attention to advertising messages.
  - **Frequency** is the average number of times a person in the target audience is exposed to a message or an advertisement.
  - With repeated exposure to advertisements, consumers respond more favorably to brand extensions.

- d. Advertisers calculate **gross rating points** (GRPs), which is a reference number that is obtained by multiplying reach (expressed as a percentage of the total market) by frequency.
- To obtain the appropriate number of GRPs to achieve an advertising campaign's objective, the media planner must balance reach, frequency, and cost.
  - **Cost per thousand** (CPM) is the cost of reaching 1,000 individuals or households with the advertising message in a given medium (M is the Roman numeral for 1,000).

## USING MARKETING DASHBOARDS

### What is the Best Way to Reach 1,000 Customers?

#### Cost per Thousand (CPM) Impressions

Because there are so many media alternatives (television, radio, magazines, etc.) and multiple options within each of the media, advertisers monitor the efficiency of advertising expenditures on a marketing dashboard.

#### Your Challenge.

You are about to introduce a new soft drink into the U.S. market and have observed that competitors use magazine, newspaper, and even Super Bowl ads! To compare the cost of these alternatives, you decide to use cost per thousand impressions (CPM), which is calculated as follows:

$$\text{CPM (\$)} = \frac{\text{Advertising Cost (\$)}}{\left( \frac{\text{Impressions Generated (\#)}}{1,000} \right)}$$

#### Your Findings.

Cost, audience size, and CPM data for full-page color ads in *Sports Illustrated* and *USA Today*, as well as a 30-second television ad during the Super Bowl are shown on the marketing dashboard.

#### Your Actions.

- As shown on the marketing dashboard, there is a large variation in the cost of reaching 1,000 potential customers as well as in the absolute cost of the advertising.
- Although advertising on the Super Bowl has the lowest CPM of \$29 per 1,000 impressions, it also has the largest absolute cost!



- Your next step will be to consider other factors, such as your total available budget, the profiles of the audiences each alternative reaches, and whether the type of message you want to deliver is better communicated in print or on television.

## **F. Different Media Alternatives [LO3]**

Figure 19-4 summarizes advantages and disadvantages of the major advertising media.

### **1. Television.**

- a. Television is a valuable medium because it communicates with sight, sound, and motion.
- b. Network television can reach out to a large number of households in many Asian countries.
- c. *Out-of-home TV* reaches millions more viewers in bars, hotels, offices, and college campuses each week.
- d. Because of TV's high cost ( $\approx$ US\$128,00 for a 30-second prime-time ad):
  - Many advertisers choose less expensive "spot" ads, which run between programs in 10-, 15-, 30-, or 60-second lengths.
  - Shorter ads reduce costs but severely restrict the amount of information and emotion that can be conveyed.
  - Two different versions of a 15-second commercial, run back-to-back, will increase recall over long intervals.
- e. *Wasted coverage* is having people outside the market for the product see the advertisement.
- f. The cost and wasted coverage of TV advertising can be reduced through the specialized cable and direct broadcast (satellite) channels.
  - Advertising time is often less expensive on cable and direct broadcast channels than on the major networks.
  - Many cable and satellite TV services now offer boxes with built-in digital video recorders (DVRs) and remotes with "30-second skip" buttons for ad-zapping.

- g. Infomercials** are program-length (30-minute) advertisements that take an educational approach to communication with potential customers.
  - More than 90 percent of all TV stations air infomercials.
  - More than 25 percent of all consumers have purchased a product as a result of seeing an infomercial.

## **2. Radio.**

- a.** There are many times more radio stations than TV stations in Asian countries.
- b.** The advantage of using radio is that it is a segmented medium; different market segments listen to a different format, such as all-talk, hard rock, etc.
- c.** The disadvantages of using radio are:
  - Has limited use for products that must be seen.
  - Consumers can tune out a commercial by switching stations.
- d.** Radio competes for people's attention as they do other activities such as driving, working, or relaxing.
- g.** Peak radio listening time is during the drive times (6-10 AM and 4-7 PM).

## **3. Magazines.**

- a.** There are 68 local magazines in Singapore alone, catering to a population of 4.5 million.
- b.** The advantages of using magazines are:
  - Special-interest publications appeal to narrowly defined segments.
  - Good color reproduction allows them to create strong images.
- c.** The disadvantages of using magazines are:
  - National costs are high. However, many magazines publish regional editions, which reduce absolute cost and wasted coverage.
  - Their infrequency. They are printed on a weekly basis, with many specialized publications only monthly or less.

- Translating consumer interests into a magazine theme. There have been hundreds of magazine failures during the past decade because they have all failed to attract and keep a substantial number of readers or advertisers.

#### **4. Newspapers.**

- a. Newspapers have excellent reach potential because they are published daily and therefore allow ads to focus the “24-hour sale.”
- b. Local retailers often use newspapers as their sole advertising medium.
- c. Consumers rarely save newspapers, although some will clip and save ads. So firms are limited to ads that call for an immediate customer response.
- d. Newspapers do not have as good color reproduction as magazines.
- e. National advertising campaigns rarely include newspapers except in conjunction with local distributors of their products.
  - In these instances, both parties often share the advertising costs using a cooperative advertising program.
  - Some newspapers, such as the Japanese *Tokyo Shimbun* do have a wide distribution of more than 900,000 readers a day in Japan, and can be used for national advertising.
- f. Three trends are influencing newspapers today.
  - Printing and paper costs have increased dramatically, which increase the cost of production and distribution.
  - The growth in online newspapers.
  - In many large cities free tabloid newspapers are targeting commuters and creating new competition for traditional paid-for newspapers.

#### **5. Yellow Pages.**

- a. Yellow pages represent an advertising media alternative comparable to radio and magazines in terms of expenditures.
- b. Consumers use more this resource than 15 billion times annually and online yellow pages an additional 1.6 billion times per year.

- c. The advantages of using yellow pages:
  - Is a directional medium because they help consumers know where purchases can be made after other media have created awareness and demand.
  - Are available 24 hours a day and 365 days a year.
  - Have a long life span—are published annually.
  - Provide advertisers with many ad size options.
- d. The disadvantages of using Yellow pages:
  - The proliferation of directories.
  - The lack of timeliness, because they can only be updated with new information once each year.
  - The difficulty of coordinating a nationwide campaign.

**6. Internet.**

- a. The advantages of using online advertising:
  - Online advertising is similar to print advertising in that it offers a visual message.
  - Can use the audio and video capabilities of the Internet to attract more attention from viewers or provide an element of entertainment to the message.
  - *Rich media* are interactive ads that use drop-down menus, games, or search engines to engage viewers.
  - Reach younger consumers who have developed a preference for online communication.
- b. There are a variety of online advertising options:
  - Banner ads represent approximately 50 percent of online ad expenditures, although their effectiveness has declined to a current click-through rate of 0.3 percent.
  - Other forms of online advertising include skyscrapers, pop-ups, interstitials, and minisites that use streaming video and audio, becoming like television advertising.
  - Many advertisers are also adding entertainment elements.
- c. The disadvantages of using online advertising:
  - The technical and administrative standards for the various formats are still evolving, which makes it difficult for advertisers to run national online campaigns across multiple websites.

- It is difficult to measure its impact and effectiveness.
- d.** Some firms are testing methods of tracking where viewers go on their computer in the days and weeks after seeing an ad.
  - Nielsen Online Ratings is a rating service that measures actual click-by-click behavior through meters installed on peoples' computers at home and work.
  - *Permission-based* advertising is where viewers agree to watch a commercial online in exchange for points, samples, or access to premium content and advertisers only pay for completed views.

## MAKING RESPONSIBLE DECISIONS

### Who is Responsible for Click Fraud?

One advantage of online advertising is that they only pay when someone clicks on their ad. Unfortunately, the growth of the medium has led to “click fraud,” which is the deceptive clicking of ads solely to increase the amount advertisers must pay.

There are several forms of click fraud. Paid-to-Read (PTR) websites recruit and pay members to simply click on ads. Another is “clickbots,” which are software programs that produce automatic clicks on ads. A third is “webtipping,” in which legitimate website visitors click on ads to keep the site free. These activities are difficult to detect and stop. Experts estimate that up to 15% of clicks may be the result of fraud and may cost advertisers as much as \$500 million each year!

Google and Yahoo! try to filter out illegitimate clicks, although some advertisers claim that they are still charged for PTR and clickbot traffic. Each has settled class action lawsuits and agreed to provide rebates or credits to advertisers who were charged for fraudulent clicks.

### 7. Outdoor.

- a. Outdoor advertising is effective for reminding consumers about a product.
- b. *Billboards* are the most common form of outdoor advertising.
- c. The advantages of using billboards are:
  - Has good reach and frequency in a desired geographical area.
  - Has been shown to increase purchase rates.
  - Is a good visual and supplemental reinforcement for well-known products.
  - Is a relatively low-cost, flexible alternative.
- d. The disadvantages of using billboards are:
  - No opportunity exists for lengthy advertising copy.
  - A good billboard site depends on traffic patterns and sight lines.
  - In many areas, environmental laws have limited or banned the use of this medium.

- e. *Transit advertising* is common in metropolitan areas and includes messages on the interior and exterior of buses, subway cars, and taxis.
  - Advantages are:
    - Mass transit is growing.
    - Selectivity is available to advertisers, who can buy space by neighborhood or route.
  - A disadvantage is that during heavy travel times when the audiences are the largest, people may find it difficult to read the message.
- f. Outdoor advertising has experienced a surge of growth recently. Lower costs, faster technology, and creativity have attracted large, national advertisers.

#### **8. Other Media.**

- a. As traditional media have become more expensive and cluttered, advertisers are now using a variety of nontraditional advertising options called *place-based media*.
- b. Messages are placed in locations that attract a specific target audience, such as airports, doctors' offices, health clubs, theaters, gas pumps, elevators, and other locations.

#### **9. Selection Criteria.**

- a. Knowing the media habits of the target audience is essential to deciding among the alternatives.
- b. Occasionally, product attributes determine the media used.
  - Radio is excluded if color is a part of product appeal.
  - Newspapers allow advertising for quick actions to confront competitors.
  - Magazines are used for complicated messages.
- c. Alternative media are compared using reach and cost (CPM).

### **G. Scheduling the Advertising**

- Three factors must be considered when scheduling a product ad:
  - a. *Buyer turnover*, which is how often new buyers enter the market to buy the product. The higher the buyer turnover, the greater is the amount of advertising required.
  - b. *Purchase frequency*, which means that the more frequently the product is purchased, the less repetition is required.
  - c. *Forgetting rate*, which is the speed with which buyers forget the brand if advertising is not seen.
- Setting schedules requires an understanding of how the market behaves. Most companies follow one of three basic approaches:
  - a. *Continuous (steady) schedule*. When seasonal factors are unimportant, advertising is run at a continuous or steady schedule throughout the year.
  - b. *Flighting (intermittent) schedule*. Periods of advertising are scheduled between periods of no advertising to reflect seasonal demand.
  - c. *Pulse (burst) schedule*. Flighting and continuous schedules are combined due to increases in demand, heavy periods of promotion, or introduction of a new product. Pulsing schedules are superior to other advertising strategies.

### **LEARNING REVIEW**

- 5. You see the same ad in *Time* and *Fortune* magazines and on billboards and TV. Is this an example of reach or frequency?**

Answer: frequency

- 6. Why has the Internet become a popular advertising medium?**

Answer: The Internet offers a visual message, can use both audio and video, is interactive through rich media, and tends to reach younger consumers.

- 7. What factors must be considered when choosing among alternative media?**

Answer: The media habits of the target audience, the product's attributes, and the reach and cost, as measured by CPM.



### III. EXECUTING THE ADVERTISING PROGRAM

- Executing the advertising program involves pretesting the advertising copy and actually carrying out the advertising program.
- Evaluating advertising efforts before and after the ads are run in the campaign ensures that advertising expenditures are not wasted.

#### A. Pretesting the Advertising

**Pretests** are conducted before an advertisement is placed in any medium to determine whether it communicates the intended message or to select among alternative versions of the advertisement.

1. **Portfolio Tests.** Used to test copy alternatives. The test ad is placed in a portfolio with other ads and stories. Afterward, consumers are asked for their impressions of the ads.
2. **Jury Tests.** Involve showing the ad copy to a panel of consumers and having them rate how they liked it, how much it drew their attention, and how attractive they thought it was. Unlike the portfolio test, consumers see only the ad of interest.
3. **Theater Tests.** Are the most sophisticated form of pretesting. Consumers are invited to view new television shows or movies in which test commercials are also shown. Viewers register their feelings about the ads either during the viewing or afterward.

#### B. Carrying Out the Advertising Program

The responsibility for actually carrying out the advertising program can be handled in one of three types of agencies:

- The **full-service agency** provides the most complete range of services, including market research, media selection, copy development, artwork, and production.
  - a. Agencies develop and place ads for a client traditionally charge a commission of 15 percent of media costs.
  - b. With integrated marketing approaches, however, most advertisers have switched from paying commissions to incentives or fees based on performance.

- c. The most common performance criteria are sales, brand and ad awareness, market share, and copy test results.
- **Limited-service agencies** specialize in one aspect of the advertising process such as providing creative services to develop the advertising copy or buying previously unpurchased media space.
- **In-house agencies** consists of the company's own advertising staff, who may provide full services or a limited range of services.

#### IV. ASSESSING THE ADVERTISING PROGRAM

Ads must be posttested to determine whether they achieve their intended objectives and if changes must be made in the advertising program.

##### A. Posttesting the Advertising

**Posttests** are conducted after an advertisement has been shown to the target audience to determine whether it accomplished its intended purpose.

1. **Aided Recall.** The Starch test uses aided recall to determine the percentage of those who:
  - a. Remember reading, viewing, or listening to the ad (*noted*).
  - b. Saw or read any part of the ad identifying the product or brand (*seen-associated*).
  - c. Report reading at least half the ad (*read most*).
  - d. Elements of the ad are then tagged with the results.
2. **Unaided Recall.** Respondents are asked a question such as, "What ads do you remember seeing yesterday?" without any prompting to determine whether they saw or heard the messages.
3. **Attitude Tests.** Respondents are asked questions to measure changes in their attitudes before and after an advertising campaign to assess if they have a more favorable attitude toward the product advertised.
4. **Inquiry Tests.** Additional product information, product samples, or premiums are offered to an ad's readers or viewers. Ads generating the most inquiries are judged the most effective.

5. **Sales Tests.** Consists of controlled experiments or consumer purchase tests that allow a manufacturer, a distributor, or an advertising agency to manipulate an advertising variable (such as schedule or copy) and observe subsequent sales effects by monitoring data collected at checkout scanners.

#### **B. Making Needed Changes**

Results of posttesting the advertising copy are used to reach decisions about changes in the advertising program.

- If the posttest results show that an advertisement is doing poorly in terms of awareness or cost efficiency, it may be dropped and other ads run in its place.
- Sometimes an advertisement may be so successful it is run repeatedly or used as the basis of a larger advertising program.

### **LEARNING REVIEW**

#### **8. Explain the difference between pretesting and posttesting advertising copy.**

Answer: Pretests are conducted before ads are placed in any medium to determine whether the ads communicate the intended message or select among alternative versions. Posttests are shown to the target audience to determine whether it accomplished its intended purpose.

#### **9. What is the difference between aided and unaided recall posttests?**

Answer: Aided recall involves showing an ad to respondents who then are asked if their previous exposure to it was through reading, viewing, or listening. Unaided recall involves asking respondents if they remember an ad without any prompting to determine if they saw or heard its message.

### **V. SALES PROMOTION [LO4]**

- Sales promotion is a key element of the promotional mix, which now accounts for more than US\$288 billion in annual expenditures.
- The allocation of marketing expenditures reflects the trend toward integrated programs that include a variety of promotion elements.

#### **A. Consumer-Oriented Sales Promotions**

**Consumer-oriented sales promotions**, or simply *consumer promotions*, are sales tools used to support a company's advertising and personal selling directed to ultimate consumers.

**1. Coupons.**

- a. Coupons are sales promotions that usually offer a discounted price to the consumer, which encourages trial.
- b. Some firms have actually increased their use of coupons.
- c. Coupons generated at Internet sites and over cell phones are increasing.
- d. Coupons help increase sales and market share during the period immediately after coupons are distributed.
- e. However, coupons can reduce gross revenues by lowering the price paid by already-loyal consumers.
- f. Marketers are interested in coupon programs directed at potential first-time buyers that use in-store coupon machines to match coupons to their most recent purchases since most Americans use coupons when grocery shopping.
- g. Coupons are often far more expensive than their face value.
  - It can cost three times that after paying for the advertisement to deliver it, dealer handling, clearinghouse costs, and redemption.
  - Misredemption, or paying the face value of the coupon even though the product was not purchased, should be added to the cost of the coupon.

**2. Deals.**

- a. Are short-term price reductions, such as a “2 for 1” deal, which are used to increase trial among potential or to retaliate against a competitor’s actions.
- b. Can reduce the perceived value of the product.

**3. Premiums.**

- a. A premium consists of either merchandise offered free or offered at a significant savings over its retail price.
- b. With a *self-liquidating* premium, the cost charged to the consumer covers the cost of the item.
- c. Premiums encourage customers to return or use more of the product.

4. **Contests.** Are where consumers apply their skill or analytical or creative thinking to try to win a prize.
5. **Sweepstakes.**
  - a. Sweepstakes require participants to submit an entry but require no analytical or creative effort by the consumer.
  - b. Two variations of sweepstakes are: (1) one that offers products that consumers value and (2) one that offers an “experience” as the prize.
  - c. Many countries’ laws regulate fairness, ensure the chance for winning is stated, and guarantee that prizes are awarded.
6. **Samples.**
  - a. Sampling is the offering of a product free or at a greatly reduced price, usually in a smaller than regular package size.
  - b. If consumers like the sample, marketers hope they will remember and buy the product.
7. **Loyalty Programs.**
  - a. Are sales promotion tools that encourage and reward repeat purchases by offering a premium as purchases accumulate.
  - b. The most popular are frequent-traveler programs used by airlines, hotels, etc. to reward loyal customers.
  - c. Are becoming popular in other product categories.
8. **Point-of-Purchase Displays.**
  - a. A *point-of-purchase display* takes the form of advertising signs, which sometimes actually hold or display the product.
  - b. They are often located in high-traffic areas near the cash register or the end of an aisle.

- c. The advantage of these methods of promotion is that they do not rely on the consumers' ability to remember the message for long periods of time.
- d. Interactive kiosks are also becoming popular.

#### 9. Rebates.

- a. The cash rebate offers money based on proof of purchase.
- b. On lower-priced items, many buyers never mail in proof of purchase to take advantage of it due to the time and trouble.
- c. Online consumers are more likely to use rebates.

#### 10. Product Placement.

- a. **Product placement** involves the use of brand-name products in a movie, television show, video, or commercial for another product.
- b. Companies are usually eager to gain exposure for their products.
- c. Studios believe that product placements add authenticity to the film or program and typically receive fees in exchange for the in-program exposure.

**Trade-oriented sales promotions**, or simply *trade promotions*, are sales tools used to support a company's advertising and personal selling directed to wholesalers, distributors, or retailers.

##### 1. Allowances and Discounts.

- a. Trade promotions often focus on maintaining or increasing inventory levels in the channel of distribution.
- b. Allowances and discounts are effective methods, but overuse can lead to changes in ordering patterns.
- c. *Merchandise allowances* reimburse a retailer for extra in-store support or special featuring of the brand.
  - Consists of a percentage deduction from the list case price ordered during the promotional period.
  - Manufacturers do not pay for allowances until they see proof of performance.
- d. A *case allowance* is a discount on each case ordered during a specific time period and is deducted from the invoice.

- These allowances are usually deducted from the invoice.
  - A variation of the case allowance is the “free goods” approach, whereby retailers receive some amount of the product free based on the amount ordered.
- e. A *finance allowance* pays retailers for financing costs or financial losses associated with consumer sales promotions. This can take the form of:
- A floor stock protection program, in which manufacturers give retailers a case allowance price for products in their warehouse, thereby preventing stockouts during the promotional period.
  - Freight allowances, which compensate retailers that transport orders from the manufacturer’s warehouse.

**2. Cooperative Advertising.**

- a. **Cooperative advertising** occurs when a manufacturer pays a percentage of the retailer's local advertising expense for advertising the manufacturer's products.
- b. The manufacturer pays a percentage, often 50 percent, of the cost of advertising up to a certain dollar limit based on the purchases the retailer makes of the manufacturer's products.
- c. The manufacturer also furnishes the retailer with a selection of different print or broadcast ads for the retailer to adapt and use.

**3. Training of Distributors' Salesforces.**

- a. A manufacturer often spends time and money helping to train the reseller's salesforce about the manufacturer's products to increase sales performance.
- b. Methods include providing manuals and brochures to educate the reseller's salesforce, which then uses them in selling situations.
- c. To inform and motivate reseller's salesperson to sell their products, manufacturers will:
  - Sponsor national sales meetings.
  - Develop incentive and recognition programs to motivate reseller's salespeople to sell their products.

**LEARNING REVIEW**

**10. Which sales promotional tool is most common for new products?**

Answer: samples

**11. What's the difference between a coupon and a deal?**

Answer: A coupon provides a reduced price for an item based on redemption. A deal is a short-term price reduction.

**12. Which trade promotion is used on an ongoing basis?**

Answer: trade allowance



## VI. PUBLIC RELATIONS [LO5]

- Public relations seeks to influence the image of an organization and its products and services through a variety of tools directed at many distinct audiences.
- Public relations personnel usually focus on communicating positive aspects of the business, but they may also be called on to minimize the negative impact of a problem or crisis.

### A. Publicity Tools

**Publicity tools** are methods of obtaining nonpersonal presentation of an organization, good, or service without direct cost.

- A *news release* consists of an announcement regarding changes in the company or the product line.
  - a. The objective is to inform a newspaper, radio station, or other medium of an idea for a story.
  - b. More than 40 percent of all free mentions of a brand name occur during news programs.
- A *news conference* is where representatives of the media are all invited to an informational meeting, and advance materials regarding the content are sent. The tool is often used when negative publicity requires a company response.
- Nonprofit organizations rely heavily on *public service announcements* (PSAs), which are free space or time donated by the media.
- High-visibility individuals can create visibility and impact on public perceptions of their companies, products, and themselves.

## VII. INCREASING THE VALUE OF PROMOTION

Promotion practices have changed dramatically to improve transactions and increase customer intimacy by (1) emphasizing long-term relationships and (2) increasing self-regulation.

### A. Building Long-Term Relationships with Promotion

- Promotion can contribute to brand and store loyalty by improving its ability to target individual preferences and by engaging customers in valuable and entertaining communication.
- New media such as the Internet have provided immediate opportunities for personalized promotion activities.
- Technological developments have helped traditional media such as TV and radio focus on individual preferences
- Some experts predict that advertising agencies will soon become “communications consulting firms.”
- Diverse and global audiences necessitate multimedia approaches and sensitivity communication techniques.
- Overall, companies hope that these changes will build customer relationships for the long term—emphasizing a lifetime of purchases rather than a single transaction.

### B. Self-Regulation

- In the past, consumers have been misled, or even deceived, by some promotions. Examples include sweepstakes in which the gifts were not awarded, rebate offers that were a hassle, and advertisements whose promises were overstated.
- Promotions targeted at special groups such as children and the elderly also raise ethical concerns.
- Some believe government regulation is necessary to protect consumers and special groups from misleading promotions. For example, the Advertising Standards Authority of Singapore (ASAS) was set up to promote ethical advertising in Singapore.

- Advertising agencies, trade associations, and marketing organizations are using *self-regulation* to reflect the values of society on their promotional activities in order to:
  - a. Facilitate the development of new promotional methods.
  - b. Minimize regulatory constraints and restrictions.
  - e. Help consumers gain confidence in the communication efforts used to influence their purchases.

### LEARNING REVIEW

**13. What is a news release?**

Answer: An announcement regarding changes in the company or the product line.

**14. What is the difference between government regulation and self-regulation?**

Answer: Government regulation involves laws or other controls set by an agency of local, state, or federal government, whereas self-regulation involves ethical guidelines for business practices set by advertising agencies, trade associations, and marketing organizations.

### APPLYING MARKETING KNOWLEDGE

**1. How does competitive product advertising differ from competitive institutional advertising?**

Answer: Competitive product advertising promotes a brand's specific features and benefits. Competitive institutional advertising is used at the product class, rather than brand level. For example, a competitive product ad might emphasize the benefits of Perdue chickens versus other brands. A competitive institutional ad would emphasize the advantage of eating chicken rather than beef.

**2. Suppose you are the advertising manager for a new line of children's fragrances. Which form of media would you use for this new product?**

Answer: The answer to this question depends on whether you are focusing on the child who might use the product or the parent who might be the primary purchaser of the product.

If the target is children, television is probably the best medium to reach this audience. With parents, however, you have more latitude in your choice. Magazines are probably the best choice because they can provide efficient reach to this segment of the population.

**3. You have recently been promoted to be director of advertising for the Kim San Tool Company. In your first meeting with Mr. Kim San, he says, "Advertising is a waste! We've been advertising for six months now and sales haven't increased. Tell me why we should continue." Give your answer to Mr. Kim San.**

Answer: It is important to tell Mr. Kim San that it is difficult to measure the effects of advertising on sales. First, many factors (competitors, the environment, distribution) can affect sales. Second, the impact of advertising on sales may take more than six months to become apparent—it is possible that people who have seen the ads have not yet purchased the product. Third, Mr. Kim San may be correct—the advertising may be wasted coverage—the message either is not be decoded properly (see Chapter 18) or is not reaching the intended target audience. If so, the message and/or media alternatives used need to be analyzed and adjusted before additional expenditures are made.

**4. A large life insurance company has decided to switch from using a strong fear appeal to a humorous approach. What are the strengths and weaknesses of such a change in message strategy?**

Answer: This change involves a somewhat difficult tradeoff. Strong fear appeals are effective in getting the audience's attention, but they may tune out the message because people don't like to be reminded that they are mortal. Humorous appeals also can get attention, in part because they are not used very frequently in this industry. However, they may not provide enough motivation for the consumer to take action. Some people might also argue that it is inappropriate to make fun of the very serious subject of death. The Prudential Insurance Company did use humorous appeals in their advertising for life insurance for a number of years with some success.

**5. Which medium has the lowest cost per thousand?**

MEDIUM	COST	AUDIENCE
TV show	\$5,000	25,000
Magazine	2,200	6,000
Newspaper	4,800	7,200
FM radio	420	1,600

Answer: The lowest cost is the TV show with a CPM of \$200, as shown below:

MEDIUM	COST	AUDIENCE	CPM
TV show	\$5,000	25,000	\$200.00
Magazine	\$2,200	6,000	\$366.67
Newspaper	\$4,800	7,200	\$666.67
FM radio	\$420	1,600	\$262.50

$$\text{CPM} = (\text{Cost} / \text{Audience}) \times 1,000$$

**6. Some national advertisers have found that they can have more impact with their advertising by running a large number of ads for a period and then running no ads at all for a period. Why might such a **flighting** schedule be more effective than a **continuous** schedule?**

Answer: **Flighting** can be especially effective when seasonal demands exist for the product, such as for lawn and garden equipment. Also, such periods of advertising can complement periods of heavy sales promotion such as a special event or contest. Another benefit of **flighting** is that by running a large block of advertising at one time, the marketer can sometimes achieve both greater reach and greater frequency in a short period of time.

The advertiser then relies on the effects of the campaign during the period of no advertising.

7. Each year managers at Bausch and Lomb evaluate the many advertising media alternatives available to them as they develop their advertising program for contact lenses. What advantages and disadvantages of each alternative should they consider? Which media would you recommend to them?

Answer: The advantages and disadvantages of advertising media (excluding outdoor) for Bausch and Lomb managers include the following:

MEDIUM	ADVANTAGES	DISADVANTAGES
<b>Television</b>	<ul style="list-style-type: none"> <li>• Reaches large audience of potential contact lens users</li> <li>• Picture illustrates lens</li> <li>• Can target contact users</li> </ul>	<ul style="list-style-type: none"> <li>• High cost</li> <li>• Difficult to convey complex info about lens</li> </ul>
<b>Radio</b>	<ul style="list-style-type: none"> <li>• Low Cost</li> </ul>	<ul style="list-style-type: none"> <li>• No visual image of lens or sight component to message</li> <li>• Difficult to convey complex info about lens</li> </ul>
<b>Magazines</b>	<ul style="list-style-type: none"> <li>• Ads can convey complex info about lens</li> <li>• Ads last a long time and can be saved</li> <li>• Can select audience</li> <li>• High-quality color for colored contact lens line</li> </ul>	<ul style="list-style-type: none"> <li>• High cost</li> <li>• Long time needed to place ads</li> </ul>

<b>Newspapers</b>	<ul style="list-style-type: none"> <li>• Coverage of local markets</li> <li>• Ads can be saved</li> <li>• Can convey complex information about lens</li> </ul>	<ul style="list-style-type: none"> <li>• Ads compete with other ads and feature articles</li> <li>• Short life span</li> <li>• Poor color</li> </ul>
<b>Internet</b>	<ul style="list-style-type: none"> <li>• Ads can be interactive and link to website</li> <li>• Can use animation to explain how to use lens</li> </ul>	<ul style="list-style-type: none"> <li>• Banner ads and pop-up ads can provide little information. Depends on click-through</li> <li>• Effectiveness of medium unknown</li> </ul>
<b>Direct Mail</b>	<ul style="list-style-type: none"> <li>• Target specific consumers</li> <li>• Can convey complex information about lens</li> <li>• High-quality graphics</li> </ul>	<ul style="list-style-type: none"> <li>• High cost per contact; low response rates</li> <li>• Image of being “junk mail”</li> </ul>

Since contact lens buyers require (a) detailed information about the product and (b) a relatively long purchase period, magazines are the most appropriate advertising medium.

**8. What are two advantages and two disadvantages of the advertising posttests described in the chapter?**

Answers: The main advantages and disadvantages for each are listed below:

<b>POSTTEST METHOD</b>	<b>ADVANTAGES</b>	<b>DISADVANTAGES</b>
<b>Aided Recall</b>	<ul style="list-style-type: none"> <li>• Measures specific exposure behaviors</li> <li>• Easy to conduct</li> <li>• Inexpensive to conduct</li> </ul>	<ul style="list-style-type: none"> <li>• Does not measure the effects of advertising</li> <li>• Subject to the limitations of people’s memory</li> <li>• May encourage guessing</li> <li>• Respondents may provide what they believe are the expected answers</li> </ul>
<b>Unaided Recall</b>	<ul style="list-style-type: none"> <li>• Also measures previous exposure to advertising</li> <li>• A more difficult test for the respondent</li> <li>• Helps to avoid some of the guessing and yes saying</li> </ul>	<ul style="list-style-type: none"> <li>• May miss even more of the actual exposure due to people forgetting what they saw, heard, or read</li> </ul>

<p><b>Attitude Tests</b></p>	<ul style="list-style-type: none"> <li>• Better measure of advertising effectiveness than recall tests</li> <li>• Easy to conduct</li> <li>• Fairly inexpensive</li> </ul>	<ul style="list-style-type: none"> <li>• Attitudes are complex and difficult to express</li> <li>• Favorable attitude does not mean ultimate purchase</li> </ul>
<p><b>Inquiry Tests</b></p>	<ul style="list-style-type: none"> <li>• Measure the direct response of the consumer</li> <li>• Easy to conduct</li> <li>• Allow for tests of different variables that motivate the consumer</li> </ul>	<ul style="list-style-type: none"> <li>• Can only be used for ads that can logically make use of an offer to elicit inquiries</li> <li>• Can be time consuming</li> </ul>
<p><b>Sales Tests</b></p>	<ul style="list-style-type: none"> <li>• Directly measure marketplace response</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to tell how important advertising is in generating the sale</li> <li>• Difficult to tell the delayed effects of advertising</li> <li>• Can be costly and time consuming</li> <li>• Better used to test entire campaigns rather than individual ads</li> </ul>

**9. DBS Banks is interested in consumer-oriented sales promotions that would encourage senior citizens to direct deposit their retirement funds with the bank. Evaluate the sales promotion options, and recommend two of them to the bank.**

Answers: Sales promotion alternatives such as coupons, contests, sweepstakes, samples, rebates, and product placement are better suited to consumer goods than to this service. Continuity programs are expensive and would require setting a minimum bank balance that might exclude too many in the target audience. The two sales promotion options most promising to reach senior citizens are deals and premiums.



- a. **Deals.** A possible deal might be to offer free checking accounts to all customers already using or signing up for direct deposit in the next 60 days; all other basic checking accounts would have a minimum charge per month. It would be illegal to apply age restrictions to this deal. To communicate the deal to senior citizens, bank marketers need to consider advertising in the local newspaper and free tabloids and radio advertising at appropriate times. The bank could also create a brochure about the deal with a small point-of-purchase display to be placed in all branches of the bank and in housing and community centers serving senior citizens. The brochure could also be mailed out to all DBS Banks customers with their monthly statements.
- b. **Premiums.** A possible premium might be a selection of items available free to any customers signing up for direct deposit over the next 60 days. Items might include mugs, canvas bags, and baseball caps with the DBS Banks logo. Cost quotations for these items need to be obtained using quantities based on the promotion objectives (How many customers are likely to accept the offer?). Again, this offer needs to be communicated to potential new customers by advertising and direct mail. A cost-benefit analysis of both options can help in making the decision about which to use.

**10. How can public relations be used by Firestone and Ford following investigations into complaints about tire failures?**

Answer: Although public relations personnel usually focus on communicating positive aspects of the business, they may also be called on to minimize the negative impact of a problem or crisis. Debates between Firestone and Ford about the cause of tire failures created a difficult situation for both public relations departments. Genuine concern and desire to prevent future accidents was demonstrated by the recall of the tires, and by investigations into the problem.

The main message for each company to communicate is (1) its regret that anyone should have died, (2) its determination to track down the cause(s) of the accidents, and (3) its commitment to making all vehicles/tires as safe as possible. This three-part message can be communicated in news releases as parts of the investigation are completed and as any newly developed safety measures are announced. News conferences can be held for the announcement of major investigative findings and major new developments. An opportunity may arise to use a high-visibility individual to emphasize product safety.

**11. Describe a self-regulation guideline you believe would improve the value of (a) an existing form of promotion and (b) a new promotional practice.**

Answer: Answers will vary.

- a. **Existing promotion.** Students may suggest guidelines for self-regulation for familiar forms of promotion such as email advertising and spam, online advertising (such as pop-up ads), or contests and sweepstakes targeted at college students. Their guidelines may be based on the AMA Code of Ethics (presented in Chapter 4) and could include elements such as: (1) marketing communications about goods and services must not be intentionally deceptive or misleading, (2) promotional activities should strive to build relationships and foster trust in the marketing system, and (3) marketing activities should embrace and respect the values of consumer.
- b. **New promotion.** Students may discuss new forms of promotion related to cell phones (e.g. text message and voice message advertising), credit cards (e.g. trial offers), beer and alcoholic beverages (e.g. contests), travel, music, clothing, and other categories important to them.

## **BUILDING YOUR MARKETING PLAN**

**To augment your promotion strategy from Chapter 18:**

1. **Use Figure 19-4 to select the advertising media you will include in your plan by analyzing how combinations of media (e.g., television and Internet advertising, radio and yellow pages advertising) can complement each other.**
2. **Use Figure 19-7 to select your consumer-oriented sales promotion activities.**
3. **Specify which trade-oriented sales promotions and public relations activities you will use.**

Answer: The feasibility of using each of the five promotion tools varies tremendously depending on the topic of the marketing plan. Probably nowhere is this more true than in the three promotional tools covered in Chapter 19: Advertising, sales promotion, and public relations. For example, a marketing plan for an Internet café in terms of cost effectiveness might be able to justify only yellow pages ads and Internet advertising—consumer-oriented sales promotions, with trade-oriented sales promotions and public relations being impractical. In contrast, other retail operations might stress some consumer-oriented sales promotions, such as samples or point-of-purchase displays.

### **Helping with Common Student Problems**

As with Chapter 18, students should be encouraged to include some samples of creative promotional ideas in their marketing plan or in an appendix to it. Examples include sample advertisements, point-of-purchase displays, or a news release to be used in public relations. These examples move students from the level of “telling how to do it” to actually “doing it!”