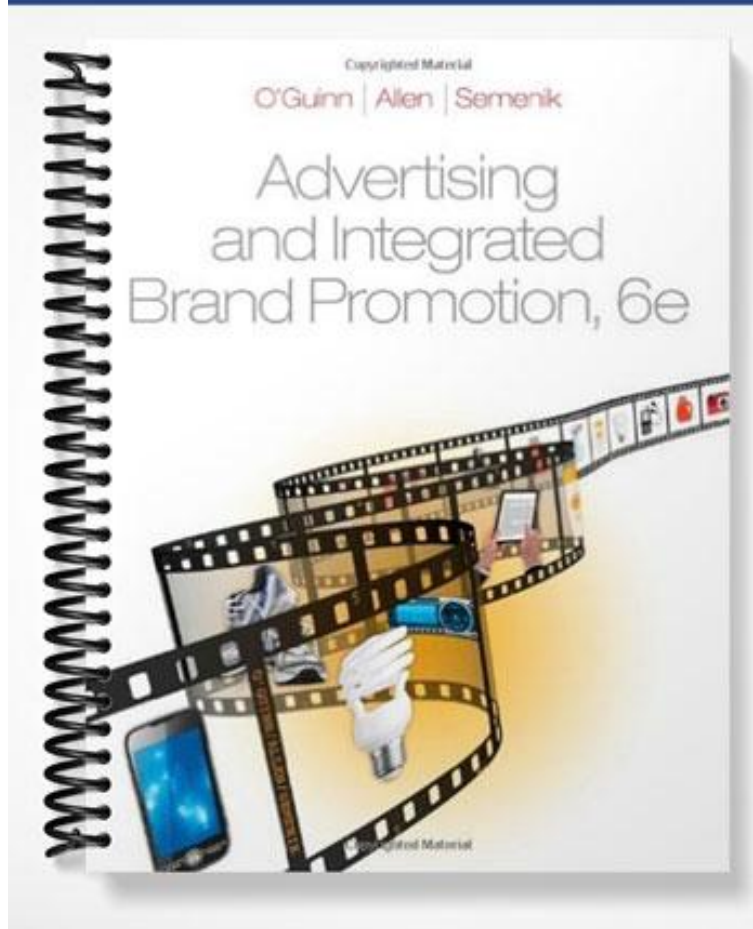


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## Advertising and Integrated Brand Promotion, 6e



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## CHAPTER 2

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

### KEY TERMS

social media

blog

crowdsourcing

advertiser

client

trade reseller

advertising agency

full-service agency

creative boutique

digital/interactive agency

in-house agency

media specialists

promotion agency

direct response agency

direct marketing agency

database agency

fulfillment center

infomercial

consumer sales promotion

trade-market sales

promotion

event-planning agency

designer

logo

public relations firm

account services

account planner

creative services

production services

media planning and buying

services

commission system

markup charge

fee system

pay-for-results

external facilitator

consultants

production facilitator

## SUMMARY

### **Discuss important trends transforming the advertising and promotion industry.**

Recent years have proven to be a period of dramatic change for the advertising and promotion industry. The trend affecting advertisers, agencies and the media the most is that consumers are now in greater control of the information they receive about brands. Collectively, individuals are gravitating toward sharing and creating information through websites, blogs, social media, wikis and video sites like YouTube. The simplest example is when consumers log onto the Internet and visit sites they choose to visit for either information or shopping. Social media has emerged as the most significant form of consumer control over information creation and communication most recently. Facebook has over 450 million users worldwide, sharing 3.5 billion pieces of content with each other every week. Twitter has more than 50 million users who post 8 billion tweets a year. As consumers search for more control over their information flow, advertisers, agencies and media organizations are struggling to adapt to consumer desires. Next, the proliferation of media from cable television to satellite radio to the Internet has created new advertising options. Giant media conglomerates are expected to control a majority of these television, radio, and Internet properties. Media proliferation has, in turn, led to increasing media clutter and fragmentation, reducing the effectiveness of advertisements. As a result, advertisers are using more IBP tools like sales promotions, event sponsorships, and public relations to supplement and enhance the primary advertising effort. Crowdsourcing is the next big trend affecting the industry. The idea behind crowdsourcing is to get consumers more involved with and committed to a brand in a way that passive, intrusive advertising simply cannot. Consumers help “build the brand” with recommendations for features, advertising, or events. They can also communicate about the brand to audiences in ways that seems natural and credible – something corporate launched advertising struggles with. Finally, mobile marketing/mobile media may turn out to be the biggest trend that affects the industry. Technology has resulted in significant opportunity for advertisers to reach consumers with messages directed to consumers’ mobile devices – primarily smartphones, tables like the Apple iPad, e-readers like the Amazon Kindle – but person navigation devices (PNDs) can also accommodate messages in the wireless world.

### **Describe the advertising and promotion industry’s size, structure, and participants.**

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

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

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

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

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

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

Media organizations are the essential link in delivering advertising and IBP communications to target audiences. There are traditional media organizations such as television, radio, newspaper, and magazines. Interactive media options include not just the Internet and wireless access to consumers through smartphones and iPads, but also, CD-ROMs, electronic kiosks, and e-readers. Media conglomerates such as AT&T, Time Warner, and News Corp. control several different aspects of the communications system, from cable broadcast to Internet communications and emerging high-speed broadband communications technologies.

## CHAPTER OUTLINE

**PPT 2-1 here**

A note before starting the Lecture Outline: This chapter contains some key information about the new era for advertising (and its role in integrated brand promotion, or IBP). While the industry has been characterized by rapid change for the last two decades—primarily driven by

technological change as introduced in Chapter 1—the current era of change is highly significant. The reason? More than ever before, advertising agencies are being challenged by both advertisers and consumer. Advertisers are demanding more effective communications and measurable results. Consumers now have more alternatives for acquiring information—PDAs, smartphones, the Internet (particularly blogs and social media networks), and TiVo devices—and more control over those alternatives. Throughout this chapter and carrying over into Chapter 3, the issue of control will be highlighted. Advertisers’ response and the even greater importance of the brand are considered.

### **INTRODUCTORY SCENARIO: The Great Digital Divide**

Advertising agencies have historically struggled to satisfy clients. During the late 1990s, the new innovative dotcom agencies challenged the traditional power base. Then came the dotbomb and it appeared big multinational agencies would reassert themselves. They did for a short time with big mergers. First, because of more media options and more control of those options, consumers started to be harder and harder to reach. With devices like the PC, iPod, smartphones and TiVo, consumers can pick when and how they want information, no longer merely subject to the commercial “breaks” of traditional media, resulting in a plunge in traditional media placements and revenue. So the big power struggle now is how to reach these more elusive consumers who are turning to Facebook, Twitter, and individual blogs to control their communications environments. In response, firms like Coca-Cola are trying to find ways to insert the brand into consumers’ routine life experiences. (Ask students what Coke is doing in this regard—they should cite the *American Idol* Coke cup strategy.)

In addition to the big firms trying to adapt, big media agencies are adapting as well. Big “old media” companies like NBC universal are wooing advertisers with more digital media options. Even MTV is considered an “old” media company and is now offering new media distribution through broadband. Finally, the ascent of new media is dramatically characterized by Internet advertising exceeding \$30 billion annually (not counting peer-to-peer communication vehicles.) BUT, highlight for students that all Internet advertising is still less than 10 percent of dollars spent on media

At the outset, it is important to have students understand that the advertising industry is highly complex due to its great breadth and the fact that communications per se is a complex process. You might get some lively discussion of the future of “old” media versus “controlled” media—it is worth letting the discussion rage! The role of this chapter is to lay out the challenges coming from consumers and how that has created change in the industry. The chapter then fulfills the very important task of laying out the current structure and players in the industry and showing how trends are affecting change.

## **I. Trends Affecting the Advertising and Promotion Industry**

The basic changes in the industry stem from:

**PPT 2-2**

**A. Consumer Control: From Social Media, to Blogs to TiVo.** Consumers are discovering and desiring more ways to control the flow of information they receive. Social media, blogs and TiVo devices are three prime examples. Advertisers are trying to respond with more and better creative execution and technological advances of their own (e.g., those

little “runners” at the bottom of the TV screen that can’t be “TiVo-ed” out).

**B. Media Proliferation, Consolidation and “Multiplatform” Media Organizations.** It seems contradictory, but media proliferation and consolidation are taking place simultaneously. Big media companies are merging, but with new technologies (podcasting and Web options) new media organizations are proliferation as well. Some legal changes like the FCC relaxing old ownership rules have spurred consolidation. And big Internet companies, like InterActiveCorp are buying up smaller operators.

**C. Media Clutter and Fragmentation Means More IBP.** With so many options available in the media, it is hard for marketers to break through the clutter. In addition, with proliferation comes fragmentation. With this clutter, big advertisers are looking to target more effectively and efficiently. J&J moved hundreds of millions of dollars away from mass media to more targeted digital media including the Internet and blogs

**D. Crowdsourcing.** Firms allowing experts, enthusiasts, and particularly consumers to “build the brand” with recommendations for brand features or message content posted on sites like YouTube.

- Refer to Ford and Starbucks as prime examples.

**E. Mobile Marketing/Mobile Media.** Huge potential exists here for marketers to direct messages to consumers via consumers’ smart devices. The challenge will be to make the messages relevant and acceptable to consumers.

**PPT 2-3 here**

## **II. The Scope and Structure of the Advertising Industry**

**PPT 2-4 here**

- A quick examination of Exhibit 2.4 will help students appreciate the scope of the industry. Spending is approaching \$300 billion annually in the United States with worldwide advertising exceeding \$600 billion.
- It is important to put the gross spending levels in perspective, such as the fact that Verizon spends only about 3 percent of sales on advertising, which results in about \$3.7 billion a year in ad spending. Exhibit 2.5 shows the increase in advertising across the 20<sup>th</sup> and into the 21<sup>st</sup> century—note the expected global downturn in spending that has been anticipated is not really happening.
- Spending on IBP tools is huge and growing—note from text Exhibit 2.6 the huge investment is digital marketing which already has surpassed product sampling and coupons by a wide margin

**PPT 2-5 here**

The remainder of the chapter clearly and efficiently describes for students the structure of the advertising and promotion industry. Text Exhibit 2.7 can be the guiding framework for the discussion. Understanding structure is important because the talent and expertise needed to create effective advertising and IBP solutions to the new challenges are spread across several

levels of the communication process and are represented in several different industries. Advertisers may employ the services of advertising and promotion agencies and may or may not contract for specialized services with various external facilitators.

### A. Advertisers

PPT 2-6 here

1. **Manufacturers and Service Firms.** Large national manufacturers of consumer and business products and services are the most prominent users of advertising, spending hundreds of millions or even billions of dollars annually.
  - Procter & Gamble, MCI, Chrysler, Colgate-Palmolive, Xerox, and General Electric are examples. These firms can operate in global, national, regional, or local markets. They can target either household consumers or businesses as their primary audience.
  - Be sure to alert students that there are small companies that may spend only a few thousand dollars are in this category as well (e.g., the local toy store or deli).
2. **Trade Resellers.** The term *trade reseller* is simply a term for all organizations in the channel of distribution.
  - As text Exhibit 2.7 shows, trade resellers can be retailers, wholesalers, or distributors. Retailers can sell in global markets (The Gap), national markets (Sears), or regional markets (Dillard's) but focus primarily on household consumers.
  - Wholesalers and distributors, like American Lock & Supply (which supplies contractors with door locks and hardware), are a completely different breed. They focus on business buyers and have little need for mass media. Instead, they focus their advertising on direct mail or highly targeted trade publications.
3. **Federal, State, and Local Governments.** Although it may seem odd to students to list the government as an advertiser, the U.S. government often among the largest spenders on advertising in the U.S., with expenditures exceeding \$1.0 billion in annually.
  - The most visible government campaigns are U.S. government advertising for the armed forces recruiting and social issues. The government also spends a great deal on direct marketing by mailing government publications to businesses and consumers.
4. **Social and Not-for-Profit Organizations.** Advertising by social and not-for-profit organizations at the national, state, and local level is common—Red Cross, American Cancer Society, the local Humane Society are examples. This advertising is used to stimulate demand for services and to disseminate information.

PPT 2-7 here

### 5. Key Discussion: The Role of the Advertiser in IBP

PPT 2-8 here

Before considering the type of agencies advertisers can rely on and the services they provide, it is *critical* for students to understand that the advertiser must come to the agency partnership fully prepared to provide the foundation of information with which an agency needs to work. Too many advertisers (often but not always small firms) turn to



the agency for both their strategy and communications needs. This is a big mistake—only the advertiser can provide and should provide the strategic direction for the firm.

So advertisers should come to the planning meeting with agencies prepared to:

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

## **B. Advertising and Promotion Agencies**

**PPT 2-9 here**

Advertisers have a full complement of agencies that specialize in various aspects of advertising and promotion.

### **1. Advertising Agencies.**

Advertising agencies provide expertise to help advertisers prepare advertising programs. An **advertising agency** is an independent organization of professionals who provide creative and business services to clients related to planning, preparing, and placing advertisements. Exhibit 2.8 shows the 2006 worldwide gross income of the ten largest advertising agencies. The top U.S.-based agencies had combined worldwide income of \$28.2 billion in 2006.

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

**PPT 2-10 here**

- Account planners
- Account executives
- Art directors
- Creative directors
- Copywriters
- Graphic designers
- Radio and television producers
- Researchers
- Artists
- Technical staff—printing, film editing, and so forth
- Marketing specialists
- Media buyers
- Web developers

Interactive media planners  
Public relations specialists  
Sales promotion and event planners  
Direct-marketing specialists

**PPT 2-11 here**

**a. Full-Service Agencies.**

**PPT 2-12 here**

A full-service agency includes an array of advertising professionals to meet all the promotional needs of clients. Often, such an agency will also offer a global reach to the client. Young & Rubicam and McCann–Erickson Worldwide are examples of full-service agencies with global capabilities.

**b. Creative Boutiques.** A creative boutique emphasizes copywriting and artistic services to its clients. Other aspects of advertising planning and placement are handled internally by the advertiser or contracted out to other external facilitators.

**c. Digital/Interactive Agencies.** Interactive agencies help advertisers prepare communications for new media like the Internet, interactive kiosks, CD-ROMs, and interactive television. Sometimes referred to as *cyberagencies*, these new ad agencies have specialized talent and expertise that many traditional full-service agencies do not have. One of the best is Red Sky Interactive. They have prepared the corporate websites for Nike, Levi Strauss, Absolut Vodka, and Altoids.

**d. In-House Agencies.** An in-house agency is often referred to as the advertising department of a firm. This option has the advantage of greater coordination and control in all phases of the advertising process. Another advantage is that the firm can keep as profits the commissions an external agency would earn.

**e. Media specialists.** Independent organizations that specializes in buying media time and space and offer media planning advice. The proliferation of media options has made this type of organization more important.

**2. Promotion Agencies** focus on promotion efforts that full-service advertising agencies do not specialize in. Promotion agencies handle everything from sampling to event promotions.

**a. Direct Marketing and Database Agencies (also called direct response agencies).** These agencies provide a variety of direct marketing services. They design direct marketing campaigns, assist constructing customer **databases**, and in many cases maintain **fulfillment** centers. In addition, many direct marketing agencies can prepare **infomercials**.

**b. Sales Promotion Agencies.** These specialists design ads and operate contests, sweepstakes, special displays, or coupon campaigns for advertisers. Some firms specialize in **consumer sales promotions** or **trade sales promotions**.

**c. Event-Planning Agencies.** Event-planning agencies and organizers are experts in finding locations, securing dates, and putting together a team of people to manage an

event. The event-planning agency will also often take on the task of advertising the event. Event sponsorship can also be targeted to household or the trade market.

- d. **Design Firms.** Designers and graphics specialists help to create **logos** and other visual representations for the brand. They also design the supportive communications such as banners, newsletters, phone-cards, and in-store displays.
- e. **Public Relations Firms.** Public relations firms manage an organization's relationships with the media, the local community, competitors, industry associations, and government organizations.

### 3. Full Agency Services

PPT 2-13 here

Although not every full-service agency offers every service, the services that can be found in full-service agencies are discussed in the following sections. Text Exhibit 2.12 details the common structure of a full-service agency

- a. **Account Services.** Account services entail identifying the benefits a product or service provides, its potential target audiences, and the best competitive positioning, and then developing a complete advertising plan. In some cases, an agency will also provide basic marketing and consumer behavior research. Another primary task in account services is to keep the various agency teams—creative, production, media—on schedule and within budget.
- b. **Marketing Research Services.** The research services usually entail the agency locating studies that have a bearing on the client's advertising and explaining these studies to the client. **Account planner** positions have been added in many agencies to coordinate the research and planning effort on accounts.
- c. **Creative and Production Services.** In simple terms, creative services prepare the client's message and advertising materials. Production services include producers (and sometimes directors) who take the creative ideas and turn them into radio, television, and print advertisements
- d. **Media-Planning and Buying Services.** This service is where placement of the advertising effort is handled. The central challenge is to determine how a client's message can most effectively and efficiently reach the target audience. This service helps clients sort through the blizzard of new media options like CD-ROM, videocassettes, interactive media, and the Internet.
- e. **Administrative Services.** Agencies have personnel departments, accounting departments, and sales staffs. Most important to clients is the traffic department, which has the responsibility of monitoring projects to be sure that deadlines are met. Traffic managers make sure the creative group and media services are coordinated so that deadlines for getting ads into media are met.

### 4. Agency Compensation, Promotion, and Redesign

PPT 2-14 here

- a. **Commission.** The **commission system** is the traditional method of agency compensation and is based on the amount of money the advertiser spends on media.
  - Under this method, 15 percent of the total amount billed is retained by the

advertising agency as compensation for all costs in creating advertising for the client.

- The only variation is that the rate typically changes to  $16\frac{2}{3}$  percent for outdoor media.
- Text Exhibit 2.14 provides students with a simple example.
- Be sure to raise the issue that many agencies have challenged this traditional structure and negotiated different percentages for commission.

**b. Markup Charges.** **Markup charges** add a percentage to a variety of services the agency purchases from outside suppliers. In many cases, an agency will turn to outside contractors for art, illustration, photography, printing, research, and production. The agency then, in agreement with the client, adds a markup charge to these services.

- Traditional markup has been 17.65 percent to 20 percent.

**c. Fee System.** A **fee system** is much like that used by consultants or attorneys, whereby the advertiser and the agency agree on an hourly rate or project fee for different services provided.

**d. Pay for Results.** In this type of program, the agency's fee is based on the achievement of agreed upon results. Many large companies like Procter & Gamble are moving toward this model; they are using a percentage-of-sales model.

- A difficulty here is coordinating the pay for "results" when multiple agencies are involved in the same campaign—who is responsible for the "results"?

### C. External Facilitators

**PPT 2-15 here**

**External facilitators** are organizations or individuals that provide specialized services to advertisers and agencies.

**1. Marketing and Advertising Research Firms.** Research firms like Burke International perform original research for advertisers. Other research firms like SRI International routinely collect data (from grocery store scanners, for example) and make these data available for a fee. There are also firms that specialize in message testing to determine if consumers find advertising messages appealing and understandable

**2. Consultants.** Advertisers seek out marketing consultants for assistance in the planning stage.

Creative and communications consultants provide insight on issues related to message strategy and message themes.

- Media experts help an advertiser determine the proper media mix and efficient media placement.
- The newest type of consultant is a database consultant, who works with both

advertisers and advertising agencies in developing and managing databases for direct marketing campaigns or “narrow-casting” broadcast advertising.

3. **Production Facilitators.** Production is an area where advertisers and their agencies rely most on external facilitators.
  - For broadcast production, directors, production managers, songwriters, camera operators, audio and lighting technicians, and performers are all essential. Production houses can provide the physical facilities, including sets, stages, equipment, and crews, needed for broadcast production. Similarly, in preparing print advertising, graphic artists, photographers, models, directors, and producers may be hired from outside the advertising agency or firm to provide the specialized skills and facilities needed in preparing advertisements.
  - In postproduction, further expertise is needed before the ad is placed in a medium. Postproduction processes in broadcast advertising include film developing and transferring, editing, special effects, sound mixing, and color matching.
  - In print advertising, film developing and photo enhancement are typically carried out by external organizations.
4. **Software firms.** In an era when technology continues to evolve, a new category of facilitators has emerged. Software firms help companies with a range of activities ranging from tracking Web-surfing behavior to managing relationships with trade partners.

**PPT 2-16 here**

#### **D. Media Organizations**

**PPT 2-17 here**

Media represent the next level in the industry structure shown in text Exhibit 2.17. The media available for placing advertising, such as broadcast and print media are well known to students simply because they’re exposed to them daily. Exhibit 2.17, however, organizes this information into five specific categories.

- **Broadcast:** Major television networks like NBC, ABC or Fox, as well as national magazines like *U.S. News & World Report* or *People*, provide advertisers with time and space at considerable expense. Also included are satellite TV and radio
- **Print**
- **Interactive Media**
- **Support Media** Other media options are more useful for reaching narrowly defined target audiences.
- **Media Conglomerates.** Note the inclusion in this list of “media conglomerates.” This category is included because organizations like Time Warner and Disney own and operate companies in broadcast, print, and interactive media.

#### **E. Target Audiences**

**PPT 2-18 here**

This represents the last element of the structure of the industry. Target audiences were

covered in Chapter 1. As a recap for students, the main target audiences are: household consumers, business organizations, members of a trade channel, professionals, and government.

## SOLUTIONS TO END OF CHAPTER QUESTIONS

1. *Briefly describe the major trends affecting the advertising and promotion industry. Which of these do you think is the most important and impactful? Why?*

The major trends are:

- Consumer control
- Media proliferation, consolidation, and multiplatform media organizations
- Media clutter and fragmentation
- Crowdsourcing
- Mobile marketing and mobile media

Students could literally argue for any one of these trends as being the most important. While consumer control is the most problematic for marketers, media clutter is a huge problem too. Crowdsourcing is a big opportunity, but comes with problems of its own. Finally, mobile marketing allows new ways of reaching consumers and will be particularly potent at the point of purchase if consumers do not rebel.

2. *Do you think the increasing independence and control consumers gain through new technologies like TiVo, iPads, and smartphones will make advertising and product branding more or less important? Explain.*

One might assume that as consumers gain more control over the messages they receive from advertisers, advertising's role as a means of information and persuasion becomes less relevant. The irony is that the control consumers are starting to exert will make product branding even more important as consumers choose how and where they want to be exposed to persuasive messages. It will be a challenge for advertising agencies to insert themselves and their clients' brands into this new consumer-controlled environment, but they will find innovative ways to make the connection.

3. *In the structure of the advertising and promotion industry, what role do promotion agencies play?*

Promotion agencies assist in the development of IBP materials and campaigns other than advertising. Often, full-service advertising agencies concentrate on advertising and offer only a few IBP services. As such, promotion agencies are called in to fill the gap.

4. *The U.S. government spends millions of dollars each year trying to recruit young men and*

*women into the armed services. What forms of advertising and IBP communications would be best suited to this recruiting effort?*

The U.S. government is clearly engaged in a persuasive effort. Mass-mediated advertising combined with direct marketing, event sponsorship, and Web-based promotions would likely have a positive impact on the target audience.

5. *Huge advertisers like Procter & Gamble and Verizon spend billions of dollars on advertising every year. Put these billions of dollars into perspective. Is it really that much money? What information from Chapter 1 is relevant to the perspective on how much advertisers spend?*

First, even though billions of dollars represents huge spending on an absolute basis, the percentage of sales may be only 2-6 percent. Second, Chapter 1 highlights that advertising fulfills many important roles from persuasion, to brand image development, to market segmentation, differentiation, and positioning. Finally, Chapter 1 also highlights that advertising can contribute to economies of scale and inelasticity of demand which can have a positive effect on profits.

6. *What is the advertiser's role in IBP?*

The advertiser must be able to do the following prior to enlisting the services of an agency: (1) fully understand and describe the value that the firm's brand provides to users; (2) fully understand and describe the brand's position in the market relative to competitive brands; (3) describe the firm's objectives for the brand in the near term and long term (e.g., brand extensions, international market launches, etc.); (4) identify the target markets that are most likely to respond to the brand; (5) identify and manage the supply chain/distribution system that will most effectively reach the target markets; (6) be committed to using advertising and other promotional tools as part of the organization's overall marketing strategy to grow the brand. Advertisers that can do these will be prepared for a productive partnership with an agency.

7. *As advertisers become more enamored of the idea of IBP, why would it make sense for an advertising agency to develop a reputation as a full-service provider?*

The traditional advertising agency's expertise involves development of ad campaigns that are then placed in mass-media outlets like television, radio, newspapers, and magazines. The rising popularity of Integrated Brand Promotion (IBP) has seen marketers turn to other promotional vehicles like event sponsorship, sales promotions, direct marketing, and advertising on the Internet in an effort to break through the clutter to reach the targeted customer. Importantly, with the various tools that are being used, speaking to the customer with a "common voice" has become both more complicated and essential. Here we have the logic for the full-service agency. Speaking with a common voice should be easier if all the relevant expertise can be found "under one roof."

8. *Explain the viewpoint that a commission-based compensation system may actually give an ad agency an incentive to do the wrong things for its clients*

In a commission-based compensation system, the agency is paid a percentage of the media space or time that it places for a client. This system can have two unwanted effects. First, if compensation is dictated by ad placements in traditional mass media, this may discourage the agency from recommending nontraditional (e.g., event sponsorship or product placements) outlets. Second, working under the commission system, the agency would be taking money out of its own pocket if it ever recommended that the client cut its advertising expenditures. In fact, there will be times when cutting one's advertising budget is the right thing to do. Agencies working on commission have a hard time seeing any virtue in a budget-cutting recommendation.

9. *What makes the production of promotional materials the area where advertisers and their agencies are most likely to call on external facilitators for expertise and assistance?*

Advertising agencies are paid to develop creative concepts. Often, bringing these concepts to life in finished advertisements or IBP materials demands highly specialized skills. Lighting technicians, camera operators, songwriters, models, and sound mixers are some of the specialists needed in the production of advertising. With IBP materials, coupon production and distribution, event planning and management, or product placement require specialized expertise. No ad agency or client could afford to maintain all this specialized expertise on staff; so external facilitators will be hired to assist with ad production.

10. *Give an example of how the skills of a public relations firm might be employed to reinforce the message that a sponsor is trying to communicate through other forms of promotion.*

New product introduction is likely to be accompanied by some level of advertising support; new product introductions are also an excellent time to engage a public relations firm. A new product should have some features or attributes that are newsworthy. Here is where the tools of public relations—press releases, feature story development, or spokesperson placements—may play a critical role in supporting the advertising campaign. If the news media deem the new product launch newsworthy, there can be a tremendous synergy between the messages carried in advertising and the six o'clock news for breaking through to the target audience.

## **SOLUTIONS TO EXPERIENTIAL EXERCISES**

*1. In response to the Haitian earthquake that brought devastation to over one million people near Port-au-Prince, large corporations stepped up to provide medicines, shelter, food, and other forms of disaster relief. The primary coordinator of the effort was the Business Civic Leadership Center, a not-for-profit agency that partnered with Office Depot to create a National Disaster Help Desk. The sponsorship helped generate nearly \$150 million in aid from Teva Pharmaceuticals, GE, and other well-known businesses. Choose a not-for-profit agency that champions a social cause, and research the ways in which it uses advertising and promotion to accomplish humanitarian goals. How do ads by the nonprofit organization differ from those of profit-oriented businesses? How are they similar?*

Answers will vary based on students' selections, but not-for-profit organizations use advertising to generate donations, raise awareness of causes, and shape public behavior. Many non-profits use ads to boost individual donations transacted at cause-related websites. In the case of the Business Civic Leadership Center, partnerships with large corporate donors enabled the non-



profit agency to achieve its social responsibility goals while allowing leading corporations to associate their brands with international charity efforts.

*2. After two decades of advertising in Super Bowl matchups, PepsiCo opted out of the Big Game in 2010 and redirected funds into a social networking campaign called “Refresh Everything.” The campaign, which harnessed the power of Facebook and blogs to offer financial grants for customer-led community projects, generated hundreds of thousands of Facebook friends and awarded millions to proposal winners. Devise an advertising campaign that uses interactive social media to attract audiences to a popular brand. Create a relevant crowdsourcing activity for the campaign. What award will your campaign offer to consumer participants? What types of agencies and support organizations will be involved in coordinating the campaign? In what ways might social media help your message break through media clutter?*

Answers will vary based on students’ ideas. However, social campaigns often assign tasks to groups of consumers, enthusiasts, or experts—a technique known as crowdsourcing. The idea is to get consumers interacting with brands in highly engaging situations. These campaigns often ask consumers to build the brand by making recommendations, and by getting friends to join in. Big rewards attract consumers and retain them for months. Social media campaigns may require input from interactive agencies and creative boutiques. Research has shown that the word-of-mouth buzz generated in social contexts results in long lasting impressions. Some advertisers view social media as a cure to media clutter, primarily because of its potential for building virtual communities.

*3. This chapter highlights some of the challenges facing advertisers and agencies as consumers have gained greater control of information sources – blocking telemarketing calls, for instance, and carefully guarding the privacy of cell phone numbers and other contact information. Working in the same groups, brainstorm ways that advertisers still could reach out to consumers and invite them to learn more about your brand or product. As your team develops ideas, also explain how you would address these questions:*

- a. What ethical issues might arise in your approach to consumers? How would you navigate privacy concerns?*
- b. Are there any legal risks or potential challenges?*
- c. Are there any legal risks or potential challenges to your approach?*

This team exercise will not only provide students with a chance to brainstorm ideas for a realistic campaign, but in so doing, they will become keenly aware of the difficult landscape advertisers face in trying to navigate increased consumer sensitivity to privacy issues. Team answers should address the possibility of future do-not-mail legislation, anti-spam regulations, and efforts to keep marketers from contacting consumers through cell phone text messages.

*4. Identify the four primary compensation methods discussed in this chapter and discuss which system would best be able to hold both clients and agencies to ethical and responsible business practices? What risks exist in each method? Apart from the threat of regulatory inquiries or criminal investigations, discuss why it is important for agency billing systems to be fully transparent and accountable?*

Students should demonstrate an understanding of the four primary methods of agency compensation – commissions, markup charges, fee systems, pay-for-results – as well as a sensitivity to the ethical issues surrounding billing, compensation and client relationships.