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ADVERTISING & INTEGRATED BRAND PROMOTION



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

TRUE/FALSE

1. While many facets of advertising have undergone a great deal of change since the early days of advertising, the essence of the process has remained constant.

ANS: T DIF: Easy REF: p. 47 OBJ: 2-1 TYPE: Knowledge
TOP: Important trends transforming the advertising and promotion industry.

2. In the 1990s, full-service agencies acquired and merged with other full-service agencies and interactive shops. One such merger sequence began when Leo Burnett (the long-standing Chicago-based full-service agency) merged with the MacManus group to create a \$1.7 billion-a-year agency known as BCom3 Group.

ANS: T DIF: Moderate REF: p. 48 OBJ: 2-1 TYPE: Comprehension
TOP: Important trends transforming the advertising and promotion industry.

3. The increased number of cable television, new direct marketing technology, Web options, and alternative new media has caused a proliferation of media options.

ANS: T DIF: Moderate REF: p. 49 OBJ: 2-1 TYPE: Comprehension
TOP: Important trends transforming the advertising and promotion industry.

4. Advertisers are looking to the full complement of promotional opportunities in sales promotions, event sponsorships, new media options, and public relations as means to support and enhance the primary advertising effort for brands.

ANS: T DIF: Moderate REF: p. 50 OBJ: 2-1 TYPE: Comprehension
TOP: Important trends transforming the advertising and promotion industry.

5. Media clutter, once a major problem of the mass media, is no longer considered a barrier to quality advertising messages because of the introduction of new technology.

ANS: F DIF: Difficult REF: p. 50 OBJ: 2-1 TYPE: Comprehension
TOP: Important trends transforming the advertising and promotion industry.

6. Given the backlash against advertising that clutter can cause, advertisers and their agencies are rethinking the way they try to communicate with consumers.

ANS: T DIF: Easy REF: p. 50 OBJ: 2-1 TYPE: Comprehension
TOP: Important trends transforming the advertising and promotion industry.

7. While the amount spent on advertising across the world has increased, it has actually decreased in the United States. This has caused agencies in the United States to look overseas for growth possibilities.

ANS: F DIF: Difficult REF: p. 53 OBJ: 2-2 TYPE: Application
TOP: Describe the size, structure, and participants in advertising.

8. Spending on all forms of advertising and promotion exceeds a trillion dollars.

ANS: T DIF: Difficult REF: p. 52 OBJ: 2-2 TYPE: Comprehension
TOP: Describe the size, structure, and participants in advertising.

9. Different types of advertisers each use advertising somewhat differently, depending on the type of product or service they sell.

ANS: T DIF: Moderate REF: p. 55 OBJ: 2-2 TYPE: Comprehension
TOP: Describe the size, structure, and participants in advertising.

10. Manufacturers, service firms, governments, social organizations and agencies are all trade resellers and participate in the advertising process by producing their own ads.

ANS: F DIF: Moderate REF: pp. 55-56 OBJ: 2-2 TYPE: Comprehension
TOP: Describe the size, structure, and participants in advertising.

11. Howard Davis, retired CEO of the full-service advertising agency Tracy-Locke, refers to the creative process in the industry as the “*art of commerce*”.

ANS: T DIF: Dificult REF: p. 64 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

12. Most large agencies, such as J. Walter Thompson, Chiat/Day, and Fallon McElligott, set up their own interactive media groups years ago in response to client demands that the Internet media option be included in nearly every IBP plan.

ANS: T DIF: Difficult REF: p. 65 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

13. Advertising by social organizations at the national, state, and local level is common.

ANS: T DIF: Moderate REF: p. 56 OBJ: 2-2 TYPE: Comprehension
TOP: Describe the size, structure, and participants in advertising.

14. The reason Anheuser Busch, the U.S. Army and the American Red Cross rely on advertising agencies is that agencies house a collection of professionals with very specialized talent, experience, and expertise that simply cannot be matched by in-house talent.

ANS: T DIF: Moderate REF: p. 57 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

15. Unilever decided to turn over its \$575 million media-buying and planning tasks to MindShare Worldwide, a media-buying service which coordinates media planning and buys media time and space.

ANS: T DIF: Difficult REF: p. 60 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

16. Although Gap, Calvin Klein, and Revlon have developed their own in-house agency because of economic reasons, the in-house agency will probably not be able to equal the breadth and depth of experience available at an external agency.

ANS: T DIF: Difficult REF: pp. 59-60 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

17. A creative boutique like E-volution Media or Fusion Idea Lab specializes in the planning and implementation of marketing plans.
- ANS: F DIF: Difficult REF: p. 59 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...
18. *Ackerley Advertising* is a small, family-owned advertising agency that handles advertising for a select list of clients in Tucson, Arizona. The company is not considered a "full-service" agency because it has less than a dozen employees.
- ANS: F DIF: Difficult REF: p. 59 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...
19. Interactive agencies help advertisers prepare communications for television, radio, direct mail, outdoor and print media.
- ANS: F DIF: Easy REF: p. 59 OBJ: 2-3 TYPE: Knowledge
TOP: Discuss the role played by advertising and promotion agencies...
20. DeeAnne Watson is a liaison between the various agency teams (creative, production, media) which interact with the client; she is in account services.
- ANS: T DIF: Moderate REF: p. 63 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...
21. Over the past two decades, and particularly in the past three years with the change in consumer media use, most agencies like J. Walter Thompson continue to operate solely under the traditional 15% commission paid by media as compensation for their expertise.
- ANS: F DIF: Difficult REF: p. 66 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...
22. There are five typical agency compensation systems used in modern advertising including commission, markup, fee, pay-for-results, and probate.
- ANS: F DIF: Difficult REF: p. 66 OBJ: 2-3 TYPE: Comprehension
TOP: Discuss the role played by advertising and promotion agencies...
23. A fee system is much like that used by consultants or attorneys, whereby the advertiser and the agency agree on an hourly rate for different services provided.
- ANS: T DIF: Easy REF: p. 66 OBJ: 2-3 TYPE: Knowledge
TOP: Discuss the role played by advertising and promotion agencies...
24. Direct marketing agencies and database agencies (sometimes also called direct response agencies) provide a variety of direct marketing services and maintain and manage large databases of mailing lists as one of their services.
- ANS: T DIF: Moderate REF: p. 61 OBJ: 2-3 TYPE: Comprehension
TOP: Discuss the role played by advertising and promotion agencies...

MULTIPLE CHOICE

1. With media consolidation and fragmentation, there are
 - a. opportunities for accreditation of advertising agency principals.
 - b. fewer players in the industry..
 - c. less and less media choices available to advertisers.
 - d. more ways to *try* to reach consumers than ever before.

ANS: D DIF: Moderate REF: p. 49 OBJ: 2-1 TYPE: Comprehension
TOP: Important trends transforming the advertising and promotion industry.

2. Which one of the following is not a trend affecting the advertising industry?
 - a. media proliferation and consolidation
 - b. a return to strict 25% commission compensation for advertising agencies
 - c. the undoing of agency consolidation and globalization
 - d. media evolution and clutter

ANS: B DIF: Moderate REF: pp. 48-49 OBJ: 2-1 TYPE: Comprehension
TOP: Important trends transforming the advertising and promotion industry.

3. The high speed technology calling on only specific broadcasts from various providers:
 - a. is known as broadband.
 - b. is an example of the halo effort.
 - c. is an example of scattering.
 - d. forbids localization of a master network.

ANS: A DIF: Moderate REF: p. 70 OBJ: 2-5 TYPE: Knowledge
TOP: The role played by media organizations in executing effective...

4. InterActiveCorp (IAC) has amassed a media empire of Internet sites that is as diverse as it is successful. The holdings include all but which of the following?
 - a. Expedia
 - b. Amazon.com
 - c. Hotels.com
 - d. Lending Tree

ANS: B DIF: Difficult REF: p. 49 OBJ: 2-1 TYPE: Application
TOP: Important trends transforming the advertising and promotion industry.

5. Web sites frequented by individuals with common interest where they can post facts, opinions, and personal experiences, are emerging as a new and sophisticated sources of product and brand information are known as:
 - a. piracy.
 - b. media proliferation.
 - c. fragmentation.
 - d. blogs.

ANS: D DIF: Difficult REF: p. 50 OBJ: 2-1 TYPE: Knowledge
TOP: Important trends transforming the advertising and promotion industry.

6. Which one of the following is an interactive broadband television news network that allows Web users to customize their news broadcasts to their personal preference?
 - a. The FeedRoom
 - b. Thesaurus.com
 - c. FledglingMedia.com
 - d. TheNewsSource

ANS: A DIF: Difficult REF: p. 70 OBJ: 2-5 TYPE: Application

TOP: The role played by media organizations in executing effective...

7. Which one of the statements regarding advertising compensation is true?
- Advertising competition has not changed since Volney B. Palmer created the first agency.
 - Agencies now work for the company on the advertisers payroll.
 - Agencies working abroad are not entitled to agency commission on international media.
 - General Motors, the largest U.S. advertiser, agreed to a fee system in which compensation will be based on an agency's work and thinking.

ANS: D DIF: Difficult REF: pp. 66-67 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

8. Today, expenditures worldwide on all forms of promotion exceeds:
- \$25 billion.
 - \$50 billion.
 - \$200 billion.
 - \$1 trillion.

ANS: D DIF: Moderate REF: p. 52 OBJ: 2-2 TYPE: Knowledge
TOP: Describe the size, structure, and participants in advertising.

9. Production is the area where advertisers and their agencies rely most heavily on external facilitators. Who are the specialists who offer essential services both during and after the production process?
- marketing research firms
 - bankers
 - production facilitators
 - preceptors

ANS: C DIF: Difficult REF: p. 68 OBJ: 2-4 TYPE: Knowledge
TOP: Key external facilitators who assist in planning...

10. Advertising is a major business in the United States. One indication of this is the fact that
- advertising agencies do not have to actively compete to get business.
 - advertising in the United States is subject to the fewest government restrictions of any country in the world.
 - of the estimated \$550 billion spent on advertising worldwide, the United States accounts for over \$250 billion.
 - only agencies in the United States are financially capable of offering a complete range of advertising services.

ANS: C DIF: Difficult REF: p. 52 OBJ: 2-2 TYPE: Comprehension
TOP: Describe the size, structure, and participants in advertising.

11. Event sponsorships can be targeted to household consumers or trade markets. The type of agency that specializes in this form of advertising is called a(n):
- advertising research firm.
 - client.
 - event-planning agency.
 - accounting firm, specializing in the account.

ANS: C DIF: Moderate REF: p. 62 OBJ: 2-3 TYPE: Knowledge
TOP: Discuss the role played by advertising and promotion agencies...

12. When one considers the largest manufacturing organizations in the United States, it is clear that they all have one thing in common. They all:

- a. use advertising better than small manufacturers.
- b. are the most prominent users of promotion.
- c. engage in international advertising.
- d. are resellers of products.

ANS: B DIF: Moderate REF: p. 55 OBJ: 2-2 TYPE: Comprehension
TOP: Describe the size, structure, and participants in advertising.

13. A regional fast food chain, Chopsticks, features rice bowls as a mainline product and is interested in expanding into a new market. What type of firm might conduct the research needed to expand into the new market?
- a. the advertiser
 - b. an advertising agency
 - c. an external facilitator
 - d. media organizations

ANS: C DIF: Difficult REF: p. 68 OBJ: 2-4 TYPE: Application
TOP: Key external facilitators who assist in planning...

14. The Seaside Resort & Hospitality Company wants to purchase land and construct a resort hotel on the shorefront in San Clemente, California next to the Nixon retreat. However, the resort company would also like to construct a golf course on the property as well and needs help with local political relationships to accomplish this. The company might hire which of the following to assist in the project?
- a. a creative boutique
 - b. a consultant
 - c. a sports marketing company
 - d. a wholesale company

ANS: B DIF: Moderate REF: p. 68 OBJ: 2-4 TYPE: Application
TOP: Key external facilitators who assist in planning...

15. McMann and Young advertising agency has been hired by Broadway Bicycles, Inc., to assist with advertising and promotions for a chain of bicycle stores in Vermont. The agency has agreed that a certain number of bicycles will be sold in order to gain the results the company desires, and they have agreed to be paid accordingly. This is called:
- a. pay-for-results compensation.
 - b. retainer.
 - c. cost plus.
 - d. amortization.

ANS: A DIF: Difficult REF: p. 67 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

16. The United States federal government spends more than \$1.2 billion in advertising. Most of that money is spent in two areas. Those areas are:
- a. social issue advertising and armed forces recruitment.
 - b. campaign advertising and armed forces recruitment.
 - c. social issue advertising and political campaign advertising.
 - d. lottery advertising and armed forces recruitment.

ANS: A DIF: Moderate REF: p. 56 OBJ: 2-2 TYPE: Application
TOP: Describe the size, structure, and participants in advertising.

17. A local group called Gimme Shelter erected a billboard urging people to help in the group's struggle to find shelter for the homeless. The same day, Duplico launches a multimillion dollar, multinational advertising campaign to sell a new brand of office copying machine. Which one of these statements regarding these efforts is true?
- Gimme Shelter must be concerned with media clutter; Duplico need not worry about it.
 - Both are committed to using advertising and other promotional tools as part of the organization's overall marketing strategy to grow the brand.
 - Both groups will not pay for their advertising.
 - Gimme Shelter is attempting to shape behavior; Duplico is not.

ANS: B DIF: Difficult REF: p. 57 OBJ: 2-2 TYPE: Application
TOP: Describe the size, structure, and participants in advertising.

18. Which of the following would *not* be classified as an advertiser?
- I.R.S. Audit Department
 - The Limited Stores
 - Merrill Lynch
 - U.S. Government

ANS: A DIF: Moderate REF: p. 54 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

19. The most visible reseller advertisers are:
- wholesalers like Simpatico Foods, Inc.
 - industrial organizations.
 - transportation companies like DHL and Southern Pacific Railroad.
 - retailers that sell in national or global markets like Sears, The Limited, and McDonald's.

ANS: D DIF: Moderate REF: p. 55 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

20. Buds 'n' Stuff, a chain of garden supply stores, handles most of its own marketing services. It wants an agency that will provide it with one aspect of the communications mix: the actual advertisements for its chain. Therefore, they will look for:
- a full-service agency.
 - a consultation firm.
 - an in-house agency.
 - a creative boutique.

ANS: D DIF: Moderate REF: p. 59 OBJ: 2-3 TYPE: Comprehension
TOP: Discuss the role played by advertising and promotion agencies...

21. An organization that provides only copywriting and artistic services to its clients is a(n):
- full-service agency.
 - creative boutique.
 - media buying service.
 - in-house agency.

ANS: B DIF: Moderate REF: p. 59 OBJ: 2-3 TYPE: Knowledge
TOP: Discuss the role played by advertising and promotion agencies...

22. There are many types of external facilitators in the advertising community. _____ help advertisers help advertisers prepare communications for new media.
- Production facilitators
 - Communication organizations

- c. Advertising research firms
- d. Interactive agencies

ANS: D DIF: Moderate REF: p. 59 OBJ: 2-3 TYPE: Comprehension
TOP: Discuss the role played by advertising and promotion agencies...

23. Which of the following is NOT considered to be an element of interactive media?
- a. kiosks
 - b. directories
 - c. Internet
 - d. interactive television

ANS: B DIF: Easy REF: p. 59 OBJ: 2-3 TYPE: Knowledge
TOP: Discuss the role played by advertising and promotion agencies...

24. A(n) _____ agency is often referred to as the advertising department within a firm.
- a. in-house
 - b. interactive
 - c. media-buying
 - d. creative boutique

ANS: A DIF: Easy REF: p. 59 OBJ: 2-3 TYPE: Knowledge
TOP: Discuss the role played by advertising and promotion agencies...

25. The person in an advertising agency who will work with the client in translating cultural and consumer values into advertising messages is the
- a. account executive.
 - b. director of production.
 - c. media services director.
 - d. administrative executive.

ANS: A DIF: Easy REF: p. 63 OBJ: 2-3 TYPE: Knowledge
TOP: Discuss the role played by advertising and promotion agencies...

26. _____ is responsible for coming up with the concepts that express the benefits of a brand to a target audience.
- a. The research department
 - b. The creative services group
 - c. Account services
 - d. The direct-marketing department

ANS: B DIF: Easy REF: p. 64 OBJ: 2-3 TYPE: Knowledge
TOP: Discuss the role played by advertising and promotion agencies...

27. Art directors and copywriters are typically found in the _____ department of an advertising agency.
- a. account services
 - b. marketing services
 - c. creative services
 - d. production services

ANS: C DIF: Easy REF: p. 65 OBJ: 2-3 TYPE: Knowledge
TOP: Discuss the role played by advertising and promotion agencies...

28. One method of agency compensation has been accused of encouraging advertising agencies to recommend the most costly media vehicles available. This method is the:

- a. fee system.
- b. markup charge system.
- c. retainer system.
- d. commission system.

ANS: D DIF: Moderate REF: p. 66 OBJ: 2-3 TYPE: Comprehension
TOP: Discuss the role played by advertising and promotion agencies...

29. Under the traditional commission system for compensating agencies for their work, how much money would an agency receive from billing \$500,000 of television airtime?
- a. \$150,00
 - b. \$125,000
 - c. \$100,000
 - d. \$75,000

ANS: D DIF: Moderate REF: p. 66 OBJ: 2-3 TYPE: Knowledge
TOP: Discuss the role played by advertising and promotion agencies...

30. When an ad agency uses a compensation system much like that used by consultants or attorneys to bill clients, it is using:
- a. a commission system.
 - b. markup charges.
 - c. a fee system.
 - d. a media commission system.

ANS: C DIF: Easy REF: p. 66 OBJ: 2-3 TYPE: Knowledge
TOP: Discuss the role played by advertising and promotion agencies...

31. Dooley, Fishback, and Waller advertising agency sets an hourly rate for its services. The rate is based on the average salary of all the members of a particular department. This is an example of the:
- a. fee system.
 - b. fixed-fee system.
 - c. markup charge system.
 - d. commission system.

ANS: A DIF: Moderate REF: p. 66 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

32. Recently, advertising agencies have developed compensation programs that are based upon achievement of specific objectives for the client. These programs are known as _____ compensation.
- a. fee-based
 - b. pay-for-results
 - c. commission
 - d. markup

ANS: B DIF: Moderate REF: p. 67 OBJ: 2-3 TYPE: Comprehension
TOP: Discuss the role played by advertising and promotion agencies...

33. Van Poolen and Associates has been a successful mid-sized, full-service advertising agency for more than two decades. In an attempt to serve its clients more efficiently in a competitive marketplace, the agency has changed its compensation package to include payment based on return for the client. What is this system called?
- a. fee retainer
 - b. cash outlay

- c. selective payment
- d. pay-for-results

ANS: D DIF: Moderate REF: p. 67 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

34. The reason many firms rely on advertising agencies is:
- a. they are lazy.
 - b. fewer agencies are providing a full range of services.
 - c. more agencies are hiring marketing people.
 - d. agencies house a collection of professionals with very specialized talent, experience, and expertise that simply cannot be matched by in-house talent.

ANS: D DIF: Easy REF: p. 57 OBJ: 2-3 TYPE: Comprehension
TOP: Discuss the role played by advertising and promotion agencies...

35. Which of the following is *not* an external facilitator in the structure of the advertising industry?
- a. advertising research firm
 - b. major television network
 - c. creative consultant
 - d. songwriter

ANS: B DIF: Moderate REF: pp. 68-69 OBJ: 2-4 TYPE: Comprehension
TOP: Key external facilitators who assist in planning...

36. An advertising agency hires Starch INRA Hooper to act as an external facilitator. Most likely, Starch INRA Hooper will be asked to:
- a. examine the agency's billing structure for inefficiencies.
 - b. aid the agency in the production process.
 - c. run recognition tests on print advertising.
 - d. oversee the agency's IBP efforts.

ANS: C DIF: Difficult REF: p. 68 OBJ: 2-4 TYPE: Application
TOP: Key external facilitators who assist in planning...

37. An organization that designs and operates contests and sweepstakes is a(n):
- a. public relations firm.
 - b. direct marketing firm.
 - c. sales promotion agency.
 - d. design firm.

ANS: C DIF: Easy REF: p. 62 OBJ: 2-3 TYPE: Knowledge
TOP: Discuss the role played by advertising and promotion agencies...

38. Which of the following is *not* a media organization available to advertisers?
- a. an independent television station
 - b. a magazine publisher
 - c. a home shopping network
 - d. a telephone company that provides cellular and digital phone service

ANS: D DIF: Moderate REF: p. 71 OBJ: 2-5 TYPE: Comprehension
TOP: The role played by media organizations in executing effective...

39. When an advertiser needs help in designing a contest or sweepstakes, they are most likely to contact a(n) _____ for assistance.
- a. consultant

- b. information intermediary
- c. sales promotion specialist
- d. public relations firm

ANS: C DIF: Easy REF: p. 62 OBJ: 2-4 TYPE: Comprehension
TOP: Key external facilitators who assist in planning...

Scenario 2-1

Golf America is a small, national golf company that owns and operates two dozen golf courses in sunbelt cities in the Southwest, Texas, Florida, and North Carolina. The company prides itself on buying older courses and investing in them to increase membership, entice outside play, and update the facility. Members of existing clubs see tremendous changes in grounds, landscaping, food service, and golf amenities when Golf America assumes ownership and management responsibilities. In each market in which it owns and operates, Golf America engages a marketing group or agency to assist with communications and promotions.

40. (Scenario 2-1) Golf America enters a new market in which the new course they have purchased has a 50-year history in the community. It is important to the new owners to enhance the reputation of the course and continue the relationship with existing members, yet at the same time invite new members to join and sponsor promotions to entice outside play to fill in the unused tee times and maximize course revenues. Most likely, Golf America would engage which of the following types of agencies to manage its relationships?
- a. full-service advertising agency
 - b. promotional agency
 - c. interactive agency
 - d. creative boutique

ANS: A DIF: Moderate REF: p. 58 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

41. (Scenario 2-1) Golf America has decided against forming an in-house advertising agency because it feels it needs representation in local markets from people who have established reputations. What would be a reason NOT to form an in-house agency?
- a. Golf America is excellent at golf management.
 - b. Golf America knows golf, but does not have employees who are experts in advertising.
 - c. Golf America courses are noted for challenging design.
 - d. All the pros that work for the company are sanctioned golf professionals.

ANS: B DIF: Difficult REF: p. 59 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

42. (Scenario 2-1) Golf America just purchased a new golf course in Palm Springs. The course has long been the home of a "celebrity" golf tournament that in recent years has not been well attended. In order to spur interest in the tournament, Golf America decides to hire Golf Events & Tournaments, Inc., a specialized agency, to handle the golf tournament. Which type of agency might Golf America hire for this project?
- a. trade reseller
 - b. marketing research firm
 - c. media buying firm
 - d. promotion agency

ANS: D DIF: Difficult REF: pp. 61-63 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

43. (Scenario 2-1) Golf America is also considering hiring an external facilitator to develop an online presence and sell golf membership, tee times at its courses, and golf merchandise from its proshops online. What type of agency might it hire?
- an e-commerce agency
 - an information intermediary
 - a direct-marketing expert
 - a media conglomerate

ANS: A DIF: Difficult REF: pp. 61-62 OBJ: 2-3 TYPE: Application

TOP: Discuss the role played by advertising and promotion agencies...

44. (Scenario 2-1) Golf America may enlist the services of Handley & Scott, a public relations firm. One goal of the public relations firm would be to:
- moderate creative and strategic differences between Golf America and its advertising agency.
 - sell the product to businesses and government agencies.
 - create awareness, understanding, and goodwill toward Golf America courses, its employees and golf professionals, and facilities.
 - design and operate contests, sweepstakes, and special displays for Golf America.

ANS: C DIF: Moderate REF: pp. 62-63 OBJ: 2-3 TYPE: Application

TOP: Discuss the role played by advertisers and promotion agencies...

Scenario 2-2

Brush Strokes is an art supply store located in a town with a population of about 100,000 people. The town is also home to a major state university. Brush Strokes gets a majority of its business from the student population. It has used the services of a local full-service advertising agency in the past. A great majority of its marketing budget has gone toward running small advertisements in the local and school newspapers at the beginning of each term. The advertising agency is now recommending that Brush Strokes devote a majority of its budget to running television spots during broadcasts of the university's football and basketball games. While the owners of Brush Strokes agree that they could be doing a better job of reaching the student population, they have not come to any conclusions about the best way to accomplish this.

45. (Scenario 2-2) In all likelihood, with which one of the following would Brush Strokes's full-service agency be least qualified to handle?
- forecasting dividend earnings of stockholders
 - creating a 30-second television commercial
 - interpreting research on the student market
 - creating a competitive position against other art supply stores

ANS: A DIF: Difficult REF: p. 58 OBJ: 2-3 TYPE: Application

TOP: Discuss the role played by advertising and promotion agencies...

46. (Scenario 2-2) The owners of Brush Strokes have called a meeting with their agency to determine how Brush Strokes can benefit best from its advertising. The one agency department that must be represented at this meeting is:
- account services.
 - administrative services.
 - media-planning services.
 - creative services.

ANS: A DIF: Moderate REF: p. 63 OBJ: 2-3 TYPE: Application

TOP: Discuss the role played by advertising and promotion agencies...

47. (Scenario 2-2) The owners of Brush Strokes are concerned that their agency may be recommending television advertising because it would be profitable for the agency. To protect against this, Brush Strokes should suggest that compensation for the agency should be:
- set at a 15 percent commission with no additional charges.
 - changed from a commission system to a fee system.
 - based on a commission percentage for outdoor media.
 - based on the traditional percentage of media costs.

ANS: B DIF: Moderate REF: pp. 66-67 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

48. (Scenario 2-2) The agency has informed Brush Strokes that if Brush Strokes agrees to its recommendation, the agency will have to rely heavily on outside sources. In all likelihood, the area the agency will seek the most help in will be:
- developing the strategy behind the spots.
 - creating the ideas for the spots.
 - producing the spots.
 - assessing the effectiveness of the spots.

ANS: C DIF: Moderate REF: pp. 68-69 OBJ: 2-4 TYPE: Application
TOP: Key external facilitators who assist in planning...

49. (Scenario 2-2) As a small business, Brush Strokes is always looking for ways to trim its expenses. Which one of the following would *not* be an effective strategy?
- move consumer advertising in-house
 - assign the project to a media conglomerate
 - change from the traditional commission to one based on the industry average
 - use a media-buying service

ANS: B DIF: Moderate REF: p. 70 OBJ: 2-5 TYPE: Comprehension
TOP: The role played by media organizations in executing effective...

Scenario 2-3

ABC television network notified the Miss America Organization that it would not pick up the show for broadcast in 2005, leaving the pageant without a major broadcast outlet for the first time in 50 years. The news cannot have come as a shock to the Miss America Organization. A little more than a decade ago, the competition that started as an Atlantic City publicity stunt had grown to about 27 million viewers; in 2004, it drew a record-low 9.8 million, with the median age of the Miss America audience at 51. ABC paid \$5.6 million for broadcast rights to the pageant in 2003. ABC, which took over the pageant after 30-year sponsor NBC bowed out, was not doing Miss America any favors airing it on Saturdays—a low-viewership night.

(Lisa de Moraes, "No More Miss America Pageantry for ABC," *The Washington Post*, October 21, 2004, C07, <http://www.washingtonpost.com/wp-dyn/articles/A50114-2004Oct20.html>.)

50. (Scenario 2-3) The Miss America Pageant has had a struggle over the last few years in gaining viewers from airing the program on network television. As a result, ratings and advertising revenues are down. The board of directors of the pageant has considered simulcasting the event live on the Internet. What kind of organization might be helpful in planning the webcast?
- an advertiser
 - an advertising agency
 - an external facilitator
 - a creative boutique

ANS: C DIF: Difficult REF: p. 68 OBJ: 2-4 TYPE: Application

TOP: Key external facilitators who assist in planning...

51. (Scenario 2-3) One of the problems the Miss America Pageant has encountered the last few years has been an indifference and sometimes negative response to beauty pageants in general. The event features beautiful women competing in a variety of categories, but many viewers are critical of the swimsuit contest, which awards points for physical characteristics. The pageant feels the competition is integral to the overall program and would like to educate the public about why the swimsuit competition is included and how it contributes to a well-rounded program. To achieve its goals in this area, the pageant might employ the services of:
- a public relations specialist.
 - in-house agency.
 - media-buying service.
 - media departments at their full-service agency.

ANS: A DIF: Moderate REF: pp. 62-63 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

52. (Scenario 2-3) One of the events new to the pageant this year is a sweepstakes in which one lucky viewer will predict the winner of the pageant and be awarded one million dollars at the end of the live broadcast if they choose the correct contestant. To oversee this new component of the event, the pageant should hire which of the following?
- a more narrowly defined target audience
 - new pageant ownership
 - a sales promotion agency
 - a larger audience base

ANS: C DIF: Moderate REF: p. 61 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

Scenario 2-4

Advertising is a \$250-billion-per-year business in the United States. Understandably, competition for clients is fierce among advertising agencies. The top 100 national advertisers use the services of large national advertising agencies. There are many different reasons why a client may choose to move its business to a new agency. But there is one constant. The agency that wins the business is celebrated by the press. The agency that lost the business, however, and often has to let employees go as a result, is typically forgotten in the shuffle.

53. (Scenario 2-4) What type of agency might Subway select to promote its new line of sandwiches and bread to a national television audience?
- full-service advertising agency
 - in-house advertising agency
 - creative boutique
 - Internet publisher

ANS: A DIF: Easy REF: p. 58 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

54. (Scenario 2-4) Kentucky Fried Chicken (KFC), a subsidiary of Yum! Brands, Inc. which owns A&W All-American Food Restaurants, KFC, Long John Silver's, Pizza Hut, and Taco Bell restaurants, is the world's largest restaurant company in terms of system units with nearly 32,500 in more than 100 countries and territories. As a multinational client, KFC is looking for a new advertising agency to assist with advertising in Mexico and Canada. The client feels that it would be best served by a very large agency offering a wide range of services. To have the most agencies to choose from, it should focus its search on agencies with headquarters in:
- Tokyo.

- b. Paris.
- c. New York.
- d. Mexico City.

ANS: C DIF: Moderate REF: p. 58 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

55. (Scenario 2-4) A client is unhappy because the work that its agency is turning out is constantly behind schedule and over budget. This client is likely to look for a new agency with a stronger:
- a. creative department.
 - b. traffic and account services departments
 - c. billing department.
 - d. marketing services department.

ANS: B DIF: Moderate REF: p. 63 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

56. (Scenario 2-4) During a new business presentation, an agency says that one reason it should get the business is that all of its different department teams are so well coordinated. The department that brings all the different efforts together on a day-to-day basis is:
- a. creative services.
 - b. account services.
 - c. administrative services.
 - d. marketing services.

ANS: B DIF: Moderate REF: p. 63 OBJ: 2-3 TYPE: Comprehension
TOP: Discuss the role played by advertising and promotion agencies...

57. (Scenario 2-4) A client has grown dissatisfied with its agency over billing matters. Compensation has been based on a fixed-fee system. The most likely source of friction is:
- a. media costs have resulted in an unreasonable profit margin for the agency.
 - b. a disagreement over what costs are covered by the fee.
 - c. a disagreement over the markup charges added to agency services.
 - d. the hourly rate charged by departments is unreasonable.
 - e. the commission percentage is more than the industry average.

ANS: B DIF: Difficult REF: p. 67 OBJ: 2-3 TYPE: Comprehension
TOP: Discuss the role played by advertising and promotion agencies...

Scenario 2-5

Thomas Motors is an independent auto dealer in a metropolitan market dominated by a number of national franchise dealerships including General Motors, Ford, and Daimler/Chrysler; and foreign import dealerships including Honda and Toyota. In order to maintain their share of market, Thomas must do significant advertising in a number of different media. They carry several different popular makes of automobiles, both foreign and domestic, and maintain a high level of inventory on their lot at all times.

58. (Scenario 2-5) Thomas Motors wants to better understand the media consumption behaviors of consumers in their target markets. As a result, they wish to conduct a marketing research project to learn more about this issue. Which of the following types of firms are they most likely to commission to do such work?
- a. an advertiser
 - b. an advertising agency
 - c. an external facilitator
 - d. a media organization

ANS: C DIF: Moderate REF: p. 68 OBJ: 2-4 TYPE: Application
TOP: Key external facilitators who assist in planning...

59. (Scenario 2-5) The marketing director at Thomas has decided that the firm needs a creative slogan or theme to consistently be used in advertising to help position the firm in the minds of local consumers. Which of the following types of advertising agencies would likely be the best choice to accomplish this specific goal?
- an interactive agency
 - a creative boutique
 - a full-service agency
 - an in-house agency

ANS: B DIF: Easy REF: p. 59 OBJ: 2-3 TYPE: Comprehension
TOP: Discuss the role played by advertising and promotion agencies...

60. (Scenario 2-5) Thomas' management has budgeted \$1,000,000 for television advertising for the coming year. How much can their advertising agency expect to earn from this commitment using a *traditional* commission system compensation plan?
- \$10,000
 - \$15,000
 - \$100,000
 - \$150,000

ANS: D DIF: Difficult REF: p. 66 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

61. (Scenario 2-5) Thomas is very interested in collecting information on customer purchase transaction histories of all consumers that have purchased new vehicles in the metropolitan area during the past two years. Which of the following types of external facilitators will they most likely contract to do such work for them?
- a marketing research firm
 - a consultant
 - a production facilitator
 - an information intermediary

ANS: A DIF: Moderate REF: p. 68 OBJ: 2-4 TYPE: Application
TOP: Key external facilitators who assist in planning...

62. (Scenario 2-5) To stimulate more consumer traffic at the dealership, Thomas Motors has decided to offer a chance to win a free automobile for anyone who comes in and test drives any vehicle on their lot. Which of the following types of organizations are they most likely to employ to design and operate this contest?
- a public relations firm
 - a full-service advertising agency
 - a direct marketing firm
 - a sales promotion specialist

ANS: D DIF: Moderate REF: p. 62 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

Scenario 2-6

SC Johnson & Son produces a wide variety of very popular consumer products such as Shout[®], Windex[®], Mr. Muscle[®], Ziploc[®], Edge[®], Glade[®], Vanish[®], Raid[®], OFF![®], Pledge[®], and Scrubbing Bubbles[®] Bathroom Cleaner. These products are in highly competitive markets and require substantial investments in consumer promotion to maintain market share.

63. (Scenario 2-6) The advertising industry has been called an "industry of transition" by many observers. Which of the following elements of the ad industry are changes that might be relevant to an advertiser like SC Johnson?
- increased media options
 - changes in advertising agency compensation
 - new creative technologies
 - All of the above are relevant ad industry changes.

ANS: D DIF: Moderate REF: pp. 48-51 OBJ: 2-1 TYPE: Application
TOP: Important trends transforming the advertising and promotion industry.

64. (Scenario 2-6) SC Johnson is not interested in doing any of the duties associated with advertising research, creative development, or media placement. Which of the following types of organizations would likely be the best match for their needs?
- a full-service agency
 - a creative boutique
 - a media buying service
 - an in-house agency

ANS: A DIF: Moderate REF: p. 58 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

65. (Scenario 2-6) SC Johnson has recently hired an advertising agency to help promote their products. Several of the senior managers have indicated that they are uncertain as to the specific benefits of advertising their consumer products. Which of the following departments of their agency should be involved in giving this information to this client?
- administrative services
 - marketing services
 - creative services
 - account services

ANS: D DIF: Moderate REF: p. 63 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

66. (Scenario 2-6) SC Johnson has decided that additional research is necessary to determine specific messages that should be directed towards consumers. Which of the following departments in their ad agency will likely be responsible for this research work?
- creative services
 - marketing services
 - account services
 - media services

ANS: B DIF: Moderate REF: pp. 63-64 OBJ: 2-3 TYPE: Comprehension
TOP: Discuss the role played by advertising and promotion agencies...

67. (Scenario 2-6) SC Johnson managers have agreed that their advertising agency will be compensated based on measures of audience awareness of their consumer products. This indicates that they have chosen a _____ compensation program for their agency.
- commission
 - fee

- c. markup
- d. pay-for-results

ANS: D DIF: Moderate REF: p. 67 OBJ: 2-3 TYPE: Comprehension
TOP: Discuss the role played by advertising and promotion agencies...

ESSAY

1. There are several key aspects of change that are affecting the structure of the advertising industry. Please discuss the four trends discussed in the book.

ANS:

(1) The “undoing” of consolidation and globalization. The advertising industry has just come out of a period of extreme consolidation, which was occurring in two ways. Full-service agencies were acquiring and merging with other full-service agencies and interactive shops. Globalization occurred through mergers, partnerships, and acquisitions. However, these mega-agencies have not satisfied all the needs for all clients. It is unlikely that the giant agencies will dismantle all they have created. Some advertising clients are pleased to be able to consolidate all their integrated brand promotion (IBP) needs with one shop. But there is enough burden on the agencies from debt and conflict of interest that some unconsolidation will most certainly take place.

(2) The proliferation of cable television, direct marketing technology, Web options, and alternative new media has caused a proliferation of media options, while agency consolidation may just be starting. Control of media has always been a driving force behind many media companies. But there has always been a legal barrier to just how much control any one media company could acquire. In turn, the evolution of media options has spawned new specialized agencies to sell and manage these new media opportunities.

(3) While the media industry may be consolidating into fewer and fewer large firms with more control, that does not mean that there are fewer media options. Quite the contrary is true. There are more ways to *try* to reach consumers than ever before. Advertisers are looking to the full complement of promotional opportunities in sales promotions (like the Miller chairs), event sponsorships, new media options, and public relations as means to support and enhance the primary advertising effort for brands.

(4) Historically, advertisers controlled information and the flow of information as a one-way communication through mass media. But, as the introductory scenario highlights, consumers are now in greater control of the information they receive about product categories and the brands within those categories. The simplest and most obvious example is when consumers log on to the Internet and visit sites they choose to visit for either information or shopping. But it gets a lot more complicated from there. The emergence of blogs, Web sites frequented by individuals with common interest where they can post facts, opinions, and personal experiences, are emerging as a new and sophisticated sources of product and brand information. Another new and dramatic example of consumer control is the growth of personal video recorders (PVRs), like TiVo, which allow TV viewers to essentially skip broadcast advertising.

DIF: Difficult REF: pp. 48-51 OBJ: 2-1 TYPE: Comprehension
TOP: Important trends transforming the advertising and promotion industry.

2. The definition of an advertising agency is "an independent organization of professionals who provide creative and business services to clients related to planning, preparing, and placing advertisements." List the major agency departments involved in each one of these phases (planning, preparing, and placing). In general terms, describe the role each department plays.

ANS:

The planning phase is dominated by account services. Account services managers identify benefits, target audiences, and develop positioning. The media services department is also involved in the planning process, as it comes up with the most effective plan to reach the target audience. The preparing phase is dominated by creative services, which translates the benefits into creative concepts. Production services assists in the preparation of the ads. The placing phase is dominated by media planning and buying services, which buys the media space. Throughout the entire process, the traffic department (part of administrative services) makes sure deadlines are being met.

DIF: Difficult REF: pp. 57-65 OBJ: 2-3 TYPE: Comprehension
TOP: Discuss the role played by advertising and promotion agencies...

3. One of the trends in the advertising industry today is the fragmentation of marketing budgets. Advertising agencies can continue to get a healthy share of their clients' business by redesigning their role and structure. List three departments that a full-service agency can add to accomplish this. Explain what each of these departments is responsible for.

ANS:

(1) A public relations department handles the needs of organizations regarding relationships with the local community, competitors, industry associations, and government organizations. The goal of public relations efforts is to communicate information about a firm, its products, and its employees so as to achieve public awareness, understanding, and goodwill. (2) A sales promotion department designs and operates contests, sweepstakes, special displays, or couponing campaigns for advertisers. (3) A direct marketing department maintains large databases of mailing lists as one of its services. It can also design direct marketing campaigns either through the mail or by telemarketing. (4) Event-planning departments help clients identify whether and how to sponsor major events and local community events. (5) Interactive media departments can help advertisers prepare communications for new media like the Internet, interactive kiosks, CD-ROMs, and interactive television.

DIF: Difficult REF: pp. 58-63 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

4. A company that you work for has asked you to write a brief report that evaluates the advantages and disadvantages of creating an in-house agency. What points would you consider in your report?

ANS:

An in-house agency provides greater coordination and control throughout the advertising process. An in-house agency has greater knowledge and control over marketing activities. Plus, a firm can keep any media commissions that would have gone to an outside agency. However, in-house agencies suffer from a lack of objectivity. In addition, it's hard to match the breadth and depth of experience offered by an external agency.

DIF: Moderate REF: pp. 59-60 OBJ: 2-3 TYPE: Application
TOP: Discuss the role played by advertising and promotion agencies...

5. Briefly explain the three major methods of agency compensation. Outline any advantages or disadvantages associated with each system.

ANS:

The commission system is based on the amount of money the advertiser spends on media. Under this method, 15 percent of the total amount billed by the media organization is retained by the advertising agency as compensation for all costs in creating advertising for the client. This system can create pressure on agencies to recommend the most expensive media options.

With a fee system, compensation is based on an agreed-upon hourly rate for services provided. A variation on the fee system, the fixed-fee system, is based on a single fee charged for a project. Unless the agency and client agree precisely as to what services are covered by the fee, serious rifts can result.

Recently many advertisers and agencies alike have been working on compensation programs called pay-for-results that base the agency's fee on the achievement of agreed-upon results.

DIF: Moderate REF: pp. 65-68 OBJ: 2-3 TYPE: Knowledge
TOP: Discuss the role played by advertising and promotion agencies...