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Name:_____ Class:_____ Date:_____

Chapter 02: The Structure of the Advertising Industry: Advertisers, Advertising Agencies, and Support Organizations

1. Media consolidation broadly concerns how there used to be a few main players in the media business, but now many more channels and other forms of media are emerging.
   a. True
   b. False

ANSWER: False

2. Social media is an example of the explosion of new media in recent years.
   a. True
   b. False

ANSWER: True

3. Previous power struggles in the advertising industry were mild compared to the 21st-century power struggle going on in the industry; consumers do not want to see advertisements on every screen, so the industry needs to find ways to adjust to the new technologies that consumers want to use.
   a. True
   b. False

ANSWER: True

4. Blogs have become advanced sources of information about both products and brands.
   a. True
   b. False

ANSWER: True

5. Because of the repercussions caused by clutter, advertisers are integrating more tools within the overall promotional effort to reach more consumers in different ways, such as through mobile or social media or digital content.
   a. True
   b. False

ANSWER: True

6. Using platforms such as Facebook, TikTok, and Twitter, consumers look for information environments where they control the way they receive information.
   a. True
   b. False

ANSWER: True

7. The idea behind crowdsourcing, which happens to be very synergistic with social media, is to prevent ideas about a new brand from becoming public to consumers.
   a. True
   b. False

ANSWER: False

8. The goals of persuasive communication are to attract attention and develop brand preference. This can be done well with integrated brand promotion via both digital and traditional marketing communications tools.
   a. True
   b. False

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ANSWER: True

9. Major companies can reach tens of millions of Facebook users through careful targeting.
   a. True
   b. False

ANSWER: True

10. Advertisers include business organizations but exclude not-for-profit organizations.
   a. True
   b. False

ANSWER: False

11. Trade resellers of consumer products and services make up the largest group of users of both advertising and promotion.
   a. True
   b. False

ANSWER: False

12. Among trade resellers, the most prominent group are the retailers that sell in either national or global markets.
   a. True
   b. False

ANSWER: True

13. Small retail shops are resellers who focus on multistate markets.
   a. True
   b. False

ANSWER: False

14. It is common for social organizations to advertise at local and state levels, as well as nationally.
   a. True
   b. False

ANSWER: True

15. The advertising used by social organizations has a fundamentally different purpose compared to the advertising carried out by major multinational corporations.
   a. True
   b. False

ANSWER: False

16. As changes continue to occur to the advertising industry, persuasive communications will be less needed to draw attention to a brand and the ways in which it is differentiated.
   a. True
   b. False

ANSWER: False

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17. The advantage of a creative boutique is its experience in a specific niche.
    a. True
    b. False
ANSWER: True

18. A creative boutique's niche expertise can be a huge liability if the boutique is perceived as an expense that advertisers cannot afford.
    a. True
    b. False
ANSWER: True

19. Digital/interactive agencies are those that have expertise in new media, such as mobile marketing, interactive television, and the Internet.
    a. True
    b. False
ANSWER: True

20. The job of media specialists to strategically coordinate media and other promotional efforts has become simpler now that there are so many more media options and a wider range of promotional tools available.
    a. True
    b. False
ANSWER: False

21. A disadvantage of using media specialists is that they purchase media in fairly small quantities.
    a. True
    b. False
ANSWER: False

22. Firms that create and keep large databases of mailing lists are known as digital/interactive agencies.
    a. True
    b. False
ANSWER: False

23. It is critical for designers and graphics specialists to be involved in strategy planning.
    a. True
    b. False
ANSWER: False

24. Advertisers do not like to manage their own public relations because it requires skills that are highly specialized and talent that is not usually found at the advertising firm.
    a. True
    b. False
ANSWER: True

25. The most common methods of compensation for an agency are commission, consultant, external facilitator, and

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production facilitator plans.

a. True

b. False

ANSWER: False

26. Under the commission system, the rate of commission is raised to 25 percent for outdoor media.

a. True

b. False

ANSWER: False

27. A customary markup charge for outside services is in the range of five to ten percent.

a. True

b. False

ANSWER: False

28. In a fee system, the advertiser and the agency agree to an hourly rate for each of the various services.

a. True

b. False

ANSWER: True

29. Database consultants are often used to direct mail, including email, and coupon campaigns.

a. True

b. False

ANSWER: True

30. Radio and satellite are examples of broadcast media.

a. True

b. False

ANSWER: True

31. Which of the following has demonstrated itself to be the most important form of control that consumers have over communication and information creation?

a. Web advertising

b. Social media

c. Interactive television

d. Direct marketing

ANSWER: b

32. Websites visited by people with similar interests where they can post personal experiences, facts, and opinions are known as what?

a. Paywalls

b. Blogs

c. Infomercials

d. Creative boutiques

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ANSWER: b

33. Which of the following is true of crowdsourcing?
    a. It refers to managing the supply chain system in a way that will most effectively reach the target markets.
    b. It aims at getting consumers more involved with a brand and committed to it.
    c. It indicates the process of describing the firm's objectives for the brand in the near term and long term.
    d. It refers to passive advertising that is generally intrusive.

ANSWER: b

34. With increase in fragmentation and media clutter:
    a. integrated brand promotion is all the more important.
    b. the probability of any one advertisement making a real difference has increased manifold.
    c. there are very few media choices available to advertisers.
    d. promotion options are no longer attractive to advertisers.

ANSWER: a

35. What is used by organizations to get consumers committed to brands in a way that passive advertising cannot?
    a. Co-op advertising
    b. Phishing
    c. Crowdsourcing
    d. Broadcasting

ANSWER: c

36. Promotion and advertising agencies who work with advertisers refer to the advertisers as:
    a. consultants.
    b. facilitators.
    c. sponsors.
    d. clients.

ANSWER: d

37. What term is a general description for all groups in the marketing channel of distribution that buy products to make them available to customers?
    a. Sponsor
    b. Media buyer
    c. Media specialist
    d. Trade reseller

ANSWER: d

38. Which of the following is one of the areas on which the federal government spends most of its advertising and promotion dollars?
    a. The internal revenue service
    b. Political campaigns
    c. Armed forces recruitment

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d. Trade and commerce

ANSWER: c

39. Barlow and Baley Inc., an advertisement agency, handles the clients' needs from account planning to creative to media to production in both digital and traditional areas. Barlow and Baley Inc. is an example of a(n):

a. full-service agency.
b. in-house agency.
c. interactive agency.
d. database consultant.

ANSWER: a

40. Grand Resorts has acquired the services of Elegant, Inc. to develop advertisements for their organization. Elegant, Inc. has advised them to add a panoramic view to billboard ads and to portray tourists lounging by the sea. Elegant, Inc. is an example of a(n):

a. media specialist.
b. creative boutique.
c. digital/interactive agency.
d. in-house agency.

ANSWER: b

41. Which of the following best describes digital/interactive agencies?

a. They focus on ways to use new media for direct marketing and for communications to target markets.
b. They implement direct response campaigns using all forms of media.
c. They design direct marketing campaigns that mainly use emails and telemarketing.
d. They specialize in buying media time and space and offer media strategies to advertisement agencies.

ANSWER: a

42. An advertising department that exists within a larger firm is also known as what?

a. Creative boutique
b. Full-service agency
c. Interactive agency
d. In-house agency

ANSWER: d

43. Which of the following acts as a support to direct marketing agencies and follow-up on the delivery of their direct mail?

a. Creative boutiques
b. In-house agencies
c. Media specialists
d. Fulfillment centers

ANSWER: d

44. What are advertising or promotion agencies that specialize in creating and running operations such as coupon campaigns, contests, special displays, or sweepstakes for advertisers called?

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a. Creative boutiques
b. Sales promotion agencies
c. Database agencies
d. Fulfillment centers

ANSWER: b

45. PinBall Inc. sought the help of Blazer Corp. to help them reach a niche group of vendors that they have been trying to do business with. Blazer offers the solution of publishing an advertisement in a journal to which many of these vendors subscribe as a way to create awareness about the firm's product. In this scenario, Blazer Corp. specializes in:
a. the management of databases.
b. creative services.
c. consumer sales promotions.
d. trade-market sales promotions.

ANSWER: d

46. Which of the following specializes in such activities as creating, point-of-purchase materials, incentive programs, and in-store merchandising?
a. Database agencies
b. Sales promotion agencies
c. Fulfillment centers
d. Event-planning agencies

ANSWER: b

47. Which of the following specialize in securing locations, scheduling dates, and taking care of the other details necessary to hold a promotional activity?
a. Event-planning agencies
b. Creative boutiques
c. Fulfillment centers
d. Direct marketing agencies

ANSWER: a

48. The visual impression of advertising material is often created by:
a. sales promotion agencies.
b. fulfillment centers.
c. designers.
d. bloggers.

ANSWER: c

49. The graphic or visual symbol or mark that identifies a company is known as a:
a. patent.
b. blog.
c. logo.
d. slogan.

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ANSWER: c

50. Tasks such as pinpointing a brand's benefits, identifying its target audiences, and determining competitive positioning, and then putting all of that information into a comprehensive plan are all part of what type of services?
a. Administrative services
b. Creative services
c. Account services
d. Media planning and buying services

ANSWER: c

51. Who coordinates the research effort of an advertising or promotion agency?
a. graphic designer
b. media specialist
c. account planner
d. fulfillment center

ANSWER: c

52. Which of the following services of an advertising agency involves expressing the benefits of a company's brand in ways that are memorable and interesting?
a. Creative services
b. Billing services
c. Administrative services
d. Media buying services

ANSWER: a

53. Which services department of an advertising agency typically includes the company's art directors, illustrators, and copywriters?
a. Creative
b. Production
c. Marketing
d. Account

ANSWER: a

54. What type of marketing is focused on providing information to decision makers?
a. Administrative marketing
b. Creative marketing
c. Target marketing
d. Content marketing

ANSWER: d

55. Digway Agency is compensated through a markup charge. What does that mean?
a. Digway contracts out its services and then charges the client an agreed-upon percentage above what those contracted services cost.
b. Digway receives an agreed-upon percentage of the amount that the client spends on media.

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c. Digway charges the client an hourly rate for the services provided by its employees.
d. Digway is paid a variable amount based upon the achievement of certain objectives, as measured through sales.

ANSWER: a

56. CloudNine, an advertisement agency, charged Sparkles Inc. $50,000 at the rate of $5,000 an hour for the ten hours it spent designing an advertisement for the firm's new product launch ad. Which of the following systems of compensation did CloudNine utilize?
a. A fee system
b. A commission system
c. A markup charge system
d. A pay-for-results system

ANSWER: a

57. Harper & Kane advertising agency sets an hourly rate for the services it provides to its clients. This rate is based on the average salary of all the members in the creative department. Harper & Kane uses what system?
a. Commission
b. Cost-plus
c. Markup charge
d. Fee

ANSWER: d

58. A compensation system that is based on reaching specific objectives of the client is known as what type of system?
a. Pay-for-results
b. Markup charge
c. Commission
d. Fee-based

ANSWER: a

59. A regional fast food chain called Platters is interested in opening a restaurant in a new market. The company plans to hire the services of a firm to collect the data needed to expand into the new market. In such a scenario, which of the following firms' services would it hire?
a. A marketing research firm to conduct surveys to understand the potential market
b. An advertising agency to create innovative ads
c. A consultant to create message strategies and message themes
d. Media organizations for placing ads in broadcast and print media to create awareness for the restaurant

ANSWER: a

60. Advertisers and their agencies turn to external facilitators the most for:
a. consumer research.
b. media buying.
c. assessing the effectiveness of promotional programs.
d. production processes.

ANSWER: d

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61. Carmel Inc. has come up with the idea of creating a television ad for its new range of assorted cookies. The marketing executives hired RT Designs, who will be filming the ad, preparing a set to record the ad, and employing an actress to play the role of a little girl enjoying her cookies. RT Designs is an example of a:
a. creative boutique.
b. production house.
c. fulfillment center.
d. media specialist.
ANSWER: b

62. Who can provide the physical facilities that are needed for broadcasting, such as crews, stages, sets, and equipment?
a. Production houses
b. Creative boutiques
c. Fulfillment centers
d. Interactive agencies
ANSWER: a

63. Which of the following is considered a type of support media that is available to advertisers?
a. Magazines
b. Premiums
c. Broadband
d. Cable
ANSWER: b

64. Which of the following best describes a media conglomerate?
a. It is a firm that operates multiple combinations of media.
b. It is a firm that is a specialist in one particular form of media.
c. It is a firm that specializes solely in buying media time and space.
d. It is a firm that uses print media instead of broadcast media
ANSWER: a

65. Design Solutions has two television network channels and its monthly magazine, Bling, is the most popular fashion magazine in the country. It also has a number of websites for its television channels and online sports news. Design Solutions is an example of a:
a. creative boutique.
b. media conglomerate.
c. media specialist.
d. digital/interactive agency.
ANSWER: b

66. Which of the following is an example of outdoor support media?
a. Podcasts
b. Billboards
c. Catalogs

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d. Public relations

ANSWER: b

67. Which of the following is an example of interactive media?

a. Banners

b. Electronic directories

c. Catalogs

d. Social media

ANSWER: d

Scenario 2-1

BestYou is a large and diverse personal care products firm. After dominating its markets for decades, sales have stagnated in recent years and it has lost market share. Some of its more successful competitors specialize in a limited product line, rather than the wide range of products made by BestYou. Senior management has determined that the problem is not with the quality or price of BestYou‘s products, but the way in which they are promoted to the consumer, so they are considering a new strategy.

68. (Scenario 2-1) The senior vice president for brand management at BestYou believes that company employees have the greatest interest in the product and would do the best job of developing and running a successful advertising campaign. This executive has proposed creating and staffing an advertising department within BestYou. What type of agency is being advocated for?

a. In-house

b. Interactive

c. Creative

d. Production

ANSWER: a

69. (Scenario 2-1) One of the advertising ideas suggested by the creative staff is to create an interactive game for mobile devices that features BestYou’s products. This suggestion is known as what?

a. A blog

b. A branded app

c. Crowdsourcing

d. Intrusive advertising

ANSWER: b

70. (Scenario 2-1) BestYou has asked customers to share ways that the company’s products have helped them become their best selves. Customers were also encouraged to submit pictures showing their use of BestYou’s products to be featured in future advertising campaigns. What is this an example of?

a. Blogging

b. Crowdsourcing

c. Designing

d. Interfacing

ANSWER: b

71. (Scenario 2-1) Before embarking on a new advertising campaign, BestYou wants to understand why consumers are

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choosing to buy items from specialty companies, rather than from BestYou. Is the main consideration price, perceived quality, or something else? What type of agency services should BestYou hire to get this information?

a. Public relations
b. Account
c. Media planning
d. Marketing research

ANSWER: d

72. (Scenario 2-1) BestYou wants to place the largest number of advertisements for the lowest price possible. What type of agency should they hire to achieve that goal?

a. Media specialist
b. Event planning
c. Trade-market sales promotion
d. Direct marketing

ANSWER: a

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 uses the services of a local full-service advertising agency to promote itself. A large part of its marketing budget has been used in 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 a larger portion of the student population, they have not come to any conclusions about the best way to accomplish this.

73. (Scenario 2-2) Which one of the following would Brush Strokes' full service agency be *least* qualified to handle?

a. Researching about the buying trends of the company's customers
b. Creating a television commercial
c. Forecasting dividend earnings of stockholders
d. Generating awareness about the brand

ANSWER: c

74. (Scenario 2-2) The owners of Brush Strokes have called a meeting with the agency to determine ways in which it can benefit most from advertising. The agency has agreed to help in identifying the benefits of the store, the store's target audience, and the best competitive positioning for the store, and then to develop a complete plan. In such a scenario, which of the following services is the agency offering?

a. Media buying services
b. Billing services
c. Account services
d. Marketing services

ANSWER: c

75. (Scenario 2-2) Brush Strokes is looking for a way to increase sales. The artistic staff members of Brush Strokes came up with a creative idea and have a vision for what the new advertisements will be. Brush Strokes hired a firm that can turn these ideas into the actual advertisements. Which of the following agency services is the company using?

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a. Billing services
b. Production services
c. Creative services
d. Media buying services

ANSWER: b

76. (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. Brush Strokes can avoid paying for ineffective advertising campaigns by changing to what system of compensation?

a. Commission
b. Fee
c. Pay-for-results
d. Markup charge

ANSWER: c

Scenario 2-3
Axel Corp., a new clothing line manufacturer, plans to reach out to the local fashion stores and wholesale distributors around the country. It also plans to offer a discount on its products for the first 100 customers and establish a coupon system for the first six months of sales. The marketing team is looking to create a television advertisement and is looking for ways to improve on the ideas that they have come up with for the ad.

77. (Scenario 2-3) Which of the following agencies would help improve the ideas that Axel Corp. has for its advertisement?

a. A direct marketing agency
b. A creative boutique
c. A database agency
d. A fulfillment center

ANSWER: b

78. (Scenario 2-3) Which of the following is most likely to provide Axel Corp. with a reasonable amount of media time at a rate lower than that provided by an advertiser?

a. Production houses
b. Sales promotion agencies
c. Database consultants
d. Media specialists

ANSWER: d

79. (Scenario 2-3) Axel Corp. plans to reach out to local fashion stores and wholesale distributors. Axel Corp. can achieve this by employing an advertising agency specialized in:

a. consumer sales promotions.
b. trade-market sales promotions.
c. infomercials.
d. a commission system.

ANSWER: b

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80. (Scenario 2-3) Which of the following could Axel Corp. hire for help in designing and executing its couponing campaign?

a. Database consultant
b. Public relations firm
c. Fulfillment center
d. Interactive agency

ANSWER: a

Scenario 2-4
Caltech Corp. has a 19 minute advertisement that is aired on a local news channel explaining to the public the benefits of its product. Sparkles Inc. has provided Caltech Corp. airtime on one of its television networks and has offered to advertise its product on its website as an act of goodwill.

81. (Scenario 2-4) Caltech Corp. has a 19-minute-long advertisement that explains to the public about its product. This is an example of a(n):

a. podcast.
b. electronic directory.
c. blog.
d. infomercial.

ANSWER: d

82. (Scenario 2-4) Sparkles Inc. is an example of a:

a. production facilitator.
b. full-service agency.
c. media conglomerate.
d. fulfillment center.

ANSWER: c

Scenario 2-5
In 2008, Chicago native Andrew Mason launched Groupon, a website that offered Chicago-based consumers various "deals of the day." At the time, Groupon had a unique business model—each day, one "Groupon" would be offered in a particular city. If a certain number of people signed up for the offer, then the deal became available to all. Now, years later, the business continues to grow, and the service is being offered in many U.S. cities. Google made a multi-billion dollar offer for the company that Mason turned down in December of 2010. Continuing the company's rapid rise to success will be a challenging task, because the company will be the first to attempt to advertise the unique services. Groupon needs to find ways to attract new users, and looking into new forms of advertising will be essential to the company's success.

83. (Scenario 2-5) As Groupon's services differ depending on the city in which it is offered, its CEO decides that each variation needs to have a catchy slogan that relates to that particular market. Which of the following types of advertising agencies would likely be the *best* choice to create these slogans?

a. A digital/interactive agency
b. A media specialist
c. A creative boutique
d. A production facilitator

ANSWER: c

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84. (Scenario 2-5) Groupon's management has budgeted $20,000 for social media advertising this year. How much can their advertising agency expect to earn if they are using a traditional commission system?

a. $2,000
b. $3,000
c. $5,000
d. $8,000

ANSWER: b

85. (Scenario 2-5) Groupon decides to hire a full-service advertising agency to create a new campaign for the company. The ad agency agrees to be compensated if Groupon notices any positive change in sales and the number of customers on its site. This is an example of what system of compensation.

a. Fixed fee
b. Commission
c. Incentive-based
d. Markup charge

ANSWER: c

86. (Scenario 2-5) Groupon decides to find a firm that can help them plan, prepare, and execute a new promotional campaign. The company whose services Groupon is seeking is referred to as a(n):

a. client.
b. database consultant.
c. sponsor.
d. external facilitator.

ANSWER: d

Scenario 2-6
Pink Inc. has approached Ripple Effects with the layout of an advertisement for its new product that it plans to advertise. Ripple Effects has agreed to provide Pink Inc. with the cast and crew required to create the advertisement, choosing the location and the set up. Pink Inc. has employed Glamour, an advertising agency, to make the message theme of the advertisement more innovative. Glamour has charged the firm $50,000 per hour for its services.

87. (Scenario 2-6) Ripple Effects is an example of a:

a. media specialist.
b. creative boutique.
c. database consultant.
d. production house.

ANSWER: d

88. (Scenario 2-6) Glamour is an example of a:

a. media specialist.
b. direct marketing agency.
c. creative boutique.
d. digital/interactive agency.

ANSWER: c

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Chapter 02: The Structure of the Advertising Industry: Advertisers, Advertising Agencies, and Support Organizations

89. (Scenario 2-6) Glamour uses what system of compensation?
a. Commission
b. Cost-plus
c. Markup charge
d. Fee
ANSWER: d

90. (Scenario 2-6) Pink Inc. has chosen to advertise using key chains and complimentary pens with the firm's logos on them. The type of media chosen by Pink Inc. is referred to as:
a. infomercials.
b. print media.
c. interactive media.
d. support media.
ANSWER: d

91. Pazzo Pizza wants to add new topping choices to its menu. It asks customers to vote on their top three choices from a list of ten items. The two with the most votes will be added. This is an example of what?
a. Fragmenting
b. Crowdsourcing
c. Co-branding
d. Blogging
ANSWER: b

92. Coupons, rebates, and discounts are all types of what?
a. Consumer sales promotions
b. Crowdsourcing
c. Fulfillment offers
d. Public relations
ANSWER: b

93. Coupons, rebates, and discounts are all types of what?
a. Consumer sales promotions
b. Crowdsourcing
c. Fulfillment offers
d. Public relations
ANSWER: b

94. RedRay Corp. is a large holding company made up of a number of separate marketing groups. This is an example of what type of advertising or promotion agency?
a. Creative boutique
b. In-house agency
c. Consolidated agency network
d. Digital/interactive agency

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ANSWER: c

95. Of the following, which would be the most appropriate criterion to measure when compensating an agency using the pay-for-results compensation program?
a. Sales levels
b. Retention of in-house staff
c. Amount of media purchased
d. Brand identification

ANSWER: d

96. Banners are an example of what type of media?
a. Print
b. Broadcast
c. Interactive
d. Support

ANSWER: a

97. Smartphones and tablets are examples of what type of media?
a. Print
b. Broadcast
c. Interactive
d. Support

ANSWER: c

98. What is crowdsourcing? Explain.

ANSWER: Crowdsourcing involves the online distribution of certain tasks to groups (crowds) of experts, enthusiasts, or even consumers. 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 or even advertising campaign images. They also can communicate about the brand to audiences in ways that seem natural and credible— something corporate-launched advertising struggles with.

99. Describe the role that advertisers play for trade resellers.

ANSWER: A trade reseller is a general description for all organizations in the marketing channel of distribution that buy products to resell to customers. Resellers can be retailers, wholesalers, or distributors. These resellers deal with both household consumers and business buyers at all geographic market levels.

Retailers that sell in national or global markets are the most visible reseller advertisers and promotion users. Regional retail chains, typically grocery chains or department stores, serve multistate markets and use advertising suited to their regional customers. At the local level, small retail shops of all sorts rely on social and digital media, newspaper, radio, television, and are a completely different breed of reseller. Technically, these types of companies deal only with business customers, since their position in the distribution channel dictates that they sell products either to producers (who buy goods to produce other goods) or to retailers (who resell goods to household consumers). Wholesalers and distributors have little need for mass media advertising over media such as television and radio because they tend to focus on relationships with clients via communication channels such as the sales force and direct marketing.

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100. Describe any three types of services commonly offered by advertising and promotion agencies.

ANSWER: The types of services commonly offered by advertising and promotion agencies are as follows:

Account Services: These services are offered by managers who have titles such as account executive, account supervisor, or account manager and who work with clients to determine how the brand can benefit most from advertising and IBP. Account services entail identifying the benefits a brand offers, its target audiences, and the best competitive positioning, and then developing a complete plan.

Marketing Research Services: Research conducted by an agency for a client usually consists of the agency locating studies (conducted by commercial research organizations) that have bearing on a client's market or advertising and IBP objectives. The research group will help the client interpret the research and communicate these interpretations to the creative and media people.

Creative Services: The creative services group in an agency comes up with the concepts that express the value of a company's brand in interesting and memorable ways. In simple terms, the creative services group develops the message that will be delivered through advertising, sales promotion, direct marketing, social networks, mobile marketing, event sponsorship, or public relations.

101. List and describe the four methods of agency compensation.

ANSWER: **Commission system:** The traditional method of agency compensation is the commission system, which is based on the amount of money the advertiser spends on media. Under this method, 15 percent of the total amount billed by a media organization is retained by the advertising or promotion agency as compensation for all costs in creating advertising/promotion for the advertiser. The only variation is that the rate typically changes to 16 percent for outdoor media. This is a conservative commission rate and may be higher.

Markup charges: This method of agency compensation adds a percentage markup charge (sometimes referred to as cost-plus) 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.

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 for different services provided. The hourly rate can be based on average salaries within departments or on some agreed-on hourly rate across all services. This is the most common basis for promotion agency compensation.

Pay-for-results: Many advertisers and agencies alike have been working on compensation programs called pay -for-results or incentive-based compensation that base the agency's fee on the achievement of agreed on results.

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PURPOSE AND PERSPECTIVE OF THE CHAPTER

The purpose of this chapter is to illustrate how the advertising industry is successfully adapting to the new technologies that consumers are willing or even eager to use because consumers are seeking more control over their information environment. One major trend affecting advertisers, agencies, and the media is that consumers are now in greater control of their exposure to information. Collectively, individuals are gravitating toward sharing and creating information through websites, social media, apps, and video sites. The proliferation of media has created new advertising options, and media firms are becoming multiplatform media giants with television, radio, print, and/or Internet properties. Advertising and promotion agencies come in many varieties and offer services such as market research and marketing planning, the creation and production of ad materials, the planning and purchase of media time or space for ads, and traffic management to keep production on schedule. Media organizations are the essential link in delivering advertising and IBP communications to target audiences. In addition to traditional media organizations, advertisers can reach audiences through interactive media options (online, mobile, social media) and support media.

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Cengage Supplements

The following product-level supplements provide additional information that may help you in preparing your course. They are available in the Instructor Resource Center.

- Transition Guide (provides information about what is new from edition to edition)
- Educator's Guide (describes assets in the platform with a detailed breakdown of activities by chapter with seat time)
- PowerPoint (provides text-based lectures and presentations)
- Test Bank (contains assessment questions and problems)
- Guide to Teaching Online (provides information about the key assets within the product and how to implement/facilitate use of the assets in synchronous and asynchronous teaching environments)

CHAPTER OBJECTIVES

The following objectives are addressed in this chapter:

2-1 Identify how the advertising industry is in constant transition.

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2-2 Discuss five broad trends transforming the advertising and promotion industry.

2-3 Describe the advertising and promotion industry's size, structure, and participants.

2-4 Describe the role played by advertising and promotion agencies/consolidated agency networks, the services provided by these agencies, and how the agencies are compensated.

2-5 Identify key external facilitators who assist in planning and executing advertising and integrated brand promotion campaigns.

2-6 Discuss the role played by media organizations in executing effective advertising and integrated brand promotion campaigns.

Complete List of Chapter Activities and Assessments

The following table organizes activities and assessments by objective, so that you can see how all this content relates to objectives and make decisions about which content you would like to emphasize in your class based on your objectives. For additional guidance, refer to the Teaching Online Guide.

Chapter Objective	Activity/Assessment	Source (i.e., PPT slide, Workbook)	Duration
	Icebreaker	PPT Slide 3	10-15 minutes
2-2	Polling Activity	PPT Slide 13	5-10 minutes
2-3	Discussion Activity 1	PPT Slide 21	5-10 minutes
2-3	Discussion Activity 1 Debrief	PPT Slide 22	10 minutes
2-4	Discussion Activity 2	PPT Slide 33	5-10 minutes
2-4	Discussion Activity 2 Debrief	PPT Slide 34	10-15 minutes
2-5	Knowledge Check 1	PPT Slide 38	5 minutes
2-6	Discussion Activity 3	PPT Slide 42	5-10 minutes
2-6	Discussion Activity 3 Debrief	PPT Slide 43	10 minutes
	Knowledge Check 2	PPT Slide 44	5 minutes

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Key Terms

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Account planner In an advertising agency, the professional who synthesizes all relevant consumer research and uses it to help the team design a coherent advertising strategy for a client's brand or product.

Account services A team of agency managers that identifies the benefits a client's brand offers, its target audiences, and the best competitive positioning, and then develops a complete promotion plan.

Advertisement A specific message that an organization has placed to persuade an audience.

Advertising agency An organization of professionals who provide creative and business services to clients related to planning, preparing, and placing advertisements.

Blog Website frequented by individuals with common interests where they can post ideas, opinions, and personal experiences. Such sites have emerged as sophisticated (but not objective) sources of product and brand information.

Branded apps A mobile application that is branded, and some of which may feature advertising inside the app and/or encourage digital engagement.

Chief executive officers (CEOs) Usually is the highest-ranking executive of a business who is in charge overall of running the business.

Chief financial officers (CFOs) The executive who is responsible for the financials and monetary aspects or investments of the firm.

Chief technology officers (CTOs) The executive who is in charge of technology and networks.

Client The company or organization that pays for advertising. Also called the *sponsor.*

Commission system A method of agency compensation based on the amount of money the advertiser spends on the media.

Consolidated agency networks Large holding companies that consist of many agencies or marketing groups.

Consultant Individual who specializes in areas related to the promotional process.

Consumer sales promotion A type of sales promotion aimed at consumers that focuses on price-off deals, coupons, sampling, rebates, and premiums.

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Content marketing Creating and posting relevant informational messages for target audiences online and on social media, accessible whenever targeted decision makers are considering a purchase.

Creative boutique An advertising agency that emphasizes copywriting and artistic services to its clients.

Creative services A group that develops the message that will be delivered through advertising, sales promotion, direct marketing, event sponsorship, or public relations.

Crowdsourcing The online distribution of certain tasks to groups (crowds) of experts, enthusiasts, or even consumers.

Database agency Agency that helps customers construct databases of target customers, merge databases, develop promotional materials, and then execute the campaign.

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Designer Specialist intimately involved with the execution of creative ideas and efforts.

Digital/interactive agency Agency that focuses on using online, mobile, and social media for direct marketing and target market communications for clients.

Direct-response agency Also called *direct marketing agency*.

Direct marketing agency Agency that maintains large databases of mailing lists; some of these firms can also design direct marketing campaigns either through the mail or by telemarketing. Also called a *direct response agency*.

Event-planning agency Experts in finding locations, securing dates, and putting together a “team” of people to pull off a promotional event.

External facilitator An organization or individual that provides specialized services to advertisers and agencies.

Fee system A method of agency compensation whereby the advertiser and the agency agree on an hourly rate for different services provided.

Fulfillment center Centers that ensure customers receive the product ordered through direct mail.

Full-service agency An advertising agency that typically includes an array of advertising professionals to meet all the promotional needs of clients.

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In-house agency The advertising department of a firm.

Infomercial A long advertisement that looks like a talk show or a half-hour product demonstration.

Logo A graphic mark that identifies a company and other visual representations that promote an identity for a firm.

Markup charge A method of agency compensation based on adding a percentage charge to a variety of services the agency purchases from outside suppliers.

Media planning and buying services Services related to media planning or buying that are provided by advertising agencies or specialized media-buying organizations.

Media specialist Organizations that specialize in buying media time and space and offer media strategy consulting to advertising agencies and advertisers.

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New customer acquisition When a company or business gains a first-time client or customer, which is a goal for many companies especially when the new customer comes from a competitor.

Pay-for-results A compensation plan that results when a client and its agency agree to a set of results criteria on which the agency's fee will be based.

Production facilitator An organization that offers essential services both during and after the production process.

Production services A team that takes creative ideas and turns them into advertisements, direct mail pieces, or events materials.

Promotion agencies Specialized agencies that handle promotional efforts.

Public relations firm Firms that handle the needs of organizations regarding relationships with the media, local community, competitors, industry associations, and government organizations.

Social media Highly accessible Web-based media that allow the sharing of information between individuals and between individuals and groups. Prominent examples are Facebook, Twitter, and LinkedIn.

Steering organization A group of expert advisors and professionals that help give direction and guide strategy and decisions on the brand or organization.

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Trade-market sales promotion A type of sales promotion designed to motivate distributors, wholesalers, and retailers to stock and feature a firm's brand in their merchandising programs.

Trade reseller Organizations in the marketing channel of distribution that buy products to resell to customers.

User interface (UI) the point of human-computer interaction with a webpage, computer, website or app.

Virtual reality A newer technology that advertisers are using with computer models that allow a consumer to interact with 3-D visuals for an immersive, artificial experience.

WHAT'S NEW IN THIS CHAPTER

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The following elements are improvements in this chapter from the previous edition:

- New key terms:
  - branded apps
  - CEO
  - CFO
  - CTO
  - customer acquisition
  - consolidated agency networks
  - steering organization
  - user interface
  - virtual reality

- Updates to the agency structure overview via new trends transforming the ad and promotion industries.

- New support articles from:
  - Journal of Consumer Research
  - Journal of Advertising
  - Journal of Marketing
  - Journal of Advertising Research
  - International Journal of Advertising
  - JCIRA
  - Journal of Marketing Research
  - Journal of Consumer Research

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CHAPTER OUTLINE

The following outline organizes activities (including any existing discussion questions in PowerPoints or other supplements) and assessments by chapter (and therefore by topic), so that you can see how all the content relates to the topics covered in the text.

I. The Advertising Industry in Constant Transition (LO 1, PPT Slides 5-7)
   i. There have always been power struggles in the advertising and promotion industry. Now, however, it is about how the advertising industry can successfully adapt to the new technologies that consumers are willing and, in many cases, eager to use as they seek more control over their information environment.
   ii. The solution seems to be that advertisers will continue in the "digital divide." That is, dividing their total advertising spending more into digital media—Web advertising, social media, and mobile marketing—and continue to move away from traditional mass media like television, newspapers, magazines, and radio.

II. Trends Affecting the Advertising and Promotion Industry (LO 2, PPT Slides 8-13)
   A. Consumer Control: Social Media, On-Demand Streaming, and Cutting the Cord
      i. Consumers are now in greater control of the information they receive about product categories and the brands within those categories. Social media, blogs, and DVRs devices are three prime examples. Advertisers and their agencies are trying to adapt to the concept that consumers are gaining greater control by making more creative ads which will more likely be watched by the consumers.
   B. Media Proliferation, Consolidation, and "Multiplatform" Media Organizations
      i. At another level of the industry, media proliferation and consolidation are taking place simultaneously. Media companies of all types tend to pursue more and more "properties" if they are legally allowed to, thus creating what are now referred to as "multiplatform" media organizations. The ultimate multiplatform may be Walt Disney Co., which owns the ABC broadcasting network and the ESPN cable network group, plus multiple other cable stations.
   C. Media Clutter and Fragmentation Means More IBP
      i. There are more ways for the advertiser to reach the consumer than ever before. However, given the backlash against advertising that clutter can cause, advertisers and their agencies are rethinking the way they try to communicate with consumers. There is a greater focus on integrating more tools within the overall promotional effort in an attempt to reach more

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consumers in different ways. Johnson &Johnson moved hundreds of millions of dollars away from traditional media to digital media including the Internet and blogs.

D. Crowdsourcing
   i. **Crowdsourcing** involves the online distribution of certain tasks to groups (crowds) of experts, enthusiasts, or even consumers. 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 or even advertising campaign images. They also can communicate about the brand to audiences in ways that seem natural and credible. Refer to Ford and Starbucks as prime examples.

E. Mobile Marketing/Mobile Media
   i. Technology has resulted in significant opportunity for advertisers to reach consumers with messages directed to consumers' mobile devices—primarily smartphones and tablets. The challenge will be to make the messages relevant and acceptable to consumers.

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F. **Polling Activity** (PPT Slide 13, Time duration: 5-10 minutes)
   i. Which media trend affecting the advertising and promotion industry do you think is most important?
      - Consumer control
      - Media proliferation, consolidation, and multiplatform media organizations
      - Media clutter and fragmentation
      - Crowdsourcing
      - Mobile marketing and mobile media

   a. Answer: Responses will vary. Students could 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

III. The Scope and Structure of the Advertising and Promotion Industry (LO 3, PPT Slides 14-22)
   i. Worldwide, nearly $600 billion is spent on various categories of advertising. Another perspective on the scope of advertising and promotion is the amount spent on advertising by individual firms.

A. Structure of the Advertising and Promotion Industry
   i. The structure of the advertising and promotion industry clarifies who does what, in what order, during the process. Consider the structure of the advertising and promotion industry by showing who the different participants are in the process. It demonstrates that *advertisers* can

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employ the services of *agencies* that may (or may not) contract for specialized services with various *external facilitators* which results in advertising and promotion being directed with the help of various *media organizations* to one or more *target audiences*. It is important to note here that advertisers do not always need to employ the services of agencies. Nor do advertisers or agencies always seek the services of external facilitators. Some advertisers deal directly with media organizations and Internet portals for placement of their advertisements or implementation of their promotions.

B. Advertisers
   i. First in the structure of advertising are the advertisers themselves. **Advertisers** are business, not-for-profit, and government organizations that use advertising and other promotional techniques to communicate with target markets and to stimulate awareness and demand for their brands. Advertisers are also referred to as **clients** by their advertising and promotion agency partners. The following categories describe the different types of advertisers and the role advertising plays for them.
   ii. Manufacturers and Service Firms
      a. Large national manufacturers of consumer products and services are the most prominent users of advertising and promotion, spending billions of dollars annually. Procter & Gamble, General Foods, Verizon, and Anheuser-Busch InBev all have national or global markets for their products and services.
      b. Students should note here that regional and local producers of household goods and services also rely heavily on advertising. These firms often use ads placed in newspapers and regional editions of magazines.
   iii. Trade Resellers
      a. The term **trade reseller** is simply a general description for all organizations in the marketing channel of distribution that buy products to resell to customers.
      b. Resellers can be retailers, wholesalers, or distributors. Retailers that sell in national or global markets are the most visible reseller advertisers and promotion users. Walmart, The Gap, and McDonald's are examples of national and global retail companies that use various forms of IBP to communicate with customers.
      c. Wholesalers and distributors have little need for mass media and use trade publications, directory advertising trade directories, direct mail, personal selling, and their Internet websites as their main advertising media.
   iv. Federal, State, and Local Government
      a. Although it may seem odd to students to list the government as an advertiser, government bodies invest millions of dollars in advertising annually.

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b. The U.S. government is one of the largest spenders on advertising in the U.S., with expenditures exceeding $1 billion in annually. The most visible government campaigns are U.S. government advertising for the armed forces recruiting and social issues.

v. Social and Not-for-Profit Organizations
   a. Advertising by social and not-for-profit organizations at the national, state, and local level is common—Red Cross, the Nature Conservancy, and United Way are examples. This advertising is used to raise awareness of the organizations, seek donations, and attempt to shape behavior.
   b. Organizations such as these use both the mass media and direct mail to promote their causes and services.

C. The Role of the Advertiser in IBP
   i. There is an important role played by the advertiser before the services of an agency are enlisted. Advertisers of all sizes and types, have to be prepared for their interaction with an agency in order for the agency to do its job effectively. That is, it is the advertiser's role to:
      a. Describe the value that the firm's brand provides to users.
      b. Describe the brand's position in the market relative to competitive brands.
      c. Describe the firm's objectives for the brand in the near term and long term (e.g., brand extensions, international market launches).
      d. Identify the target market(s) that are most likely to respond favorable to the brand.
      e. Identify and manage the supply chain/distribution system that will most effectively reach the target markets.
      f. Be committed to using advertising and other promotional tools as part of the organization's overall marketing strategy to grow the brand.

D. **Discussion Activity 1** (PPT Slide 21, Time duration 5-10 minutes)
   i. The U.S. government spends millions of dollars each year trying to recruit young men and women into the armed services.
      1. What forms of advertising and IBP communications would be best suited to this recruiting effort?
         - Responses will vary. 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.

E. **Discussion Activity 1 Debrief** (PPT Slide 22, Time duration 5-10 minutes)
   i. As an advertiser, what is the U.S. government's role in IBP?
      - Answer: 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(s) provides to users

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2. Understand and describe the brand's position in the market relative to the competition
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 market(s) that are most likely to respond favorably to the brand
5. Identify and manage the supply chain/distribution system that will most effectively reach the target market(s)
6. Be committed to integrating advertising, event sponsorship, and other promotional tools as part of the organization's overall marketing strategy to grow the brand via both digital and traditional channels.

- Advertisers that can do these will be prepared for a productive partnership with an agency.

IV. Advertising and Promotion Agencies (LO 4, PPT Slides 23-34)

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

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A. Advertising Agencies

i. Advertising agencies provide expertise to help advertisers prepare advertising programs. An **advertising agency** is an organization of professionals who provide creative and business services to clients related to planning, preparing, and placing advertisements.

ii. Consider the world's 10 largest advertising organizations and their worldwide gross income. The combined ad spending of the top ten U.S. advertisers alone—including corporate giants like Procter & Gamble and Ford—exceeds $29 billion annually.

iii. The $3.5 billion spent by General Motors on advertising is only a small fraction of GM's annual sales. Similarly, Ford spends $2.7 billion yearly, which represents a sliver of its overall sales revenues. So even though the absolute dollars seem huge, the relative spending is often much more modest.

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

Account planners	Creative directors
Marketing specialists	Sales promotion and event planners
Account executives	Copywriters
Media buyers	Direct marketing specialists
Art directors	Radio and television producers
Graphic designers	Web developers
Lead account planners	Researchers
Chief executive officers (CEOs)	Interactive media planners
Chief financial officers (CFOs)	Artists

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Chief technology officers (CTOs) Social media experts
Chief marketing officers (CMOs) Public relations specialists

a. Full-Service Agencies: 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.
b. Creative Boutiques: A **creative boutique** emphasizes creative concept development, copywriting, and artistic services to its clients. An advertiser can employ this alternative for the strict purpose of infusing greater creativity into the message theme or individual advertisement. Creative boutiques are idea factories; however, as firms search for IBP programs and make a commitment to IBP campaigns, the creative boutique may be an extra expense and step that advertisers simply don't feel they can afford.
c. Digital/Interactive Agencies: Spending on mobile marketing already exceeds $20 billion annually. These agencies help advertisers prepare communications for new media such as the Internet, mobile marketing, and interactive television. **Digital/interactive agencies** focus on ways to use Web-based solutions for direct marketing and target market communications. An **in-house agency** is often referred to as the advertising department in a firm and takes responsibility for the planning and preparation of advertising materials. 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 all commissions that an external agency would have earned.
d. Media specialists: **Media specialists** are organizations that specialize in buying media time and space and offer media strategy consulting to advertising agencies and advertisers. The task of strategic coordination of media and promotional efforts has become more complex because of the proliferation of media options and extensive use of promotional tools beyond advertising.

v. Promotion Agencies
a. Focus on promotion efforts that full-service advertising agencies do not specialize in. Promotion agencies handle everything from sampling to event promotions. Descriptions of different types of promotional agencies and their services follow.
b. Direct Marketing and Database Agencies (also called direct response agencies): These agencies provide a variety of direct marketing services. **Direct marketing agencies** and **database agencies** maintain and manage large databases of mailing lists as one of their services. They design direct marketing campaigns that can use either (1) mail or telemarketing or (2) direct response campaigns using all forms of media. They help advertisers construct and merge databases of

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target customers. In many cases, these agencies maintain **fulfillment** centers, which ensure that customers receive the product ordered through direct mail. In addition, many direct marketing agencies can prepare **infomercials** for clients.

c. Sales Promotion Agencies: These specialists design and then operate contests, sweepstakes, special displays, or coupon campaigns for advertisers. These agencies specialize in **consumer sales promotions** or **trade sales promotions.**

d. 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.

e. Design Firms: **Designers** help a firm create the visual impression of a firm's advertising materials and also create **logos** and other visual representations for the brand. They also design most of the material used in supportive communications such as banners, package design, coupons, in-store displays, and brochures.

f. Public Relations Firms: **Public relations firms** manage an organization's relationships with the media, the local community, competitors, industry associations, and government organizations.

B. Agency Services

i. 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. We detail the common structure of a full-service advertising agency that also provides a number of IBP services.

ii. Account Services

a. **Account services** entail identifying the benefits a brand offers, its target audience, and the best competitive positioning, and then developing a complete advertising plan. In some cases, an agency can also provide basic marketing and consumer behavior research. Another primary task in account services is to keep the various agency teams—creative, production, and media—on schedule and within budget.

iii. Marketing Research Services

a. The research services usually entail agency locating studies that have bearing on a client's advertising and explaining these studies to the client. **Account planner** positions have been added in many agencies to coordinate the research effort.

iv. Creative and Production Services

a. The **creative services** group prepare the client's message that will be delivered through advertising, sales promotion, direct marketing, social networks, and mobile marketing.

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b. **Production services** include producers (and sometimes directors) who take creative ideas and turn them advertisements, direct mail pieces, and other IBP materials.

v. Media-Planning and Buying Services
   a. Advertising agencies themselves **provide media planning and buying services** similar to those of the specialized agencies. The central challenge is to determine how a client's message can most effectively and efficiently reach the target audience.

vi. Administrative Services
   a. Agencies have personnel departments, accounting and billing departments, and sales staffs that go out and sell the agency to clients. 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.

C. Agency Compensation

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i. The way agencies get paid is somewhat different from the way other professional organizations are compensated. The four most prevalent agency compensation methods are commissions, markup charges, fee systems, and pay-for-results plans, but this is changing. There are different methods:

ii. Commission
   a. The **commission system** is the traditional method of agency compensation and is based on the amount of money the advertiser spends on media.
   b. Under this method, 15 percent of the total amount billed by a media organization is retained by the advertising agency as compensation for all costs in creating advertising for the advertiser. The only variation is that the rate typically changes to 16 percent for outdoor media.
   c. We give students a simple example of how the commission system works. In the last five years, many agencies have challenged this traditional structure and negotiated different percentages for commission.

iii. Markup Charges
   a. **Markup charges** add a percentage to a variety of services the agency purchases from outside suppliers.
   b. 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. A typical markup on outside services has been 17.65 percent to 20 percent.

iv. Fee System

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a. 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.

v. Pay for Results

a. Many advertisers and agencies alike have been working on compensation programs called **pay-for-results** or incentive-based compensation that base the agency's fee on the achievement of agreed-on results. In this type of program, the agency's fee is based on the achievement of agreed upon results.

D. **Discussion Activity 2** (PPT Slide 33, Time duration 5-10 minutes)

i. 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.

a. Answer: 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.

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E. **Discussion Activity 2 Debrief** (PPT Slide 34, Time duration 5-10 minutes)

i. What would be the advantages and disadvantages of a pay-for-results approach instead?

a. Answer: Historically, agencies would not (rightly so) agree to be evaluated on results because results were often narrowly defined as "sales." The key effects on sales are related to factors outside the agency's control such as brand features, pricing strategy, and distribution programs (i.e., the overall marketing mix, not just advertising or IBP).

- An agency might agree to be compensated based on achievement of sales levels, but more often (and more appropriately), communications objectives such as awareness, brand identification, or brand feature knowledge among target audiences will serve as the main results criteria.
- A pay-for-results approach, when based upon the appropriate measurements, can allow an agency to be compensated in a way that correlates to the impact it creates.

V. External Facilitators (LO 5, PPT Slides 35-38)

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

ii. Marketing and Advertising Research Firms
   a. Research firms such as Burke and Simmons can perform original research for advertisers using focus groups, surveys, or experiments to assist in understanding the potential market or consumer perceptions of a product or services.
   b. Other research firms, such as SRI International, routinely collect data (from grocery store scanners, for example) and have these data available for a fee.
   c. There are also firms that specialize in message testing to determine if consumers find advertising messages appealing and understandable.

iii. Consultants
   a. A variety of **consultants** specialize in areas related to the promotional process**.** Advertisers seek out marketing consultants for assistance in the planning stage regarding market segment behaviors and macro-economic and cultural trends.
   b. 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.
   c. Three new types of consultants have emerged in recent years. One is a database consultant, who works with both advertisers and agencies in developing and managing databases for direct mail campaigns.

iv. Production Facilitators
   a. External **production facilitators** offer essential services both during and after the production process. Production is an area where advertisers and their agencies rely most on external facilitators.
   b. For broadcast production, directors, production managers, songwriters, camera operators, audio and lighting technicians, and performers are all essential.
   c. Production houses can provide the physical facilities, including sets, stages, equipment, and crews, needed for broadcast production.
   d. 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.

v. Software firms
   a. An interesting and complex new category of facilitator in advertising and promotion is that of software firms. These firms offer the kind

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of expertise that is so esoteric that even the most advanced full-service or digital agency would have to seek their assistance.

A. **Knowledge Check** (PPT Slide 38, Time duration: 5 minutes)

i. Which new type of consultant is particularly useful to an advertiser when planning a direct email campaign?
   a. Information integration
   b. Database
   c. UI
   d. Website development

i. Answer: B. Database—Database consultants help firms identify and then manage databases that allow for the development of integrated marketing communications programs. Database consultants are particularly useful in planning couponing or direct mail (email) campaigns.

VI. Media Organizations (LO 6, PPT Slides 39-44)

i. Media represent the next level in the industry structure shown. 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. We organize this information into five specific categories.
   a. Broadcast—major television networks like NBC, ABC, as well as national magazines such as *Maxim* or *People,* provide advertisers with time and space for their messages at considerable cost. Also included are satellite TV and radio. It is now competing with other content delivery models and smart TVs or live streaming.
   b. Print—advertisers can choose between magazines, direct mail, newspapers, specialty such as handbills and programs, and banners.
   c. Interactive Media—it includes choices ranging from online computer services, home-shopping broadcasts, and CD-ROMs to smartphones and e-readers.
   d. Support Media—includes transit companies (bus and taxi boards), billboard organizations, specialized directory companies, and sports and performance arenas for sponsorships, display materials, and premium items. It includes all those places that advertisers want to put their messages other than mainstream traditional or interactive media.
   e. Media Conglomerates—this category is included because organizations like Viacom and Comcast own and operate companies in broadcast, print, and interactive media.

ii. Target Audiences and Content Marketing
   a. The structure of the advertising and promotion industry and the flow of communication would obviously be incomplete without an audience.

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   b. The audiences for promotional communications, with the exception of household consumers, are also the advertisers who use advertising and IBP communications.
   c. Business and government audiences are key to the success of a large number of firms that sell only to business and government buyers.

A. **Discussion Activity 3** (PPT Slide 42, Time duration: 5-10 minutes)
   i. How might the skills of a public relations firm be employed to reinforce the message that a sponsor is trying to communicate through other forms of promotion?
      a. Answer: 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 stories, lobbying, spokespersons and company newsletters—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.

B. **Discussion Activity 3 Debrief** (PPT Slide 43, Time duration: 5 minutes)
   i. Which types of media organizations would a public relations firm be likely to use to effectively generate publicity for a client?
      a. Responses will vary. PR firms often make use of TV, radio, magazines, newspapers, and social media for placement of publicity for clients.

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ADDITIONAL DISCUSSION QUESTIONS

The following are discussion questions that do not appear in the text, PPTs, or courseware (if courseware exists) – they are for you to use as you wish. You can assign these questions several ways: in a discussion forum in your LMS; as whole-class discussions in person; or as a partner or group activity in class.

1. Describe the power struggle in the advertising industry? How have consumers added to the tension in this space? Is there a solution to these struggles?
   a. Answer: There have always been power struggles in this space: brand versus brand, one agency competing against another, agency versus media company, big advertiser with lots of money versus big retailer with lots of money. But those old-style power struggles are child's play compared with the 21st-century tensions. Consumers are tired of the barrage of ads on every screen, in

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every store, in every inbox; and they are actively looking for ways to avoid most of them. So the power struggle now is focused on how the advertising industry can successfully adapt to the new technologies that consumers are willing and, in many cases, eager to use as they seek more control over their information environment. The solution, in part, seems to be that advertisers must integrate advertising investments more into targeted digital media, online advertising, social media, and mobile marketing—and synergize the social media and digital content with appropriate traditional mass media like television, magazines, and radio.

2. Briefly describe the major trends affecting the advertising and promotion industry. Which of these do you think is the most important and impactful? Why?
   a. Answer:
   The major trends are:
   - Consumer control, Social Media, On-Demand Streaming and Cutting the Cord
   - Media proliferation, consolidation, and multiplatform media organizations
   - Media clutter and fragmentation
   - Crowdsourcing
   - Mobile marketing and mobile media

   Students could 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.

3. In the structure of the advertising and promotion industry, what role does advertising and promotion agencies play?
   a. Answer: Advertising and promotion agencies come in many varieties and offer services such as market research and marketing planning, the creation and production of ad materials, the planning and purchase of media time or space for ads, and traffic management to keep production on schedule. Some advertising agencies offer a full array of services under one roof; others, such as creative boutiques, develop a particular expertise with specialized skills. Promotion agencies specialize in one or more of the other forms of promotion beyond advertising. The four most prevalent ways to compensate an agency for services are commissions, markups, fee systems, and the pay-for-results programs. Agency compensation is changing as the industry changes and agencies face more competition from digital media companies and consulting companies.
4. There are many 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

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contact information. How can advertisers still reach out to consumers and invite them to learn more about their brand or product? Are there ethical issues to consider? How would you navigate privacy concerns? What are the legal risks or potential challenges?

a. Answer: It is a difficult landscape advertisers face in trying to navigate increased consumer sensitivity to privacy issues. The possibility of future do-not-mail legislation, anti-spam regulations, and efforts to keep marketers from contacting consumers through cell phone text messages are real challenges advertisers must face. Restrictions on sharing and using consumer data (Facebook and other social media sites) and changes in website sharing (cookies) will continue to alter the course for advertisers in the future.

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