M Advertising 3rd edition Schaefer Solutions Manual

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CHAPTER TWO
THE ENVIRONMENT OF ADVERTISING

The main objectives of this chapter are to identify and explain the economic, social, ethical, and legal issues advertisers must consider. When they are violated, social issues arise and the government may take corrective measures. Society determines what is offensive, excessive, and irresponsible; governmental bodies determine what is deceptive and unfair. To be law-abiding, ethical, and socially responsible, as well as economically effective, an advertiser must understand these issues.

Learning Objectives

LO 02-01 Describe the impact of advertising on the economy.
LO 02-02 Examine the validity of the various social criticisms of advertising.
LO 02-03 Explain the difference between social responsibility and ethics in advertising.
LO 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.
LO 02-05 Discuss the activities of nongovernment organizations in fighting fraudulent and deceptive advertising.

What's New?

The opener is updated to include information about Lance Armstrong and his difficulties as a spokesperson following the controversy over his use of performance-enhancing substances during his cycling career. Our "My IMC Campaign" box details the semester-long assignment and the steps student groups will be taking in creating a campaign.

Application Exercises

Functions of Advertising in a Free Economy
Regulation of Advertising
Consequences of Advertising
Responsible and Ethical Advertising to Children
Understanding the FTC Network Advertising Initiative
Lance Armstrong

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Teaching Tips and Strategies

Using the Chapter Opening Vignette in the Classroom

Students often recognize and relate to some celebrity product endorsees, while not others. You might start by showing the Tag Heuer website (http://us.tagheuer.com/). Click on the "Don't Crack Under Pressure" tab and choose "Ambassadors" from the submenu, which will bring up a slideshow of celebrities who promote the Tag Heuer brand. Choose a celebrity to discuss and start your discussion by asking if anyone finds the Tag Heuer brand more desirable based on the celebrity association. Then ask what personality the actor or athlete has and if that personality reflects appropriately on Tag Heuer. You might also ask students if they know an approximate price range for Tag Heuer watches ($3,000 to $6,000) and if they believe the celebrity or athlete association influences consumers in purchasing this brand and product line.

I find that the best way to enliven these discussions is to let students find a natural voice for their thoughts. If there is a mixture of responses, I try to let the debate just happen. Conversely (as is often the case), if no one initially comments on the association versus brand value topic, I then raise the issue of Michael Phelps and Tiger Woods—that of the "brand transgressions" they potentially created based on a conflict between the acts in their personal lives and the products they represented. Some thoughts to cultivate this discussion:

1) Are celebrities really victims of the state of our culture? Does society set the standards for what is acceptable in life and in product endorsements?

2) Do athletes and celebrity endorsees have a responsibility to behave in a certain "ethical" fashion? Are they required to serve as role models when they choose to be public and endorse mainstream products such as Kellogg's cereal and Nike sports apparel?

2) Ask if anyone eats Kellogg's Corn Flakes or wears Nike apparel. Do athletes like Phelps and Woods influence purchasing decisions based on the use of illegal drugs, or through marital indiscretions?

3) Many companies include a "morals clause" in celebrity and athlete agreements. What type of requirements might you require if you were drafting the language for this clause?

4) Are the high endorsement fees associated with celebrities worth the investment? Would companies like Tag Heuer and Nike better serve their customers by discontinuing endorsee advertising and then using those savings to drop the cost of their products?

Other Tips and Strategies

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Before discussing the legal issues surrounding advertising, I ask students whether they believe commercial speech like advertising is protected by the First Amendment. I frequently find many students have never considered that there might be some forms of speech that are not protected. This leads to a discussion of the 1942 Supreme Court case *Valentine v. Christenson*, in which the court first considered the issue. In that case, a businessman named Christenson attempted to market tours of his submarine, which resided in New York's harbor, by distributing leaflets. Police chief Valentine, citing New York's anti-littering code, attempted to stop him. The Supreme Court ultimately ruled that New York could regulate advertising because commercial speech does not enjoy First Amendment protection. In subsequent cases the court moved away from that conclusion, but the precedent remained important for many years and in many Court decisions, including its decision to permit a ban on tobacco advertising on TV and radio. I ask students if commercial speech provides something of value to consumers, and if so, what does it provide?

All students have been influenced by advertising in one way or another. Ask students if they have ever bought a product/service they saw an ad for and were disappointed by the ad because it created an expectation that wasn't met. For instance, I had an ad with a coupon for Stanley Steemer (a carpet-cleaning company). The coupon conveyed they would clean the carpets of three rooms for a special price of $99. When the company arrived, they told me they could put a pet deodorizer in the cleaning solution for an extra charge, as well as a type of stain repellant.

I didn't think it would be that much difference. I ordered the stain repellant and pet deodorizer, and to my surprise the bill was well over $200. My neighbor had her carpets cleaned as well, and her bill approached $300 because she had a couple of furniture pieces treated as well. I asked the company representative how many people actually spend $99 for service. He replied, "Most people need more than the minimum." Was this deceptive advertising? I think so.

The Doan's Backache relief campaign is a discussion topic that helps illustrate what deceptive advertising is or isn't. For more than 90 years, Doan's was advertised as one of the better back-pain medicines on the market. The problem was that Novartis (the manufacturer of Doan's) had no scientific data indicating that Doan's was more efficient at treating back pain than the other pain medicines on the market. A doctor I know explained, "Doan's has the same ingredients as ibuprofen." The point: people who took ibuprofen would get results similar to those who took Doan's.

In 1996, the FTC took Novartis to court on grounds of deceptive advertising. Here are some of Doan's claims (I write these claims on the board to convey to the class what Doan's main message/deception was).

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- "Doan's is made for back pain relief with an ingredient [other] pain relievers don't have. Doan's makes back pain go away . . . The Back Specialist."
- "If nothing seems to help, try Doan's. It relieves back pain no matter where it hurts. Doan's has an ingredient these pain relievers don't have."
- "Back pain is different. Why use these pain relievers? Doan's is just for back pain."

In 1998, the courts ruled in favor of the FTC and had Novartis run corrective advertising to try to let the public know that Doan's is no more effective than other pain medicines on the market. Holding a class discussion after explaining this issue will allow students to consider other instances when they have seen deceptive advertising, and its implications for society and business. Ask the students if what Novartis did was ethical or unethical and why?

Source: "Doan's Pills Must Run Corrective Advertising," FTC Office of Public Affairs, May 27, 1999, available from http://www.ftc.gov/opa/1999/05/doans.htm.

Web Resources for Enhancing your Lectures:

Tag Heuer	http://us.tagheuer.com/
Nike Golf	http://www.nike.com/us/en_us/c/golf
12 key advertising laws you should know	http://www.lawpublish.com/12-key-advertising-related-laws-you-should-know.html
Advertising and the First Amendment	http://www.lawpublish.com/amend1.html
Federal Trade Commission	http://www.ftc.gov/
Food and Drug Administration	http://www.fda.gov/
Federal Communications Commission	http://www.fcc.gov/
Adlaw by request	https://www.adlawbyrequest.com
Copyright website	http://www.benedict.com/

Video Resources

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Lance Armstrong losing endorsement deals	https://youtu.be/4sQWDUgWMOs
"Hello, I'm a Mac. And I'm a PC" series of ads to add value to Apple brand image	https://youtu.be/VCL5UgxtoLs
Pizza Hut electronic press kit about lawsuit against Papa John's misleading advertising	https://youtu.be/k1mSrfMZaW0
DoubleMint Ad (example of slogan to create product differentiation)	https://youtu.be/hft1oYm_G2c
Incredible Edible Egg commercial (example of advertising to increase primary demand)	https://youtu.be/WCs7Ms3fILs
General Electric wind energy commercial (example of advertising corporate social responsibility)	https://youtu.be/fViObqGvIjM

Ethical Issues: The First Amendment and Commercial Speech

My Ad Campaign: Your Assignment [2-A]

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Lecture Outline

I. Vignette: Armstrong and Woods

Lance Armstrong and Tiger Woods achieved impressive measures of success in their professional sports. However, Armstrong's desire to win led him to pursue unfair advantages. Woods's personal indiscretions in his marriage were unrelated to his golf career, yet they tarnished his longtime image as an accomplished, disciplined athlete. When news of these issues emerged, how should his sponsors have reacted? Knowing the right thing to do is not always easy. For example, between the time that Michael Vick was first accused of animal cruelty and his eventual plea, sponsor Nike was in a difficult situation. How could the advertiser simultaneously protect its brand image, acknowledge public outrage over the charges against Vick, deal with the star quarterback who deserved a presumption of innocence, and do the right thing? For brands, the lesson is caution in aligning a product's image too closely with real and potentially flawed human beings. For that reason, some companies are beginning to use an ensemble of celebrity endorsers so that they don't "let any one person get bigger than the brand," to quote an Under Armour executive.

II. The Many Controversies about Advertising

A. Advertising is a public activity. Companies risk criticism and attack if their ads displease or offend, or if their products don't measure up to advertised promises.
B. Advertising shares certain characteristics with journalism, education, and entertainment, but it shouldn't be judged by their standards.
C. Advertising is both applauded and criticized not only for its role in selling products, but also for its influence on the economy and on society.
D. From these economic and social controversies, questions arise concerning where to locate responsibility for advertising.
E. The underlying principle of free-market economics is that a society is best served by empowering people to make their own decisions and act as free agents within a system characterized by four fundamental assumptions: *self-interest, many buyers and sellers, complete information,* and *absence of* **externalities** (social costs).
F. This framework, derived from the idea that society should promote behaviors that foster the greatest good for the most people, offers a system of economic activity—capitalism—that has raised living standards better than any other economic system in history.
G. By using this framework for our discussion of advertising controversies, we have a basis for understanding how advertising may contribute to, or detract from, the basic goal of free enterprise: "the most good for the most people."

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APPLICATION EXERCISE: Functions of Advertising in a Free Economy

Activity Summary: This activity reviews the functions that advertising can fill in a free economy. These functions include branding, communicating information, inducing trial, stimulating distribution, building value and loyalty, and lowering the cost of sales. In the exercise, students read about the ways that a new company, Nutra Box, is using advertising. They then read a list of activities that Nutra Box has engaged in and identify what function of advertising each activity fulfills by clicking and dragging the function to the appropriate row in the list. (Note: A keyboard accessible version of this activity is also available.)

Type: Click and Drag

Learning Objectives:
Learning Objective: 02-01 Describe the impact of advertising on the economy.

Difficulty Level: 2 Medium

Blooms: Understand

AACSB: Analytical Thinking

Follow-Up Activity: Instructors could ask students to bring in copies of advertisements they have encountered in their daily lives and have them explain what functions these advertisements serve.

III. The Economic Impact of Advertising

Advertising expenditures historically equal approximately 2 percent of the U.S. GDP. As illustrated in Exhibit 2–1, worldwide there is a positive relationship between per capita spending on advertising and standard of living. The moment a company begins to advertise, it sets off a chain reaction of economic events, as shown in Exhibit 2–2.

A. Effect on the Value of Products

1. Advertising has given certain brands (such as Coca-Cola and iPods) **added value**.
2. Some believe that a product's *image,* created in part by advertising and promotion, is *an inherent feature of the product itself.*
3. By simply making the product better known, advertising can make the product more desirable. In this way, advertising adds value to the brand.
4. Advertising also adds value to a brand by educating customers about new uses for a product.
5. In a free-market system, consumers can choose the qualities they want in products they buy.
6. In terms of our economic framework, by adding value to products, advertising

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helps both the consumer and the advertiser.

B. Effect on Prices
   1. Some advertised products cost more than unadvertised products, but the opposite is also true. Both the Federal Trade Commission and the Supreme Court have ruled that, by encouraging competition, advertising has the effect of keeping prices down.
   2. Additional important points include:
      a. As a cost of doing business, advertising is paid for by the consumer. In most product categories, though, the amount spent on advertising is small compared with the total cost of the product.
      b. Advertising is one element of any mass distribution system, a system that enables manufacturers to engage in mass production, which in turn lowers the unit cost of products. In this indirect way, advertising helps lower prices.
      c. In industries subject to government price regulation (agriculture, utilities), advertising has historically had no effect on prices. When the government deregulated many of these industries in an effort to restore free-market competition, advertising has affected price—usually downward, but not always.
      d. In retailing, price is a prominent element in many ads, so advertising tends to hold prices down. On the other hand, national manufacturers use advertising to stress features that make their brands better; in these cases advertising tends to result in higher prices for their brands.

C. Effect on Competition
   1. Some observers believe advertising actually restricts competition because small companies or industry newcomers can't compete with the immense advertising budgets of large firms.
   2. Intense competition can reduce the number of businesses in an industry. However, some of the firms eliminated by competition may be those that served customers least effectively.
   3. High costs inhibit the entry of new competitors in industries that spend heavily on advertising. In some markets, original brands can benefit from this barrier. However, the capital investments needed for plants, machinery, and labor are typically greater barriers to entry than is advertising.
   4. Advertising by big companies often has only a limited effect on small businesses because a single advertiser is rarely enough to dominate the whole country.

D. Effect on Consumers and Businesses
   1. Many studies show that promotional activity affects aggregate consumption, but they disagree as to the extent. Social and economic forces such as

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technological advances, the population's educational level, increases in population and income, and changes in lifestyle are more significant.

2. Advertising can help get new products off the ground by giving more people more complete information, thereby stimulating **primary demand** —demand for the entire product class.
3. In declining markets, when the only information people want is price information, advertising can influence **selective demand** —demand for a particular brand.
    a. In growing markets, advertisers generally compete for a share of the growth.
    b. In mature, static, or declining markets, they compete for each other's shares of the market.
4. The best way for a manufacturer to beat the competition is to make a unique product.
    a. The freedom to advertise encourages businesses to create new brands and improve old ones.
    b. When one brand reaches market dominance, smaller brands may disappear.
    c. The moment a better product comes along and is advertised skillfully, the dominant product loses out to the newer, better product.
5. Historically, in hard economic times, companies cut promotional expenditures. That may help short-term profits, but studies prove that businesses that continue to advertise during a recession are better able to protect, and sometimes build, market shares.
6. We conclude that when business cycles are up, advertising contributes to the increase. When business cycles are down, advertising may act as a stabilizing force by encouraging more buyers to buy.

E. The Abundance Principle: The Economic Impact of Advertising in Perspective

1. To the economy as a whole, the importance of advertising may best be demonstrated by the **abundance principle**: In an economy that produces more goods and services than can be consumed, advertising serves to:
    a. Keep consumers informed of their alternatives (complete information).
    b. Allow companies to compete more effectively for consumer dollars (self-interest).
2. Advertising stimulates competition (many buyers and sellers).
    a. In countries where people have more income to spend after their physical needs are satisfied, advertising also stimulates innovation and new products. No amount of advertising can achieve long-term acceptance of products that do not meet consumer approval.
    b. Advertising stimulates a healthy economy. It also results in consumers

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who are more informed, better educated, and more demanding.

APPLICATION EXERCISE: Consequences of Advertising

Activity Summary: This activity demonstrates to students that advertising can have a wide variety of consequences. The exercise describes the use of advertising by Whispers, a fictional earbuds brand, and the impact the advertising has on the company and its competitors. This is followed by a table that lists advertising inputs and outcomes from the Whispers case study. Students identify the economic impact of these inputs and outcomes by clicking and dragging advertising functions onto the appropriate spots on the table. They also click and drag examples from Whispers' advertising to their matching input or outcome. (Note: A keyboard accessible version of this activity is also available.)

Type: Click and Drag

Learning Objectives:
Learning Objective: 02-01 Describe the impact of advertising on the economy.

Difficulty Level: 2 Medium

Blooms: Understand

AACSB: Analytical Thinking

Follow-Up Activity: Instructors could ask volunteers for examples of additional consequences that Whispers' advertising campaign could have. Students should be encouraged to consider how the groups featured in the text's billiards analogy would be affected by Whispers" campaign.

✔ Check Yourself 2–1

1. Why do you think countries with higher advertising spending per capita tend to have a higher standard of living?

   Advertising stimulates the economy and encourages consumer spending. By encouraging consumer demand, advertising can sustain employment and income.

2. Explain the effect of advertising on brands, prices, competition, and primary and selective demand.

   Advertising gives brands added value. Advertising can lower prices by lowering the unit costs of goods, or raise prices by stressing features that make brands better. Advertising may decrease competition by ensuring small companies are not able to compete with big companies with immense ad budgets. Advertising may increase competition by encouraging more companies to enter the marketplace. Advertising may stimulate primary

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demand by giving people more "complete information" and may stimulate selective demand through brand-focused messages.

3. What beneficial roles does advertising play in a healthy economy?

   The freedom to advertise encourages businesses to create new brands and improve old ones. By encouraging consumer demand, advertising can sustain employment and income. Advertising keeps people informed of their alternatives and allows companies to compete more effectively for consumer dollars.

IV. The Social Impact of Advertising

Advertising is criticized frequently. Many of the criticisms focus on the *style* of advertising, saying it is deceptive or manipulative. Other criticisms focus on the *social or environmental impact* of advertising.

A. Deception in Advertising

1. For advertising to be effective, consumers must have confidence in it. So deception not only detracts from the complete information principle of free enterprise but also risks being self-defeating. **Puffery** refers to exaggerated, subjective claims that can't be proven true or false, such as "the best," "premier," or "the only way to fly."
2. Under current advertising law, the only products that can be considered deceptive are those that are *factually false* or convey a false impression and therefore have the potential to deceive or mislead reasonable people. Puffery is excluded from this requirement because regulators believe that reasonable people won't believe it anyway.
3. Puffery often takes the form of "nonproduct facts," which are not about the brand but about the consumer or the social context in which the consumer uses the brand. An example was the Army's positioning message, "Be all that you can be in the Army."

B. Subliminal Advertising

1. Wilson Bryan Key promotes the notion that advertisers embed dirty words and suggestive shapes into the graphics and illustrations in ads to improve viewer response. He calls this **subliminal advertising.** This concept has been debunked by academic studies, but Key's idea plays into the fear that advertisers are manipulating us without our consent.
2. This gets to the heart of the *complete information* principle because advertising does not give consumers complete information. It is biased in favor of the advertisers.
3. However, people use many sources of information before making purchasing decisions. When have you been helplessly manipulated into buying a product? Probably never. Consumers act in their own self-interest and sometimes even decide not to make a purchase.

C. Advertising and Our Values

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1. Professional critics argue that advertising does the following:
    a. It degrades people's value systems by promoting a materialistic way of life.
    b. It destroys the essence of our citizen democracy, replacing it with a consumer democracy
    c. It manipulates people by playing on our emotions and promising greater status, social acceptance, and sex appeal.
    d. It is so powerful that consumers are helpless to defend themselves against it.
2. That argument exaggerates the power of advertising.
    a. One study showed that only 17 percent of U.S. consumers see advertising as a source of information to help them decide what to buy.
    b. More advertised products fail than succeed in the marketplace.
3. Advertisers do indeed spend millions trying to convince people their products will make them sexier, healthier, and more popular. The very amount of advertising we witness every day seems to suggest that every problem we have can be solved by the purchase of some product.

D. The Proliferation of Advertising
1. One of the most common long-term complaints about advertising is that there's just too much of it.
    a. The average person may be exposed to 500–1,000 commercial messages a day.
    b. In 2010, nonprogram time runs to more than 14 minutes per hour on TV.
    c. It's not just TV—websites are also cluttered with advertising banners, and our e-mail boxes are flooded with advertising.
2. Too much advertising creates an externality not only for customers (nuisance), but for also the advertisers themselves—the more commercials that hit the customers' brains, the less effective paid advertising is.

E. Stereotypes in Advertising
1. Advertising has long been criticized for insensitivity to minorities, women, immigrants, the disabled, the elderly, and other groups. Critics maintain that advertising uses **stereotypes.** A stereotype is a generalization about a group.
    a. In recent years, advertisers have become more sensitive to the concerns of Latinos, African-Americans, Asians, Native Americans, and other minorities. They are usually portrayed with sensitivity in ads, not only because of pressure from watchdog groups, but also because it's good business; these consumers represent sizable target markets.
    b. The image of women is also changing from their historic depiction as either homemakers or sex objects.
2. Problems still exist, especially in local and regional advertising and in certain

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product categories such as beer and sports promotions.

3. Research evidence suggests that many Americans value their ethnic identities, and prefer brands that speak to them. This in turn has led agencies to see the value of diversifying their own ranks to better understand and communicate with their client's consumers.

F. Offensive Advertising

1. Offensiveness is another style that also speaks to externalities. People don't want their children exposed to messages that they deem immoral, offensive, or strictly adult-oriented.
2. Taste, however, is highly subjective. People were outraged when the first ad for underarm deodorant appeared in a 1927 *Ladies Home Journal;* today no one questions such ads.
3. Many products use partial nudity in their ads. When nudity is relevant to the product, people are less likely to regard it as obscene or offensive—except when the advertising targets kids. In Europe, nudity in commercials is commonplace.
4. Some consumers get so offended by both advertising and TV programming that they boycott sponsors' products.

G. The Social Impact of Advertising in Perspective

1. Marketing professionals earnestly believe in the benefits that advertising brings to society:
   a. It. encourages development.
   b. It speeds acceptance of new products and technologies.
   c. It fosters employment.
   d. It provides variety of information about choices.
   e. It keeps prices down (encourages mass production).
   f. It stimulates healthy competition among producers.
   g. It promotes higher standard of living (subsidizes arts).
   h. It supports freedom of the press and the dissemination of information.
2. Critics of advertising might disagree with many of these points. The media, they say, pander to national advertisers to attract ad dollars. In the process, they modify their editorial content to suit their corporate benefactors and shirk their responsibility of presenting news in the public interest.
3. By being a rich information source (albeit not a complete one), advertising contributes to the existence of many buyers and sellers and, therefore, to the goals, of both consumers and marketers.

✓ **Check Yourself 2–2**

1. What are some of the criticisms that are leveled against advertising?

   Critics charge that advertising:

   - Is frequently deceptive.

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- Involves frequent use of meaningless information (puffery).
- Presents information below the threshold of perception (subliminal advertising).
- Promotes a hedonistic, materialistic way of life.
- Is too ubiquitous and clutters our mass media.
- Perpetuates inaccurate or simplistic stereotypes.
- Is offensive or pornographic.

To refute these charges, one could argue:

- Current laws prohibit ads that are that are *factually false* or convey a false impression and therefore have the potential to deceive or mislead. reasonable people.
- Most people do not believe puffery.
- No studies have proven the use of subliminal advertising, and people use many sources of information besides advertising before making purchasing decisions.
- Advertising subsidizes the arts. It also supports freedom of the press and the dissemination of information.
- Consumers can use technology to try to limit the number of ads they are exposed to, such as by refusing to accept cookies from websites.
- Advertisers have recognized that minorities and women make up a lucrative market, so advertising is becoming much more sensitive to the issue of demeaning stereotypes.
- Consumer advocacy groups and individual consumers can protest ads and boycott products when advertising messages are offensive.

Ethical Issues: Truth in Advertising: Fluffing and Puffing

1. How would you react to an ad that proclaims a product "is the greatest ever," "will change your life," or "can't be beat"? Does it pique your interest to give it a try—or do just the opposite?

   Answer guidelines:

   a. Deception is interpreted as injurious and is thereby illegal.

   b. Puffery is a form of falsity, which may or may not be deceptive.

   c. Puffery often takes the form of "nonproduct facts," information not specifically about the product and therefore not directly testable as true or false. Nonproduct facts are typically about consumers' personalities, lifestyles, fears, and anxieties.

2. If puffery were outlawed, how would similar products (brands of toothpaste, detergents, and cereals, for example) differentiate themselves? If advertisers were restricted to telling only the literal truth, how would that affect creativity in advertising?

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Answer guidelines:

a. For many products, differentiation is possible by playing up a catchphrase that emphasizes a real or invented difference. (For example, a DoubleMint gum ad shows twin sisters smiling and repeats the theme "double your pleasure, double your fun". No other gum could use this theme without plagiarizing it.)

b. A straight comparison ad is an effective method of differentiation. One method is to list the differences between "our brand" and "brand X" or with a named competitor. A second method is an ad featuring a demonstration that plays up the efficiency of the product's utility. Such ads can differentiate a product because they are an implied challenge to all other competitors to a "put-up or shut-up" duel.

V. Social Responsibility and Advertising Ethics

Ethical advertising means doing what the advertiser and the advertiser's peers believe is morally right in a given situation. **Social responsibility** means doing what society views as best for the welfare of people in general or for a specific community of people.

A. Advertisers' Social Responsibility
   1. Advertising plays an important role in developed countries.
   2. It influences the society's stability and growth.
   3. In the United States, the advertising industry is part of a large business community. Like any good neighbor, it has responsibilities: to keep its property clean, participate in civic events, support local enterprises, and improve the community.
   4. U.S. advertising professionals meet these challenges by forming local advertising clubs, which provide thousands of hours and millions of dollars' worth of free work to charitable causes. They also provide scholarships and internships.
   5. Even so, advertisers are criticized when they fail the social responsibility litmus test.

B. Ethics of Advertising

   For practical purposes, let's consider three levels of ethical responsibility and apply them to advertising:
   1. On one level, ethics comprise two interrelated components: the traditional actions taken by people in a society or community, which are customs, and the philosophical rules that society establishes to justify such past actions and decree future actions, which are principles.
   2. Every individual also faces a second set of ethical issues: the attitudes, feelings, and beliefs that add up to a personal value system.
      a. When customs and personal values conflict, should the individual act on personal beliefs or on the obligation to serve society?

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b. When the group or individuals cannot resolve an ethical dilemma, they must redefine the issue in dispute.

3. Thus, the third level of ethics concerns singular ethical concepts such as good, bad, right, wrong, duty, integrity, and truth.
4. Most advertisers today strive to maintain fair ethical standards and practice socially responsible advertising.
5. Consumer groups, governments, special interest groups, and even other advertisers now review, control, and modify advertising in order to create more *complete information* and reduce the impact of unwanted *externalities.*

✓ **Check Yourself 2–3**

1. Provide examples of actions that advertisers or their agencies might take that would demonstrate social responsibility and ethical behavior.

   Social Responsibilities:

   - Advertisers and their agencies are socially responsible by maintaining clean business facilities, participating in civic events, supporting local enterprises, and improving the community. Ad professionals might provide *pro bono* (free) work to charitable organizations and public agencies or provide scholarships and internships.

   Ethical Responsibilities:

   - Ethics comprise two interrelated components: traditional actions and philosophical rules.

   To meet their responsibilities, advertisers should practice socially responsible advertising. They should provide complete information and reduce unwanted externalities. The advertising business is more highly scrutinized in the past. Consumer groups and special-interest groups keep advertising in check.

APPLICATION EXERCISE: Lance Armstrong

Activity Summary: In this activity, students reflect on the impact and ethics of celebrities in advertising. Lance Armstrong and Trek bicycles are used as an example. In the exercise, students are instructed to review their text's coverage of ethics and social responsibility. They then watch a Trek advertisement featuring Lance Armstrong and answer multiple choice questions about the impact and ethics of Armstrong's relationship with Trek.

Type: Video Case

Learning Objectives:
Learning Objective: 02-01 Describe the impact of advertising on the economy.
Learning Objective: 02-03 Explain the difference between social responsibility and ethics in advertising.

Difficulty Level: 1 Easy, 2 Medium

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Blooms: Analyze, Remember

AACSB: Analytical Thinking, Reflective Thinking

Follow-Up Activity: Instructors could ask students to describe examples from their own lives of purchase decisions that were influenced by celebrity advertisements or endorsements.

My Ad Campaign: Your Campaign Assignment [2-A]

You will be working on an advertising/IMC campaign, or part of one, this semester. It is likely that your campaign will include one or more of the following:

Campaign Audit
Many classes begin by having teams audit the plans books from prior semesters. This accomplishes several things. First, it gives you an idea about what you will be doing all semester. Second, it introduces you to the importance of seeing how research, strategy, planning, budgeting, and creative all flow together. If you don't have access to the work of other students, why not look over the work of the very best? Visit the Effie Award website (https://www.effie.org/case_studies/cases), where you can find great ads and a lot of background information about the campaigns.

Research Report
You may be asked to conduct formative research for the brand. This may include secondary research, useful for gathering information for your IMC plan; qualitative primary research, in which you conduct a focus group or series of depth interviews; and quantitative research, in which you administer a survey. You'll find a lot of information in Chapter 6 about these activities. Your university likely has a web page devoted to secondary marketing research. A useful collection of market research resources can also be found here: www.entrepreneurship.org/en/resource-center/secondary-market-research-resources.aspx

Marketing or IMC Plan
Many classes require that you create a marketing or IMC plan. We've included a lot of information in this text to help. Be sure to read Chapter 7 carefully, as it is your guide to the art and science of planning. Then, to make things more concrete, search for examples of "advertising plan outlines" on the web. Your instructor may have his or her own outline; if so, use that.

Media Plan
A media plan shows the specific allocations of the budget to different media and promotional activities. It will also specify what vehicles will be used for the campaign, as

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well as when and how often the ads will run. You will most likely want to use a spreadsheet to show the calendar. We have a sample media plan flowchart in Chapter 14.

The Creative Brief
The creative brief is a fairly short document that guides the people who create the ads. It contains information that has been distilled from some of the documents that we've just reviewed, such as the IMC plan. There are many different outlines for creative briefs, but in many instances the differences are superficial. Chapter 8 provides examples of a creative brief and shows you the elements of a message strategy. For examples of creative briefs, visit the following sites:

- Ad Cracker: http://www.adcracker.com/brief/Sample_Creative_Brief.htm
- SmileyCat blog (for a brief written for a web campaign): http://www.smileycat.com/miaow/archives/000226.php

Creating Ads or a Plans Book
You'll find a lot of information in this book on creating ads. For inspiration, review this site: http://www.creativebloq.com/inspiration/print-ads-1233780

If you are doing a plans book, it means you are doing almost everything we've reviewed to this point. A typical plans book will include research findings, an IMC plan, a creative brief, media plans, and mock-ups of real ads, but it assembles these elements in a seamless, integrated way, so that the reader has a clear understanding of the entire arc of a planned campaign. In many plans books, there will also be a section on campaign evaluation (ways of assessing the campaign).

VI. Current Regulatory Issues Affecting U.S. Advertisers
  A. Freedom of Commercial Speech
    1. The Supreme Court historically distinguishes between "speech" and "commercial speech" (speech that promotes a commercial transaction).
    2. The trend started in 1976 when the Supreme Court held in *Virginia State Board of Pharmacy v. Virginia Citizens Council* that commercial speech enjoys protection under the First Amendment.
    3. The Court declared that bans by state bar associations on attorney advertising also violated the First Amendment. Now a third of all lawyers advertise, and a few states even permit client testimonials.
    4. In 1980 the Court used *Central Hudson Gas* v. *Public Service Commission* to offer guidance about when commercial speech can be regulated. The four-pronged *Central Hudson* test includes the following parts:
      a. The ad in question must be for a legal product and must be free of misleading claims.
      b. The government must prove that the absence of regulation on speech will have a substantial negative impact.
      c. The government must establish conclusively that regulating advertising

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will effectively further the government's interest.

d. The government should show that there are no other means to accomplish the same end without restricting free speech.

5. In 2011, the Supreme Court invalidated a state law that made the practice of data mining illegal, at least for drug companies. Many saw this as an even broader protection for commercial speech.

B. Tobacco Advertising

1. While tobacco is a legal product, smoking causes diseases that kill or disable more than half a million people annually and costs taxpayers billions of dollars every year in health costs—a major externality.
2. To recover these costs, a majority of states' attorneys general sued the tobacco industry. In 1998, they reached a historic settlement. It imposed limits on brand-name promotion at events with young attendees, banned the use of cartoon characters (like Joe Camel) in cigarette ads, and created a fund of over $200 billion to be used by the various signatory states. Today, state budgets rely heavily on money secured in the settlement.

C. Advertising to Children

1. Kids are not sophisticated consumers; their conceptions of self, time, and money are immature.
2. More children are becoming sole decision makers about the products they consume.
3. To promote responsible children's advertising and to respond to public concerns, the Council of Better Business Bureaus established the *Children's Advertising Review Unit (CARU)*
4. The basic activity of CARU is the review and evaluation of child-directed advertising in all media. When children's advertising is found to be misleading, inaccurate, or inconsistent with the *Guidelines*, CARU seeks changes through the voluntary cooperation of advertisers.
5. Many countries are far stricter than the United States about advertising to children.

APPLICATION EXERCISE: Responsible and Ethical Advertising to Children

Activity Summary: The ethics of advertising to children are explored in this activity. Students read a case study about Learning Curve, a fictional company that offers advertising-supported educational material online. They are then encouraged to review the Children's Advertising Review Unit's special guidelines for advertising to children. Next, students answer multiple choice questions about whether it would be ethical and responsible for Learning Curve to accept an advertisement proposed by Spike T, a beverage company.

Type: Case Analysis

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Learning Objectives:
Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.
Learning Objective: 02-03 Explain the difference between social responsibility and ethics in advertising.

Difficulty Level: 1 Easy, 2 Medium, 3 Hard

Blooms: Apply

AACSB: Knowledge Application

Follow-Up Activity: Instructors could display examples of advertisements found in media for children and lead a discussion about whether or not the ads are ethical and responsible.

D. Consumer Privacy
   1. With the increased use of smart phones and the Internet, both of which can be used for advertising, the issue of **privacy rights** is in the news.
   2. Web advertisers store files called **cookies** on consumer hard drives that keep a log of Internet activities, allowing sites to track customers' web-surfing habits.
   3. Internet companies argue that such tracking is not personal; it's typically performed anonymously and helps them customize content to match users' interests.
   4. However, DoubleClick, a leading provider of marketing tools for web advertisers, merged with a direct-mail company, enabling DoubleClick to combine online profiles with offline identifying information. Google has since acquired DoubleClick, gaining access to that information.
   5. More than half of Internet users believe that online tracking is harmful. Consumers have options to disable cookies or "opt out" of tracking, although these options may limit Internet access.
   6. The Federal Trade Commission together with the Network Advertising Initiative have created a framework for self-regulation of online profiling.
   7. The Fair Information Practice Principles consist of five core elements:
      a. *Notice,* which requires that the website clearly post its privacy policy.
      b. *Choice,* which relates to consumers' level of control over being profiled and how their information is used.
      c. *Access,* the ability for consumers to access information collected about them and make amendments to it.
      d. *Security,* which requires that network advertisers make reasonable efforts to protect the data they collect from loss, misuse, or improper access.

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e. *Enforcement,* a requirement that all industry members subject themselves to monitoring by an independent third party to ensure compliance with the Fair Information Practice Principles.

APPLICATION EXERCISE: Understanding the FTC Network Advertising Initiative

Activity Summary: This activity reviews the Fair Information Practice Principles formulated by the Federal Trade Commission and the Network Advertising Initiative, which is a framework for companies to self-regulate their online profiling of consumers. In the exercise, students are instructed to review the description of the Fair Information Practice Principles in the text. Next, they click and drag five examples of consumer experiences to the principles that they represent. (Note: A keyboard accessible version of this activity is also available.)

Type: Click and Drag

Learning Objectives:
Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.
Learning Objective: 02-05 Discuss the activities of nongovernment organizations in fighting fraudulent and deceptive advertising.

Difficulty Level: 2 Medium

Blooms: Analyze

AACSB: Analytical Thinking

Follow-Up Activity: Students could be tasked with visiting five different websites and determining if they comply with the Fair Information Practice Principles. Students should be encouraged to visit at least one or two websites that are not among the most trafficked on the Internet.

VII. Federal Regulation of Advertising in the United States

The U.S. government controls advertisers through laws, regulations, and judicial interpretations. The many federal agencies and departments include the following:

A. The Federal Trade Commission

The *Federal Trade Commission (FTC)* is the major regulator of advertising. It is the FTC's responsibility to maintain the existence of *many sellers* in the marketplace, strive to provide more *complete information* to consumers, and keep the marketing process as free of *externalities* as possible.

1. Defining Deception

a. The FTC defines **deceptive advertising** as any ad that contains a misrepresentation, omission, or other practice that can mislead a

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significant number of reasonable consumers to their detriment.

b. Court rulings have suggested the following acts are unfair or deceptive practices: false promises, incomplete description, false and misleading comparisons, bait-and-switch offers, visual distortions and false demonstrations, false testimonials, partial disclosure, and small-print qualifications.

2. Defining Unfairness
   a. **Unfair advertising** occurs when a consumer is "unjustifiably injured" or there is a "violation of public policy" (such as government statutes). Unfair advertising is the result of a lack of *complete information*, and/or some other *externality*.
   b. Practices considered unfair include claims made without prior substantiation, claims that exploit vulnerable groups, and cases where the consumer cannot make a valid choice because the advertiser leaves out important information.
   c. Advertising organizations have argued that the word "unfair" is so vague that it can mean whatever any given individual wants it to mean. They have lobbied Congress to eliminate the FTC's power to prosecute on unfairness grounds, and Congress has passed a compromise bill that suggests the FTC may a have narrower scope to regulate unfairness in the future.
3. Comparative Advertising
   a. Advertisers use c**omparative advertising** to claim superiority to competitors in some aspect.
   b. The FTC cracked down on the Arizona Auto Dealers Association for restricting truthful, nondeceptive, comparative price advertising among its members.
   c. Under current law, any advertiser that misrepresents its own or another firm's goods, services, or activities is vulnerable to a civil action.
   d. In addition to being truthful, comparative ads must compare some objectivity measurable characteristic.
4. Investigating Suspected Violations
   a. The FTC looks for three kinds of information: *substantiation, endorsements,* and *affirmative disclosures.*
   b. If a suspected violator cites survey findings or scientific studies, the FTC may ask for **substantiation.**
   c. The FTC also scrutinizes ads that contain questionable **endorsements** or **testimonials.**
   d. Advertisers must make **affirmative disclosure** of their product's limitations or deficiencies: for example, EPA mileage ratings for cars,

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pesticide warnings, and statements that saccharin may be hazardous to one's health.

5. Remedies for Unfair or Deceptive Advertising
   When the FTC determines that an ad is deceptive or unfair, it may take three courses of action: negotiate with the advertiser for a *consent decree*, issue a *cease-and-desist order*, and/or require *corrective advertising*.
   a. A **consent decree** is a document the advertiser signs agreeing to stop the objectionable advertising without admitting any wrongdoing.
   b. If an advertiser won't sign a consent decree, the FTC may issue a **cease-and-desist order** prohibiting further use of the ad.
   c. The FTC may also require **corrective advertising** for some period of time to explain and correct offending ads.

B. The Food and Drug Administration (FDA)
   A division of the Department of Health and Human Services, the *Food and Drug Administration (FDA)* enforces the Federal Food, Drug, and Cosmetic Act and several other health laws.
   1. It is the FDA's job to see that the food we eat, the cosmetics we use, and the medicines and therapeutic devices we buy are safe and effective.
   2. The FDA requires manufacturers to disclose all ingredients on product labels, in in-store product advertising, and in product literature. Labels must accurately state the weight or volume of contents.
   3. Labels on therapeutic devices must give clear instructions for use.
   4. The FDA can require warning statements on packages of hazardous products.
   5. The FDA requires that any ad for a brand-name drug must mention any important possible side effects and direct people to print ads, Internet sites, or doctors for more information.
   6. The **Nutritional Labeling and Education Act (NLEA)** gives the FDA additional muscle by setting stringent legal definitions for terms such as *fresh, light, low fat,* and *reduced calories.* It also set standard serving sizes and required labels to show food value for one serving.

C. The Federal Communications Commission (FCC)
   The seven-member *Federal Communications Commission (FCC)* is an independent federal agency with jurisdiction over the radio, television, telephone, satellite, Internet, and cable TV industries.
   1. Its control over broadcast advertising stems from its authority to license broadcasters (or take away their licenses).
   2. In the 1980s, the FCC deregulated both radio and TV stations.
   3. The 1992 Cable Television Consumer Protection and Competition Act gave the FCC additional teeth. It placed new controls on the cable TV industry to encourage a more service-oriented attitude and to improve the balance

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between rates and escalating ad revenues.

4. The FCC is also an arbiter of broadcast decency. Over-the-air television channels cannot air "obscene" material at any time.

D. The Patent and Trademark Office and the Library of Congress
   1. A basic role of government is to promote and protect the economic well-being *(self-interest)* of its citizens. One way the U.S. government does this is by registering and protecting its citizens' **intellectual property.**
   2. Through the issuance of **patents**, the government provides incentives to invent, invest in, and disclose new technology worldwide.
   3. A **trademark** is "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others."
   4. Patents and trademarks are registered with and protected by the U.S. Patent and Trademark Office. Ownership of a trademark may be designated in advertising or on a label, package, or letterhead by the word *Registered,* the symbol ®, or the symbol™.
   5. A **copyright** is a form of protection provided to the authors of "original works of authorship," including literary, dramatic, musical, artistic, and certain other "intellectual works."
      a. A copyright issued to an advertiser grants the exclusive right to print, publish, or reproduce the protected ad for the life of the copyright owner plus 50 years.
      b. A copyright issued to an individual grants the exclusive right to print, publish, or reproduce the protected material for the life of the copyright owner plus 70 years.

APPLICATION EXERCISE: Regulation of Advertising

Activity Summary: In this activity, students learn about government regulations and regulatory agencies that affect advertising in the United States. The regulators mentioned are the Federal Communications Commission, Federal Trade Commission, Food and Drug Administration, Library of Congress, and Patent and Trademark Office. The exercise presents a table that gives five examples of unlawful advertising activities. Students are asked to identify the agency that regulates each activity and the regulatory principle that is most likely involved in the unlawful activity by clicking and dragging them onto the appropriate places on the table. (Note: A keyboard accessible version of this activity is also available.)

Type: Click and Drag

Learning Objectives:
Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.

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Learning Objective: 02-05 Discuss the activities of nongovernment organizations in fighting fraudulent and deceptive advertising.

Difficulty Level: 3 Hard

Blooms: Remember

AACSB: Reflective Thinking

Follow-Up Activity: Instructors could present real-world examples of unlawful advertising practices and call on students to identify what agency is involved in regulating the unlawful practices.

VIII. State and Local Regulation

A. State legislation governing advertising is often based on the truth-in-advertising model statute developed in 1911 by *Printer's Ink*, which was the major trade publication of the industry for many years. The statute holds that any maker of an ad found to contain "untrue, deceptive, or misleading" material is guilty of a misdemeanor.

B. All states have "little FTC" consumer protection acts that govern unfair and deceptive business practices.

C. Different states have different regulations governing what can be advertised, an inconsistency that can create problems for advertisers and actually hurt consumers.

D. Many cities and counties have consumer protection agencies to enforce laws regulating local advertising practices. The chief function of these agencies is to protect local consumers.

✔ **Check Yourself 2-4**

1. Describe an action that has been taken by a government agency to restrict the activities of advertisers.
   - Tobacco restrictions
   - Restrictions on advertising to children
2. What is an example of an Internet privacy related concern?
   - Internet users worry about people they don't know, and even businesses they do know, getting their personal information. Many sites create profiles of their visitors to get data such as e-mail addresses, clothing sizes, or favorite books.
   - To create these user profiles, websites use tiny files, called *cookies*, that keep a log of where people click, allowing sites to track customers' web-surfing habits.

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IX. Nongovernment Regulation

Nongovernmental organizations also issue advertising guidelines (See Exhibit 2-4).

A. The Better Business Bureau (BBB)

The largest of the U.S. business-monitoring organizations is the *Better Business Bureau (BBB)*, established in 1916.

1. Funded by dues from its members, it operates primarily at the local level to protect consumers against fraudulent and deceptive advertising and sales practices.
2. The BBB's files on violators are open to the public. Records of violators who do not comply are sent to appropriate government agencies for further action.

B. The Advertising Self-Regulatory Council (ASRC)

The National Advertising Review Council (NARC)**,** established in 1971, changed its name to the Advertising Self-Regulatory Council (ASRC) in 2012.

1. The ASRC's primary purpose is to promote and enforce standards of truth, accuracy, taste, morality, and social responsibility in advertising.
2. The ASRC has two operating arms: the *National Advertising Division (NAD)* of the Council of Better Business Bureaus and the *National Advertising Review Board (NARB).*
   a. The NAD monitors advertising practices and reviews complaints from consumers, consumer groups, brand competitors, local BBBs, trade associations, and others.
   b. The appeals board for the NAD is the NARB.

C. Regulation by the Media

Many people think the media are more effective regulators than the government.

1. Television
   a. The TV networks conduct the strictest review.
   b. Advertisers must submit commercials intended for a network or affiliated station to its **broadcast standards department**.
2. Radio
   a. The U.S. radio networks, unlike TV networks, supply only a small percentage of their affiliates' programming, so they have little or no say in what their affiliates advertise.
   b. Every radio station typically has its own unwritten guidelines.
   c. SiriusXM, or satellite radio, tends to use standards related to its individual channels.
3. Magazines
   a. National magazines monitor all advertising, especially by new advertisers and for new products.
   b. Many magazines will not accept advertising for certain types of products.
   c. Some magazines, such as *Good Housekeeping*, test every product before

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accepting the advertising.

4. Newspapers
    a. Newspapers also monitor and review advertising. Larger newspapers have clearance staffs who read every ad submitted; most smaller newspapers rely on the advertising manager, sales personnel, or proofreaders.
    b. One problem advertisers face is that newspapers' codes are far from uniform.

D. Regulation by Consumer Groups

The consumer movement gave rise to **consumerism,** social action dramatizing the rights of the buying public.

1. **Consumer advocate** groups investigate advertising complaints received from the public and those that grow out of their own research.
2. When protests about ads start, the ads usually get pulled.

E. Self-Regulation by Advertisers and Ad Agencies

1. Advertisers also regulate themselves. In today's competitive marketplace, consumer confidence is essential. Most large advertisers gather strong data to substantiate their claims, and they maintain careful systems of advertising review.
2. Agencies can be held legally liable for fraudulent or misleading advertising claims. Most ad agencies monitor their own practices.
3. Several associations monitor industrywide advertising practices.
    a. The *American Association of Advertising Agencies (AAAA)*, an association of the largest ad agencies throughout the United States, controls agency practices by denying membership to any agency judged unethical.
    b. The *American Advertising Federation (AAF)* helped establish the FTC, and its early vigilance committees were the forerunners of the Better Business Bureau. The AAF *Advertising Principles of American Business,* adopted in 1984, define standards for truthful and responsible advertising (see Exhibit 2–5).
    c. *The Association of National Advertisers (ANA)* comprises 370 major manufacturing and service companies that are clients of member agencies of the AAAA. These companies, pledged to uphold the ANA code of ethics.

X. Government Restraints on International Advertisers

A. Foreign governments often regulate advertising considerably more than the United States does. While Europe has moved toward uniformity in marketing activities, the laws governing advertising remain largely national.

B. Some governments not only regulate what ads say, show, or do, but also impose

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severe restrictions on advertising specific products.

C. Many countries prohibit puffery.

D. Many European countries also ban coupons, premiums, free tie-in offers, and the like.

E. In international advertising, the only way to navigate this morass of potential legal problems is to retain firms that specialize in advertising law.

✔ **Check Yourself 2-5**

1. Why do advertisers and ad agencies work so diligently to regulate their own activities?

   Self-regulation by advertisers and ad agencies can be critical to success. Agencies need the confidence of the public and thus have an incentive to substantiate their claims. Also, without self-regulation, more government intervention is possible, as can be seen with the debate surrounding fast food marketed to children. The ad industry has organizations that have developed codes of conduct which establish a basis for complaints. Advertising associations monitor industry-wide advertising practices. They are the *American Association of Advertising Agencies* (AAAA), *American Advertising Federation* (AAF), and *Association of National Advertisers* (ANA).

XI. The Ethical and Legal Aspects of Advertising in Perspective

A. There is no disputing that advertising has been and still is often misused.

B. Advertising apologists point out that of all the advertising reviewed by the Federal Trade Commission in a typical year, 97 percent is found to be satisfactory.

C. Advertisers and consumers need to work together to ensure that advertising is used intelligently, ethically, and responsibly for the benefit of all.

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start here.

Chapter Two
The Environment of Advertising



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Learning Objectives (1 of 2)

- Learning Objective 2.1: Describe the impact of advertising on the economy.
- Learning Objective 2.2: Examine the validity of the various social criticisms of advertising.
- Learning Objective 2.3: Explain the difference between social responsibility and ethics in advertising.

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Learning Objectives (2 of 2)

- Learning Objective 2.4: Describe how government agencies regulate advertising to protect both consumers and competitors.
- Learning Objective 2.5: Discuss the activities of nongovernment organizations in fighting fraudulent and deceptive advertising.

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Introduction

Advertisers face a variety of economic, social, ethical, and legal issues.

Society determines what is

- Offensive
- Excessive
- Irresponsible

Government determines what is

- Deceptive
- Unfair

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Issues in Advertising

Highly visible activity—Companies risk public criticism if the following are true:

- An advertisement is offensive or displeasing.
- Products do not measure up to the advertised promises.

Influence on the economy

Societal effects

Responsibility for harmful effects

Proper role of government

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Underlying Principles of Free-Market Economics

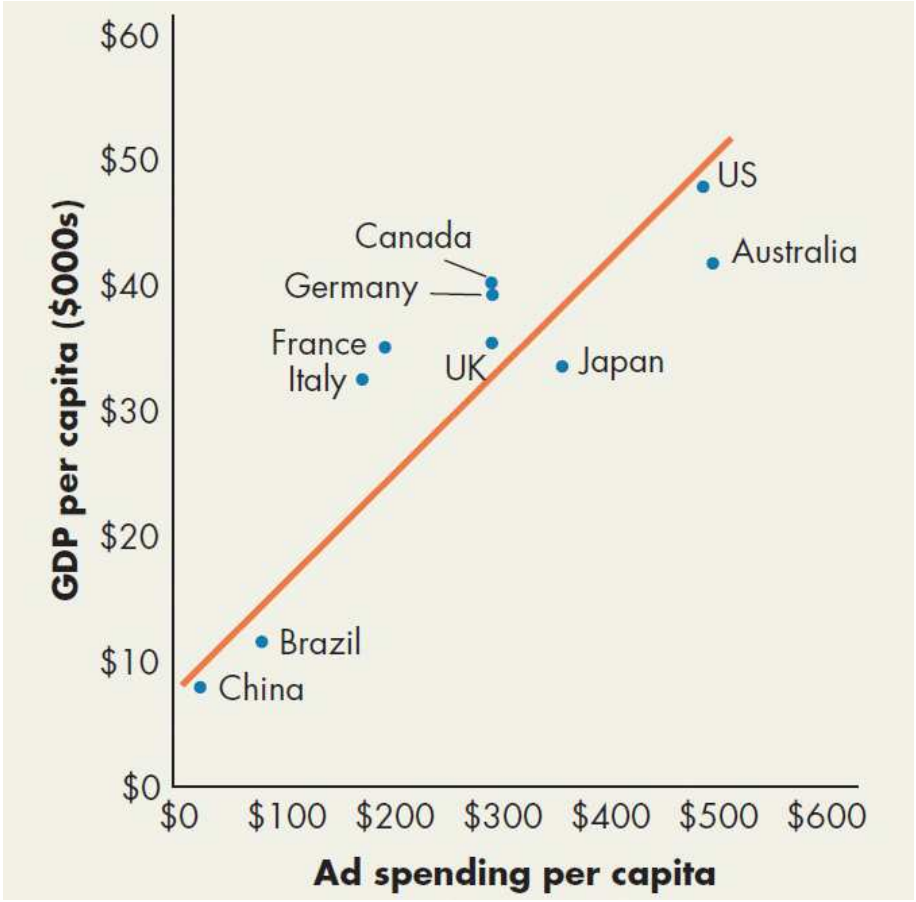
Four fundamental assumptions:

- Self-interest
- Many buyers and sellers
- Complete information
- Absence of **externalities:** benefit or harm caused by sale or consumption of products to people who are not involved in the transaction and didn't pay for the product.

The overall goal is to achieve the greatest good for the most people.

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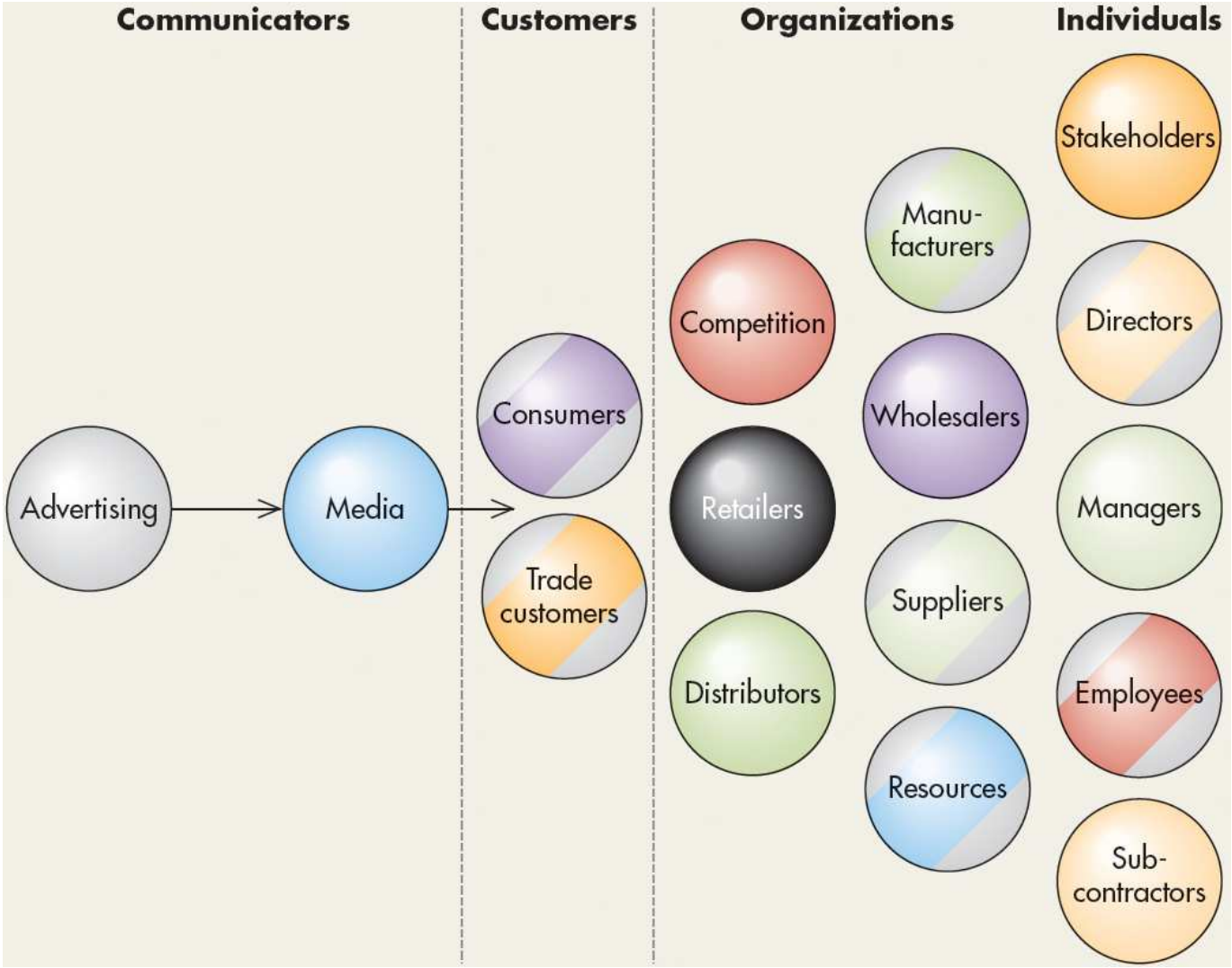
Exhibit 2.1 – A Country's Level of Ad Spending is Closely Related to its Standard Of Living



Sources: 2010 data: http://mumbrella.com.au/australia-has-largest-adspend-per capita-in-the-world-60128; World Bank 2011 data: http://en.wikipedia.org/wiki/List_of_countries_by_GDP_%28PPP%29_per_capita.

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Exhibit 2.2 - Economic Effect of Advertising Compared to a Break Shot in Billiards



Jump to Appendix 1 long image description

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Effect of Advertising on the Value of Products

Gives brands added value

- **Added value**: Increase in worth of a product or service provided by communicating benefits over and above those offered by the product itself
- Creates a positive image that makes a product more desirable to consumers
- Educates consumers about new uses for a product
- Allows consumers to communicate who they are (or want to be) through the products they use

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Effect of Advertising on Prices

Small part of a product's cost

Enables mass production, which lowers the cost per unit of a product

Regulated industries see no price increase associated with advertising

Retailing—Advertising contributes to both higher and lower prices

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Effect of Advertising on Competition

Big advertisers have a limited effect on competition or small businesses.

- One advertiser is not large enough to dominate national advertising.
- Freedom to advertise encourages more sellers to enter the market.
- Nonadvertised store brands compete with nationally advertised brands.

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Effect on Consumers and Businesses

In growing markets, advertising

- provides more “complete information.”
- stimulates **primary demand:** consumer demand for a whole product category.
- helps businesses compete for a share of the growing market.

In declining markets, it

- mainly provides price information.
- influences **selective demand:** consumer demand for the particular advantages of one brand over another.
- helps businesses compete for each other’s market share.

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Abundance Principle

In an economy that produces more goods than can be consumed, advertising serves two purposes:

- Informs consumers of their alternatives (complete information)
- Allows companies to compete more effectively, resulting in more and better products at similar or lower prices (self-interest)

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Social Impact of Advertising (1 of 3)

Deception in advertising

- **Puffery:** exaggerated, subjective claims that cannot be proven true or false

Subliminal advertising myth

- **Subliminal advertising:** advertisements with messages (often sexual) supposedly embedded in illustrations below the threshold of perception
- No study to date has proved that subliminal advertising works or even exists.
- Taps into consumer fears that they are being manipulated by advertising

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Social Impact of Advertising (2 of 3)

Advertising and our values

- Advertising promotes a materialistic way of life.
- Ads play on our emotions and promise greater status, social acceptance, and sex appeal.
- Only 17 percent of U.S. consumers see advertising as a source of information to help them decide what to buy.

Proliferation of advertising

- A common complain is that there is too much exposure to advertisements in all media
- The average U.S. consumer is exposed to as many as 1,000 commercial messages each day.

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Social Impact of Advertising (3 of 3)

Stereotypes in advertising

- **Stereotype**: A negative or limiting preconceived belief about a type of person or a group of people that does not take into account individual differences.
- Insensitivity to minorities, women, immigrants, persons with disabilities, the elderly, and other groups

Offensive advertising

- Offended consumers can boycott a product.
- Marketplace veto power: Campaign will falter if the ads do not pull in audiences.

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Social Impact of Advertising in Perspective (1 of 2)

Encourages development and speeds the acceptance of new products and technologies

Fosters employment

Consumers have a wider variety of choices

Helps keep prices down through mass production

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Social Impact of Advertising in Perspective (2 of 2)

Promotes healthy competition between producers

Promotes a higher standard of living

Enables freedom of press

Disseminates public information on social issues

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Social Responsibility and Advertising Ethics

Ethical advertising: doing what the advertiser and advertiser's peers believe is morally right in a given situation

Social responsibility: doing what society views as best for the welfare of people in general or for a specific community

Together, ethics and social responsibility can be seen as the moral obligation of advertisers, even when there is no legal obligation.

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Advertisers' Social Responsibility

Advertising's role

- Influences a society's stability and growth
- Secures large armies
- Creates entertainment events, drawing fans
- Affects the outcome of political elections

Advertisers have a responsibility to maintain ethical standards that support the society and contribute to social welfare.

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Ethics of Advertising

Three levels of ethical responsibility:

- Traditional customs and principles of a society
- Attitudes, feelings, and beliefs that form a personal value system
- Singular ethical concepts (good, bad, right, wrong, duty, integrity, truth)

Advertisements are reviewed and modified to create complete information and to reduce unwanted externalities.

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Freedom of Commercial Speech (1 of 3)

Some forms of commercial speech (speech that promotes a commercial transaction) are protected under the First Amendment.

- The Supreme Court ruled against restrictions on attorney advertising in the 1976 case *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council.*
- In 1980, the Supreme Court established the *Central Hudson* test for regulating commercial speech.
- In 2011, Supreme Court ruled against restrictions on data mining in *Sorrell v. IMS Inc.*

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Freedom of Commercial Speech (2 of 3)

Advertising tobacco products is heavily restricted due to externalities:

- Kills or disables more than 500,000 each year
- Costs taxpayers billions of dollars in health care costs

In 1998, tobacco companies agreed to

- limit brand name promotion at events with young attendees.
- eliminate the use of carton characters in ads.
- create a $200 billion fund to cover the health costs associated with smoking.

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Freedom of Commercial Speech (3 of 3)

Advertising to children

- Can lead to false beliefs or highly improbable product expectations
- Should not be intentionally deceptive

Children's Advertising Review Unit (CARU)

- Reviews and evaluates child-directed advertising
- Seeks changes through voluntary cooperation of advertisers

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Consumer Privacy (1 of 3)

Consumer privacy is the second major regulatory issue facing advertisers (after freedom of commercial speech).

Increased use of smartphones and Internet has led to growing consumer concern

- **Privacy rights:** an individual's right to prohibit personal information from being divulged to the public
- Has ethical, legal, and practical consequences for advertisers

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Consumer Privacy (2 of 3)

Internet users worry about people they don't know, and even businesses they do know, getting personal information.

Many sites create profiles of their visitors or track browsing habits using **cookies:** small files that keep a log of where people click, allowing sites to track customers' web-surfing habits.

- Google, Apple, Facebook and many other companies use cookies to track users.
- Some sites require that cookies be accepted.
- Users can "opt in" or "opt out" of sharing information.

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Consumer Privacy (3 of 3)

The FTC and the Network Advertising Initiative created "Fair Information Practice Principles" to respond to consumer privacy concerns.

It has five core elements:

- Notice
- Choice
- Access
- Security
- Enforcement

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Federal Regulation Agencies of the Advertising Industry

Federal Trade Commission

Food and Drug Administration

Federal Communications Commission

Patent and Trademark Office

Library of Congress

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Federal Trade Commission (FTC)

Regulates acts of:

Deceptive advertising: misrepresentation, omission, or other practice that can mislead consumers to their detriment

Unfair advertising: causes a consumer to be unjustifiably injured or violates public policy

Comparative advertising: claims superiority to competitors in some aspect

- Must be truthful
- Must compare on an objectively measurable characteristic

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Investigating Suspected Violations

Substantiation: If an ad cites survey findings or scientific studies, the FTC may request this data from a suspected advertising violator.

Endorsements and **testimonials** are when customers or celebrities endorse a product in advertising. The FTC requires that paid endorsements be disclosed, that claims be substantiated, and that celebrity endorsers be actual users of what they endorse.

Affirmative disclosure, making known a product's limitations or deficiencies, is another FTC requirement.

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Remedies for Unfair or Deceptive Advertising

Consent decree: document signed by advertisers without admitting any wrongdoing, in which they agree to stop objectionable advertising

Cease-and-desist order: issued by the FTC if an advertiser won't sign a consent decree

- Prohibits further use of an ad

Corrective advertising: required by the FTC for a period of time to explain and correct offending ads

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Food and Drug Administration (FDA)

Responsible for the safety of food, cosmetics, and medicine and therapeutic devices

Nutritional Labeling and Education Act (NLEA)

- Sets legal definitions for terms such as fresh, light, low fat, and reduced calories
- Sets standards for serving sizes
- Requires labels to show food value for one serving alongside the total recommended daily value as established by the National Research Council

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Federal Communications Commission (FCC)

Has jurisdiction over radio, television, telephone, satellite and cable TV industries, and the Internet

Can grant or take away broadcast licenses

Restricts the products advertised and the content of ads

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Patent and Trademark Office and the Library of Congress (1 of 2)

Intellectual property: intellectual works legally protected by copyright, patent, or trademark

Patent and Trademark Office registers intellectual property protected by patent or trademark.

- **Patent:** confers upon the creator of an invention the sole right to make, use, and sell that invention for a set period of time
- **Trademark**: word, name, symbol, device, or any combination adopted and used by manufacturers or merchants to identify and distinguish their goods from those manufactured or sold by others

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Patent and Trademark Office and the Library of Congress (2 of 2)

Library of Congress protects all copyrighted material

Copyright: Protects an original work from being plagiarized, sold, or used by another without the individual's express consent

- Granted by the Copyright Act to authors and artists
- Exclusive right to print, publish, or reproduce the protected material for the life of the copyright owner plus 70 years

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State and Local Regulation of the Advertising Industry

All states have consumer protection laws governing unfair and deceptive practices.

- State legislation for advertising is often based on the truth-in-advertising statute: any maker of an ad found to contain “untrue, deceptive, or misleading” material is guilty of a misdemeanor.
- States work together to investigate and prosecute violations.
- Differences between state laws can frustrate advertisers.
- Localities also have consumer protection agencies.

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Nongovernment Regulation (1 of 2)

Better Business Bureau (BBB)

- Operates at the local level
- Protects consumers against fraudulent and deceptive advertising and sales practices
- Maintains public records of violators
- Sends records of non-compliant violators to appropriate government agencies
- May work with local law enforcement to prosecute advertisers guilty of fraud and misrepresentation

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Nongovernment Regulation (2 of 2)

The Advertising Self-Regulatory Council (ASRC) promotes and enforces standards of truth, taste, morality, and social responsibility.

Its National Advertising Division (NAD)

- Monitors advertising practices
- Reviews complaints from consumers, consumer groups, brand competitors, local BBBs, and trade associations

Its National Advertising Review Board (NARB)

- Serves as an appeals board for NAD decisions
- Consists of chairperson and 40 national advertisers, 20 agency representatives, and 10 laypeople

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Regulation by the Media

Type of Media	Regulation Status
Television	• Strictest of the media • Cable less strict than broadcast networks • **Broadcast standards department:** reviews all programs and commercials to be broadcast to see that they meet all applicable standards
Radio	• Have unwritten guidelines
Magazines	• Older magazines stricter than newer media • Some test products before accepting ads
Newspapers	• Staff monitors and reviews ads • Codes are not uniform

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Regulation by Consumer Groups

Consumerism: social action designed to dramatize the rights of the buying public

Consumer advocate: individual or group that actively works to protect consumer rights, often by investigating advertising complaints received from the public and those that grow out of their own research

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Self-Regulation by Advertisers and Ad Agencies

In-house legal counsels review advertisements before they are made public.

Associations that monitor industry-wide advertising practices include:

- American Association of Advertising Agencies (AAAA)
- American Advertising Federation (AAF)
- Association of National Advertisers (ANA)

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Advertising Principles of American Business of the American Advertising Federation (1 of 2)

- **Truth:** Be truthful, and reveal significant facts that would mislead the public if omitted.
- **Substantiation:** Claims are to be substantiated by evidence in possession of the advertiser and the advertising agency prior to making such claims.
- **Comparisons:** Do not make false, misleading, or unsubstantiated claims about a competitor or his/her products or services.
- **Bait advertising:** Do not offer products for sale unless the offer constitutes a bona fide effort to sell and does not lead consumers to goods at a higher price.

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Advertising Principles of American Business of the American Advertising Federation (2 of 2)

- **Guarantees and warranties:** Be explicit about when guarantees and warranties are available and what they do and do not cover.
- **Price claims:** Avoid false or misleading price claims, or savings claims that do not offer provable savings.
- **Testimonials:** Limit to those of competent witnesses who reflect a honest opinion or experience.
- **Taste and decency:** Avoid statements, illustrations, or implications that are offensive to good taste or public decency.

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International Advertising Regulation

Foreign governments regulate differently than the United States.

- Greater restrictions
- Different legal environments

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Image Descriptions Appendix

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Exhibit 2.2 - Economic Effect of Advertising Compared to a Break Shot in Billiards Appendix

Depicts Advertising as a cue ball striking a triangle of other billiard balls. The first ball in the triangle is Media. Along with Advertising it is in the Communicators group. The next two balls, which are being struck in turn by Media, are Consumers and Trade customers, which make up the Customers group.

Behind that is the Organizations group: Competition, Retailers, Distributors, Manufacturers, Wholesalers, Suppliers, and Resources. The last row is the Individuals group: Stakeholders, Directors, Managers, Employees, and Subcontractors.

Return to slide

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Advertising
Chapter Two

The End

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