Advertising and Integrated Brand Promotion 8th edition OGuinn Solutions Manual

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CHAPTER 2
The Structure of the Advertising and Promotion Industry: Advertisers, Agencies, Media, and Support Organizations

IBP in Action: Colorado

Learning Objectives

1 Discuss important trends transforming the advertising and promotion industry.

One major trend affecting advertisers, agencies, and the media is that consumers are now in greater control of their exposure information. Collectively, individuals are gravitating toward sharing and creating information through websites, social media, apps, and video sites. Another example of consumer control is the increased use of on-demand streaming and digital video recorders, with a growing number of households cutting the cord on cable subscriptions.

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. Media proliferation has led to more media clutter and fragmentation, reducing the effectiveness of advertisements; as a result, advertisers are using more IBP tools and digital buys to enhance the primary advertising effort. Through crowdsourcing, advertisers get consumers more involved with and committed to a brand. Technology enables advertisers to reach consumers with messages directed to consumers' mobile devices, despite the growing use of ad blockers as consumers seek to retain control over information flow.

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

Many different types of organizations make up this large industry. The process begins with an organization (the advertiser) that has a message to communicate to a target audience. The advertiser typically hires advertising and promotion agencies to launch and manage a campaign, but other external facilitators are often brought in to perform specialized functions, such as digital/interactive agencies for mobile marketing and social media campaigns. To reach target markets, advertisers and their agencies work with media organizations to reach target audiences.

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

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.

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

Marketing and advertising research firms assist advertisers and their agencies in understanding the market environment. Consultants of all sorts from marketing strategy through event planning and retail display are also external facilitators. External production facilitators offer services during and after the production process. In promotions, designers and planners are called on to assist in creation and execution of promotional mix tools. Software firms fill a growing role in the industry by offering specialized expertise in tracking and analyzing consumer behavior and media usage.

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

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. The media industry is geared toward target audiences of consumers and of businesses and government agencies. Business advertisers are investing heavily in content marketing to appeal to decision-makers.

KEY TERMS

social media
blog
crowdsourcing
advertiser
client
trade reseller
advertising agency
full-service agency
creative boutique
digital/interactive agency
in-house agency
media specialist
promotion agency
direct response agency
direct marketing agency
database agency
fulfillment center
infomercial
consumer sales promotion
trade-market sales promotion
event-planning agency
designer
logo
public relations firm
account services
account planner
creative services production services
media planning and buying services
commission system
markup charge
fee system
pay-for-results
external facilitator
consultant
production facilitator
content marketing

Chapter 2 Outline

PPT 2-1–2-5

Introduction

Framework
Learning Objectives
IBP in Action: Colorado

This chapter contains some key information about the new era for advertising (and its role in integrated brand promotion, or IBP). While the industry has been characterized by rapid change

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

I. The Advertising Industry in Constant Transition

PPT 2-6

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. 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

PPT 2-7–2-10

The following are trends affecting the advertising and promotion industry.

A. Consumer Control: From Social Media to Blogs to DVRs

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

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 allowed to legally, 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

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

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

D. Crowdsourcing

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

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.

III. The Scope and Structure of the Advertising and Promotion Industry

PPT 2-10–2-33

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

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 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

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

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agency partners. The following categories describe the different types of advertisers and the role advertising plays for them.

Manufacturers and Service Firms

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.

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.

Trade Resellers

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.

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. 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.

Federal, State, and Local Government

Although it may seem odd to students to list the government as an advertiser, government bodies invest millions of dollars in advertising annually. 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.

Social and Not-for-Profit Organizations

Advertising by social and not-for-profit organizations at the national, state, and local level is common—Red Cross, 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. 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

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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:

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

D. Advertising and Promotion Agencies

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

Advertising Agencies

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.

Consider the 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. 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.[1] So even though the absolute dollars seem huge, the relative spending is often much more modest.

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

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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.

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.

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.

In-House Agencies

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.

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.

Promotion Agencies 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.

Direct Marketing and Database Agencies (also called direct response agencies)

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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 mail or telemarketing or direct response campaigns using all forms of media. They help advertisers construct and merge databases of 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.

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.**

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.

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.

Public Relations Firms

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

E. Agency Services

PPT 2-24

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.

Account Services

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.

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Another primary task in account services is to keep the various agency teams—creative, production, and media—on schedule and within budget.

Marketing Research Services

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.

Creative and Production Services

The **creative services** group prepare the client's message that will be delivered through advertising, sales promotion, direct marketing, social networks, and mobile marketing. **Production services** include producers (and sometimes directors) who take creative ideas and turn them advertisements, direct mail pieces, and other IBP materials.

Media-Planning and Buying Services

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.

Administrative Services

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.

F. Agency Compensation

PPT 2-27

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.

Commission

The **commission system** is the traditional method of agency compensation and is based on the amount of money the advertiser spends on media.
Under this method, 15 percent of the total amount billed 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. We give students a simple example of how the commission system works.

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In the last five years, many agencies have challenged this traditional structure and negotiated different percentages for commission.

Markup Charges

Markup charges add a percentage to a variety of services the agency purchases from outside suppliers. In many cases, an agency will turn to outside contractors for art, illustration, photography, printing, research, and production. The agency then, in agreement with the client, adds a markup charge to these services. A typical markup on outside services has been 17.65 percent to 20 percent.

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.

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. In this type of program, the agency's fee is based on the achievement of agreed upon results.

G. External Facilitators

PPT 2-29

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

Marketing and Advertising Research Firms

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. Other research firms, such as SRI International, routinely collect data (from grocery store scanners, for example) and have these data available for a fee. There are also firms that specialize in message testing to determine if consumers find advertising messages appealing and understandable.

Consultants

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. 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. Three new types of consultants have emerged in recent years.

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One is a database consultant, who works with both advertisers and agencies in developing and managing databases for direct mail campaigns.

Production Facilitators

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. For broadcast production, directors, production managers, songwriters, camera operators, audio and lighting technicians, and performers are all essential. Production houses can provide the physical facilities, including sets, stages, equipment, and crews, needed for broadcast production. Similarly, in preparing print advertising, graphic artists, photographers, models, directors, and producers may be hired from outside the advertising agency or firm to provide the specialized skills and facilities needed in preparing advertisements.

Software firms

An interesting and complex new category of facilitator in advertising and promotion is that of software firms These firms offer the kind of expertise that is so esoteric that even the most advanced full-service or digital agency would have to seek their assistance.

H. Media Organizations

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.

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.

Print—advertisers can choose between magazines, direct mail, newspapers, specialty such as handbills and programs, and banners.

Interactive Media—it includes choices ranging from online computer services, home-shopping broadcasts, CD-ROMs to smartphones and e-readers.

Support Media—it 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.

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Media Conglomerates—note the inclusion in this list of "media conglomerates." This category is included because organizations like Viacom and Comcast own and operate companies in broadcast, print, and interactive media.

I. Target Audiences

PPT 2-33–2-35

The structure of the advertising and promotion industry and the flow of communication would obviously be incomplete without an audience. The audiences for promotional communications, with the exception of household consumers, are also the advertisers who use advertising and IBP communications. Business and government audiences are key to the success of a large number of firms that sell only to business and government buyers.

REVIEW QUESTIONS

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

   The major trends are:
   - Consumer control
   - Media proliferation, consolidation, and multiplatform media organizations
   - Media clutter and fragmentation
   - Crowdsourcing
   - Mobile marketing and mobile media

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

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

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

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

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

4. *The U.S. government spends millions of dollars each year trying to recruit young men and women into the armed services. What forms of advertising and IBP communications would be best suited to this recruiting effort?*

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

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

   First, even though billions of dollars represents huge spending on an absolute basis, the percentage of sales may be only 2.6 percent. Second, Chapter 1 highlights that advertising fulfills many important roles from persuasion, to brand image development, to market segmentation, differentiation, and positioning. Finally, Chapter 1 also highlights that advertising can contribute to economies of scale and inelasticity of demand which can have a positive effect on profits.

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

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

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

   The traditional advertising agency's expertise involves development of ad campaigns that are then placed in mass-media outlets like television, radio, newspapers, and magazines. The rising popularity of Integrated Brand Promotion (IBP) has seen marketers turn to other promotional vehicles like event sponsorship, sales promotions, direct marketing, and advertising on the Internet in an effort to break through the clutter to reach the

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targeted customer. Importantly, with the various tools that are being used, speaking to the customer with a "common voice" has become both more complicated and essential. Here we have the logic for the full-service agency. Speaking with a common voice should be easier if all the relevant expertise can be found "under one roof."

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

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

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

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

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

    New product introduction is likely to be accompanied by some level of advertising support; new product introductions are also an excellent time to engage a public relations firm. A new product should have some features or attributes that are newsworthy. Here is where the tools of public relations—press releases, feature 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.

Experimental Exercises

1. *In response to the Haitian earthquake that brought devastation to over one million people*

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

Answers will vary based on students' selections, but not-for-profit organizations use advertising to generate donations, raise awareness of causes, and shape public behavior. Many non-profits use ads to boost individual donations transacted at cause-related websites. In the case of the Business Civic Leadership Center, partnerships with large corporate donors enabled the non-profit agency to achieve its social responsibility goals while allowing leading corporations to associate their brands with international charity efforts.

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

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

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

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navigate privacy concerns?

b. Are there any legal risks or potential challenges?

c. Are there any legal risks or potential challenges to your approach?

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

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

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

---

[1] Stephanie Hernandez McGavin, "Automakers Rank High on Annual Ad-spending List," *Automotive News*, June 28, 2016, http://www.autonews.com/article/20160628/RETAIL03/160629852/automakers-rank-high-on-annual-ad-spending-list.

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Chapter 2

The Structure of the Advertising & Promotion Industry:

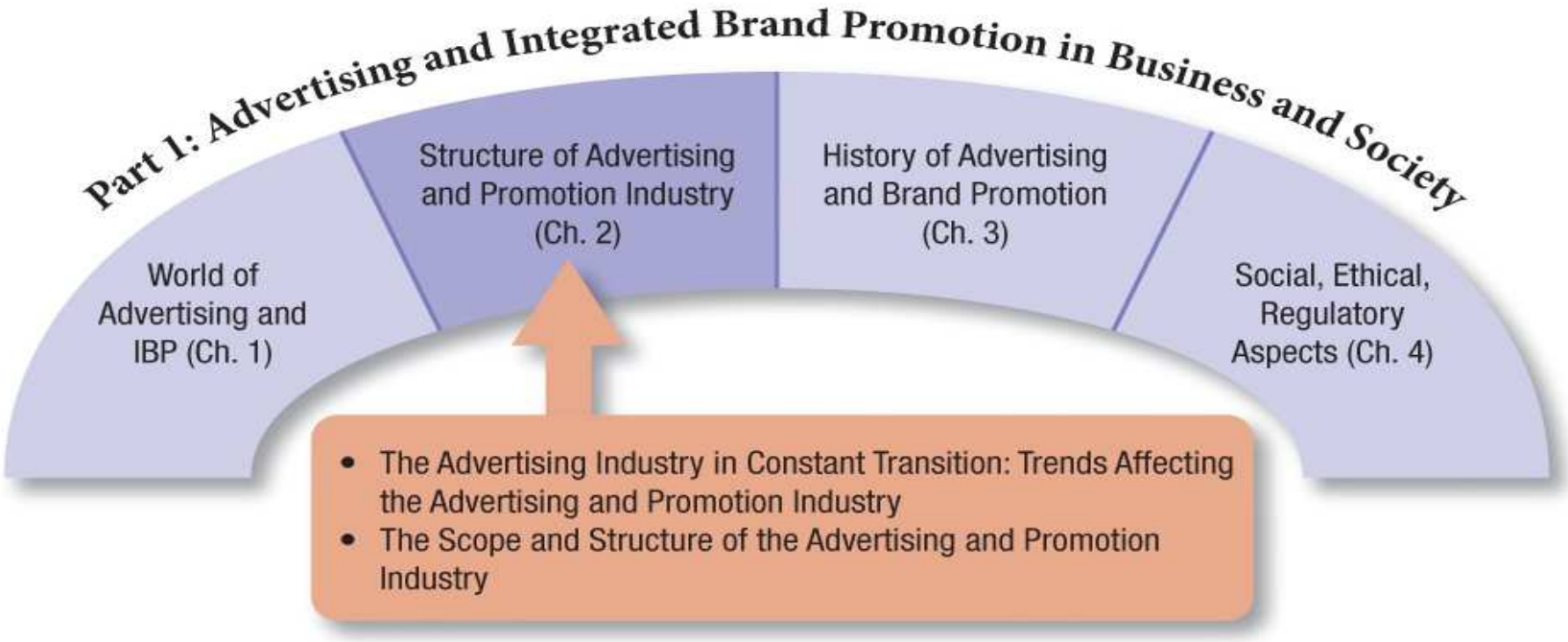
Advertisers, Agencies, Media, & Support Organizations

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Chapter 2 Framework

Exhibit 2.1 ▶ The framework of the Chapter 2 diagram shows now that the World of Advertising Overview is complete, we are focusing on the industry's structure. There are two perspectives. One is industry transition and trends. The other perspective is industry scope and structure.



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Learning Objectives (Ch 2.)

1. Discuss important trends transforming the advertising and promotion industry.
2. Describe the advertising and promotion industry's size, structure, and participants.
3. Discuss the role played by advertising and promotion agencies, the services provided by these agencies, and how the agencies are compensated.
4. Identify key external facilitators who assist in planning and executing advertising and integrated brand promotion campaigns.
5. Discuss the role played by media organizations in executing effective advertising and integrated brand promotion campaigns.

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IBP In Action: Colorado

How can a state best use IBP to promote tourism?

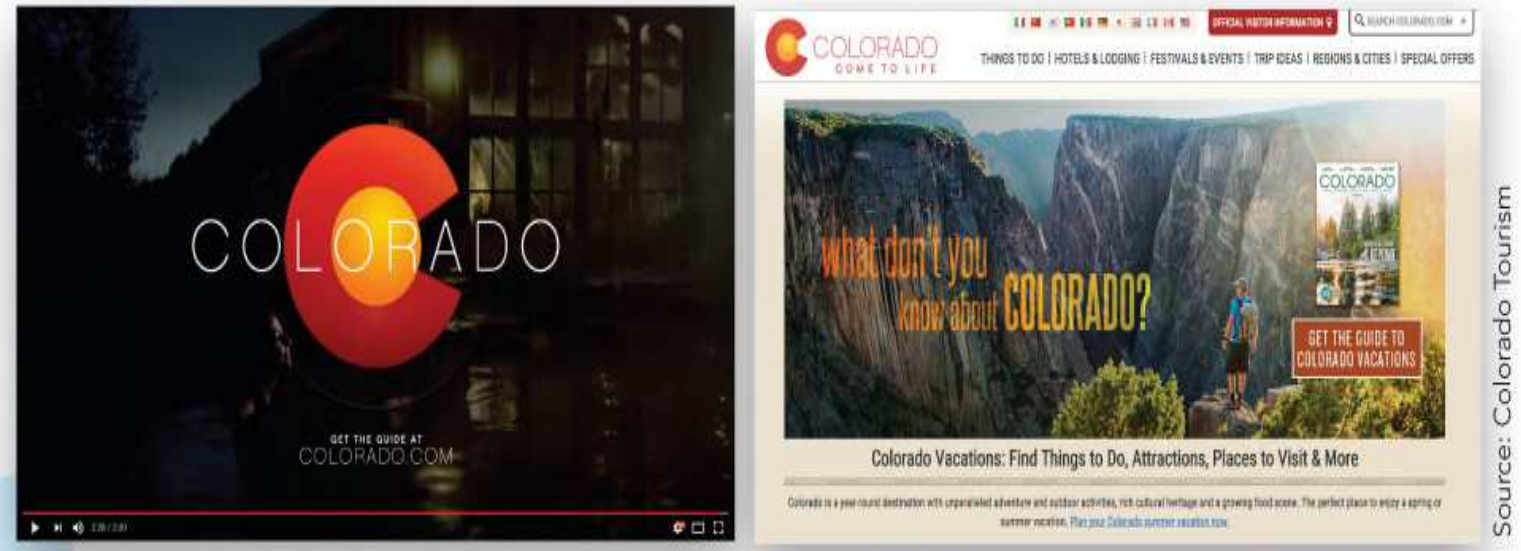


Exhibit 2.8 ▶ Integrated Brand Promotion in Action: Colorado

Colorado encourages tourism by focusing much of its advertising, website content, and social media messages on vivid images of the state's natural beauty. *How should Colorado, or any state, measure the results of its investment in integrated brand promotion?*

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The Advertising Industry in Constant Transition

-Power struggles.

-How can the industry adapt to tech change?

-Consumers seek to avoid ads at times.

-Consumers seek control (e.g., Netflix you pick your own content).

-Social media as a game changer with digital.

-Facebook's "careful targeting" of 70-80 million Facebook users.

-The role of the brand as central has not changed.

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Trends Affecting the Advertising and Promotion Industry (1 of 3)

1. Consumer control (content shift with Netflix, Hulu, Amazon "on demand" models."
   - **Social media**: Web-based media that allow the sharing of information between individuals and between individuals and groups.
   - **Blogs**: Websites frequented by individuals with common interests where they can post facts, opinions, and personal experiences.
   - DVRs: Digital video recorders.

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Trends Affecting the Advertising and Promotion Industry (2 of 3)

2. **Media proliferation, consolidation, and multiplatform media organizations** (at the industry level).

3. **Media clutter and fragmentation** (at the consumer level, more media options).
   – Greater emphasis on IBP tools.

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Trends Affecting the Advertising and Promotion Industry (3 of 3)

4. Crowdsourcing: Online distribution of certain tasks to groups of experts, enthusiasts, or consumers.

5. **Mobile marketing/mobile media:**

Exceeds $20 billion a year.

22% of mobile users installed ad blockers.

May feel intrusive.

Includes branded games and entertainment that can be accessed by mobile.

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Scope and Structure of the Advertising & Promotion Industry

- Spending on all forms of IBP exceeds $1 TRILLION a year.
- Combined ad spend of the top 10 U.S. advertisers exceeds $29 billion annually.
- The largest ad spenders in the us spend billions of $ or hundreds of millions of $ on advertising (e.g., GM $3.5 billion on advertising budget; Ford 2.7$ billion ad budget).
- This is just a fraction of overall sales revenues.
- Worldwide advertising spending.
  - >$600 billion.

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Structure of the Advertising and Promotion Industry



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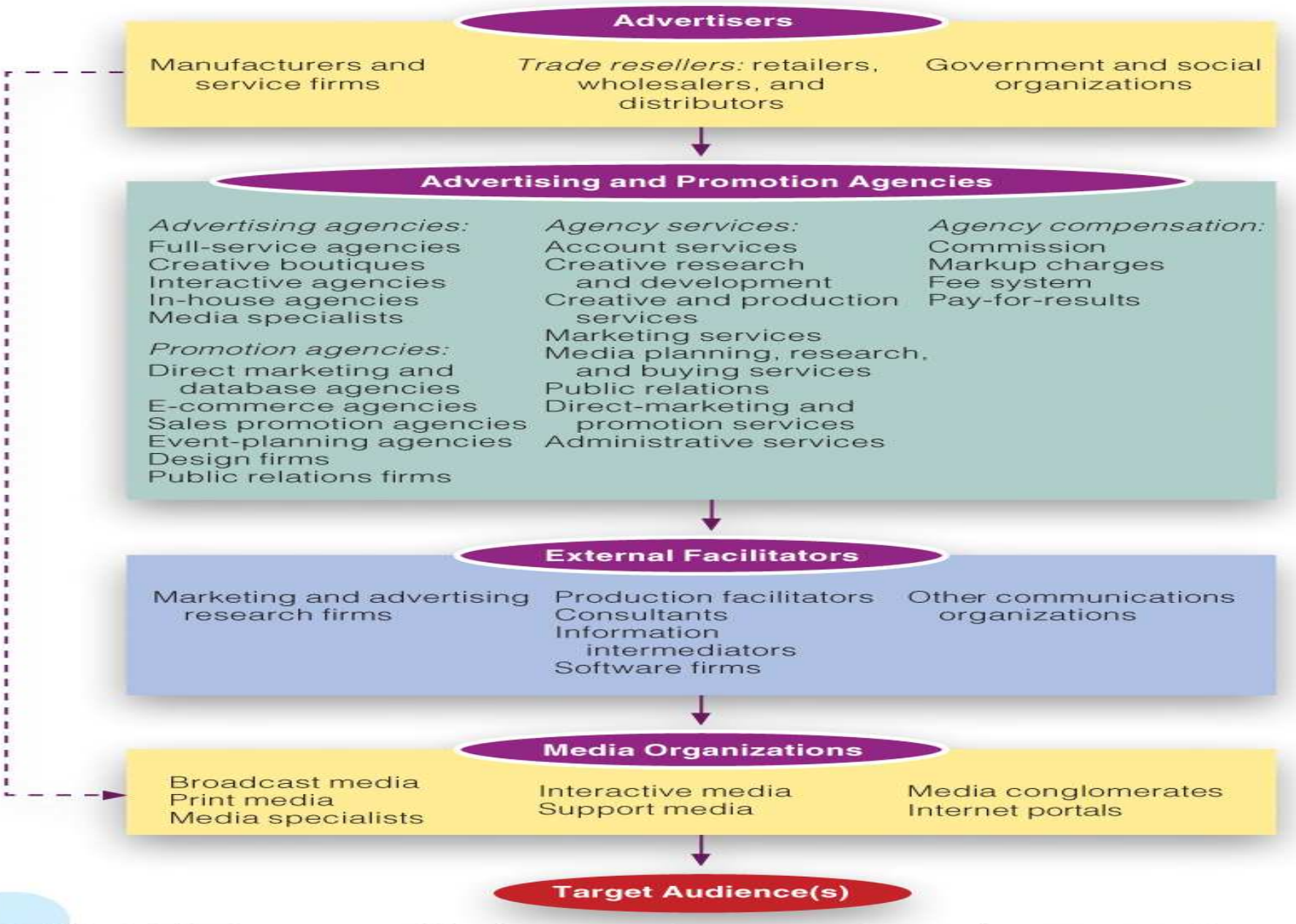


Exhibit 2.6 ▶ The structure of the advertising and promotion industry and participants in the process.

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Advertisers (1 of 2)

- Business, not-for-profit, and government organizations that use advertising and other promotional techniques to:
  - Communicate with target markets.
  - Stimulate awareness and demand for their brands.
  - Known as **clients.**

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Advertisers (2 of 2)

Manufacturers and Service Firms
Procter & Gamble, Verizon

Trade Resellers
Sears, McDonald's

Government
Federal, State, Local

Social/Not-for-profit Organizations
United Way, Nature Conservancy

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Role of the Advertiser in IBP: Before the Agencies Get Involved (1 of 2)

- Understand and describe the value that the firm's brand provides.
- Understand and describe the brand's position in the market.
- Describe the firm's objectives for the brand in the near-term and long-term.
- Identify the target markets that are most likely to respond favorable to the brand.

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Role of the Advertiser in IBP: Before the Agencies Get Involved (2 of 2)

- Identify and manage the supply chain/distribution system that will most effectively reach the targets.
- Be committed to using advertising and other promotional tools to grow the brand.
- Clients: who advertisers do the work for.

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Advertising Agencies (1 of 2)

- Organization of professionals who provide creative and business services to clients.
  - Services include planning, preparing, and placing advertisements.
- Types:
  - **Full-service**: Includes an array of advertising professionals to meet all the promotional needs of clients.
  - **Creative boutique**: Emphasizes creative concept development, copywriting, and artistic services to clients.

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Advertising Agencies (2 of 2)

- **Digital/interactive agencies/social media agencies**: Focus on online, social, mobile marketing and interactive.
- **In-house**: Advertising department in a firm and takes responsibility for the planning and preparation of advertising materials (a brand can have social media in house or have it handled by an agency).
- **Media specialists**: Organizations that specialize in buying media time and space and offer media strategy consulting to advertising agencies and advertisers.

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Promotion Agencies (1 of 3)

- Handle everything from sampling to event promotions to retail promotional tie-ins.
- Types:
  - **Direct marketing and database agencies**: Maintain and manage large databases of mailing lists as one of their services.
  - Often called direct-response agencies.
  - **Fulfillment centers** ensure customers receive the product ordered via direct mail or ecommerce.

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Promotion Agencies (2 of 3)

- **Sales promotion**: Design and then operate contests, sweepstakes, special displays, or coupon campaigns for advertisers.
  - **Consumer sales promotions.**
  - **Trade-market sales promotions.**
- **Event planning agencies**: Experts in finding locations, securing dates, and putting together a team of people to pull off a promotional event.
- Crucial to measure events as a form of IBP.

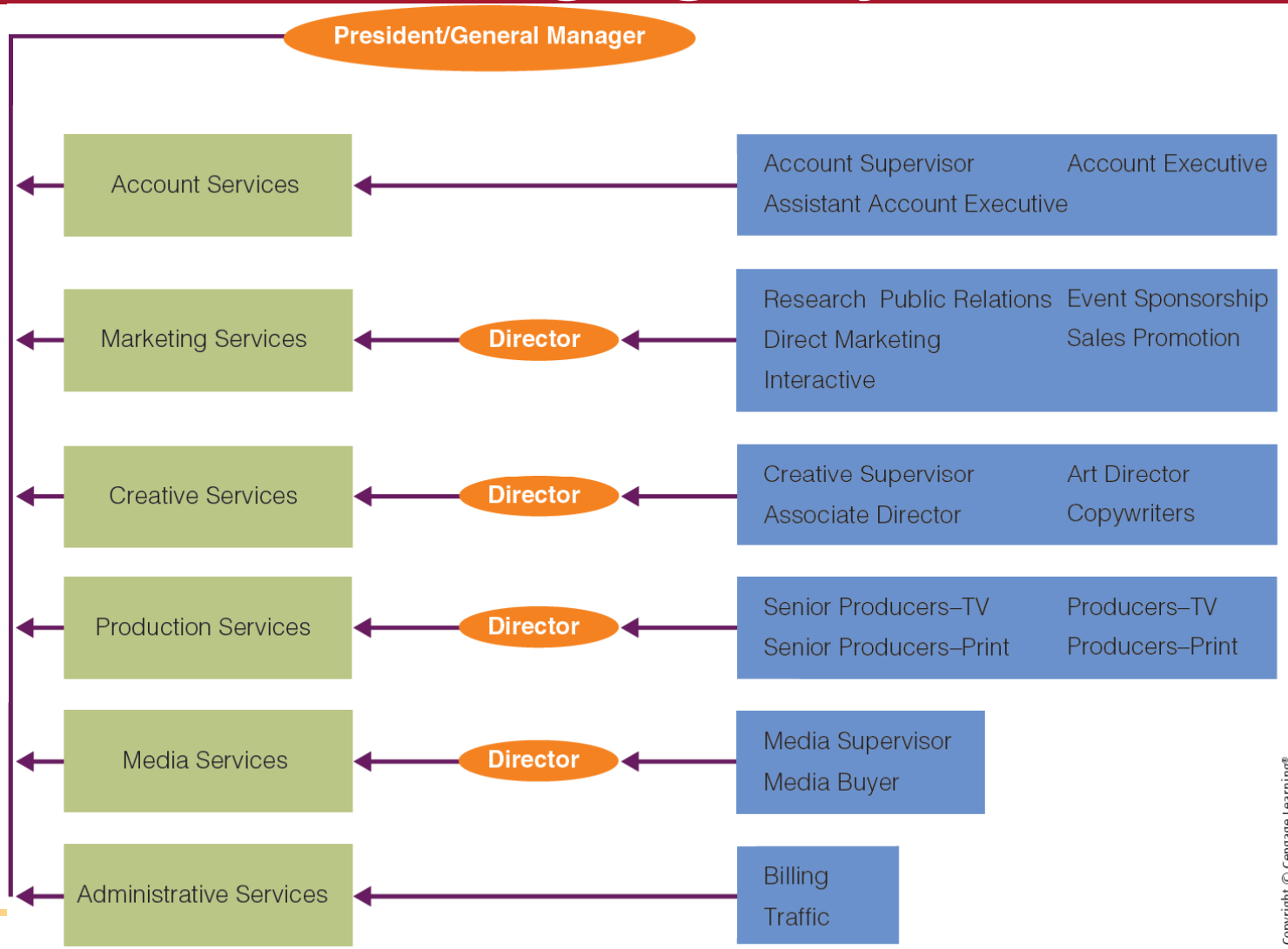
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Promotion Agencies (3 of 3)

- **Design firms**: **Designers** create graphics and **logos.**
- Graphic mark that identifies a company.
- **Public relations firms**: Manage an organization's relationships with:
  - Media.
  - Local community.
  - Competitors.
  - Industry associations.
  - Government organizations.

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Traditional Structure for a Full-Service Advertising Agency



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Agencies Putting Focus on Digital

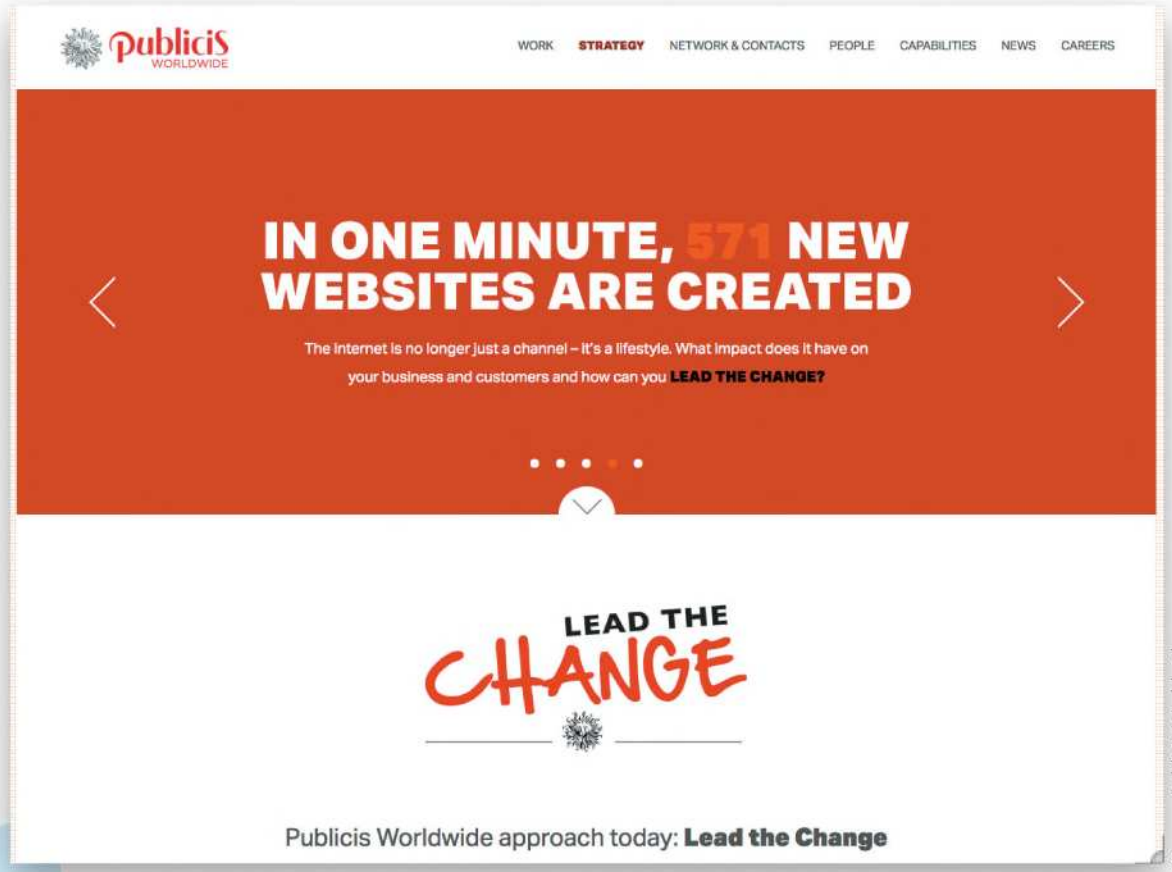


Exhibit 2.9 ▶ Publicis Worldwide is a global agency with expertise in many aspects of advertising and integrated brand promotion, including digital advertising.

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Agency Services (1 of 2)

- **Account services** entails:
  - Identifying the benefits a brand offers and the best competitive positioning.
  - Developing a complete plan.
- Marketing research services.
  - Locate studies that have bearing on a client's market or advertising and IBP objectives.
  - **Account planner**: Assigned to clients to ensure that research input is included at each stage of development of campaign materials.

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Agency Services (2 of 2)

- **Creative and production services**: Responsible for coming up with the concepts that express the value of a company's brand in interesting and memorable ways.
  - **Production services**: Include producers who take creative ideas and turn them into advertisements, direct mail pieces, and other IBP materials.

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Agency Services/Agency Partners

- **Media planning and buying services**: Contracted for media buying and planning.
- Media planning and buying now is trending towards becoming automated, or scheduled in advance based on key word bidding or other ways of “programmatic media buying.”
- **Consultants** are crucial at times (e.g., in crisis communications, event sponsorship measurement, big data analysis).

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Traditional Agency Compensation



Exhibit 2.13 ▶ Calculation of agency compensation using a traditional commission-based compensation system.

This is changing; Movement towards Pay for Results Type models or a different negotiated rate besides 15%

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Agency Compensation Options

Commissions:

- Around 15% total amount billed.
- 16% for outdoor media.

Markup charges (also called cost-plus):

- Production cost + Fixed %.

Fee systems:

- Hourly rates, or by project.

Pay-for-results:

- Fee based on the achievement of agreed-on results.
- Tightly-specified objectives.
- Becoming more prevalent.

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External Facilitators (1 of 2)

- Organizations or individuals that provide specialized services to advertisers and agencies.
- Marketing and advertising research firms.
  - Perform research for advertisers to understand:
    - Potential market.
    - Consumer perceptions of a product or services.

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External Facilitators (2 of 2)

- **Consultants**: Specialize in areas related to the promotional process.
- **Production facilitators**: Offer essential services both during and after the production process.
- Software firms help gather and analyze data related to:
  - Web surfing behavior.
  - Broadband streaming audio and video.
  - Managing relationships with trade partners.

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Media Organizations (1 of 2)

- Broadcast:
  - TV, radio, satellite .
- Print:
  - Magazines, direct mail, newspapers, specialty.
- Digital/Interactive Media/Social Media:
  - Internet, interactive broadcast.
  - iPad, Smartphone.
  - Google, Facebook as a leading “advertising company.”

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Media Organizations (2 of 2)

- Support media:
  - Outdoor, directories, event sponsorship, premiums, point-of-purchase, branded entertainment.
- Media conglomerates (change in process):
  - Time Warner, Disney, Liberty Media.

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Target Audiences

- Big change to behavioral targeting, such as done on social media when you see an ad for a product you have already searched for.
- Business and government audiences are key to the success.
  - Majority of the firms rely on personal selling.
    - Some use variety of advertising and IBP tools.

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IBP Example: P&G



Exhibit 2.2 ▶ As seen in this screenshot of P&G's Facebook page, more than 5.5 million consumers digitally engage with the company.

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IBP Example: Starbucks



Exhibit 2.5 ▶ As an example of crowdsourcing via social media, Starbucks launched more than 300 ideas for products and services from concepts originally submitted by consumers.

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