Instructor

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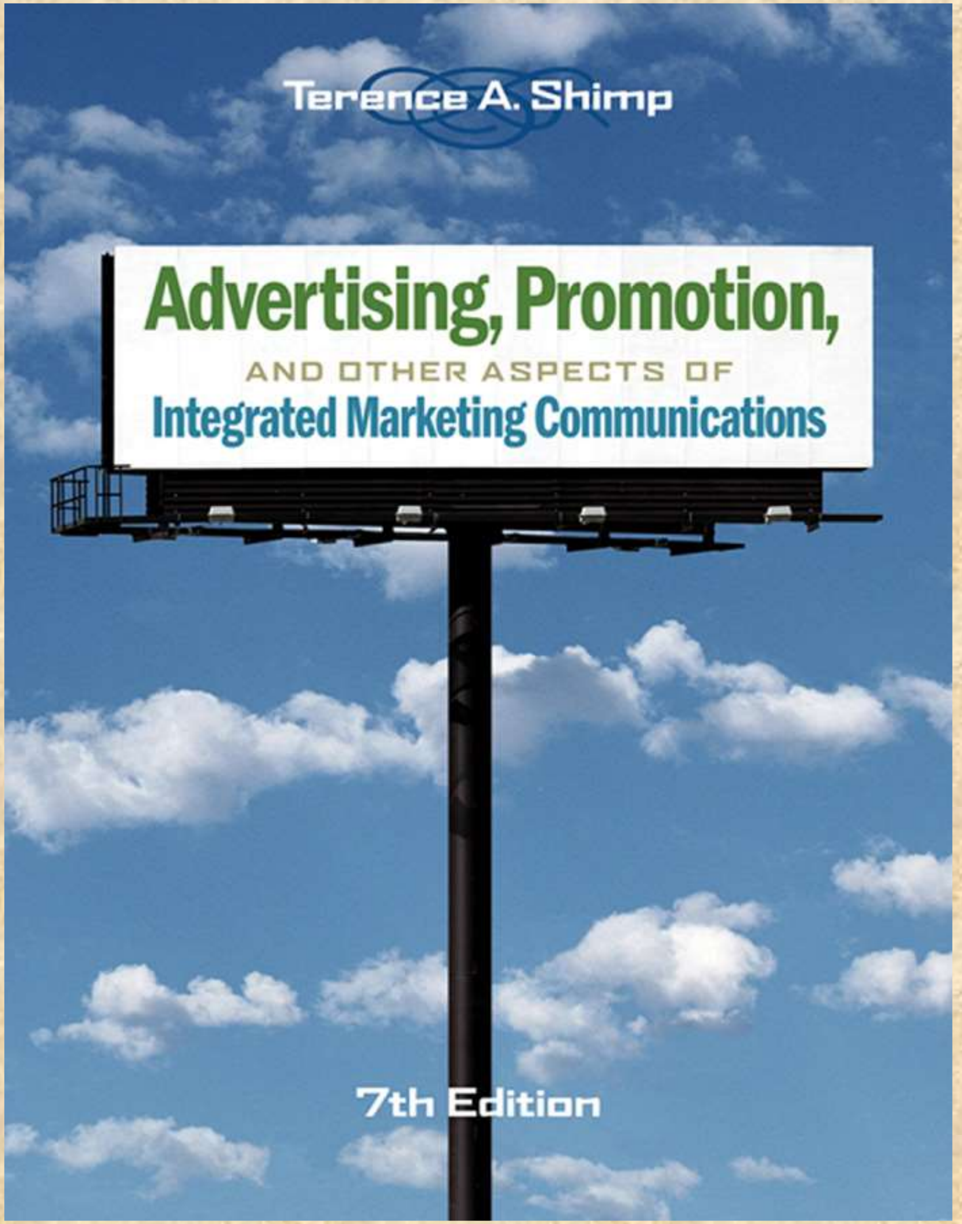


CHAPTER 9

Overview of Advertising Management: Messages, Media, and Measurement

Overview

Advertising is a paid, mediated form of communication from an identifiable source, designed to persuade the receiver to take some action, now or in the future.

- ✓ The word paid in this definition distinguishes advertising from a related marcom tool, public relations, that secures unpaid space or time in media due to the news value of the public relations content.

Overview

Advertising is a paid, mediated form of communication from an identifiable source, designed to persuade the receiver to take some action, now or in the future.

- The expression mediated communication is designed to distinguish advertising, which typically is conveyed (mediated) via print and electronic media, from person-to-person forms of communication, including personal selling and word of mouth.

Overview

Advertising is a paid, mediated form of communication from an identifiable source, designed to persuade the receiver to take some action, now or in the future.

- Finally, the definition emphasizes that advertising’s purpose is to influence action, either presently or in the future.
  - The idea of influencing action is the fact that the ultimate objective of any form of marketing communications is to increase behavior rather than merely its precursors such as brand awareness and attitudes.

Overview

- Most advertising is undertaken by companies that market their brands to final consumers (B2C advertising).
  - Consumer packaged goods companies are especially heavy advertisers in the B2C arena, but service providers (e.g., wireless telephone service) and consumer durables (e.g., automobiles) are heavy advertisers as well.

- Some companies that market to other companies rather than directly to consumers also are heavy advertisers (B2B advertising).
  - Much of their advertising takes place in trade magazines that appeal to the special interests of practitioners who are prospects for the B2B advertiser's products.
  - Interestingly, however, B2B advertisers also use traditional consumer media (e.g., television) to reach audiences that do not typically subscribe to trade publications.

Advertising Functions

- In general, advertising is valued because it is recognized as performing five critical communications functions:
    1) Informing,
    2) Influencing,
    3) Reminding and Increasing Salience,
    4) Adding Value, and
    5) Assisting Other Company Efforts

Advertising Functions

I. **Informing**

- One of advertising's most important functions is to publicize brands; advertising
  - Makes consumers aware of new brands,
  - Educates them about a brand's distinct features and benefits, and
  - Facilitates the creation of positive brand images.

Advertising Functions

- Because advertising is an efficient form of communication capable of reaching mass audiences at a relatively low cost per contact, it facilitates the introduction of new brands and increases demand for existing brands, largely by increasing consumers' top-of-mind awareness (TOMA) for established brands in mature product categories.

- Advertising teaches new uses for existing brands—both for the advertised brand and the consumer, a practice termed usage expansion advertising.

Advertising Functions

II. Influencing

- Effective advertising influences prospective customers to try advertised products and services.
  - Sometimes advertising influences primary demand—that is, creating demand for an entire product category.

- More frequently, advertising attempts to build secondary demand, the demand for a company's brand.

- Advertising by both B2C and B2B companies provides consumers and customers with reasoned arguments and emotional appeals for trying one brand versus another.

Advertising Functions

III. Reminding and Increasing Salience

- Advertising keeps a company’s brand fresh in the consumer’s memory.
- When a need arises that is related to the advertised product, past advertising impact makes it possible for the advertiser’s brand to come to the consumer’s mind as a purchase candidate.
- This has been referred to as making a brand more salient, that is, enriching the memory trace for a brand such that the brand comes to mind in relevant choice situations.

Advertising Functions

- Effective advertising also increases the consumer's interest in mature brands and thus the likelihood of purchasing brands that otherwise might not be chosen.

- Advertising has been demonstrated, furthermore, to influence brand switching by reminding consumers who have not recently purchased a brand that the brand is available and that it possesses favorable attributes.

Advertising Functions

IV. Adding Value

- There are three basic ways by which companies can add value to their offerings:
  1. Innovating,
  2. Improving Quality, and
  3. Altering Consumer Perceptions

- Innovation without quality is mere novelty.
- Consumer perception without quality and/or innovation is mere puffery.
- And both innovation and quality, if not translated into consumer perceptions, are like the sound of the proverbial tree falling in the empty forest.

Advertising Functions

- Advertising adds value to brands by influencing perceptions.
  - Effective advertising causes brands to be viewed as more elegant, more stylish, more prestigious, of higher quality, and so on.

- By adding value, advertising can generate for brands more sales volume, revenue, and profit and reduce the risk of unpredictable future cash flows.
- In finance parlance, all of this can be captured in the concept of discounted cash flow (DCF).
  - By making a brand more valuable, advertising generates incremental DCF.

- In a world of accountability, it is absolutely imperative that advertising deliver positive financial results.

Advertising Functions

V. Assisting Other Company Efforts

- Advertising is just one member of the marcom team; its primary role is at times to facilitate other marcom efforts.
  - For example, advertising may be used as a vehicle for delivering coupons and sweepstakes and attracting attention to these and other promotional tools.

- Another crucial role is to assist sales representatives; it presells a company's products and provides salespeople with valuable introductions prior to their personal contact with prospective customers.
  - Sales effort, time, and costs are reduced because less time is required to inform prospects about product features and benefits.
  - Moreover, advertising legitimizes or makes more credible the sales representative's claims.

Advertising Functions

- Advertising also enhances the effectiveness of other marcom tools.
  - For example, consumers can identify product packages in the store and more readily recognize a brand’s value following exposure to advertisements for it on television or in a magazine.

- Advertising also can augment the effectiveness of price deals.
  - Customers are known to be more responsive to retailers’ price deals when retailers advertised that fact compared to when retailers offer a deal absent any advertising support.

The Advertising Management Process

- The challenge of advertising goes beyond the act of creating messages and involves also the task of placing ads in the right advertising media and selecting appropriate measures to assess whether an advertising campaign has achieved its goals.

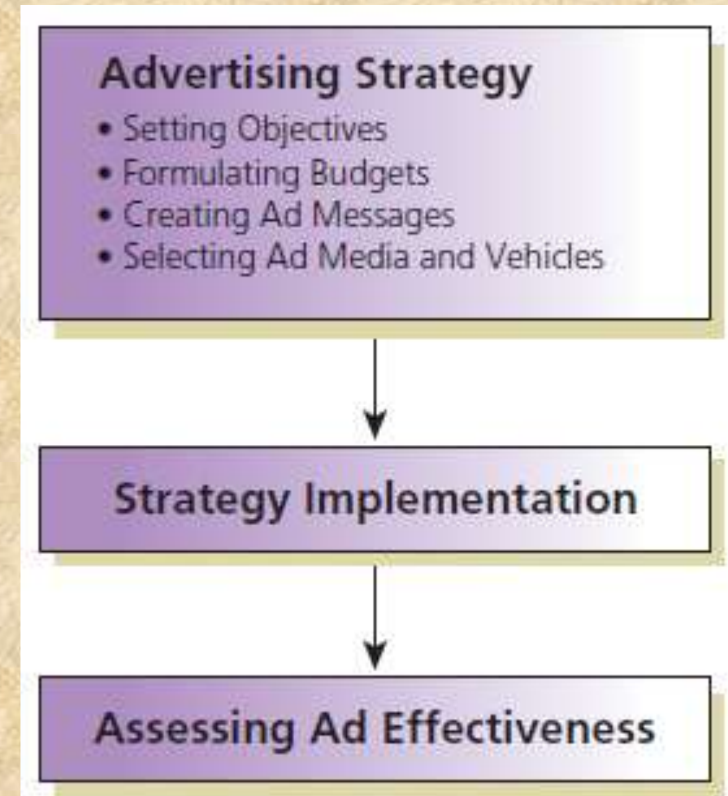
- Advertising management is the process of
  1. Creating ad messages,
  2. Selecting media in which to place the ads, and
  3. Measuring the effects of the advertising efforts:

     (messages, media, and measures).

- This process generally involves at least two parties, the organization that has a product or service to advertise—the client—and the independent agency, or agencies, responsible for creating ads, making media choices, and measuring results—the agency or agencies.

The Advertising Management Process

Managing the Advertising Process: The Client Perspective



The Advertising Management Process

The Role of Advertising Agencies

- Message strategies and decisions most often are the joint enterprise of the companies that advertise (the clients) and their advertising agencies.
- Businesses routinely employ outside specialists: lawyers, financial advisors, management consultants, tax specialists, and so on.
  - These "outsiders" bring knowledge, expertise, and efficiencies that companies do not possess within their own ranks.
- Advertising agencies can provide great value to their clients by developing highly effective and profitable advertising campaigns.
- Client-agency relationships can be short lived and volatile if the client evaluates the agency as underperforming and failing to enhance the equity and market share of the client's brand.

The Advertising Management Process

- In general, advertisers have three alternative ways to perform the advertising function:
  1. Use an in-house advertising operation,
  2. Purchase advertising services on an as-needed basis from specialized agencies, or
  3. Select a full-service advertising agency.

The Advertising Management Process

- First, a company can choose not to use an advertising agency but rather maintain its own in-house advertising operation.
  - This necessitates employing an advertising staff and absorbing the overhead required to maintain the staff's operations.

The Advertising Management Process

- A second way for a client to accomplish the advertising function is to purchase advertising services a la carte.
  - Rather than depending on a single full service agency to perform all advertising and related functions, an advertiser may recruit the services of a variety of firms with particular specialties in creative work, media selection, production, advertising research, and so on.

- This arrangement's advantages include the ability to contract for services only when they are needed and potential cost efficiencies.
- On the downside, specialists (so-called boutiques) sometimes lack financial stability and may be poor in terms of cost accountability.

The Advertising Management Process

- Third, full-service advertising agencies perform at least four basic functions for the clients they represent
  1) Creative services,
  2) Media services,
  3) Research services, and
  4) Account management

- They also may be involved in the advertiser's total marketing process and, for a fee, perform other marcom functions, including
  - Sales promotion, publicity, package design, strategic marketing planning, and sales forecasting.

The Advertising Management Process

Why would an advertiser want to employ the services of a full-service agency?

- ✓ The primary advantages include acquiring the services of specialists with in-depth knowledge of advertising and obtaining negotiating leverage with the media.
- ✓ The major disadvantage is that some control over the advertising function is lost when it is performed by an agency rather than in house.

The Advertising Management Process

1. Creative Services

- Advertising agencies have staffs of copywriters, graphic artists, and creative directors who create advertising copy and visualizations.
  - They on occasion create brilliant advertising campaigns that enhance brand equity and increase a brand’s sales volume, market share, and profitability.

- Oftentimes, however, advertisements are not sufficiently clever or novel to break through the clutter of surrounding advertising.

The Advertising Management Process

2. Media Services

- This unit is charged with the task of selecting the best advertising media for reaching the client's target market, achieving ad objectives, and meeting the budget.

- Media planners are responsible for developing overall media strategy (where to advertise, how often, when, etc.), and media buyers then procure specific vehicles within particular media that have been selected by media planners and approved by clients.

- The complexity of media buying requires the use of sophisticated analysis and continual research of changing media costs and availability.

The Advertising Management Process

3. Research Services

- ✓ Full-service advertising agencies employ research specialists who study their clients' customers' buying habits, purchase preferences, and responsiveness to advertising concepts and finished ads.

- ✓ Focus groups, mall intercepts, ethnographic studies by trained anthropologists, and acquisition of syndicated research data are just some of the services performed by agencies' research specialists.

The Advertising Management Process

4. Account Management

- It provides the mechanism to link the agency with the client.
  - Account managers act as liaisons so that the client does not need to interact directly with several different service departments and specialists.

- In most major advertising agencies, the account management department includes account executives and management supervisors.
  - *Account executives* are involved in tactical decision making and frequent contact with brand managers and other client personnel.
    - They are responsible for seeing that the client's interests, concerns, and preferences have a voice in the advertising agency and that the work is being accomplished on schedule.
  - Account executives report to *management supervisors*, who are more involved in actually getting new business for the agency and working with clients at a more strategic level.
    - They are groomed for positions as management supervisors.

The Advertising Management Process

Agency Compensation

1) Receiving Commissions from Media
2) Being Compensated based on a Fee System
3) Earning Compensation based on Outcomes

The Advertising Management Process

I. Receiving Commissions from Media

- ✓ Commissions from Media for advertisements aired or printed on behalf of the agency's clients provided the primary form of ad agency compensation in the past.

- ✓ Historically, U.S. advertising agencies charged a standard commission of 15 percent of the gross amount of billings.

- ✓ This 15% commission in the past was regarded as a fair amount of compensation to the agency for its creative expertise, media-buying insight, and ancillary functions performed in behalf of its client.

The Advertising Management Process

II. Being Compensated based on a Fee System

- ✓ In labor-based fee system, advertising agencies are compensated much like lawyers, tax advisors, and management consultants.

- ✓ Agencies carefully monitor their time and bill clients an hourly fee based on time commitment.

- ✓ This system involves price negotiations between advertisers and agencies such that the actual rate of compensation is based on mutual agreement concerning the worth of the services rendered by the advertising agency.

The Advertising Management Process

III. Earning Compensation based on Outcomes

- ✓ Outcome- or performance-based programs represent the newest approach to agency compensation.

- ✓ For example, Ford Motor Company uses a compensation system whereby it negotiates a base fee with its agencies to cover the cost of services provided, and additionally offers incentive payments that are tied to brand performance goals such as targeted revenue levels.

The Advertising Management Process

- Procter & Gamble (P&G) employs a sales-based model whereby ad agencies are compensated based on a percentage of sales that a P&G brand obtains.
  - The agency's compensation rises with sales increases and falls with declines.

- This incentive-based system encourages, indeed demands, agencies to use whatever IMC programs are needed to build brand sales.

- P&G's best interest (growth in brand sales and market share) and the agency's best interest (increased compensation) are joined by this compensation system in a hand-in-glove fashion.

Ad-Investment Considerations

When is it justifiable to invest in advertising and when is it appropriate to disinvest?

(9.1)	Profit	=	Revenue – Expenses
(9.2)	Revenue	=	Price × Volume
(9.3)	Volume	=	Trial + Repeat

- ✓ A brand's profit during any accounting period is a function of its revenue minus expenses.
- ✓ Because advertising is an expense, total profit during an accounting period can be increased by reducing advertising expenses.
- ✓ An undesirable effect of reducing advertising is that revenue may decline because fewer units can be sold or the price per unit has to be reduced in the absence of adequate advertising support (Equation 9.2).

(9.2)	Revenue	=	Price × Volume

Ad-Investment Considerations

- We can further note from Equation 9.3 that sales volume (i.e., number of units sold) is obtained by a combination of recruiting more trial, or first-time, users to a brand and encouraging users to continue purchasing the brand—that is, to remain repeat purchasers.

$$(9.3) \quad \text{Volume} = \text{Trial} + \text{Repeat}$$

- Whether one chooses to invest or disinvest in advertising a brand depends largely on expectations about how advertising will influence a brand's sales volume (Equation 9.3) and revenue (Equation 9.2).

$$(9.2) \quad \text{Revenue} = \text{Price} \times \text{Volume}$$

Ad-Investment Considerations

The Case for Investing in Advertising

- In terms of profitability, investing in advertising is justified only if the incremental revenue generated from the advertising exceeds the advertising expense.

- If the advertising expense is $\$X$, then over the long term (i.e., not necessarily immediately) revenue attributable to the advertising must be more than $\$X$ to justify the investment.

On what grounds might one expect that the revenue will exceed the advertising expense?

Ad-Investment Considerations

- Effective advertising will attract new triers to a brand and encourage repeat purchasing (Equation 9.3).

$$(9.3) \quad \text{Volume} = \text{Trial} + \text{Repeat}$$

- Advertising is not the only marcom tool able to generate trial and repeat purchasing; indeed, sales promotions perform both roles in conjunction with advertising.

- Effective advertising should build sales volume by enhancing brand equity—both by increasing brand awareness and by enhancing brand image.

Ad-Investment Considerations

- Equation 9.2 shows that the other determinant of revenue besides sales volume is the unit price at which a brand is sold.

$$(9.2) \quad \text{Revenue} = \text{Price} \times \text{Volume}$$

- Advertising has the power to enhance a brand's perceived quality and thus the ability of brand managers to charge higher prices;
  - Consumers are willing to pay more for brands they perceive as higher quality.

- Investing in advertising can increase profitability by increasing sales volume, enabling higher selling prices, and thus increasing revenue beyond the incremental advertising expense.

Ad-Investment Considerations

The Case for Disinvesting

- Firms often choose to reduce advertising expenditures either when a brand is performing well or during periods of economic recession.

- This is a seductive strategy because a reduction in expenses, everything else held constant, leads to increased profits (Equation 9.1).

$$(9.1) \quad \text{Profit} = \text{Revenue} - \text{Expenses}$$

- But is "everything else held constant" when advertising budgets are cut or, worse yet, severely slashed?

- The implicit assumption is that revenue (and revenue's constituent elements, volume and price) will *not* be affected adversely when ad budgets are diminished.

Ad-Investment Considerations

- Past advertising will continue to positively affect sales volume even when advertising in the current period is curtailed or reduced.

- The assumption also is somewhat illogical.
  - On the one hand, it presumes that past advertising will carry over into the future to maintain revenue; on the other hand, it neglects to acknowledge that the absence of advertising in the present period will have an adverse effect on revenues in subsequent periods!

Ad-Investment Considerations

Which Position Is More Acceptable?

- The profit effect of reducing advertising expenses is relatively certain:
  - For every dollar not invested in advertising, there is a dollar increase in short-term profit—assuming that the reduction in advertising does not adversely affect revenue.
- Yet, it is difficult to know with certainty whether advertising will build brand volume or enable higher prices; either outcome or both will lead to increased revenues.

- Most sophisticated companies are willing to place their bets on advertising's ability to boost revenues and thus enhance profits from the revenue-increase side rather than from the expense-reduction side.

Ad-Investment Considerations

An Investment in the Brand Equity Bank

- The reason many marketing executives continue to invest in advertising, even during economic downturns, is because they believe advertising will enhance a brand's equity and increase sales.

- Marcom efforts enhance a brand's equity by creating brand awareness and forging favorable, strong, and perhaps unique associations in the consumer's memory between the brand and its features and benefits.
  - When advertising and other forms of marketing communications create unique and positive messages, a brand becomes differentiated from competitive offerings and is relatively insulated from future price competition.

Strong advertising (different, unique, clever, & memorable) represents a deposit in the brand equity bank.

Ad-Investment Considerations

Advertising Versus Pricing Elasticity

What are the alternative ways by which brand managers can grow their brands' sales volume, revenue, and profits?

- ✓ Increasing advertising is one option; reducing price—via outright price cuts or through promotional dealing—is another.

Which option is more promising?

Ad-Investment Considerations

- **Elasticity** is a measure of how responsive the demand for a brand is to changes in marketing variables such as price and advertising.

- Elasticity coefficients for price (E_P) and Elasticity coefficients for advertising (E_A), respectively, based on the following equations:

(9.4) E_P = Percentage change in quantity ÷ Percentage change in price
(9.5) E_A = Percentage change in quantity ÷ Percentage change in advertising

- In general, we can consider four combinations of advertising and price elasticities:
  1) Situation 1 (maintain status quo)
  2) Situation 2 (build image via increased advertising)
  3) Situation 3 (grow volume via price discounting)
  4) Situation 4 (increase advertising and/or discount prices)

Ad-Investment Considerations

I. Situation 1 (maintain status quo):

- In this situation, consumers have well-established brand preferences such as during the decline stage of a product's life cycle or in established niche markets.
  - The market would not be very price elastic or advertising elastic;
- Profits would be maximized by basically adhering to the status quo and maintaining the present price and advertising levels.
- Brand managers should neither discount prices nor increase levels of advertising.

Ad-Investment Considerations

II. **Situation 2 (build image via increased advertising):**

- In a situation where the market is more advertising elastic than price elastic, it is advisable to spend relatively more on advertising increases than price discounts.
  - This situation is likely for new products, luxury goods, and products characterized by symbolism and imagery (cosmetics, designer labels in apparel and home furnishings, expensive brands of vodka and other distilled spirits, etc.).

- The profit-increasing strategy in a situation such as this is to build a brand's image by increasing advertising.

Ad-Investment Considerations

III. Situation 3 (grow volume via price discounting):

- This third situation is characterized by mature consumer goods markets where consumers have complete information about most brands in the category and brand switching is frequent.

- Because brands are little differentiated, the market is more price than advertising elastic.

- Profit increases are obtained more from price discounts than advertising investments.

Ad-Investment Considerations

IV. Situation 4 (increase advertising and/or discount prices):

- ✓ This is a situation where the market is both price elastic and advertising elastic.
  - ✓ This would be expected when brands in the product category are inherently differentiable (cereals, automobiles, appliances, etc.) and for products that are seasonal (e.g., lawn products, seasonal clothing, and special holiday gift items).

- ✓ In situations such as these, informative advertising can influence consumers' beliefs about product attributes (e.g., Scotts fertilizer is longer-lasting than competitive brands), but because brands are similar, consumers also are eager to compare prices.

The End