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BSAD-150 (Noordewier)
17 December 2004

Marketing Communication

I. Introduction
   a. Price, Product, Place – all implicitly deal with communication (convey information)
   b. Promotion is the piece of the marketing mix that deals with communication explicitly
   c. Goal: Integrated Marketing Communications (IMC) to achieve synergy among promotional tools.
   d. Tools
      i. Advertising (Will cover in detail)
         1. Magazines, billboards
         2. Very familiar
      ii. Promotions (Will cover in detail)
         1. Designed to get customer to take immediate action
         2. Otherwise similar to advertising
      iii. Personal Selling (big in Business-to-Business)
      iv. Direct, Interactive Marketing
      v. Public Relations

II. Advertising
   a. Ultimate (long-run) goals
      i. Create behavioral response
      ii. Get new customers
      iii. Increase loyalty / retention
      iv. Get customers to use more of the product
   b. Measuring advertising effectiveness
      i. Most goals measured by sales
         1. Company may change price / distribution / features
         2. Competitors may change the same things plus do their own advertising
         3. Benefits sought may change even as the ad campaign is running
         4. So it's extremely difficult to measure effectiveness in the general case
      ii. Look at the other variables
         1. Brand awareness
         2. Knowledge of brand attributges
         3. Brand Attitude
         4. Brand "Image"
      iii. Hierarchy of Effects
         1. Specify low-level objectives; ultimately generates behavioral response
         2. Aware → Comprehend → Interested → Intentions → Action
         3. Consumer Response Index (CRI) = Percentage that "makes it" to a given stage of the hierarchy
         4. Many models for this Hierarchy of Effects
            a. DAGMAR: Select communication task; measure performance over time ("Are you aware of _____?") Set goal for the measure
            b. AIDA: Attention → Interest → Desire → Action
            c. Belief / Importance: Belief → Attitude →
            d. Theory of Reasoned Action
         5. Specify target level, target market, timeframe
         6. Take pre- and post- measures
      iv. Criticisms
         1. If these communication measures are really related to sales, why not just measure sales? (Requires specifying a timeframe for measuring sales)
         2. Sure it's hard to attribute sales change to advertising, but it's also hard to attribute any of these communication objectives to advertising
         3. Hierarchy approach ignores potential opportunities (using humor, music, emotion, …) These may make effective advertising, but aren't addressed anywhere in the hierarchy.

c. Content
   i. Attribute-oriented Ad
      1. Assumes person is cognitively engaged, moves through a hierarchy.
      2. Ads should create awareness of the brand, but should also convey real information
      3. These are ads you'd read if you were already "in the market" for the product and wanted more information.
      4. If you know you want to buy an MP3 player, you want to know all the details about the various players out there.
   ii. Non-Attribute Oriented
      1. Targeted at passive consumers who aren't giving it a lot of thought.
      2. May catch some information but not aggressively seeking it.
      3. Should still create awareness, but now content shouldn't contain much information.

d. Some Issues
   i. Order of Presentation
      1. First and last "chunks" remembered (primacy and recency effects – see PSYC-111 notes)
      2. Put strong argument at the beginning to reduce internal counter-arguing
      3. If target audience is already favorably disposed, put strong argument at the end. Build up to it.
   ii. Conclusion Drawing
      1. Should the ad explicitly state a conclusion (P and Q → Vote for Kerry)
      2. Certainly better understood that way
      3. But better educated consumers like to draw their own conclusions so effectiveness falls.
   iii. Sidedness
      1. Include some negatives?
      2. If the target market is already opposed, a two-sided message may be an avenue in – make them see you know the negatives too
      3. Ads are overwhelmingly one-sided – no negatives at all.
   iv. Fear Appeals?
      1. Example: Strong anti-drug ads
      2. Maybe more modest – a mouthwash ad, for example
      3. Can certainly attract attention, and may motivate desired change, but it's easy to go too far.
   v. Humor Appeals?
      1. Used to cut through clutter
      2. Not trying to develop counter-arguments
      3. Wears out quickly
      4. Humor may detract from brand benefits (may harm copy comprehension)
   vi. Celebrity Ads?
      1. Cut through the clutter
      2. Celebrity may overshadow product; introduce unwanted controversy
      3. (20% of network ads contain celebrities)

e. Footnotes
   i. Study looked at 120 TV ads, 532 magazine ads
   ii. Categorized based on what they attempted to do
   iii. Most
      1. "Explicitly assert that product has certain attributes"
      2. "Explicitly assert product causes certain outcomes, which in turn cause other outcomes."
   iv. Very few ads focused on trying to change importance weights for attributes

III. Advertising Budgeting

a. Introduction
   i. Largest advertiser in 2003 was GM, spending $2.4 billion

    - ii. Then Proctor and Gamble, AOL / Time-Warner, Daimler/Chrysler
- b. Approaches to Deciding Budget
    - i. Use percentage of the previous year's sales
        1. Just like cost-plus pricing.
        2. Advertising should logically influence sales, not the other way around
        3. Problematic at best
    - ii. Competitive Parity
        1. Base your advertising expenditures on what the industry is doing.
        2. Who says the industry is right?
        3. Doesn't address the *optimal* budget.
    - iii. Residual
        1. After R&D, COGS, what's left is spent on advertising.
        2. Uhhh… also not good.
- c. Marginal Analysis
    - i. Think about spending money until marginal cost exceeds marginal revenue
    - ii. Perfect concept. Hard to implement.
    - iii. Sales Response Function, and Profit Equation needed
    - iv. Complications
        1. Other things influence sales
        2. Differences in copy / media that influence customers don't show up in any kind of cost analysis but do matter for the bottom line.
    - v. Competitors can do their own advertising
    - vi. Lag: Lifetime seems to be about nine months
- d. Sales Response Function
    - i. If everything else held constant, get an S shaped curve (we think)
    - ii. Empirical studies can observe only the concave down part of the curve – managers can see they get tremendous "bang for a buck" up to some point, and they've already exploited that.
- e. Procedure
    - i. Develop sales response function – the hardest part
    - ii. Then develop a profit equation – easy
        1. Profit = TR – TC = pq – (vq + F) = (p – v)q – F
        2. Profit = (p – v)q – (F + A + S) = (p – v)q – (S + A) – F
        3. Solving for p, S, and A.
        4. Net Marketing Contribution = (p – v)q – (S + A)
    - iii. Determine profit maximizing "mix" (S, A, p)
    - iv. Don't be misled by sales projections – have to calculate profit
- f. Alternative Approach
    - i. Take it to the next level.
    - ii. Want to model data – develop sales function as a formula
    - iii. Use managers projections (perhaps aggregated)
    - iv. Use historical data (better, more common)
    - v. Example: $S(A, A_C) = 2{,}745{,}000 - 3.10A + 8425A^{1/2} - 0.40A_C$
    - vi. (Where A is your advertising and A_C is competitors' advertising)

IV. Sales Promotion
- a. A big deal, particularly in consumer marketing
- b. Definitions
    - i. An inducement that gives extra value or incentive to sales force, retailer, or consumer. Objective is to get an immediate sale.
    - ii. Action-focused marketing effort
- c. Potential Objectives
    - i. Get customers to try product (samples, coupons, rebates)
    - ii. Increase repurchase probability (in/on-pack coupons)
    - iii. Stimulate selling effort from resellers (contests)
- d. Consumer Promotions
    - i. Designed to get direct consumer action

ii. Examples
   1. Coupons (1896 – first coupon in U.S. 1996 – 315 billion coupons)
   2. Free Samples (in store, in mail)
   3. Contests (have to do something to be eligible – usually have to do something correctly)
   4. Sweepstakes – don't have to do anything ("No purchase necessary")
   5. Rebates (huge in the auto industry)
   6. Financing Incentives
   7. Bonus Packs
   8. Frequency Programs

iii. Pull Marketing Tools – Pull consumers to retailers

iv. Bypass distribution channels

e. Trade Promotions
   i. Promotions targeted at distribution channel members
   ii. Examples
      1. Off-invoice Discounts
         a. Buy now, save money
         b. Hope is to get retailer to pass savings to consumer
         c. Retailers want to keep as much of the savings as they can
         d. Diversion: Big chain store buys *tons* of the product at a discounted regional price, then diverts it elsewhere where the price in stores is higher.
      2. Cooperative Advertising – Manufacturer will pay part of local advertising costs when retailer advertises products
      3. Incentives to Salespersons
      4. Slotting Allowances – Payments to retailers for shelf space; "indemnify us against your failure."
   iii. Push Tactic – Want to push incentives down to consumers

f. Explanation for Upward Trend in Promotions
   i. No clear explanation, but a number of theories
   ii. Advertising has become less effective – too much clutter; ads don't cut through.
   iii. More price sensitive consumers? Would like coupons, et cetera
      1. Could this be a downward spiral?
      2. Training people to be even more price sensitive?
   iv. More mature product categories = more market share fighting
   v. Big retailers demand price breaks
   vi. Help differentiate products
   vii. Brand managers aren't thinking long-term? To move up in the organization, have to stimulate short-term sales and that suggests promotions.
   viii. Sales help in store is less common (don't have people pushing the product)
   ix. May be a prisoner's dilemma – no way out.
      1. Without collusion (which is illegal), competitors are making moves simultaneously so the Nash equilibrium is for everyone to promote
      2. Ways Out
         a. Competitors can send signals openly in advance of the decision ("We sure hope nobody else cuts rates.")
         b. Firm A can do whatever B did last period. If the signal is received correctly, B might opt not to promote knowing A will follow suit (if it's willing to tolerate one period of imbalance / lag)

g. Cost of a Coupon
   i. Have processing cost, face value, printing, distribution cost
   ii. Works out that the coupon costs more than face value.
   iii. Of course, some costs are only incurred for coupons that are actually redeemed, which isn't very many relative to the ones that are sold.