

Principles of Advertising

Week 4

Advertising Role in Marketing Part II

Lecturer: Raphael Ogutu, PhD.

1. The Key Players and Markets

According to Moriarty, Mitchell, and Wells (2012), the marketing industry is a complex network of professionals, all of whom are involved in creating, producing, delivering, and selling something to customers. The four categories of key players include (1) marketers, (2) suppliers and vendors, (3) distributors and retailers, and 4) marketing partners, such as agencies. Consider also that these positions represent jobs, so you can use this information as a career guide should you be interested in working in marketing.

The marketer

- The **marketer**, also referred to (from the agency's point of view) as the *client*, is any company or organization behind the brand—that is, the organization, company, or manufacturer producing the product or service and offering it for sale.

Suppliers and vendors

- Other companies that manufacture the materials and ingredients used in producing the product, their work also determine the quality of the final product and is a big factor in determining the product's price.
- The phrase **supply chain** is used to refer to this complex network of suppliers who produce components and ingredients that are then sold to the manufacturer.
- NOTE: The description of the word vendor here is different from how it was used in the 5 key players of advertising.

Distributors and retailers

Various companies that are involved in moving a product from its manufacturer to the buyer, these channel members may actually take ownership of the product and participate in the marketing, including advertising.

Marketing partners

- Marketing communication agencies are partners and not hired hands because their support is necessary to build and maintain good customer relationship.
- *Affiliate marketing* is a particular type of partnership in which one company drives business to another company.
- Most major online retailers, such as Amazon.com, eBay, and Barnes @ noble, use affiliate marketing in which the Web site generating the business may receive a 5 to 10 percent commission for each paying customer.

(Moriarty, Mitchell, and Wells, 2012)

ADVERTISING AGENCIES

How Agencies Work

- Advertising is a function of marketing, and pushes the product in the market for bigger sales. The advertising department usually relies on outside experts, often the advertising agency which prepares the advertising messages, selects appropriate media and arranges to release them.
- In small firms, there may not be a separate department in the name of advertising, but the functions are either looked after by the marketing manager or the Chief Executive.
- In a large corporation, the advertising staffs are employed for different product/brand live. Product or brand manager develop the advertising and promotion needs of their products or brands. In summary:
 - Companies have internal *advertising departments* who act as a liaison between the marketing department and advertising agency/ies. Also called *marketing services*

- Advertisers may have one *agency of record (AOR)* or several agencies
- Agencies offer clients:
 - Specialized services
 - Objective advice
 - Experienced staffing
 - Management of all advertising activities and personnel (Moriarty, Mitchell, and Wells, 2012)

According to Arens, William, and Arens (2011), The American Association of Advertising Agencies (AAAA) defines an advertising agency as *an independent organization of creative people and business-people who specialize in developing and preparing marketing and advertising plans, advertisements, and other promotional tools. The agency also purchases advertising space and time in various media on behalf of different advertisers, or sellers (its clients), to find customers for their goods and services.*

- **This definition offers clues to why so many advertisers hire ad agencies:**
 - First, an agency like Leo Burnett is independent. The agency isn't owned by the advertiser, the media, or the suppliers, so it can bring an outside, objective viewpoint to the advertiser's business—a state the advertiser can never attain.
 - Second, like all agencies, Leo Burnett employs a combination of business-people and creative people, including administrators, accountants, marketing executives, researchers, market and media analysts, writers, and artists. They have day-to-day contact with outside professional suppliers who create illustrations, take photos, retouch art, shoot commercials, record sound, and print brochures.
 - Third, the agency provides yet another service by researching, negotiating, arranging, and contracting for commercial space and time with the various print, electronic, and digital media. Because of its media expertise, Leo Burnett saves its clients time and money.
 - Fourth, agencies don't work for the media or the suppliers. Their moral, ethical, financial, and legal obligation is to their clients. Just as a well-run business seeks professional help from attorneys, accountants, bankers, or management

specialists, advertisers use agencies out of self-interest because the agencies can create more effective advertising and select more effective media than the advertisers can themselves. Today, almost all sizable advertisers rely on an ad agency for expert, objective counsel and unique creative skills—to be the “guardian of their brands.”

- Finally, a good agency serves its clients’ needs because of its daily exposure to a broad spectrum of marketing situations and problems both here and abroad. As technology has enabled companies to work across borders with relative ease, the advertising business has boomed worldwide. All the large U.S. agencies, for example, maintain offices in many foreign countries. (Arens, William, and Arens, 2011).

TYPES OF AGENCIES

We are primarily concerned with advertising agencies in this lesson, but other areas such as public relations, direct marketing, sales promotion, and the Internet have agencies that provide specialized promotional help, as well.

Full-Service Agencies

- In advertising, a **full-service agency** includes the four major staff functions of account management, creative services, media planning, and account planning, which includes research.
- the four major staff functions are:
 - Account management
 - Serves as a liaison between the client and agency
 - Three levels: management supervisor, account supervisor, account executive
 - Creative services
 - People who create and people who inspire
 - Creative directors, copywriters, art directors, producers
 - Media planning and buying
 - Recommend most efficient means of delivering the message
 - Account planning and research
 - Acts as the voice of the consumer

- Also have accounting, traffic, production, and HR departments (Moriarty, Mitchell, and Wells, 2012)

Specialized Agencies

Many agencies do not follow the traditional full-service agency approach. They either specialize in certain functions (writing copy, producing art, or media buying), audiences (minority, youth), industries (health care, computers, agriculture, business-to-business communication), or markets (minority groups such as Asian, African American, or Hispanic). In addition, some agencies specialize in other marketing communication areas, such as branding, direct marketing, sales promotion, public relations, events and sports marketing, packaging, and point-of-sale promotions. Sometimes one-client agencies are created to handle the work of one large client.

NOTE: The two specialized agencies are Creative boutiques and Media buying services.

In Summary may be specialized by

- Function (copy, art, media)
- Audience (minority, youth)
- Industry (healthcare, computers, agriculture)
- Market (minority groups)

Creative boutique

- Ad agencies, usually small (two or three people to a dozen or more), that concentrate entirely on preparing the creative execution of the idea, or the creative product.
- Have one or more writers or artists on staff, but generally no staff for media, research, or strategic planning.
- Can prepare advertising to run in print and broadcast media, as well as in out-of-home (such as outdoor and transit advertising), Internet, and alternative media.
- Usually serve companies directly, but are sometimes retained by full-service agencies that are overloaded with work.

Media-buying services

- They specialize in the purchase of media for clients.
- They are in high demand for many reasons, but three reasons stand out:
 - First, media has become more complex as the numbers of choices has grown—think of the proliferation of new cable channels, magazines, and radio stations.

- Second, the cost of maintaining a competent media department has escalated.
- Third, media-buying services often buy media at a low cost because they can group several clients' purchases together to get discounts from the media because of the volume of their media buys.

(Moriarty, Mitchell, and Wells, 2012)

Agency Networks and Holding Companies

Agency Networks are large conglomerations of agencies under a central ownership. Agency networks are all of the offices that operate under one agency name, such as DDB Worldwide (200 offices in 90 countries) or BBDO Worldwide (287 offices in 79 countries). You can read more about these agencies and their networks at www.ddb.com and www.bbdoworldwide.com.

Holding companies

- Include one or more advertising agency networks, as well as other types of marketing communication agencies and marketing services consulting firms.
- The four largest are WPP Group, Interpublic, Omnicom, and Publicis.
- WPP, for example, includes the J. Walter Thompson Group, Ogilvy & Mather Worldwide, Young & Rubicam, Grey Global Group, and Bates advertising networks, as well as the Berlin Cameron creative agency, public relations agencies Hill and Knowlton, Ogilvy Public Relations, and Burson-Marsteller; direct-response company Wunderman; research firms Millward Brown and Research International; media firms Mindshare and Mediaedge : cia; and branding and corporate identity firms Landor and Lambie-Naim, to name a few.
- Most of those firms are also networks with multiple offices. For an inside look at a big holding company, check out WPP at www.wpp.com.

How Agency Jobs Are Organized

Account Management

- The **account management** (sometimes called **account services**)
- Acts as a liaison between the client and the agency
- Summarizes the client's communication needs and develops the basic "charge to the agency," which the account manager presents to the agency's team.
- Once the client and agency together establish the general guidelines for a campaign, the account management team supervises the day-to-day development.

- The account executive (content manager) is responsible for interpreting the client's marketing strategy and research
- Account management in a major agency typically has three levels:
 - the *management supervisor*, who provides leadership on strategic issues and looks for new business opportunities;
 - the *account supervisor*, who is the key executive working on a client's business and the primary liaison between the client and the agency;
 - The *account executive* (as well as *assistant account executives*), who is responsible for day-to-day activities and operates like a project manager. A smaller agency will combine some of these levels.

Creative Development and production

- A creative group includes people who write (*copywriters*), people who design ideas for print ads or television commercials (*art directors*), and people who convert these ideas into television or radio commercials (*producers*).
- Many agencies build a support group around a team of an art director and copywriter who work well together. In addition to these positions, the broadcast production department and art studio are two other areas where creative personnel can apply their skills.

Media Planning and Buying

Agencies that don't rely on outside media specialists have a media department that recommends to the client the most efficient means of delivering the message to the target audience.

- Recommends to the client the most efficient means of delivering the message
- Responsible for buying, planning, and research

Account Planning and research

- Full-service agencies usually have a separate department specifically devoted to planning and sometimes to research as well.
- *Account planning* group gathers all information on the market and consumers and acts as the voice of the consumer
- Account planners are strategic specialists who prepare comprehensive information about consumers' wants, needs, and relationship to the client's brand and recommendations on how the advertising should work to satisfy those elements based on insights they derive from consumer research.

Internal Agency Services

- The departments that serve the operations within the agency include the traffic department and print production, as well as the more general financial services and human resources (personnel) departments.
- The traffic department is the lifeblood of the agency, and its personnel keep track of everything that happens.
(Moriarty, Mitchell, and Wells, 2012)

How Agencies are paid by clients

Advertising agencies are a big business. Procter & Gamble, for example, spends nearly \$5 billion annually on global advertising. With that kind of money on the table, the agency–client relationship is under pressure from both sides. Agencies want to get more work and get paid more; clients want to cut costs and make their advertising as cost effective as possible.

Revenues and Profits

Agencies derive their revenues and profits from three main sources: **commissions, fees, and retainers.**

- **Commissions**

- A percentage of the media cost, for those few accounts still using a commission approach, the rate is rarely 15 percent; it is more likely lower and subject to negotiation between agency and client.

- **Fees**

- is comparable to the system by which advertisers pay their lawyers and accountants. The client and agency agree on an hourly fee or rate or may negotiate a charge for a specific project.
- This fee can vary by department, or it may be a flat hourly fee for all work regardless of the salary level of the person doing the work. Charges are also included for out-of-pocket expenses, travel, and other standard items.

- **Retainers**

- An agency also may be put on a monthly or yearly **retainer**. The amount billed per month is based on the projected amount of work and the hourly rate charged.
- This system is most commonly used by public relations agencies.

Others include:

- **Performance-based**

- A recent trend in agency compensation is for advertisers to pay agencies on the basis of their performance. One consultant recommends that this arrangement be based on paying the agency either a percentage of the client's sales or a percentage of the client's marketing budget. Procter & Gamble is a pioneer in trying to apply this system.

- Another version of this idea is that agencies **share in the profits** of their client when they create a successful campaign, but that also means they have a greater financial risk in the relationship should the advertising not create the intended impact.
- **Value Billing**
 - means that the agency is paid for its creative and strategic ideas, rather than for executions and media placements.

(Moriarty, Mitchell, and Wells, 2012)

HOW IS THE PRACTICE OF ADVERTISING CHANGING? THE FUTURE OF ADVERTISING

- According to Moriarty, Mitchell, and Wells (2012), "...the days of pounding people with images, and shoving them down their eyeballs are over. The consumer is much more in control now." This change is causing some shifts in the way the advertising business operates.
- Consumer involvement in advertising is a bigger issue than just ad agencies losing their clients. In fact, consumers have been taking control of media and marketing for a number of years through Wikipedia, Twitter, and other newly democratized information sources. YouTube, MySpace, and Facebook have invited everyone into the ad distribution game.
- The Internet is a new world of interaction and consumer-initiated contacts that are creating entirely new ways of communicating with potential customers. That's why in 2006, *Time* magazine spotted the trend and named "You the Consumer" as its Person of the Year and then in 2007 *Advertising Age* named the consumer its "Agency of the Year."

(Moriarty, Mitchell, and Wells, 2012)

Blurring Lines and Converging Media

- One of the biggest changes impacting the advertising industry is the changing media environment. Television used to be the big and it still eats up the biggest part of the budget.
- Fragmentation of the media world is caused by digital media, which appear in so many different forms that it's impossible to keep up with them. The newspaper industry has been particularly hurt as it has realized that much, if not most, of its content can be accessed more easily and quickly in a digital format.

- Traditional media are trying to adjust by transforming themselves into new digital formats, as well. So what do you call online versions of newspapers and magazines? Are they still print when they appear on a screen? And new personal media—iPhones, iPods, iPads, BlackBerries, Kindles—are real shape-changers. They can be phones, music players, calendars, and sources of local and national information, as well as cameras, video viewers, book readers, Web surfers, and video game players. Changes such as these need to be considered when putting together media plans, a big challenge to the advertising industry.

Accountability and Effectiveness

- Efficiency is an advantage in this new advertising world, which has been emphasizing accountability for a couple of decades. The other critical client concern is effectiveness, which is another way to look at accountability in marketing communication.
- Along with the ongoing need for efficiencies, there's always a concern about effectiveness, or accountability as it's sometimes called, but this has become even more important in difficult times. The recent recession forced the advertising industry to become even more serious about creating advertising that delivers results and then proving the effectiveness of the advertising work once it's completed.
- Effective ads are ads that work. That is, they deliver the message the advertiser intended and consumers respond as the advertiser hoped they would.
- Ads are created to have some effect, some impact on the people who read or see their message. We refer to this as advertising's **effects**, the idea being that effective advertising messages will achieve the advertiser's desired impact and the target audience will respond as the advertiser intended.
- This desired impact is formally stated as a set of **objectives**, which are statements of the measurable goals or results that the advertising is intended to achieve. In other words, advertising works if it achieves its objectives.
- **Award Shows** : The Effie award, named for a shortened form of the word *effective*, is given by the New York Chapter of the American Marketing Association (AMA) to advertising and other forms of marketing communication that have been proven to be

not only creative, but more importantly, effective. That means the campaigns were guided by measurable objectives, and evaluation after the campaign determined that the effort did, in fact, meet or exceed the objectives. (Check out the Effies at www.affie.org.) Other award shows that focus on effectiveness are the Advertising and Marketing Effectiveness (AME) awards by the New York Festivals company, Canada's Cassie Awards, and the London-based Institute of Practitioners (IPA) Award. Check out these award programs at www.ameawards.com, www.cassies.ca, and www.ipa.co.uk. (Moriarty, Mitchell, and Wells, 2012)

- Other award shows judge factors such as creative ideas, for example, the Clios by a private award-show company, a New York-based advertising association's One Show, and the Cannes Lions Awards by a French award-show company. Awards are also given for media plans (*Adweek's* Media Plan of the Year) and art direction (New York-based Art Directors Club award show). These awards can be found at www.clioawards.com, www.canneslions.com, www.adweek.com, and www.adcglobal.org/awards/annual.

Integrated Marketing Communication (IMC)

- The search for effective communication has led many companies to focus on the consistency of their brand communication in order to more efficiently establish a coherent brand perception.
- This practice is called *integrated marketing communication* or *IMC*. In other words, everything that sends a brand message is a point of concern for those managing brand communications.
- To be effective, these messages need to complement one another and present the same basic brand strategy.
- ***Principle***
 - Advertising is effective if it achieves its objectives.
 - The point is that brand communication involves more than just advertising. We refer to the **First Principle of IMC** as *everything communicates*.
 - All marketing communication *media* (print, broadcast, out-of-home, and digital), as well as all marketing communication *platforms* (advertising, public relations, events and

sponsorships, and direct response) and other new forms, such as guerilla marketing and online social media communicates.

- All communication efforts are planned for maximum synergy (Moriarty, Mitchell, and Wells, 2012).

Global Marketing

Marketers have moved into global markets, in some cases as a deliberate strategy and in other cases because international competitors have moved into their own markets.

- The growth in global marketing activities is increasing dramatically, so it's helpful to understand some of what makes global marketing different from national marketing.
- In most countries markets are composed of local, regional, international, and global brands.
 - A **local brand** is one marketed in a single country.
 - A **regional brand** is one marketed throughout a region (for example, North America, Europe, China, India).
 - An **international brand** is available in a number of different countries in various parts of the world. A **global brand** is available virtually everywhere in the world, such as Coca-Cola.
- Marketing programs that manage and promote the same brand in several countries or globally are practicing **international marketing**. International marketing communication did not appear in any organized manner until the 20th century.
- Regardless of the company's form or style of management, the shift from national to international management requires new tools for marketers, including one language (often English), one control mechanism (the budget), and one strategic plan (the brand strategy).
- The choice of an agency or agencies for international marketing depends, in part, on whether the brand's messages are *standardized* across all markets or *localized* to accommodate cultural differences.
- If the company wants to take a highly standardized approach in international markets, it is likely to favor international agencies that can handle marketing communication for the product in both the domestic and international markets.
- A localized effort, in contrast, favors use of local agencies for planning and implementation in all of the countries where the product is distributed (Moriarty, Mitchell, and Wells, 2012).

- **Emerging Marketing Strategies**

- Relationship Marketing
- Permission Marketing
- Experience Marketing
- Guerilla Marketing
- Digital Marketing
- Viral Marketing
- Mobile Marketing
- Social Network Marketing

SUMMARY

How have the key concepts of marketing communication developed over time? A review of the evolution of advertising practice identifies the source of many of the key concepts currently used in advertising. These concepts can be grouped into the four key components of advertising: strategy (objectives, appeals, branding, positioning and differentiation, and segmenting and targeting), message (creative concept based on re-search and consumer insight, creativity and artistry), media (the evolution of print, broadcast, outdoor, and digital, as well as the practice of matching targets to media audiences and compensation based on the media buy), and evaluation (effectiveness in terms of meeting objectives, testing, standards).

How is the industry organized—key players, types of agencies, and jobs within agencies?

The key players begin with the advertiser, the organization or brand behind the advertising effort. Other players include the agency that pre-pares the advertising, the media that run it, and the professional suppliers and consultants who contribute expertise. The three types of agencies are full-service, in-house, and specialized agencies. There are also networks of agencies with many offices, as well as holding companies that own many different kinds of agencies. Agency jobs are varied in expertise and provide a number of career opportunities for all kinds of skill sets: account management, planning and research, creative (writing, art direction, production), and media (research, planning, buying). Agencies are paid in different ways, including by commission based on a percent of media costs, with a fee system based on estimated project costs or hourly billing, or with a monthly retainer. Value billing is based on creative and strategic ideas rather than media costs.

- **How is the practice of advertising changing?** A number of changes are creating new forms of advertising, such as consumer-initiated ideas and advertising executions, blurring lines between marcom areas and tools, media that are changing shape and merging with other

media forms, new forms of client–agency relationships, and value-marketing practices that emerged from the recession.

Integrated (Holistic) Marketing

- Focused on better coordinating all marketing efforts to maximize customer satisfaction
- All areas of the marketing mix work together to present the brand in a coherent and consistent way.
- The goal is to manage all the messages delivered by all aspects of the marketing mix to present a consistent brand strategy. (Moriarty, Mitchell, and Wells, 2012)

FURTHER READING

Ad agencies are independent organizations of creative people and businesspeople who specialize in developing and preparing advertising plans, ads, and other promotional tools on behalf of their clients (Arens, William, and Arens, 2011).

Like their clients, ad agencies may be local, regional, national, or international in scope. Agencies can be classified by the range of services they offer and the types of business they handle. The two basic types are full-service agencies and specialized service agencies, such as creative boutiques, media-buying services, and interactive agencies. Agencies may specialize in either consumer or business-to-business accounts. The people who work in agencies may be involved in account management, research, account planning, creative services, production, traffic, media, new business, administration, or a host of other activities (Arens, William, and Arens, 2011).

Agencies may be organized into departments of functional specialties or into groups that work as teams on various accounts. Agencies charge fees or retainers, receive commissions from the media, or mark up outside purchases made for their clients.

Some advertisers develop in-house agencies to save money by keeping agency commissions for themselves. However, they risk losing objectivity and creativity (Arens, William, and Arens, 2011).

Most agencies get clients through referrals, publicity on successful campaigns, advertising, personal solicitation, or networking. The client/agency relationship goes through four stages: pre-relationship, development, maintenance, and termination. Numerous factors affect the relationship, including chemistry, communication, conduct, and changes.

The suppliers in advertising are all the people and organizations that assist in the business. Examples are art studios and Web designers, printers, photoengravers, film and video houses, talent agencies, research firms, and consultants (Arens, William, and Arens, 2011).

The media of advertising include the traditional mass media of print, electronic, and out-of-home as well as more specialized basis but also typically is the most effective at generating inquiries or responses. Interactive media let customers participate, turning advertising from a monologue to a dialogue (Arens, William, and Arens, 2011).

In foreign markets, advertisers are faced with different media mixes, different legal constraints, and different economies of advertising. (Arens, William, and Arens, 2011)

REFERENCES

Advertising & IMC: Principles and Practice., Moriarty, Sandra Mitchell, Nancy D and Wells, William D. 14th edition. Pearson Prentice Hall Inc., 2009.

Contemporary Advertising and integrated marketing communications. Arens, William. F., Weigold, Michael. F., and Arens, Christian. 13th Ed. McGraw Hill Higher Education. 2011.