

Chapter One

What Is Advertising?

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Learning Objectives

- 1-1** Define integrated marketing communications and explain its importance.
- 1-2** Define advertising and distinguish it from other forms of marketing communications.
- 1-3** Explain the role advertising plays in business and marketing.
- 1-4** Illustrate the functions of advertising in a free-market economy.
- 1-5** Discuss how advertising evolved with the history of commerce.
- 1-6** Describe the impact of advertising on society.

Introduction

Integrated Marketing Communication (IMC)

- Coordination and integration of messages from a variety of sources.
- Contrasts with practices from the past in which ad agencies created campaigns without thinking how advertisements worked with other marketing communications.

Advertising now considered one tool in the marketing communications toolbox.

- Advertising practices now in transition.

What Is Advertising? ¹

Marketing Communications

- Efforts and tools used to communicate with customers.
- Includes TV commercials, websites, social media messages, product placement in TV shows, coupons, sales letters, event sponsorship, telemarketing calls, and e-mails.
- Advertising is one type of marketing communication.

What Is Advertising? ₂

Advertising

- A paid, mediated form of communication from an identifiable source, designed to persuade the receiver to take some action, now or in the future.
- Six core components distinguish advertising.

What Is Advertising? ₃

Advertising is a type of communication.

- Very structured form of communication.
- Verbal and nonverbal elements.
- Composed to fill specific space and time formats.

What Is Advertising? ⁴

Advertising is directed at groups of people who are attractive to the advertiser (target audiences).

- **Consumers:** people who buy products for their personal use.
- Businesses and their decision makers.

What Is Advertising? ⁵

Most advertising is paid for by sponsors.

- Companies pay media to carry their ads.
- **Public service announcements (PSAs):** advertisements that serve the public interest, for a nonprofit organization, carried by the media at no charge.

What Is Advertising? 6

Advertising is mediated.

Medium: a communication vehicle that transfers a message from the sender to the receiver.

- **Word-of-mouth (WOM) advertising:** passing of information (especially product recommendations) in an informal, unpaid, person-to-person manner.
- **Mass media:** print or broadcast media that reach very large audiences. Examples include radio, television, newspapers, magazines, and billboards.

What Is Advertising? 7

Advertising is intended to be persuasive—to ultimately motivate the audience to do something.

- It promotes **goods, services, or ideas**—the **product**.
- Not every ad is meant to create a sale.

What Is Advertising? 8

An ad identifies its sponsor.

- Helps distinguish advertising from other types of marketing communication.

The Role of Advertising in Business

Every business organization performs a number of activities, typically classified under three broad categories:

Operations

Finance/Administration

Marketing

What Is Marketing? ¹

Marketing

The activity, set of institutions, and processes for creating, communicating delivering, and exchanging offerings that have value for the following:

- Customers.
- Clients.
- Partners.
- Society at large.

Marketing is a **process**.

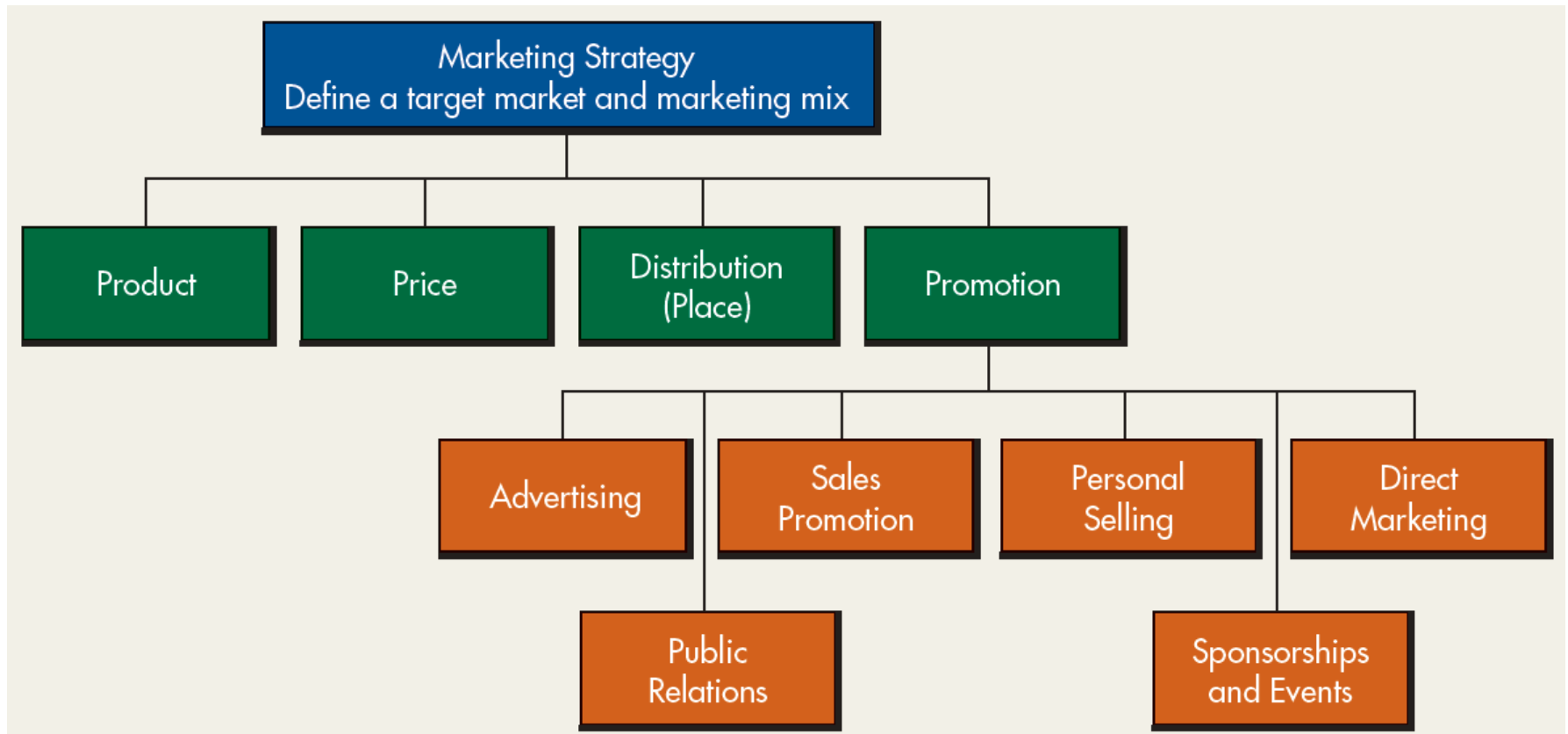
What Is Marketing? ²

Marketing Mix

Elements that are added, subtracted, or modified by a company to create a desired marketing strategy.

- Product.
- Price.
- Place.
- Promotion.

Exhibit 1-1 Advertising: Part of the Promotion Component of the Marketing Mix



[Access the text alternative for slide images.](#)

Advertising and the Marketing Process

Marketing strategy helps to determine:

- Who the targets of advertising should be.
- In what markets the advertising should appear.
- What goals the advertising should accomplish.

Advertising strategy refines the target audience.

It defines what response the advertiser is seeking, especially what the audience should:

- Notice.
- Think.
- Feel.

Principles of Free-Market Economics ¹

Self-Interest

People always want more—for less.

Competition between self-interested sellers advertising to self-interested buyers leads to:

- Greater diversity of products.
- High incentive to develop new products.

Complete Information

The more information buyers and sellers have leads to:

- More efficient competition.
- Better quality products.
- Lower prices for all.

Principles of Free-Market Economics ²

Many Buyers and Sellers

- Many sellers ensure competition to meet customer needs by producing more market-responsive products.
- Many buyers ensure that sellers can find customers interested in their unique, fairly priced products.

Absence of Externalities (social costs)

- **Externalities:** benefit or harm caused by the sale or consumption of products to people who are not involved in the transaction.
- Taxation and regulation: used to compensate for or eliminate the externalities.

Functions and Effects of Advertising in a Free Economy

For any business, advertising may perform a variety of functions.

Branding is one of the most basic functions of advertising.

- Example: Coca Cola's logo and contour bottle.

Functions of Branding



Coca-Cola was first served at a small pharmacy in Atlanta in 1886. The word drink was added to signs to let people know it was a beverage.

Exhibit 1-2 Functions and Effects of Advertising as a Marketing Tool

- To identify products and differentiate them from others.
- To communicate information about the product, its features, and its place of sale.
- To induce consumers to try new products and to suggest reuse.
- To increase product use.
- To stimulate the distribution of a product.
- To build value, brand preference, and loyalty.
- To lower the overall cost of sales.

The Evolution of Advertising as an Economic Tool

Thousands of years ago, “advertising” was limited.

- Distribution was narrow.
- Goods weren’t produced in quantity.
- No mass media.
- As civilizations developed and grew, so did advertising.

Early Advertising

Preindustrial Age: period between the beginning of written history and the eighteenth century.

Invention of paper and printing press—rise of written advertising.

Significant milestones:

- 1275 – First European paper mill.
- 1440s – Printing press invented.
- 1472 – First English advertisement.
- 1600s – First newspapers.
- 1700s – First illustrations in American ads.



An early form of advertising. Until the advent of public schooling, most people couldn't read—so signs featured symbols of the goods or services for sale, such as the chair on this cabinetmaker's sign in Williamsburg, Virginia.

The Industrial Age and the Birth of Agencies ¹

Industrial Age: period from about 1800 through end of World War II, when production was the major concern of manufacturers.

Significant milestones:

- Late 1700s – Industrial revolution in England.
- 1800s – Industrial revolution in United States.
- 1841 – Volney B. Palmer sets up first American ad business.
- 1890 – Ayer & Sons became first modern ad agency.
- 1911 – First truth in advertising codes.

The Industrial Age and the Birth of Agencies ²

Technological Advances of the Industrial Revolution

- Photography fostered credibility and creativity in advertising.
- Magazine ads reach mass market, stimulate mass consumption.
- Telegraph, telephone, typewriter, phonograph, films enabled better communication.

Other Important Developments

- Rural free mail delivery.
- Growth of the U.S. industrial base.
- Public schooling and rising literacy.

Agency Advertising Begins



In 1890, N. W. Ayer & Sons became the first agency to operate as agencies do today—planning, creating, and executing complete ad campaigns for advertisers. This 1899 Ayer ad for Uneeda biscuits (catch the play on words) was one of a series of popular ads of the times.

The Industrial Age and the Birth of Agencies ³

By the 1920s, the United States was rich and powerful.

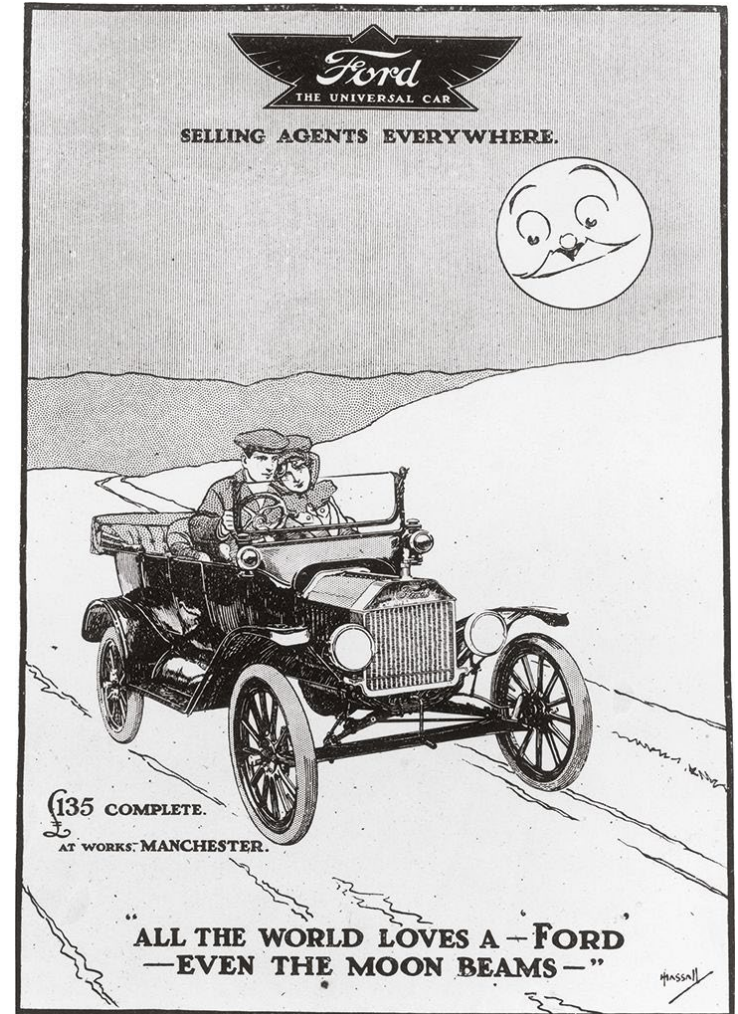
- Era of salesmanship: *Scientific Advertising* written by Claude Hopkins.
- Radio: mass communication and new advertising medium.
- Development of new brands of **consumer packaged goods**.
- **Product differentiation**: portraying one brand as different from and better than the competition by offering consumers quality, variety, convenience.

In 1929, Great Depression brings drop in advertising spending.

- Marketing research industry develops.

Technology Fuels Advertising

In the early twentieth century, the Industrial Revolution was in full force. Factories were producing products like Ford automobiles, not just for Americans, but also for overseas markets, as this ad shows.



The Golden Age of Advertising

Golden Age (end of World War II to about 1979)

Introduction of television; rapid growth of TV advertising.

Postwar prosperity and increased consumerism.

New marketing strategies:

- **Unique selling proposition (USP):** distinctive benefits that make a product different than any other.
- **Market segmentation:** identifying unique groups whose needs could be met by specialized products.
- **Positioning:** association of a particular brand with a particular set of customer needs that rank high on consumer's priority list.

The Postindustrial Age ¹

Postindustrial Age: period of cataclysmic change, beginning about 1980; more concern for dangers of consumption and the sensitive environment.

- **Demarketing:** advertising used to slow the demand for products, such as energy or tobacco.
- End of Cold War with collapse of Soviet Union.
- Companies anxious to develop markets in former Warsaw Pact states.
- Megamergers.
- Global economic recession caused by layoffs in defense industries.

The Postindustrial Age ²

Factors that Characterized Marketing in the Postindustrial Age.

- Aging of traditional products, with corresponding growth in competition.
- Growing affluence and sophistication of the consuming public, led by huge baby-boomer generation.
- Ads aimed at “me” generation.

Sales promotions: direct inducement to accelerate product movement.

- Includes coupons, direct mail, and direct marketing.
- Chosen by clients to be cost-effective as the U.S. economy slowed down.

The Postindustrial Age ³

Factors that Characterized Marketing in the Postindustrial Age continued

By mid-1990s, marketers return to advertising to rebuild brand value.

2001 sees record advertising decline from recession, stock market collapse, and dot-com implosions.

- September 11 terrorist attacks caused further decline.

By 2005, U.S. advertising expenditures rebound to \$264 billion.

The Global Interactive Age: Looking at the Twenty-First Century ¹

Advertising Grows Worldwide

- Advertising expenditures outside the United States exceed \$400 billion annually.
- More than half the world's media spending occurring in 10 emerging markets.
- Private enterprise and advertising now in formerly communist eastern European countries.

China now the biggest economic rival of the United States.

- China's growth rate more than double that of U.S.

Exhibit 1-4 Top 10 Global Marketers (2019)

Advertiser	Headquarters	Worldwide Advertising Spending (\$ millions)	Total U.S. Ad Spending (\$ millions)
Procter & Gamble Co.	Cincinnati	\$10,132	\$4,305
Samsung Electronics	Suwon, South Korea	10,112	2,152
L'Oréal	Clichy, France	9,623	2,137
Unilever	London/Rotterdam	8,464	1,379
Amazon	Seattle	8,200	4,470
Comcast Corp.	Philadelphia	7,483	6,122
Nestlé	Vevey, Switzerland	7,291	2,202
LVMH Moët Hennessy Louis Vuitton	Paris	6,520	1,560
Alphabet (Google)	Mountain View, CA	6,367	2,960
AT&T	Dallas	6,236	5,362

The Global Interactive Age: Looking at the Twenty-First Century ₂

Changes in Media Delivery Systems

Narrowcasting is delivering programming to a specific group defined by demographics and/or program content; often used to describe cable networks.

TV on demand through Internet channels led to cable cutting: the practice of choosing to discontinue cable service and watch programming over Internet services.

New advertising media through digital technology.

Widespread use of social media; new way to reach consumers.

- Advertisers shift spending to engage this audience.

New Opportunities, New Challenges



The trend toward consumer control over media consumption is well illustrated by streaming media. For an inexpensive subscription, viewers can watch where, when, and how they want. This has created a new opportunity for advertisers, but also new challenges.

The Global Interactive Age: Looking at the Twenty-First Century ₃

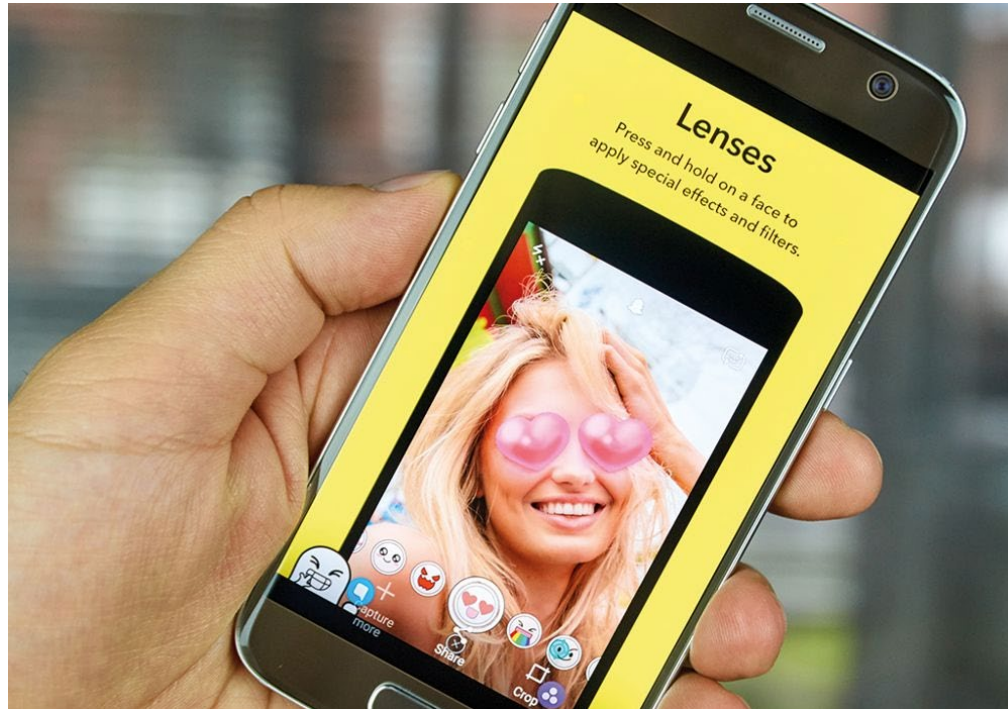
New Technologies Disrupt Traditional Media

- Adverse effects, especially on newspaper industry.
- Decline in advertising expenditures; shift in advertising approaches.

Better Relationship Marketing

- Companies should be consistent with what they say and do.
- Companies must integrate their marketing communications with what they do.

New Platforms



The distinction between content creator and content consumer is blurring with the surging popularity of social media platforms such as Snapchat.

Society and Ethics: The Effects of Advertising ¹

Advertising Serves Social Needs

Encourages increased productivity.

Primary income for many media.

- Facilitates freedom of the press.
- Promotes complete information.

Public service announcements (PSAs) promote growth and understanding of social issues and causes.

Society and Ethics: The Effects of Advertising ²

Issues of Truthfulness and Ethics Led To:
Government regulation.

- Pure Food and Drug Act (1906).
- Federal Trade Commission Act (1914).

Industry efforts at self-regulation.

- Association of National Advertisers (ANA).
- American Advertising Federation (AAF).
- Better Business Bureau (BBB).

Formulation of consumer rights movement.

New consumer movement in the 1970s.

Society and Ethics: The Effects of Advertising ³

Attention Shifts to More Subtle Problems

- Puffery.
- Advertising to children.
- Advertising of legal but unhealthy products.
- Advertising ethics.
- Lack of diversity.

Advertising has had a pronounced effect on society and the economy.



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