

Chapter 2 - The Promotion Industry

TRUE/FALSE

1. While many facets of advertising have undergone a great deal of change since the early days of advertising, the goal of the industry has remained constant.

ANS: T PTS: 1 DIF: Easy REF: p. 25
OBJ: 2-1

2. The lifting of federal “cross-ownership” restrictions has caused a consolidation of media options.

ANS: T PTS: 1 DIF: Moderate REF: p. 25
OBJ: 2-1

3. Marketers are looking to the full complement of promotional opportunities in sales promotions, event sponsorships, new media options, and public relations instead of traditional advertising efforts.

ANS: F PTS: 1 DIF: Moderate REF: p. 26–27
OBJ: 2-1

4. Media clutter, once a major problem of the mass media, has intensified as a barrier to quality advertising messages because of the introduction of new technologies and their contribution to an increased number of messages.

ANS: T PTS: 1 DIF: Difficult REF: p. 26–27
OBJ: 2-1

5. While the amount spent on advertising across the world has increased, it has actually decreased in the United States.

ANS: F PTS: 1 DIF: Difficult REF: p. 28
OBJ: 2-2

6. Different types of marketers each use advertising somewhat differently, depending on how big their budgets are.

ANS: F PTS: 1 DIF: Moderate REF: p. 29
OBJ: 2-2

7. Advertising by social organizations at the national level is common but not at state and local levels.

ANS: F PTS: 1 DIF: Moderate REF: p. 31
OBJ: 2-2

8. In-house advertising agencies have the advantage of maintaining objectivity about the brand while essentially keeping commissions that might have gone to an external agency.

ANS: F PTS: 1 DIF: Difficult REF: p. 33
OBJ: 2-3

9. Calvin Klein, and Revlon have developed their own in-house agencies because of economic reasons, and the fact that their in house agencies have brand specific control over and knowledge of their own marketing activities.

ANS: T PTS: 1 DIF: Difficult REF: p. 33
OBJ: 2-3

10. *Cramer-Kasselt advertising* is a mid-sized advertising agency that has a select list of relatively smaller budget clients including Air-Tran and Bombardier ATVs. The company is nevertheless considered a "full service" agency because it provides a wide array of promotional services.

ANS: T PTS: 1 DIF: Difficult REF: p. 32
OBJ: 2-3

11. Interactive agencies help advertisers prepare communications for new media on the world wide web.

ANS: T PTS: 1 DIF: Easy REF: p. 32–33
OBJ: 2-3

12. DeeAnne Watson ensures that research is part of each creative development decision; she is a media planner.

ANS: F PTS: 1 DIF: Moderate REF: p. 37
OBJ: 2-3

13. A fee system is much like that used by consultants or attorneys, whereby the advertiser and the agency agree on a fixed percentage of the media spending amount.

ANS: F PTS: 1 DIF: Easy REF: p. 39
OBJ: 2-3

14. Direct marketing agencies and database agencies (sometimes also called direct response agencies) provide a variety of direct marketing services and maintain and manage large websites as one of their services.

ANS: F PTS: 1 DIF: Moderate REF: p. 34
OBJ: 2-3

15. While playing golf, Tom sees a billboard on the adjoining highway for McDonald's. This is an example of interactive advertising because Tom responds by having lunch at the Golden Arches.

ANS: F PTS: 1 DIF: Easy REF: p. 32–33
OBJ: 2-4

MULTIPLE CHOICE

1. Which one of the following is not a trend affecting the advertising industry?
- Media proliferation and consolidation.
 - A return to strict 25% commission compensation for advertising agencies.
 - The undoing of Agency Consolidation and Globalization.
 - Media evolution and clutter.

ANS: B PTS: 1 DIF: Moderate REF: p. 25

OBJ: 2-1

2. Advertisers are shifting some money away from traditional media because they are
- interested in consolidating via digital media.
 - looking to a broader range of promotional tools.
 - unconvinced in the strengths of promotional tools.
 - struggling to recover from a depressed economy.

ANS: B PTS: 1 DIF: Difficult REF: p. 27

OBJ: 2-1

3. O'Reilly Media coined the phrase *Web 2.0* to refer to a second generation of Web users and services that emphasize
- online downloads
 - online privacy
 - online collaboration
 - online isolation

ANS: C PTS: 1 DIF: Moderate REF: p. 28

OBJ: 2-1

4. Today, expenditures worldwide on all forms of promotion exceed:
- \$25 billion
 - \$50 billion
 - \$200 billion
 - \$1 trillion

ANS: D PTS: 1 DIF: Moderate REF: p. 28

OBJ: 2-2

5. When one considers the largest manufacturing organizations in the United States, it is clear that they all have one thing in common. They all
- use advertising better than small manufacturers.
 - are the most prominent users of promotion.
 - engage in international advertising.
 - are resellers of products.

ANS: B PTS: 1 DIF: Moderate REF: p. 29–30

OBJ: 2-2

6. The United States federal government spends more than \$2 billion in IMC expenses. Most of that money is spent in two areas. Those areas are
- social issue advertising and armed forces recruitment.
 - campaign advertising and armed forces recruitment.
 - social issue advertising and political campaign advertising.
 - lottery advertising and armed forces recruitment.

ANS: A PTS: 1 DIF: Moderate REF: p. 31

OBJ: 2-2

7. The most visible reseller advertisers are:
- wholesalers like Simpatico Foods, Inc.
 - industrial organizations
 - transportation companies like DHL and Southern Pacific Railroad
 - retailers that sell in national or global markets like Sears, The Limited and McDonald's

ANS: D PTS: 1 DIF: Moderate REF: p. 30

OBJ: 2-2

8. Event sponsorships can be targeted to household consumers or trade markets. The type of agency that specializes in this form of advertising is called:
- An advertising research firm
 - A client
 - An event-planning agency
 - An accounting firm, specializing in the account

ANS: C PTS: 1 DIF: Moderate REF: p. 35
OBJ: 2-3

9. A regional fast food chain, Chopsticks, features rice bowls as a mainline product and is interested in expanding into a new market. What type of firm might conduct the research needed to expand into the new market?
- the advertiser because they know the product best
 - an advertising agency because it is imaginative
 - an external facilitator like a marketing or advertising research firm
 - media organizations because they have large datasets available

ANS: C PTS: 1 DIF: Moderate REF: p. 41
OBJ: 2-4

10. The Seaside Resort & Hospitality Company wants to purchase land and construct a resort hotel on the shorefront in San Clemente, California next to the Nixon retreat. However, the resort company would also like to construct a golf course on the property as well and needs help with local political relationships to accomplish this. The company might hire which of the following to assist in the project?
- A creative boutique
 - A consultant.
 - A sports marketing company.
 - A wholesale company.

ANS: B PTS: 1 DIF: Moderate REF: p. 41
OBJ: 2-4

11. There are many types of external facilitators in the advertising community. ____ help advertisers help advertisers prepare communications for new media.
- Production facilitators
 - Communication organizations
 - advertising research firms
 - interactive agencies

ANS: D PTS: 1 DIF: Moderate REF: p. 32–33
OBJ: 2-3

12. Which of the following is considered to be an element of interactive media?
- kiosks
 - directories
 - satellite radio
 - cable television

ANS: A PTS: 1 DIF: Moderate REF: p. 32
OBJ: 2-3

13. A(n) ____ agency is often referred to as the advertising department within a firm.
- in-house
 - interactive
 - media-buying
 - creative boutique

ANS: A PTS: 1 DIF: Easy REF: p. 33
OBJ: 2-3

14. The person in an advertising agency who will work with the client in translating cultural and consumer values into advertising messages is the

- a. account executive.
- b. director of production.
- c. media services director.
- d. administrative executive.

ANS: A PTS: 1 DIF: Easy REF: p. 36
OBJ: 2-3

15. ____ is responsible for coming up with the concepts that express the benefits of a brand to a target audience.

- a. The research department
- b. Creative and production services
- c. Account services
- d. The direct-marketing department

ANS: B PTS: 1 DIF: Easy REF: p. 36–37
OBJ: 2-3

16. One method of agency compensation has been accused of encouraging advertising agencies to recommend the most costly media vehicles available. This method is

- a. the fee system.
- b. the markup charge system.
- c. the retainer system.
- d. the commission system.

ANS: D PTS: 1 DIF: Moderate REF: p. 38–39
OBJ: 2-3

17. When an ad agency uses a compensation system much like that used by consultants or attorneys to bill clients, it is using

- a. a commission system.
- b. markup charges.
- c. a fee system.
- d. a media commission system.

ANS: C PTS: 1 DIF: Easy REF: p. 39
OBJ: 2-3

18. Dooley, Fishback and Waller advertising agency sets an hourly rate for its services. The rate is based on the average salary of all the members of a particular department. This is an example of

- a. the fee system.
- b. the fixed-fee system.
- c. the markup charge system.
- d. the commission system.

ANS: A PTS: 1 DIF: Moderate REF: p. 39
OBJ: 2-3

19. Recently, advertising agencies have developed compensation programs that are based upon achievement of specific objectives for the client. These programs are known as ____ compensation.

- a. fee-based
- b. pay-for-results
- c. commission
- d. markup

ANS: B PTS: 1 DIF: Moderate REF: p. 39–40
OBJ: 2-3

20. Van Poolen and Associates has been a successful mid-sized, full-service advertising agency for more than two decades. In an attempt to serve its clients more efficiently in a competitive marketplace, the agency has changed its compensation package to include payment based on results. If the client agrees, what results must Van Poolen and Associates not agree to?

- a. Increasing brand awareness
- b. Generating sales increases versus previous year
- c. Changing target consumer attitude toward brand
- d. Flex-pay following in-market performance measures

ANS: B PTS: 1 DIF: Moderate REF: p. 40

OBJ: 2-3

21. Which of the following is an external facilitator?
- a. public relations firm.
 - b. direct marketing firm.
 - c. marketing research provider
 - d. Internet web provider.
 - e. sales promotion agency.

ANS: C PTS: 1 DIF: Easy REF: p. 41
OBJ: 2-4

22. Which of the following is a promotion agency available to advertisers?
- a. Direct marketing and database agency
 - b. An e-commerce agency
 - c. Event planning agency
 - d. All of these

ANS: D PTS: 1 DIF: Moderate REF: p. 32–35
OBJ: 2-3

23. Media organizations are essential to IMC because
- a. link promoters and advertisers to consumers
 - b. they assist in creating and executing promotions
 - c. they are often consolidated in conglomerates
 - d. they offer both traditional and new media

ANS: A PTS: 1 DIF: Moderate REF: p. 42–43
OBJ: 2-5

24. Traditional media include all of the following except:
- a. television
 - b. websites
 - c. magazines
 - d. radio

ANS: B PTS: 1 DIF: Easy REF: p. 42–43
OBJ: 2-5

25. Which of the following is true of organizations whose audiences are primarily non-consumer business and government audiences?
- a. They only use personal selling to further their business goals
 - b. Few rely on public relations to maintain their brand images
 - c. Many engage in IMC and use the full variety of IMC tools
 - d. They rely primarily on business journals written for their industries

ANS: C PTS: 1 DIF: Moderate REF: p. 43
OBJ: 2-5

Scenario 2-1

Golf America is a small, national golf company that owns and operates two dozen golf courses in sunbelt cities in the Southwest, Texas, Florida and North Carolina. The company prides itself on buying older courses and investing in them to increase membership, outside play, and update the facility. Members of existing clubs see tremendous changes in grounds, landscaping, food service and golf amenities when Golf America assumes ownership and management responsibilities. In each market in which it owned and operates, Golf America engages a marketing group or agency to assist with communications and promotions.

26. (Scenario 2-1) Golf America enters a new market in which the new course they have purchased has a fifty-year history in the community. It is important to the new owners to enhance the reputation of the course, continue the relationship with existing members, yet at the same time invite new members to join and sponsor promotions to entice outside play to fill in the unused tee times and maximize course revenues. Most likely, Golf America would engage the following type of agency to manage its relationships:

- a. Full-service advertising agency.
- b. Promotional agency.
- c. Interactive agency.
- d. Creative boutique.

ANS: A PTS: 1 DIF: Moderate REF: p. 32
OBJ: 2-3

27. (Scenario 2-1) Golf America has decided against forming an in-house advertising agency because it feels it needs representation in local markets from people who have established reputations. What other reason would there be NOT to form an in-house agency?

- a. Golf America is excellent at golf management.
- b. Golf America knows golf, but does not have employees who are experts in advertising.
- c. Golf America courses are noted for challenging design.
- d. All the pros that work for the company are sanctioned golf professionals

ANS: B PTS: 1 DIF: Difficult REF: p. 33
OBJ: 2-3

28. (Scenario 2-1) Golf America just purchased a new golf course in Palm Springs. The course has long been the home of a "celebrity" golf tournament that in recent years has not been well attended. In order to spur interest in the tournament, Golf America decides to hire Golf Events & Tournaments, Inc. Which type of agency has Golf America hired for this project?

- a. Trade Reseller.
- b. Marketing Research Firm.
- c. Media Buying Firm.
- d. Promotion Agency.

ANS: D PTS: 1 DIF: Difficult REF: p. 34–35
OBJ: 2-3

29. (Scenario 2-1) Golf America is also considering hiring an external facilitator to develop an on-line presence and sell golf membership, tee times at its courses and golf merchandise from its proshops on-line. What type of firm might it hire?

- a. an e-commerce agency.
- b. an information intermediary.
- c. a direct-marketing expert.
- d. a media conglomerate.

ANS: A PTS: 1 DIF: Difficult REF: p. 34
OBJ: 2-3

Scenario 2-2

Brush Strokes is an art supply store located in a town with a population of about 100,000 people. The town is also home to a major state university. Brush Strokes gets a majority of its business from the student population. It has used the services of a local full-service advertising agency in the past. A great majority of its marketing budget has gone toward running small advertisements in the local and school newspapers at the beginning of each term. The advertising agency is now recommending that Brush Strokes devote a majority of its budget to running television spots during broadcasts of the university's football and basketball games. While the owners of Brush Strokes agree that they could be doing a better job of reaching the student population, they have not come to any conclusions about the best way to accomplish this.

30. (Scenario 2-2) In all likelihood, with which one of the following would Brush Strokes's full service agency be least qualified to handle?

- a. Forecasting dividend earnings of stockholders.
- b. Creating a 30-second television commercial
- c. Interpreting research on the student market
- d. Creating a competitive position against other art supply stores

ANS: A PTS: 1 DIF: Easy REF: p. 32
 OBJ: 2-3

31. (Scenario 2-2) The owners of Brush Strokes have called a meeting with their agency to determine how Brush Strokes can benefit best from its advertising. The one agency department that must be represented at this meeting is
- a. account services.
 - b. administrative services.
 - c. media-planning services.
 - d. creative services.

ANS: A PTS: 1 DIF: Moderate REF: p. 36
 OBJ: 2-3

32. (Scenario 2-2) The agency has informed Brush Strokes that if Brush Strokes agrees to its recommendation, the agency will have to rely heavily on outside sources. In all likelihood, the area the agency will seek the most help in will be
- a. developing the strategy behind the spots.
 - b. creating the ideas for the spots.
 - c. producing the spots.
 - d. assessing the effectiveness of the spots.

ANS: C PTS: 1 DIF: Moderate REF: p. 41–42
 OBJ: 2-4

33. (Scenario 2-2) As a small business, Brush Strokes is always looking for ways to trim its expenses. Which one of the following would be an effective strategy?
- a. Move consumer advertising in house.
 - b. Assign the project to a media conglomerate.
 - c. Shift half the advertising budget to an interactive agency specializing in college age target audiences
 - d. Use a media-buying service.

ANS: C PTS: 1 DIF: Moderate REF: p. 32–33
 OBJ: 2-3

Scenario 2-3

ABC television network notified the Miss America Organization that it would not pick up the show for broadcast in 2005, leaving the pageant without a major broadcast outlet for the first time in 50 years. The news cannot have come as a shock to the Miss America Organization. A little more than a decade ago, the competition that started as an Atlantic City publicity stunt had grown to about 27 million viewers; in 2004, it drew a record-low 9.8 million, with the median age of the Miss America audience at 51. ABC paid \$5.6 million for broadcast rights to the pageant in 2003. ABC, which took over the pageant after 30-year sponsor NBC bowed out, was not doing Miss America any favors airing it on Saturdays -- a low-viewership night. ("No More Miss America Pageantry for ABC," *Washington Post.com*, Lisa de Moraes, October 21, 2004)

34. (Scenario 2-3) The Miss America Pageant has had a struggle over the last few years in gaining the viewers and resulting ratings and advertising revenues from airing the program on network television. The board of directors of the pageant has considered simulcasting the event live on the Internet. What kind of organization might be helpful in planning the webcast?
- a. an advertiser.
 - b. an advertising agency.
 - c. a consultant with the right expertise
 - d. a creative boutique.

ANS: C PTS: 1 DIF: Difficult REF: p. 41
OBJ: 2-4

35. (Scenario 2-3) One of the problems the Miss America Pageant has encountered has been an indifference or sometimes negative response to beauty pageants in general. Many viewers are critical of the swimsuit contest, which awards points for physical characteristics. The pageant feels the competition is integral to the overall program and wants to educate the public about why the swimsuit competition is included and how it contributes to a well-rounded program. To achieve its goals in this area, the pageant might employ the services of:
- a public relations specialist.
 - in-house agency.
 - media-buying service.
 - media departments at their full-service agency.

ANS: A PTS: 1 DIF: Moderate REF: p. 35
OBJ: 2-3

36. (Scenario 2-3) One of the events new to the pageant this year is a sweepstakes in which the lucky viewer who predicts the winner will be awarded one million dollars at the end of the live broadcast. To oversee this new component of the event, the pageant should hire the following:
- a new full service ad agency
 - a sales promotion agency.
 - new pageant emcee
 - an event planning agency

ANS: D PTS: 1 DIF: Moderate REF: p. 35
OBJ: 2-3

37. (Scenario 2-3) The pageant's board of directors has come to the realization that the one night event is the only aspect that the general public equates to the Miss America contest. In reality, the event lasts year round with pageants in all fifty states during the year leading up to the nationally televised event. The board has selected a new full-service agency to tie all the events together in a cohesive marketing program including an interactive component. To do this, the agency will focus on:
- IMC using the full spectrum of promotional tools
 - development of a new brand logo
 - creating a compelling new ad campaign
 - a website directed to a new younger audience

ANS: A PTS: 1 DIF: Difficult REF: p. 32
OBJ: 2-3

Scenario 2-4

Advertising is a \$300-billion-per-year business in the United States. Understandably, competition for clients is fierce among advertising agencies. There are many different reasons why a client may choose to move its business to a new agency, but there is one constant. The agency that wins the business is celebrated by the press; the agency that loses the business, however, is typically forgotten fairly soon.

38. (Scenario 2-4) What type of agency might Subway select to promote its new line of sandwiches and bread to a national television audience?
- Full-service advertising agency.
 - Creative boutique.
 - In-house advertising agency.
 - Internet publisher.

ANS: A PTS: 1 DIF: Easy REF: p. 32
OBJ: 2-3

39. (Scenario 2-4) Kentucky Fried Chicken, a subsidiary of Yum! Brands, Inc. which owns A&W, KFC, Long John Silvers, Pizza Hut and Taco Bell restaurants, is the world's largest restaurant company with nearly 32,500 system units in more than 100 countries and territories. KFC is looking for a new advertising agency to assist with advertising in Mexico and Canada. The client feels that it would be best served by a very large agency offering a wide range of services. To have the most agencies to choose from, it should focus its search on agencies with headquarters in
- a. Toronto.
 - b. Paris.
 - c. New York.
 - d. Mexico City.

ANS: C PTS: 1 DIF: Moderate REF: p. 32
OBJ: 2-3

40. (Scenario 2-4) A client is unhappy because the work that its agency is turning out is constantly behind schedule and over budget. This client is likely to look for a new agency with
- a. a stronger creative department.
 - b. stronger account management function
 - c. a stronger billing department.
 - d. a stronger marketing services department.

ANS: B PTS: 1 DIF: Moderate REF: p. 36
OBJ: 2-3

41. (Scenario 2-4) During a new business presentation, an agency says that one reason it should get the business is that all of its different department teams are so well coordinated. The department that brings all the different efforts together on a day-to-day basis is
- a. creative services.
 - b. account services.
 - c. administrative services.
 - d. marketing services.

ANS: B PTS: 1 DIF: Moderate REF: p. 36
OBJ: 2-3

42. (Scenario 2-4) A client has grown dissatisfied with its ad campaign. What is the best way the agency can respond?
- a. Account management should first talk with the client about the nature of their dissatisfaction; then proceed with item "c" below.
 - b. Assemble the entire agency team assigned to this client and have a brainstorming session
 - c. Call on the planner to assemble data on how the ads are received by the target consumer, then call a meeting of Account Management, Creative, and Account planning with client executives to identify the best path forward
 - d. Blame on problems with the client's product line that no advertising should be expected to fix

ANS: A PTS: 1 DIF: Difficult REF: p. 36–37
OBJ: 2-3

Scenario 2-5

Thomas Motors is an independent auto dealer in a metropolitan market dominated by a number of national franchise dealerships including General Motors, Ford, Daimler/Chrysler, and foreign imports Honda, Toyota and more. In order to maintain their share of market, Thomas must do significant advertising in a number of different media. They carry several different popular makes of automobiles, both foreign and domestic, and maintain a high level of inventory on their lot at all times.

43. (Scenario 2-5) Thomas Motors wants to better understand the media consumption behaviors of consumers in their target markets. As a result, they wish to conduct a marketing research project to learn more about this issue. Which of the following types of firms are they most likely to commission to do such work?
- a. an advertiser
 - b. an advertising agency
 - c. an external facilitator
 - d. a media organization

ANS: C PTS: 1 DIF: Moderate REF: p. 41–42
OBJ: 2-4

44. (Scenario 2-5) The marketing director at Thomas has decided that the firm needs a creative slogan or theme to be used consistently in advertising to help position the firm in the minds of local consumers. Which of the following types of advertising agencies would likely be the best choice to accomplish this specific goal?
- a. an interactive agency
 - b. a creative boutique
 - c. a full-service agency
 - d. an in-house agency

ANS: B PTS: 1 DIF: Easy REF: p. 32
OBJ: 2-3

45. (Scenario 2-5) Thomas' management has budgeted \$1,000,000 for television advertising for the coming year. How much can their advertising agency expect to earn from this commitment using a *traditional* commission system compensation plan?
- a. \$10,000
 - b. \$15,000
 - c. \$100,000
 - d. \$150,000

ANS: D PTS: 1 DIF: Difficult REF: p. 38–39
OBJ: 2-3

46. (Scenario 2-5) Thomas is very interested in collecting information on customer purchase transaction histories of all consumers that have purchased new vehicles in the metropolitan area during the past two years. Which of the following types of external facilitators will they most likely contract to do such work for them?
- a. a marketing research firm
 - b. a consultant
 - c. a production facilitator
 - d. an information intermediary

ANS: A PTS: 1 DIF: Moderate REF: p. 41
OBJ: 2-4

47. (Scenario 2-5) To stimulate more consumer traffic at the dealership, Thomas Motors has decided to offer a chance to win a free automobile for anyone who comes in and test drives any vehicle on their lot. Which of the following types of organizations are they most likely to employ to design and operate this contest?
- a. a public relations firm
 - b. a full-service advertising agency
 - c. a direct marketing firm
 - d. a sales promotion specialist

ANS: D PTS: 1 DIF: Moderate REF: p. 34
OBJ: 2-3

Scenario 2-6

SC Johnson & Son produces a wide variety of very popular consumer products such as Shout[®], Windex[®], Mr. Muscle[®], Ziploc[®], Edge[®], Glade[®], Vanish[®], Raid[®], OFF![®], Pledge[®], Scrubbing Bubbles[®] Bathroom Cleaner. These products are in highly competitive markets and require substantial investments in consumer promotion to maintain market share.

48. (Scenario 2-6) SC Johnson is not interested in doing any of the duties associated with advertising research, creative development, or media placement. Which of the following types of organizations would likely be the best match for their needs?
- a. a full-service agency
 - b. a creative boutique
 - c. a media buying service
 - d. an in-house agency

ANS: A PTS: 1 DIF: Moderate REF: p. 32–35
OBJ: 2-3

49. (Scenario 2-6) SC Johnson has recently hired an advertising agency to help promote their products. Several of the senior managers have indicated that they are uncertain as to the specific benefits of advertising their consumer products. Which of the following departments of their agency should be involved in giving this information to this client?
- a. administrative services
 - b. marketing research services
 - c. creative services
 - d. account services

ANS: D PTS: 1 DIF: Moderate REF: p. 63
OBJ: 2-3

50. (Scenario 2-6) SC Johnson managers have agreed that their advertising agency will be compensated based on measures of audience awareness of their consumer products. This indicates that they have chosen a ____ compensation program for their agency.
- a. commission
 - b. fee
 - c. markup
 - d. pay-for-results

ANS: D PTS: 1 DIF: Moderate REF: p. 39–40
OBJ: 2-3

ESSAY

1. There are several key aspects of change that are affecting the structure of the advertising industry. Please discuss the four trends discussed in the book.

ANS:

(1) The “undoing” of consolidation and globalization. The advertising industry has just come out of a period of extreme consolidation, which was occurring in two ways. Full-service agencies were acquiring and merging with other full-service agencies and interactive shops. Globalization occurred through mergers, partnerships and acquisitions. However, these mega agencies have not satisfied all the needs for all clients. It is unlikely that the giant agencies will dismantle all they have created. Some advertising clients are pleased to be able to consolidate all their integrated marketing communication (IMC) needs with one shop. But there is enough burden on the agencies from debt and conflict of interest that some unconsolidation will most certainly take place.

(2) The proliferation of cable television, direct marketing technology, Web options, and alternative new media has caused a proliferation of media options, while agency consolidation may just be starting. Control of media has always been a driving force behind many media companies. But there has always been a legal barrier to just how much control any one media company could acquire. In turn, the evolution of media options has spawned new specialized agencies to sell and manage these new media opportunities

(3) While the media industry may be consolidating into fewer and fewer large firms with more control, that does not mean that there are fewer media options. Quite the contrary is true. There are more ways to *try* to reach consumers than ever before. Advertisers are looking to the full complement of promotional opportunities in sales promotions (like the Miller chairs), event sponsorships, new media options, and public relations as means to support and enhance the primary advertising effort for brands.

(4) Historically, advertisers controlled information and the flow of information as a one-way communication through mass media. But, as the introductory scenario highlights, consumers are now in greater control of the information they receive about product categories and the brands within those categories. The simplest and most obvious example is when consumers log on to the Internet and visit sites they choose to visit for either information or shopping. But it gets a lot more complicated from there. The emergence of **blogs**, websites frequented by individuals with common interest where they can post facts, opinions, and personal experiences, are emerging as a new and sophisticated sources of product and brand information. Another new and dramatic example of consumer control is the growth of digital video recorders (DVRs), like TiVo, which allow TV viewers to essentially skip broadcast advertising.

PTS: 1 DIF: Difficult REF: p. 25–28 OBJ: 2-1

2. The definition of an advertising agency is "an independent organization of professionals who provide creative and business services to clients related to planning, preparing, and placing advertisements." List the major agency departments involved in each one of these phases (planning, preparing, and placing). In general terms, describe the role each department plays.

ANS:

The planning phase is dominated by account services. Account services managers identify benefits, target audiences, and develop positioning. The media services department is also involved in the planning process, as it comes up with the most effective plan to reach the target audience. The preparing phase is dominated by creative services, which translates the benefits into creative concepts. Production services assists in the preparation of the ads. The placing phase is dominated by media-planning and -buying services, which buys the media space. Throughout the entire process, the traffic department (part of administrative services) makes sure deadlines are being met.

PTS: 1 DIF: Difficult REF: p. 36–38 OBJ: 2-3

3. One of the trends in the advertising industry today is the fragmentation of marketing budgets. Advertising agencies can continue to get a healthy share of their clients' business by redesigning their role and structure. List three departments that a full-service agency can add to accomplish this. Explain what each of these departments is responsible for.

ANS:

(1) A public relations department handles the needs of organizations regarding relationships with the local community, competitors, industry associations, and government organizations. The goal of public relations efforts is to communicate information about a firm, its products, and its employees so as to achieve public awareness, understanding, and good will. (2) A sales promotion department designs and operates contests, sweepstakes, special displays, or couponing campaigns for advertisers. (3) A direct-marketing department maintains large databases of mailing lists as one of its services. It can also design direct-marketing campaigns either through the mail or by telemarketing. (4) Event-marketing departments help clients identify whether and how to sponsor major events and local community events. (5) Interactive media departments can help advertisers prepare communications for new media like the Internet, interactive kiosks, and interactive television.

PTS: 1 DIF: Difficult REF: p. 34–35 OBJ: 2-3

4. A company that you work for has asked you to write a brief report that evaluates the advantages and disadvantages of creating an in-house agency. What points would you consider in your report?

ANS:

An in-house agency provides greater coordination and control throughout the advertising process. An in-house agency has greater knowledge and control over marketing activities. Plus, a firm can keep any media commissions that would have gone to an outside agency. However, in-house agencies suffer from a lack of objectivity. In addition, it's hard to match the breadth and depth of experience offered by an external agency.

PTS: 1 DIF: Moderate REF: p. 33–34 OBJ: 2-3

5. Briefly explain the three major methods of agency compensation. Outline any advantages or disadvantages associated with each system.

ANS:

The commission system is based on the amount of money the advertiser spends on media. Under this method, 15 percent of the total amount billed by the media organization is retained by the advertising agency as compensation for all costs in creating advertising for the client. This system can create pressure on agencies to recommend the most expensive media options.

With a fee system, compensation is based on an agreed-upon hourly rate for services provided. A variation on the fee system, the fixed-fee system, is based on a single fee charged for a project. Unless the agency and client agree precisely as to what services are covered by the fee, serious rifts can result.

Recently many advertisers and agencies alike have been working on compensation programs called pay-for-results that base the agency's fee on the achievement of agreed-upon results.

PTS: 1 DIF: Moderate REF: p. 38–40 OBJ: 2-3