



Marketing of Media and Information

10.1 Marketing—General – 400

- 10.1.1 What is Marketing? – 400
- 10.1.2 The Marketing Function: Structure and Organization – 401
- 10.1.3 How Does the Marketing of Media Products and Services Differ from Regular Marketing of Other Products? – 402
- 10.1.4 Limited Attention – 402

10.2 Case Discussion – 404

10.3 Product Design – 405

- 10.3.1 The Marketing Role in Product Design – 405
- 10.3.2 Statistical Tools for Product Design – 406

10.4 Product Positioning – 406

- 10.4.1 Case Discussion – 407
- 10.4.2 Market Penetration – 409
- 10.4.3 Case Discussion – 410
- 10.4.4 Branding – 410

10.5 Pricing – 412

10.6 Promotion – 412

- 10.6.1 Promotion—General – 412
- 10.6.2 Timing – 413
- 10.6.3 Word of Mouth, Buzz, and Viral Marketing – 414
- 10.6.4 Using Star Power for Promotion – 415
- 10.6.5 Publicity and Public Relations – 415
- 10.6.6 Influencing the Influencers: Promotion to Opinion Leaders and Critics – 416
- 10.6.7 Product Placement – 416

10.7 Advertising – 417

- 10.7.1 Advertising—General – 417
- 10.7.2 Advertising Agencies – 418
- 10.7.3 How Much to Spend on Advertising? – 419
- 10.7.4 Valuing Customers – 421
- 10.7.5 Case Discussion – 422
- 10.7.6 The Media Marketing Mix – 422
- 10.7.7 The Optimal Mix of Marketing Activities – 424

- 10.7.8 Case Discussion – 424
- 10.7.9 Allocation Within a Media and Marketing Category – 425
- 10.7.10 Case Discussion – 426

10.8 Promotion to Advertisers, Retailers, and Distributors – 427

- 10.8.1 Promotion to Advertisers – 428
- 10.8.2 Types of Ads Available – 429

10.9 The Sales Function – 430

- 10.9.1 Sales Channels – 430
- 10.9.2 Direct Mail and Telemarketing – 430

10.10 The Impact of the Internet on Marketing – 431

- 10.10.1 Customization, Targeting, and Individualization – 432
- 10.10.2 New Tools for Creating Marketing Impressions – 433
- 10.10.3 New Types of Reach (Mobile, etc.) – 433
- 10.10.4 Tracking Customers – 433
- 10.10.5 Tracking Products – 433
- 10.10.6 Location-Based Marketing – 433
- 10.10.7 Dynamic Pricing and Auctions – 433
- 10.10.8 Social Marketing – 433
- 10.10.9 Payments and Micropayments – 434
- 10.10.10 Data Mining and Online Market Research – 434
- 10.10.11 Relationship Building and Supplemental Information – 434
- 10.10.12 Identifying Customers – 435
- 10.10.13 Advertising Platform – 435
- 10.10.14 Creating a Marketplace for Online Advertising – 435
- 10.10.15 Search Engine Marketing – 436

10.11 The Promotion of Media Products – 437

- 10.11.1 Film – 437
- 10.11.2 TV & Cable Channels – 437
- 10.11.3 Music – 438
- 10.11.4 Books – 438
- 10.11.5 Newspapers – 440
- 10.11.6 Magazines – 440
- 10.11.7 Video Games – 440

10.12 The Marketing of Technology Products – 441

10.13 The Regulation of Marketing – 442

- 10.13.1 Self-Regulation – 442
- 10.13.2 Government Regulation of Advertising – 443

10.14 Analyzing Marketing Performance – 444

- 10.14.1 Advertising Analysis – 444
- 10.14.2 Sales Analysis – 445
- 10.14.3 Marketing Cost Analysis – 445
- 10.14.4 Marketing Audit Tools – 445

10.15 Marketing and the Product Life Cycle – 446

10.15.1 Case Discussion – 447

10.16 Outlook – 447

10.17 Review Materials – 448

10.17.1 Questions for Discussion – 448

10.17.2 Quiz – 449

Quiz Answers – 452

10.1 Marketing—General

For years, the sky was the limit for the information sector. Information became cheap, global, and plentiful. Information products became faster, smaller, and more widespread. Information industries became convergent, competitive, and innovative.

But since 2000, the media and information industries have experienced a series of calamities: the dotcom bubble, the telecom crisis, the music bust, the cable cord-cutting, the e-publishing lack of monetization, the PC and consumer electronics sales drop, the semiconductor boom and bust, and the newspaper implosion. In this stressful environment, how do firms respond? The situation is a major challenge for strategists, technologists, and content creators. But also it is in particular a challenge for marketers, who are called upon to keep their companies afloat by generating sales. Of course, marketing has always been important in media. A Hollywood saying goes: “There are no bad movies, only bad marketing campaigns.” But an environment of supply glut, limited attention, shortening product cycles, and price deflation has made the task harder than ever. It is therefore not surprising that the importance of media marketing has increased by leaps and bounds.¹

What do we mean by media marketing? One must distinguish two very different meanings:

1. The marketing of products generally, using media. For example, the promotion of cornflakes or automobiles on television or on websites.
2. The marketing of media and media-tech products themselves.

We will focus on the second meaning, the marketing of media, but often make connections that apply to the first.

Closely related chapters are ▶ Chap. 9, Demand and Market Research for Media and Information Products ▶ Chap. 11, Pricing of Media and Information ▶ Chap. 12, Distribution of Media and Information, and ▶ Chap. 14, Strategy Planning in Media and Information Firms.

In this chapter, you will learn what marketing is; the Four Ps: product, pricing, placement, and promotion; the use of word of mouth; the advertising system; how to set an advertising budget; how to allocate among media types; how to promote to advertisers; how to use the internet for marketing; and how to analyze marketing performance.

10.1.1 What is Marketing?

There are elaborate definitions of marketing but the basic one is simple. Marketing is the process of creating demand for a

firm’s products. This is not just a modern activity. It goes back to the mists of history, ever since farmers and artisans tried to interest others in their products. Advertising, a major component of marketing, already existed in Ancient Egypt, Greece, and Rome. By the 1600s, advertisements were regularly printed in newspapers.²

Marketing Versus Distribution The two terms are often used interchangeably but they are different. Marketing is the creation of the market. Distribution is the delivery of the product to the market. Several scenarios and combinations are possible:

1. Both marketing and distribution: Many local daily newspapers operate both marketing and distribution by running their own trucks to wholesalers or retailers, as well as marketing the paper to readers and advertisers.
2. Marketing but no distribution: for example, magazines usually sub-contract distribution to specialist wholesale companies but do the marketing themselves.
3. Distribution but no marketing: for example, free newspapers are widely distributed but not marketed to readers. (They are, however, marketed to advertisers).
4. Neither marketing nor distribution: for example, most independent film production firms neither market nor distribute their films, leaving this to a studio distributor.

Marketing Versus Sales Marketing is the strategic and planning function, the creation of awareness and interest in the product, and the setting of pricing. The sales function executes the strategy through deals with customers and outlets. Sales and marketing activities are closely co-ordinated, with a feedback loop from salespeople based on their experience with customers. Marketers, in turn, use the information to improve products and marketing plans.

Strategic Versus Tactical In strategic marketing, possible markets are identified, assessed, and targeted. Promotional approaches are selected, prices set, budgets allocated, and results evaluated. Tactical marketing, in contrast, executes this strategy, updates the approaches used, and refines pricing.³

Upstream Marketing Versus Downstream Marketing In the marketing of media, there are two fundamental directions of activity:

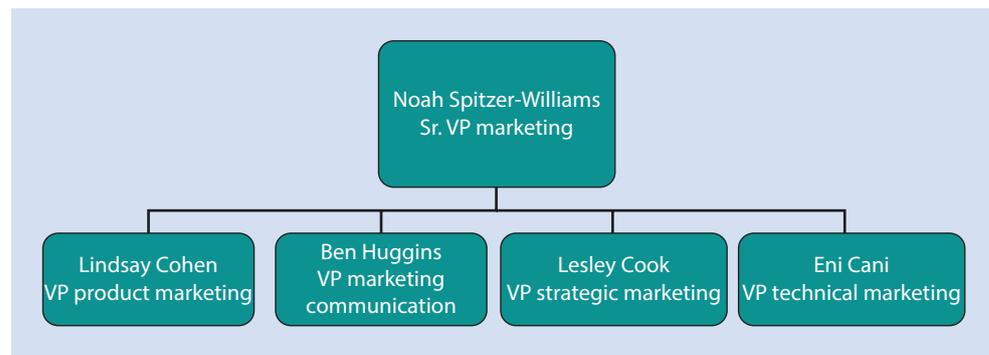
1. marketing of media products to audiences (downstream);
2. marketing of media outlets to advertisers (upstream).

1 McDowell, Walter S. “Issues in Marketing and Branding.” In *Handbook of Media Management and Economics*. Eds. Alan B. Albarran, Sylvia M. Chan-Olmsted, and Michael O. Wirth. New York: Lawrence Erlbaum Associates, 2006.

2 Eyre, Rachel and Michael Walrave. *The Media Communications Book*. New York: Oxford University Press, 2002.

3 Crosby, John V. *Cycles, Trends and Turning Points: Marketing & Sales Forecasting Techniques*. Chicago: NTC Business Books, 2000.

■ **Fig. 10.1** Apple iPod marketing management team



Typically, media firms must market in both directions—upstream and downstream.⁴ This is a major difference with the marketing of most other products, where marketing is purely downstream. However, this duality has been spreading to other industries as firms add advertising opportunities for third parties to their base products. Airlines, supermarkets, gas stations, or restaurant chains are examples. Similarly, several media industries in the past had only limited upstream marketing to advertisers, for example recorded music, telecom networks, and consumer electronics devices. However, one of the effects of the migration of many media activities to online connectivity has added advertising dimensions to these media.

10.1.2 The Marketing Function: Structure and Organization

Most companies have someone in charge of the marketing function with a title such as chief marketing officer (CMO) or, in the case of smaller firms, director of sales and marketing. The CMO reports to the chief executive officer (CEO) and typically oversees vice-presidents of sales and of marketing, and often of customer relations and marketing communications. She manages and co-ordinates marketing operations, creates a budget, plans and manages the marketing department, and integrates marketing decisions and activities with the business strategy.

For the upstream sale of advertising by a media company, the person in charge has a title such as vice-president (VP) of advertising, associate publisher/advertising director, advertising director, national sales manager, or sales manager.⁵

CMOs live dangerously. Their tenures are short because they often take the blame if revenues are disappointing. The average CMO tenure in the USA was measured as 22.9 months, in contrast with the much longer 53.8 months of

the average CEO.⁶ In Brazil, similarly, the average CMO tenure is just 26 months. On a positive note, marketing executives tend to be relatively mobile across firms and industries.

In the past, marketing operations were often organized by geography (e.g. California; East Coast; Asia). Later, marketing departments became composed of brand managers who were focused on a particular product and its success. Taking the next step, marketers also focused on customer relationships and on categories of customers. Account managers were established as the single point of contact with major accounts, selling the entire range of products and services, and across regions. An emerging fourth dimension is marketing on particular platforms, such as digital marketing. Firms often integrate these dimensions in a matrix system that combines regions, products, customer classes, and platforms.

Marketing and sales are often part of a specific business unit dealing with a particular product. An example for product marketing is the 2012 team for Apple's iPod (■ Fig. 10.1). It, in turn, is part of Apple's much larger marketing organization.

1. Senior VP marketing: involved with all aspects of marketing; has knowledge and experience in both the technical and marketing areas ("talks both languages").
2. VP strategic marketing: responsible for research and development of product, focuses on product's benefits, deploys consultants and research firms.
3. VP technical marketing: involved in new products, product roadmap, and rollout stages, involved with engineers.
4. VP product marketing: supervises individual product teams that define, develop, and launch marketing campaigns for product.
5. VP marketing communications: in charge of promotions and public relations (PR), direct ads, and product packaging.

4 Several media industries had only limited upstream marketing to advertisers, for example recorded music, telecom networks, and consumer electronics devices. However, one of the effects of the migration of many media activities to online connectivity has been to add advertising dimensions to these media.

5 Daly, Charles P., Patrick Henry, and Ellen Ryder. *The Magazine Publishing Industry*. Needham Heights, MA: Allyn & Bacon, 1997.

6 Association of National Advertisers and Booz Allen Hamilton. "Marketing Department Priorities Often Differ From CEO's Agenda." October 11, 2004. Last accessed on May 10, 2010. ► <http://www.boozallen.com/publications/article/659394>.

10.1.3 How Does the Marketing of Media Products and Services Differ from Regular Marketing of Other Products?

The marketing of media has many similarities to general marketing but there are also special aspects.

- For most products, revenue is generated by sales to end users or intermediate distributors. In the media industry, this is not the case. Media products are often given away rather than sold to identifiable users. Broadcast TV, radio, free and online newspapers, and website information are examples.
- As mentioned, there is often a simultaneous “two-sided” marketing that involves content being pitched to audiences for their attention and audiences subsequently being pitched to advertisers.
- Low marginal costs and high fixed cost provide strong economics of scale. They create incentives for investment in marketing campaigns ahead of the market in order to build market share. In addition, many marketing activities, such as advertising or PR, have scale elements themselves and hence favor large firms. To advertise nationwide rather than locally is less expensive, especially if transaction costs are factored in.
- It is frequently difficult to exclude unauthorized consumption—piracy, for example—and it is hard for marketers to “compete with free.”
- Often there is a short product cycle and a short marketing window (for theatrical films only a few weeks).
- Changing distribution technology creates numerous new distribution channels and fragmentation of markets, often moving away from the mass-audience to a “long tail.” This creates thin and specialized audiences, requiring specialized marketing.⁷
- Media products are often unique one-shot productions. As a film marketer noted, “if we release twenty-eight films, we need to create twenty-eight different audiences and twenty-eight different marketing campaigns.”⁸
- A special complicating factor is that several media industries are in decline. From 1950 to 2000, newspaper penetration in the USA dropped from 38% to 24% of the population. Circulation increased by 19%, but population was up 70%. After 2000, strong declines in absolute terms began, driven by online-based news, totaling by 2016 a loss of about a third of circulation.
- There is high uncertainty and instability of demand for content. Users often do not know, articulate, or communicate their preferences well. Many products are “experience goods,” which are hard to sample in advance by consumers.

- Many products are “intangible”; that is, they are not physical objects but ephemeral.
- There is a skewed distribution of success. The top five products in many media segments can generate between one- and two-thirds of revenues, although they may represent a tiny fraction of the total number of products released.⁹ There is a large increase in the number of product makers. Success is increasingly rare in statistical terms. Compared with 1998, fewer than half the new releases make it to the bestseller lists, reach the top of audience rankings, or win a platinum disc.
- In US network TV, only about a quarter of new primetime shows survive beyond their debut season, whereas in the mid-1980s about a third managed at least a second season.¹⁰
- There are strong “network effects.” User preferences are often shaped by the usage of others. The demand for some products depends on the supply of other products. Network effects are often fad and hit driven.
- The excess supply of information, together with a low marginal lead in terms of competition, creates price deflation to near marginal cost levels. This price does not cover the full cost of production. Therefore, the product must be strongly differentiated from those of rivals, since price competition would be ruinous.

10.1.4 Limited Attention

Perhaps the most significant special aspect of marketing of media to audiences is a huge excess supply. There is a significant and growing number of competing products in the media market. Books do not seem to be at the dynamic end of media, and yet in 2015 there were 575,000 new titles published in the European Union (EU). In Britain, 184,000 books were published (versus 133,224 in 2009).¹¹ In the USA, 305,000 new books were published (versus 275,232 in 2008),¹² plus about 350,000 self-published ones. In China, the number was 444,000 in 2015 (versus 136,226 in 2008).¹³

In the USA 25000 different magazines appear regularly. There are over 600 full-time simultaneous TV channels. In Europe, the numbers are even larger, though covering multiple language markets. Each year millions of new online sites are created, and tens of thousands of songs written and copyrighted. And, of course, there is a huge inventory of existing content, the output of millennia of

7 Anderson, Chris. “The Long Tail.” *Wired*. October 1, 2004. Last accessed July 12, 2017. <https://www.wired.com/2004/10/tail/>.

8 Epstein, Edward Jay. *The Big Picture, the New Logic of Money and Power in Hollywood*. New York: Random House, 2005.

9 Aris, Annet. *Value-Creating Management of Media*. Hoboken: John Wiley & Sons, 2005.

10 Aris, Annet. *Value-Creating Management of Media*. Hoboken: John Wiley & Sons, 2005.

11 International Publishers Association. Annual Report October 2013 October 2014. Last accessed July 12, 2017. <http://www.internationalpublishers.org/images/reports/2014/IPA-annual-report-2014.pdf>; The Publishers Association. UK Book Industry In Statistics 2009. Last accessed November 16, 2010. http://www.publishers.org.uk/index.php?option=com_docman&task=doc_download&gid=177&Itemid=

12 RR. Bowker LLC. “Bowker Reports U.S. Book Production Declines 3% in 2008, but “On Demand” Publishing More than Doubles.” Last accessed November 16, 2010. <http://www.bowker.com/index.php/press-releases/563>.

13 International Publishers Association. Annual Report October 2013 October 2014. Last accessed July 12, 2017. <http://www.internationalpublishers.org/images/reports/2014/IPA-annual-report-2014.pdf>; General Administration of Press and Publication of the People’s Republic of China. “General information of the national press and publishing industry in 2007.” Last accessed July 12, 2012. <http://www.gapp.gov.cn/cms/html/21/490/200808/459129.html>.

civilization. The more efficient distribution technology is, the faster this cumulative process advances. It is the challenge of marketers to deal with the huge abundance of products.

Marketing of media therefore means competing for the consumers' time/attention budget, not only their money budget. And the more efficient the distribution technology, the greater this overabundance and competition for "mind share." In 1960, the mass-media supplied to an average American household was about 3 million words per day (including unwatched TV, unread papers, and unlistened-to radio). By 1980, this figure had increased by 267% to 11 million words. By 2000, this had risen to 75 million words. An estimate of the annual growth rate of business information is 12%; 8% for scientific information; and 5% for entertainment.¹⁴ All growth numbers are accelerating.

While supply is growing exponentially, the demand is growing much more slowly, owing to limitations of attention, time, and budget. This raises the intensity of competition in a predictable trend. Fragmented audiences mean greater marketing efforts are needed. In 1965, 81% of women aged 18–34 could be effectively reached with three TV ads. By 2000, 97 ads were needed,¹⁵ and the number keeps rising.

The bottleneck is not production of information, and certainly not its distribution, but rather its consumption. Content production and distribution are growing but attention is hardly growing. There are limits to human information handling and processing. Sustainable reading speeds, which include the comprehension of information and its absorption, are about 50 bits per second. The speed of speaking and listening comprehension are somewhat slower. The universality of these ceilings indicates that the constraints exist within our mental processes. The human processing capacity exhibits a peaked performance curve. When inflow loads are either light or heavy, processing is low. At one end, boredom sets in, and at the other, information overload creates stress and a shuts down absorption. The peak processing capacity exists at a happy medium between being given too little and too much information. This defines the best range for content, and similarly for marketing messages.

The mismatch of growing content supply and the relatively static attention time increases the marketing effort required to gain attention for one's products. Marketing costs for the average Hollywood movies have climbed from \$12 million in 1991, to \$22 million in 1997, \$31 million in 2001, and \$35 million in 2006. (The Motion Picture Association of America subsequently stopped reporting these figures.) For some films, marketing expenses were easily double that figure. In addition, not included are barter deals such as product placement of a fast-food chain in return for co-promotion efforts by that chain; the value of promotion by sister TV companies through,

for example, placement on talk-show programs; post-theatrical promotion of home video sales, and videos on demand.

In this cornucopia of content, what are the strategies to gain attention? There are several. First, one can pay for attention. Consumers can be paid directly for reading advertisements or for providing their demographics. For example, the dot-com company Cybergold tried unsuccessfully to pay consumers through money, coupons, or other benefits to watch online ads. However, most efforts to structure such a direct payment system have failed for now. What has happened instead is that many media companies "pay" consumers by providing them with desirable entertainment content for nothing in exchange for slices of their attention. This is the base of much media advertising and of many media activities.

A second method is to increase information consumption by inducing consumers to add time allocation to media and advertising. This means slipping information into previously information-free situations, such as billboards, TV screens on subway stations and gas stations, and smartphones everywhere.

The third way is to change the way in which information is presented, packing more content and sensory impact into each time unit. There has been a shift to a dense form of presentation with more visual and symbolic information. Television advertisements are an example of dense information, providing a high number of messages and stimuli in a brief time span. Human beings are able to process purely visual information at a rate similar to broadband, in the megabit range, while written information is absorbed at the much slower rate (about 300 words per minute, or 200 bits per second). Ears are even slower at about 200 words per minute or about 150 bits per second. For entertainment, this means a move from written communication to a visual one. Even for inter-personal written communication, acronyms and emotions are on the rise.

A still more powerful way to increase information consumption is to make it more efficient through various information-screening techniques. A principal role of media in a situation of information abundance is screen information. The value added of many media then is the information subtracted. It takes a multitude of sources, facts, and sentiments, selects them according to their value, narrows them down to their important core, and organizes them coherently.

The alternative way in which to gain attention for one's content and usage is to compete against rival content by increasing the marketing effort. The most fundamental problem for marketing media is the rising competition for attention; there is an increased creation and production of information, and thus a growing competition for scarce attention. This leads to rising costs for seeking attention for media products. The result is a squeeze: a price deflation for media products, but at the same time a cost inflation for the marketing of these products. This price/cost squeeze is the fundamental problem for media marketing. It is partly alleviated by the greater need for all other industries to gain attention, that is a growing advertising volume, which benefits those media companies that are platforms for such advertising. Such advertising, however, is declining in price in terms of unit cost, owing to the increased supply to advertisement placement opportunities.

14 Studies of quantifying information production include, in particular, Pool Ithiel de Sola. "Tracking the Flow of Information." *Science* 211, no. 4611 (1983): 609–613; Pool, Ithiel de Sola et al. *Communications Flows: A Census in the United States and Japan*. Amsterdam: Elsevier, 1984; Neuman, W. Russel, Yong Jin Park and Elliot Panek. "Tracking the Flow of Information into the Home: An Empirical Assessment of the Digital Revolution in the U.S. from 1960–2005." *International Journal of Communication* 6 (2012): 1022–1041.

15 Aris, Annet. *Value-Creating Management of Media*. Hoboken: John Wiley & Sons, 2005.

To conclude, the special aspects of marketing media and information products are:

1. simultaneous “dual” marketing;
2. low or zero marginal cost and high fixed cost;
3. “free” products;
4. often oligopolistic market structure;
5. incentives for investment in marketing ahead or market;
6. rapidly changing distribution technology
7. fragmentation of mass-media: The long tail;
8. unique products;
9. often short product cycle, short marketing window;
10. especially high uncertainty and instability of demand;
11. intangible products;
12. network effects;
13. excess supply;
14. the limited attention budget.

For these reasons and other reasons, marketing is particularly important in the media and information field, and it is particularly difficult.

10.2 Case Discussion

Condé Nast's *Fly & Sky* Magazine

Throughout this chapter, we will follow the marketing strategy of a major media company Condé Nast for a new magazine project, *Fly & Sky*, a hypothetical project.

Condé Nast is owned by Advance Publications, a privately held company controlled by the Newhouse family. In 2015, Advance Publications took in \$8 billion in revenue and had 25,000 employees. Advance Publications has a wide diversification of media including 25 newspapers plus, cable channels, and magazines. It owns 87 cable TV systems (under the banner of Bright House), serving 2 million households. A three-way consolidation merger with Time Warner Cable and Charter communications in 2016 created the second largest cable company in America, in which the Advance/Newhouse partnership owns a 14% stake.¹⁶ Advance also owns 12 TV stations, 40 City business journals, and free newspapers. Advance also controls the online social news sites Reddit, Backchannel, and Ars Technica.

When it comes to magazines, Advance used to publish *Parade* magazine, inserted into the Sunday editions of more than 700 newspapers, with a circulation of 22 million, before it was sold in 2014. In particular, Advance owns Condé Nast (founded in 1909 and acquired in 1959) and Fairchild Publications (founded in 1892 and acquired in 1991 from Disney). These two magazine

groups were consolidated in 2005. It also owns, since 1995, the magazine group American City Business Journals with its over 40 regional magazines.

Magazines are one of the least concentrated segments of the information industry. Entry barriers are relatively low. Magazine companies have multiple titles and magazines are increasingly specialized. There is a sizeable revenue from high-priced copies at the news-stand but most sales are by subscription. The industry is moving fast into e-publishing. Overall, the market for magazine publishing has declined, however.

The Condé Nast magazine title lineup is sprawling. Perhaps best known are the *New Yorker*, *Vanity Fair*, *Vogue*, and *Wired*. Other Condé Nast magazines include women-oriented magazines such as *Allure*, *Brides*, *Elegant Bride*, *Glamour*, *Modern Bride*, and *Teen Vogue*. Condé Nast is less strong in men's magazines, where its main presence is *GQ*. Other attempts were *Details* and *Cargo*, which were shut down, and *Golf Digest* and *Golf World*, which went to online-only distribution.

Perhaps the biggest success in male-oriented magazines is *Hemmings Motor News*. This is a 600-page(!) monthly magazine heralded as the “bible” of car collectors, with its guides, almanacs, extensive

classifieds section, and website. Its headquarters is in tiny and remote Bennington, Vermont. *Hemmings* reaches 210,000 subscribers plus 50,000 readers at newsstands, selling at \$6 per copy. Advance also publishes several other car-related magazines, including *Hemmings Muscle Machines*, *Classic Car*, *Sport and Exotic Car*, *The Collectible Vehicle Value Guide*, and *Special Interest Autos*. The *Hemmings Motor News* website includes classified ads, product directories, car clubs, a parts locator, T-shirts, memorabilia, and access to customer service.

Hemmings has been successful despite modest beginnings. Terry Ehrich, a Harvard-educated businessman, bought *Hemmings Motor News* in 1969, when it was making \$250,000 annually and selling around 30,000 copies. It is now making more than \$20 million annually and sells over 260,000 copies a month. It includes around 20,000 pages of advertisements per year.¹⁷

Condé Nast is now considering (in our hypothesis) the launch of a new magazine in order to increase its male readership. This is *Fly and Sky*, a magazine with a focus on aviation. Its goal is to duplicate the success of *Hemmings Motor News*. What marketing strategy and efforts should Condé Nast undertake to make its new magazine successful?

16 James, Meg. “Charter completes purchase of Time Warner Cable, Bright House.” *Los Angeles Times*. May 18, 2016. Last accessed July 5, 2017. ► <http://www.latimes.com/entertainment/envelope/cotown/la-et-ct-charter-time-warner-cable-20160517-snap-story.html>.

17 Kiener, Robert. “Hitting on All Cylinders – Hemmings Motor News – Brief Article.” *Nation's Business*. June 1999. Last accessed June 20, 2012. ► http://findarticles.com/p/articles/mi_m1154/is_6_87/ai_54695735/.

10.3 Product Design

10.3.1 The Marketing Role in Product Design

The field of marketing is full of easy-to-recall catch-phrases and terminology. Among these are the Four Ps of marketing:

- product;
- positioning (or placement);
- price;
- promotion.¹⁸

We will discuss these four dimensions sequentially as applied to the media and information sector. We begin with product design.

Even if the marketing is creative, it must be promoting a distinct and attractive product to be successful over the long run.¹⁹ An effective product leads a firm out of commoditization space, which enables higher prices. However, it carries a higher risk, a potentially large development cost, and a higher chance for consumer disfavor. Originality is one dimension of a new product. It may make a product “cool,”²⁰ convenient, or effective. But originality must also deal with the fact that familiarity is comforting. New products have therefore a broader appeal if they are familiar in style, appearance, or operation to previous products. Having to learn new procedures and functions or understand new genres discourages many consumers from choosing a new product.

In the past, product design was supply-side oriented, from the producer/creator to the user. This was classically expressed by Henry Ford, who proclaimed that a customer for his cars “can have any color that he wants as long as it is black.” Production efficiencies rather than marketing demands set the tone. The opposite approach—a demand-side orientation—was to purely cater to the preferences of the market. Social critic H.L. Mencken satirized tabloid newspapers that serviced the preconceptions of their audience: “No one ever went broke underestimating the intelligence of the American public.” In time, product design became increasingly an interactive process of both supply and demand considerations. Technology products companies created “MTS-circles” (marketing–technical–sales) where engineers and designers accompany sales and marketing people on their customer visits in order to understand the users of their products and their needs.

Going one step further, customers provide input into the design process directly. How would one gauge public needs as they relate to a firm’s products? Traditionally, there have been user surveys, focus groups, and test marketing. More recently, there have been online social platforms for feedback. The coffee shop company Starbucks used crowdsourcing for customer feedback on its products. The results need not be earth-shaking but can provide small improvements. One idea received was to create plugs for coffee lid holes to prevent sloshing.²¹ The toymaker Lego created an online collaborative platform to engage users. Registered users can invent and design their own Lego model creations.²² What such customer involvement shows is that the traditional separation of producers and consumers is softening. The results are better products, greater customer loyalty, and positive word of mouth (WOM).

In film, the involvement of consumer panels in product design is frequent. As mentioned films have often been test-screened for different endings.²³ To design the most appealing content products, media companies have increasingly turned almost to an engineering approach in which popularity factors of performers, plots, and style are put together in carefully designed products, tested out, and then produced and marketed. Music bands recruit performers as new members to appeal to the desired fanbase. Reality shows craft their formats and participants in almost scientific ways.²⁴

A fundamental problem is that for users to have a meaningful input they must judge unfamiliar products. In response, the founder of Sony Akio Morita stated, “We don’t believe in market research for a new product unknown to the public . . . so we never do any. We are the experts.”²⁵ Steve Jobs of Apple similarly disdained consumer surveys for new products. This is not to say that he ignored consumers. His view was that a product should have its own style and identity. He kept fussing over minor aspects of packaging that seemed unimportant to pure techies. The goal was to elevate the product into an experience.

The integration of product creation and marketing has its limits when the creators themselves are drawn into the marketing orbit. Newspaper publishers came up with the concept of the “total newspaper,” attempting to co-ordinate editorial and business departments in order to create an audience-oriented newspaper.²⁶ The stories and topics that were covered, it was hoped, would reflect audience interests more

18 Ehmke, Cole, Joan Fulton and Jayson Lusk. “Marketing’s Four P’s: First Steps for New Entrepreneurs.” *Purdue Extension*. May 2005. Last accessed July 12, 2017. ► <https://www.extension.purdue.edu/extmedia/ec/ec-730.pdf>.

19 Eastman, Susan, Douglas Ferguson, and Robert Klein. eds. *Media Promotion and Marketing For Broadcast Cable and the Internet*, 5th ed. (New York: Focal Press, 2006), 217.

20 Lamb, Charles W., Joseph F. Hair, and Carl D. McDaniel. *Marketing*. Cincinnati, Ohio: South-Western College Publishing, 1996.

21 Starbucks. “My Starbucks Idea.” Last accessed July 12, 2012. ► mystarbucksidea.force.com.

22 Lego. “Lego’s Design By Me.” Last accessed May 18, 2011. ► <http://designbyme.lego.com/en-us/default.aspx>.

23 Epstein, Edward Jay. *The Big Picture, the New Logic of Money and Power in Hollywood*. New York: Random House, 2005.

24 Kotler, Philip and Gary Armstrong. *Principles of Marketing*. 15th ed. Upper Saddle River, NJ: Prentice Hall, 2013.

25 Cooper, Lee G. “Strategic Marketing Planning for Radically New Products.” *Journal of Marketing* 64 (January 2000): 110.

26 Dennis, Derrick. *Media Management in the Age of Giants*. Hoboken: Wiley-Blackwell, 2003.

closely than in the past when editors and journalists selected them. But most journalists believe that integrating marketing into the editorial side is bad for newspapers and magazines' quality and credibility, and hence harms long-term brand reputation.

10.3.2 Statistical Tools for Product Design

Given the great uncertainties about media products, companies have looked for statistical tools that identify the product design that improves the odds of success. For example, there are models to forecast box-office performance based on the

past track record of actors, directors, and sub-genres. This might help in the selection and design of films or TV series. However, to date these models have not worked well, or else the success rates for new films and TV shows would be more impressive.

For other products and services, the method of conjoint analysis is used in planning the design of a product. This is a statistical technique for analyzing customers' responses to the various features of products. It is based on the tradeoff that surveyed individuals reveal for various features of a product. (For a discussion of conjoint analysis, see ► Chap. 9, Demand and Market Research for Media and Information Products.)

10.3.2.1 Case Discussion

Fly & Sky—Conjoint Analysis

Condé Nast is exploring the proposed aviation magazine *Fly & Sky*. In designing an attractive package, it is considering several design attributes for the magazine—the length, target audience, and the extent of pictures.

Conjoint analysis helps determine how each factor impacts the utility of the customer. Suppose there are three major attributes, each with two levels:

- page count per issue: 50 versus 200;
- pictures and graphics portions: 20% versus 50%;
- page format 8" × 11" versus 6" × 9".

Eight different options ratings are shown to a sample of customers and ranked by them on a scale of 1–10.

The data points are then run as a regression, with the first option of each of the variables above given the value of

1, and the second option of the variables given the value of 0. A regression is then run, with the dependent variable being "utility to the reader" and the explanatory variables being content, size, and picture portion. This is done by the conjoint analysis statistical software package. We get the following result:

$$\text{Utility} = 4.5 + 2.375 \times (300 \text{ pages}) + 2.67 \times (20\% \text{ pictures}) + 1.375 \times (\text{size } 8" \times 11")$$

There is a very high R^2 value of .98, which indicates a strongly explanatory regression equation and statistically significant t -values for the variables. The best of the eight options is that of 300 pages, 8 by 11 format, and 20% pictures, which from the regression equation gives

$$\text{a utility} = 4.5 + 2.375 \times (1) + 2.67 \times (1) + 1.375 \times (1) = 10.92.$$

How important are the various factors in consumer preferences? One can calculate the relative contribution to utility from the share of the utility generated by the attribute relative to total variable utility.

Utility range/utility range total:

- pages = $2.375/6.42 = 37\%$;
- picture percentage = $2.67/6.42 = 41.6\%$;
- page format = $1.375/6.42 = 21.4\%$;

This means that potential subscribers base 37% of their decision on the number of pages (short vs. long magazine), 41.6% on the visual richness, and 21.4% on the page format.

Given these results, what are the implications for Condé Nast's design of the magazine?

10.4 Product Positioning

The positioning of a product in the market is an essential factor for demand. Positioning is the way in which a company wants customers to think about its brand versus that of the competition. To position a product, it must understand both market and customers. The methods for accomplishing this goal are many and varied: test marketing, retailer surveys, historical analogy, surveys/sampling, focus groups, psycho-physiological tests, automated sample metering, recording of sales, lab experiments, econometric data analysis, conjoint estimations, and others. They are discussed in ► Chap. 9, Demand and Market Research for Media and Information Products.

The most effective approach varies by industry. In film, for example, one can learn a great deal about the makeup of the audience by conducting exit polls of people leaving the movie theater, and accounting for the socio-demographics of the audience. From this data marketing departments can

determine the effectiveness of advertising campaigns. If the people who show up at the theater demographically match the group the studio targeted in its advertising campaign, the film has high "marketability" and the advertising has been effective in activating a particular audience. If a film continues to generate large audiences after the early advertising ends it has high "playability," meaning that moviegoers are recommending it to other moviegoers. On the other hand, when a film has large opening audiences which decline rapidly, it has a high marketability but low playability. This actually shows the effectiveness of the marketing—good marketing with a bad movie.²⁷

27 Epstein, Edward Jay. *The Big Picture, the New Logic of Money and Power in Hollywood*. New York: Random House, 2005.

10.4.1 Case Discussion

Estimating the Potential Market for *Fly & Sky Magazine*

The Market and Its Size

- Pilot population: globally about 3 million.
- People strongly interested in aviation adventure: estimated 5 million worldwide.
- Service and product providers, insurance, fuel, maintenance, resorts: estimated 400,000.
- Total: 8.4 million.
- Of these, one-quarter in USA = 2.1 million, about two-thirds of 1% of US population. This is the potential market.
- Market size indicators:
- Airshows are second largest non-sports outdoor events, by audience.
- Week-long airshow in Oshkosh, Wisconsin, draws 800,000, of whom 80% are non-pilots.

In order to position one's product, one must understand the appeal and identity of one's competitors. Competitor analysis is being discussed in more detail in ► Chap. 14, Strategy Planning in Media and Information Firms. Positioning is becoming increasingly important as mass-production for mass-markets is partly replaced by specialized products for niche markets. "The future of entertainment is in the millions of niche markets at the shallow end of the bitstream," wrote *Wired* editor Chris Anderson about the content side of media. Similar observations can also be made about media technology. Marketers recommend that firms concentrate on one or two very specific niche markets where it can dominate rapidly.²⁸

Positioning can be "hard" (based on concrete technological features) or "soft" (based on image) or a combination of the two. Technology industries tend to favor hard positioning. Content industries favor the soft approach. For example, in response to listener perception that radio stations are corporate-owned are stodgy, some radio stations promote themselves with an anti-corporate feel even when they are owned by a big media firm.

Positioning may require pricing user types. Different consumer types respond differently to innovations. There are innovative adopters who acquire advanced technology and content either because they are self-confident or like to stand out or are not locked into a previous model. There are also "pragmatists" or "early majority" – the large group of adopters following behind the early visionaries. They are nervous about making a false choice and prefer to join the crowd. Such users avoid, postpone, and eventually follow the safe choice, the market leader, or dominant standard. There are also "conservatives" or "late adopters" join reluctantly when they have no choice. Each of these user types requires a different approach by marketers.

The challenge to marketers is to establish the positioning identity through early adopters who will then put the followers at

ease. An example is how the Japanese video game console maker positioned Nintendo's Wii video game consoles. Nintendo's strategic goal for Japan was to position the Wii as a game platform for the living room instead of the teenager's bedroom. The key to do this was to reach women. The company then recruited so-called "alpha moms" who were invited to play together with their friends. They were not video game players but could be influential within their communities. The alpha moms' comfort level with the Wii, coupled with their credibility as non-professionals, quickly generated a viral takeoff of the device.

In positioning a media product, it is often important to concentrate on a particular niche market and to target the company's resources accordingly. Radio stations might do so by identifying a single listener type that its employees should always keep in mind when working on programming or promotion. For example, the programming and promotion staff of the station would describe their target audience as "Tiffany," a hypothetical 22-year-old recent college graduate, who works in the PR department of a major company. "Tiffany" is single but would like to have a family in the future, lives in an apartment with a roommate, enjoys music and the outdoors, is comfortable in casual clothing, and is a member in a health club. For the radio station, "What would Tiffany think?" is a key question in any discussion.

This approach is a shorthand for a company to identify its "unique selling point" (USP) for positioning. In what ways is its product essential, different, and believable?

To be differentiated from rivals' offers is usually important in order to avoid being in a commodity market. There are several tools to identify uniqueness and its extent, and we will show two approaches.

The Radar Chart The radar chart consists of a series of equiangular spokes, called radii, with each spoke representing one of the variables of a product. This allows a representation of several attributes of a firm's product and their intensity, and a comparison with the profiles of rival offers.²⁹ ■ Figure 10.2³⁰ illustrates several aviation magazines, using six major attributes—price, currency of information, entertainment value, engagement in shared experience, respected columnists, and skills advancement.

What we can see is that Magazine A is strong in its currency of information while Magazine B dominates in entertainment value.

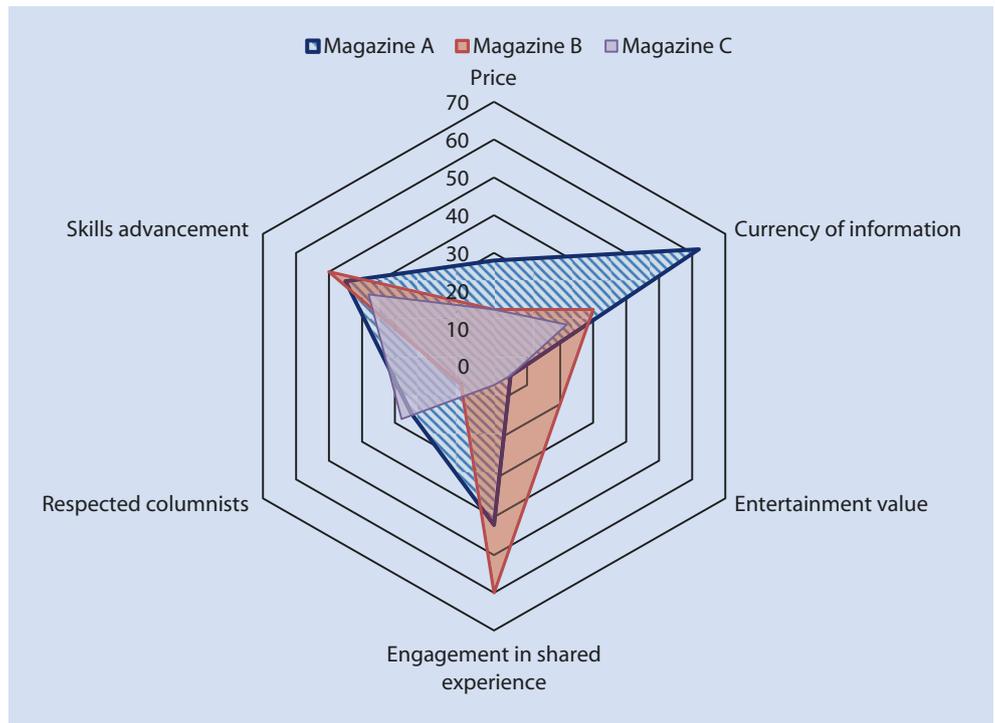
Hotelling Charts Customers are distributed along their preferences for certain products and attributes. Let us look at TV programs. For a TV channel, maximizing revenues means, for simplicity, maximizing audiences, which in turn depends on the channel's positioning in the market. In ■ Fig. 10.3, TV programs are depicted ordered according to intellectual "quality," with

28 Easingwood, Chris, and Anthony Koustelos. "Marketing High Technology: Preparation, Targeting, Positioning, Execution." *Business Horizons* 43, no. 3 (October 2004): 27–34.

29 Few, Stephen. "Keep Radar Graphs Below the Radar - Far Below." *International Management Magazine*. May 1, 2005. Last accessed July 5, 2017. ► <http://www.information-management.com/issues/20050501/1026069-1.html>.

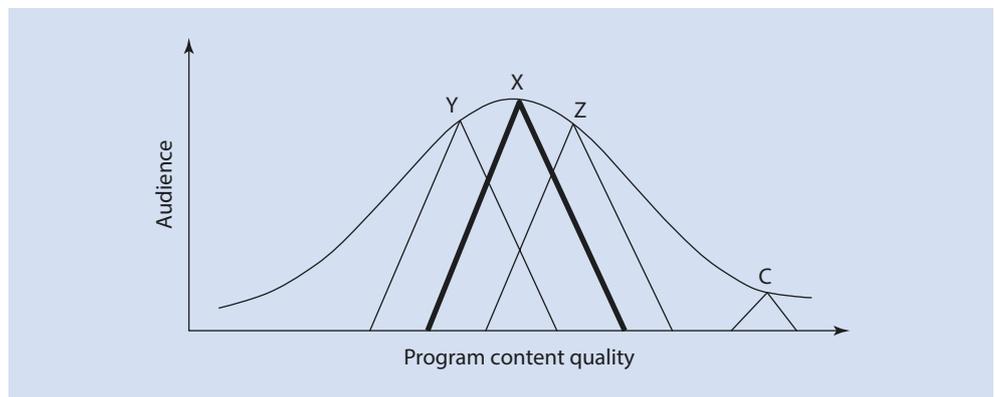
30 Adapted from Wikimedia Commons. "Spider Chart.svg." Last updated February 15, 2013. ► https://commons.wikimedia.org/wiki/File:Spider_Chart.svg.

Fig. 10.2 Radar chart for competitor analysis



10

Fig. 10.3 The distribution of audiences and the positioning of TV channels



undemanding programs on the right and high-brow programs on the left (other classification criteria for ordering are also possible, as are multiple criteria). The audience interest is depicted on the vertical axis. It rises at first as one moves to the right, higher up the quality scale. But beyond a certain point, audience interest is waning as one moves further toward programs of high quality. Total audience is the triangle under each position such as X. Thus, the first channel to enter the market will position itself at the peak of the curve of audience preference.

A second and third provider, Y and Z, will position themselves relative to X so as to also maximize their audiences (sales). Further entrants will find niches both in the direction of higher and lower quality, as well as in between existing branding choices. Quality choice C will be picked based on either a government mandate, such as in the case of a public service TV broadcaster, or because the audience for C is willing to pay a high price for being able to access the content.

10.4.1.1 Case Discussion

Positioning *Fly & Sky*

Condé Nast must shape an image or an identity for the magazine, the process known as product positioning. Who are the rivals? Where are under-served niches?

There are at least 28 competing aviation magazines on the subject of amateur flying, just in the USA. On top of that, there are about 40 aviation magazines for commercial and military

pilots, airline and airport managers, and aircraft designers and manufacturers. In addition, aviation magazines from other English-speaking countries are aimed at an international readership.

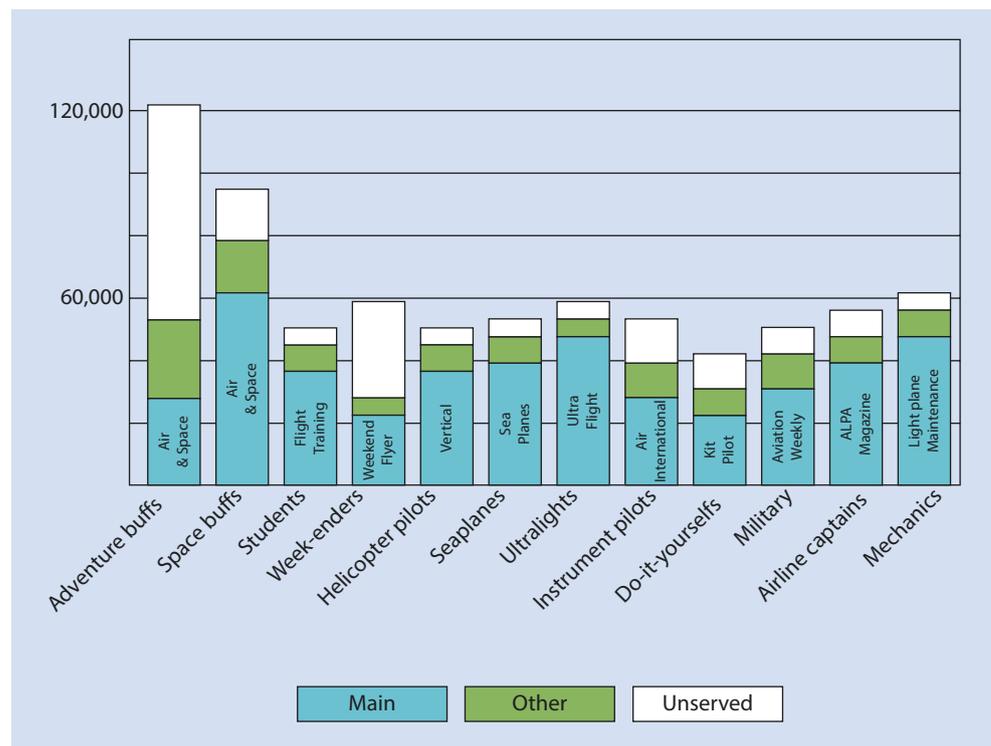
What Condé Nast needs to do is to decompose the market for aviation magazines and its components (Fig. 10.4, hypothetical) and look at how well served by other magazines these segments are. The bars represent different user types, such as student pilots and helicopter pilots. For each category, the bars show its size as well as how it is served by existing magazines and the market share of the leading magazine.

Looking at this figure, the market for serious pilots (military, airline captains, professional service pros, etc.) seems saturated. But the market for non-flying “adventure buffs” is underserved, as is the market for pilots who fly for fun at weekends. The market thus leaves room for those serving aviation enthusiasts who are looking for adventure fantasies or who fly only occasionally for recreation. These are overlapping customer groups that Condé Nast can consider attracting.

In designing such a new media product, Condé Nast may visualize the target *Fly & Sky* reader as a hypothetical “Larry” and position itself to serve him:

- Larry is 43 years old. He owns a computer store in Denver.
- He loves biking, scuba, and snowmobiling.
- He would like to get a pilot’s license and take his family backwoods camping, but is too busy.
- Right now, therefore, he’s dreaming.

Fig. 10.4 Coverage of reader segments by major magazines (schematic)



10.4.2 Market Penetration

The Bass Diffusion Model (described also in ► Chap. 9 Demand and Market Research for Media and Information Products) is a way in which to predict the gradual penetration of a product. The model was introduced by Frank M. Bass in 1969 and has been widely used in marketing forecasts, especially for new product and technology.³¹ It postulates that the penetration of a product over time depends on two major factors and their interaction: external influences such as advertising and internal influences such as word of mouth. The basic premise of the Bass Model is that adopters can be classified as innovators or as

imitators, and the speed and timing of adoption depends on their magnitude, identified as parameters p and q .

The model specifies the number of users according to an equation, which in simplified form is

$$N(t) = \left[p + \frac{q}{m} N(t-1) \right] [m - N(t-1)]$$

- $N(t)$: the number of present time buyers;
- $N(t-1)$: the number of previous time buyers;
- m : the estimated market size.

The two key variables of the Bass Diffusion Model are:

- p : the coefficient of innovation (accounting for external influences such as marketing/advertising);
- q : the coefficient of “imitation” (internal influences within the group, for example WOM effects).

31 The model makes several simplifying assumptions: the market potential remains stable over time; and the model is binary. That is, it assumes that a customer either adopts or does not adopt an innovation; market and product characteristics have no influence on product diffusion.

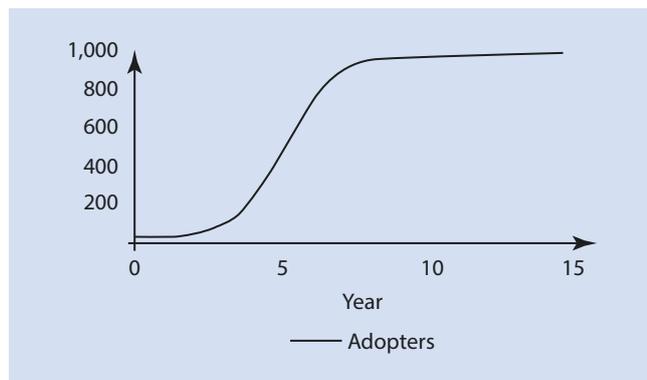


Fig. 10.5 The Bass Model: diffusion of adoption

The average value of p is 0.03 and often less than 0.01. The average value of q is between 0.3 and 0.5.³²

The model identifies T^* as the maximum rate of adoption.

$$T^* = \frac{1}{(p+q)} \times \ln\left(\frac{p}{q}\right)$$

For example, using the values for $p = 0.03$, $q = 0.38$, the maximum rate of adoption (T^*) would be about 1 million and is reached in six or seven years. (See Fig. 10.5).

10.4.3 Case Discussion

Fly & Sky: The Bass Diffusion Model

According to the US Census Bureau, the population of age 25–55 American males is about 74 million. Assume that 2% of this demographic group is interested in aviation. Thus, the potential market for the magazine is

$$m = 2\% \times 74 \text{ mil} = 1.48 \text{ mil}$$

We assume for the parameters of innovation and imitation the average values found for other products, $p = 0.015$, $q = 0.20$. Suppose that in a year 1, the number of subscribers $N_1 = 0.8$ million. Accordingly, the remaining market potential is $m - N_1 = 1.48 \text{ million} - 0.8 \text{ million} = 0.68 \text{ million}$. The estimated new subscriptions of *Fly & Sky* in the next period ($t = 2$) are then

$$\begin{aligned} N(t) &= \left[p + \frac{q}{m} N(t-1) \right] [m - N(t-1)] \\ &= \left[0.015 + \frac{0.20}{1.48} (0.8) \right] (0.68) = 83,710, \end{aligned}$$

an increase of about 10%. Earlier, when subscriptions were at the level of 200,000, the model predicted an annual rise of about 54,000, a growth of 27%, i.e., it was accelerating at a faster rate.

32 Sultan, Fareena, John Farley and Donald Lehmann. "A Meta-Analysis of Applications of Diffusion Models." *Journal of Marketing Research* 27, no. 1 (1990): 70–77.

10.4.4 Branding

Positioning is done through the product's design, its pricing, and also its branding. The brand of a product is its positioning identity to consumers.

Effective branding has several advantages for the producer. It

- creates differentiation instead of commodification;
- permits pricing at a premium;
- simplifies consumer choice, projects credibility, creates consumer loyalty;
- communicates quickly;
- provides a weapon to counter retailer power.

In earlier times, stores and tradesmen were identifiable by storefront signs that represented and differentiated them.³³ Today, symbols and logos are just as important. Take consumer electronics. These markets are crowded with similar products and are often near commodity.³⁴ Consumer electronics therefore place an emphasis on advertising the corporate brand rather than the specific products, of which there are a large number that are constantly changing.³⁵ Sharp, for example, repositioned itself from a budget product brand to a premium electronics brand at the high end, while Philips shifted its brand image, when it stopped being technology leader, to one of user-friendliness, of "sense and simplicity."

Brands are especially important for media products where users do not have much information and search costs are high. Here, branding applies to a set of technology products, a bundle of content, a bouquet of publications, or an entire medium. Newspapers brand themselves as the news source with credibility,³⁶ and research has shown that trust raises circulation.

Branding usually involves a name, a logo, a distinctive look. Logos are often joined with taglines, such as that of pay-TV provider HBO: "It's not TV, it's HBO." In Brazil, the major TV network is Rede Globo, which has a distinctive logo showing the world's globe, and every Globo-affiliated TV station, as well as many of its newspapers and magazines, uses it. Globo's slogans "For over 45 years, we've met each other here" and "we're ready for you," are aimed at positioning the company network as a trustworthy and reliable long-time partner.³⁷ Setting a network's image are the "anchor" programs. For a time, the brand image of the A&E's channel centered around the show *Biography*. Comedy Central's brandmakers used to be the shows *South Park*, *The Daily Show with Jon Stewart*, and *The Colbert Report*.

Marketers will often extend an established brand's reputation to a new product. Such "brand extensions" can be accom-

33 Langley, Stephen. *Theatre Management and Production in America: Commercial, Stock, Resident, College, Community, and Presenting Organizations*. New York: Drama Book Publishers, 1990.

34 Parry, Caroline. "Analysis: Sharp Aims for High-End Electronics Market." *Marketing Week* 29 (2006): 11.

35 P-O-P Times. "Who Needs Friends? Study finds P-O-P stronger influence than word-of-mouth." December 2005, 78.

36 Meyer, Philip and Yuan Zhang. "Anatomy of a death spiral: Newspapers and their credibility." *Association for Education in Journalism and Mass Communication*. August 10, 2002. Last accessed July 12, 2017. ▶ http://www.unc.edu/~pmeyer/Quality_Project/anatomy_of_death_spiral.pdf.

37 Wikipedia. "Rede Globo." Last accessed July 7, 2017. ▶ http://en.wikipedia.org/wiki/Rede_Globo.

plished through licensing the brand to others. An example is the children's video channel Nickelodeon, which licenses toys and theme parks.³⁸ The sports channel ESPN expanded into *ESPN* magazine, the ESPN sports zone web site, ESPN merchandise, and ESPN restaurant franchises.³⁹ In radio broadcasting, a station will regularly remind listeners of its brand identity. It uses short-spot “sweepers” that include the station identifier, the radio frequency (to facilitate return visits), and a slogan that aims to summarize the station's style.

Companies often seek to benefit from a celebrity's personal brand through an endorsement.⁴⁰ The image of the personality must fit the desired product brand image. At onetime, the cellular company Voicestream used the film star Jamie Lee Curtis as its spokesperson, using her sassy and down-to-earth image that appealed to working class women. A few years later, Deutsche Telecom bought the company and renamed it T-Mobile, its global brand name. In its marketing it sought young “yuppie” women and tried to appeal to them with a trendy celebrity. Catherine Zeta-Jones—then a young film star with a significant tabloid trail—became the new spokesperson for \$5 million per year. By 2014, T-Mobile aimed at niche markets as the “uncarrier” and aired the Colombian pop music star Shakira. In the USA, regulations on testimonials and endorsements require that ads must disclose connections between advertisers and endorsers.⁴¹ This was to reduce the practice of such persons giving consumers a false impression of objectivity.

A managerial question is whether celebrity endorsers add value to the company once one subtracts their often high compensation. One study analyzed the impact of celebrity endorsement contracts, and found that the impact of announcements of such deals on stock prices was positive, suggesting that celebrity endorsement contracts are viewed, at least by the investor community, as a worthwhile investment.

Another managerial question is how consistent the brand image should be across a sprawling enterprise. There are two views. The “centralized brand” view argues that firms must project a consistent image across product lines, divisions, and countries. This leads to a push for brand consistency (color, logo size, price policy.) To maintain and enforce such consistency, an internal “brand auditing” then emerges, in which the corporate center of a company seeks to make sure that uniformity is maintained. This suggests that one function of brands is not aimed at consumers externally but rather internally, to help central management establish control norms over a heterogeneous organization and to send signals to every division and employee. The brand image is the flag to follow.⁴²

In the other perspective, large companies accept differentiated branding across its different parts. For example, the media companies Viacom and Bertelsmann have weak overall brands but strong sub-brands that can go their own way. Nobody in America really knows the parent company Bertelsmann, but most regular book readers have heard of Random House. Similarly, Viacom's sub-brands in the present and past, such as MTV, Nickelodeon, Paramount Pictures, Blockbuster Video, and CBS are highly recognizable and quite different from each other, whereas Viacom itself is not well known by the broader public. In contrast, the Walt Disney Company has a strong overall brand but often weak sub-brands, such as Buena Vista.

The French media firm Vivendi stresses its field, not itself, trying to create an identification with serving a basic human need rather than of offering fleeting attractions. Its theme has been “Entertainment. It's vital.”⁴³ Vivendi's ads highlight the significance of entertainment in daily living, equating the need for entertainment with the need for food and water. It aims to create a non-technological, non-frivolous image. This effort is a sophisticated example of companies trying to generate a brand identity by “corporate image” advertising, in which they project themselves rather than promote a specific product. The goal is to create a positive image for the firm, to communicate the organization's view on social, business, and environmental issues, to boost employee morale, and to help diversified companies establish an identity for the firm as a whole rather than relying solely on brand names. Consumers tend to be only mildly interested in this form of advertising; it is often seen as a costly self-indulgence. Even worse, it is often perceived that the firm must be in PR trouble (an example being oil companies, with their ads full of seagulls, bald eagles, and other “green” icons).

Brands can be so important that some companies are transformed into “virtual firms” whose main asset is their brand identity. They may not design or produce the product, but their image extends to the products they pick or market.

Given the importance of branding, how has the internet affected it? The perception of what the internet does to brands has gone through several stages.

- Stage 1: The internet destroys brands. The internet was assumed to be a level playing field that lowered barriers to entry. Brands were associated with established firms and viewed as Industrial Age legacies. In contrast, the internet would lead to price and feature comparison shopping that would overwhelm brand image in favor of “objective” decisions. This perspective was a classic manifestation of the view that brands are artifices of traditional marketing. But then, the pendulum swung in the other direction.
- Stage 2: Brands are essential on the internet. Online businesses soon found out that brands were important. There are hundreds of millions of websites worldwide.

38 Blumenthal, Howard J., and Oliver R. Goodenough. *This Business of Television*. (New York: Billboard Books, 1998), 401.

39 McDowell, Walter S. “Issues in Marketing and Branding.” In *Handbook of Media Management and Economics*. Eds. Alan B. Albarran, Sylvia M. Chan-Olmsted, and Michael O. Wirth. (Lawrence Erlbaum Associates, 2006), 229–250.

40 Ouwersloot, Hans. “Brand Personality Creation through Advertising.” *Maxx Working Paper Series*. February 3, 2001. Last accessed July 13, 2012. ▶ <http://arno.unimaas.nl/show.cgi?fid=478>.

41 Agrawal, Jagdish and A. Wagner Kamakura. “The Economic Worth of Celebrity Endorsers: An Event Study Analysis.” *Journal of Marketing* 59, no. 3 (July 1999): 56–62.

42 McDowell, Walter S. “Issues in Marketing and Branding.” In *Handbook of Media Management and Economics*. Eds. Alan B. Albarran, Sylvia M. Chan-Olmsted and Michael O. Wirth. (Mahwah, NJ: Lawrence Erlbaum Associates, 2006), 229–250.

43 The Hollywood Reporter. “Money Digest.” November 28, 2006. Last accessed July 13, 2012. ▶ <http://www.hollywoodreporter.com/news/money-digest-144406>.

How then can one be noticed? As a result, online companies spent as much as 90% of their resources on advertising and marketing their brand, seeking a large market share that would generate the economics of scale that would create competition and advantage. But this too, was not the end of the evolution.

- Stage 3: The internet enables brand customization. It is the move from mass-brands (meta-brands) to customized sub-brands. A single product marketing approach to a heterogeneous population is often less effective than differentiated approaches. New technology and data analysis enable customization. This starts with differentiated pricing offers, then progresses into differentiated marketing pitches, and inevitably leads to differentiated branding. One category of potential customers receives, say, a brand projection of solidity and quality, while other customers might experience a branding image that projects fun and adventure.

10.5 Pricing

The third element of marketing's classic Four Ps is pricing. Pricing is the setting of prices by seller and is an expression of a business's strategy and its marketing plan. Pricing issues are discussed in ► Chap. 11, Pricing of Media and Information. Only a few points follow here.

Firms normally set prices following several broad strategic options:

1. *Market pricing* (matching competitors' prices).
2. *Cost-based pricing* (cost-plus).
3. *Value-based pricing*. This usually means price discrimination among customers, because each values the product differently. Price differentiation is prevalent in media. Books are sold as expensive hardcover volumes first, then they become cheap paperbacks. The price difference is much larger than the cost difference. In consumer electronics, small variation in a production may be accompanied by a large price difference. Films have a price sequence, from relatively expensive theater tickets down the ladder to video-on-demand, pay cable, and eventually to free, advertising supported broadcast TV.
4. *Strategic pricing*. This aims to achieve strategic goals such as gaining market share or establishing a brand identity. To gain market share, a firm would price low ("penetration pricing") and marketing would stress the low price and high value.⁴⁴ Conversely, a firm might use "premium pricing," setting a high price as part of creating a superior image of quality.⁴⁵

44 Montgomery, Stephen L. *Profitable Pricing Strategies*. New York: McGraw-Hill, 1988.

45 Lamb, Charles W., Joseph F. Hair, and Carl D. McDaniel. *Marketing*. Cincinnati, Ohio: South-Western College Publishing, 1996.

10.6 Promotion

10.6.1 Promotion—General

For marketers, the main obstacle is grabbing people's attention so they will consider a product's value. To do so involves advertising, generating word of mouth (WOM), PR, publicity, and so on. This is true for all products, but for many information products the special economic characteristics create major problems, as discussed earlier. As one film studio executive observed, "movie marketing campaigns are like election campaigns."⁴⁶ A film's marketing effort starts when a project is green-lighted for production. Long before the film is completed, the marketing department creates a task force in order to develop a marketing plan to create an audience. The release date is hyped, previews are shown on TV, and publicity campaigns with celebrities are used. Loyal customers are targeted. Launching major computer games requires a similar effort.

There are several goals for promotion, depending on the targeted customers and the product itself.⁴⁷ When focusing on users, several strategies are possible:

1. The acquisition of new users. This calls for a creation of a new relationship, including an introduction of product, applications, company, and brand. There is an emphasis on promotions on other media, as well as targeted marketing and WOM marketing.
2. Increasing usage by existing customers. Marketing efforts will use reminder ads and special promotions. The creation of user communities will generate incentives and new applications.
3. Recycling and upselling existing users. This can rely on addressing a relatively known base and can use a medium to promote itself.⁴⁸ To maintain users, a "lock-in", should keep them tied to the particular product or service. This raises customer retention and lowers "churn." It is therefore a goal of marketing to make it difficult to exit. Strategies include:
 - loyalty programs, with discounts and rewards;
 - brand-specific user training;
 - long-term contractual commitments in return for upfront benefits;
 - get the customers to invest in the supplier's technology by participating in customization—so customers thereby raise their own switching costs;
 - creation of community and network effects. Leaving a product therefore means losing network externalities to the user but also to other members of the community who would therefore try to persuade the wavering user to stay.

46 Epstein, Edward Jay. *The Big Picture, the New Logic of Money and Power in Hollywood*. New York: Random House, 2005.

47 Newton, Gregory, D. "Marketing Radio." In *Media Promotion and Marketing For Broadcast Cable and the Internet*, 5th ed. Eds. Susan Eastman, Douglas Ferguson, and Robert Klein. (New York: Focal Press, 2006), 38.

48 Newton, Gregory, D. *Media Promotion and Marketing for Broadcasting, Cable and the Internet*. (Boston: Focal Press, 2006), 38.

Promotion strategies also differ according to the nature of the product. For media products, there are several categories:⁴⁹

1. True talent products are based on artists with unique appeal or products with special features that cannot be easily duplicated, such as Elvis Presley or Bruce Springsteen, or the original Apple iPhone. True talent products call for strong early promotion and subsequent maintenance of word of mouth.
2. Marketing-driven products are typically short-term products with bestseller potential. They include “commodity” stars such as Britney Spears or light entertainment TV formats such as *Who wants to be a Millionaire*, supermarket magazine titles such as *Us*, a typical video game, or a flash drive. These projects call for sustained promotional efforts. But once the product appeal and value drops, the promotion is dropped too.
3. Tried and true products are important even though they have a low profile. They can achieve considerable aggregate volume. Examples are a cookbook series or a subscription to a local paper or its online version. They receive a modest but sustained marketing effort.
4. Niche products appeal to a specialized audience. A highly fragmented “long tail” of offerings has increasing importance. Marketing here calls for sustained low-intensity, high-targeted promotion. A high-intensity campaign is likely to be unaffordable. Such specialty products may require extensive search by customers’ own initiative, and they are reluctant to accept substitutes. Specialty products are fairly price insensitive, customers are more loyal, and markets are more defensible.
5. Convenience products. These are inexpensive and their selection and acquisition requires little effort. An example is radio station listening. Promotion might be heavy, but is constrained by the low margins in such products.
6. Unsought products. The product is unknown and is not actively searched for by the consumer. An example would be a new software application or a new consumer electronics device such as TiVo or Sling. The selection of such a product is considered risky by a customer. The marketing strategy for unsought products must include teaching customers why they need it and how to use it.⁵⁰ It must include generous provisions for return. WOM promotion is important, together with the inclusion in networks of users to generate positive externalities and community reinforcement and support. Altogether, the promotional efforts by the seller may be substantial, while the consumer will require a lot of time to make a decision.

10.6.2 Timing

Timing is essential for a profitable product release. Movie audiences peak in the USA around Christmas time, as well as Thanksgiving and summer. In contrast, French movie theaters are slower in the summer but very busy in October.⁵¹ New generations of video game players are released to coincide with the Christmas gift-giving season, as are certain books and consumer electronics. A spring release anticipates the strong selling window of light summer reading, where books are usually self-bought. A fall release of books anticipates Christmas sales and is heavier in non-fiction and specialty books, bought as gifts for others.

A second dimension for timing is the sequencing of “release windows” to different sub-markets or distribution platforms—whether geographic, willingness-to pay, or technology-based. The basic principle for release sequence strategy is: first distribute the product to the market that generates the highest incremental profit per unit of time; then “cascade” through other platforms in the order of their incremental profit contribution.⁵² Before the 1970s, Hollywood movies were first released in select high-volume theaters, and if they did well more secondary theaters were added. Network TV followed at some distance. Deciding to forgo the traditional mold, in 1975 Universal Studios released the bestseller shark novel *Jaws* as a movie on more than 400 screens nationwide, accompanied by a major nationwide advertising campaign.⁵³ This strategy caught on. Films are now released simultaneously on more than 2000 screens in the USA alone, with a big TV and online media blitz to build momentum. Home videos and video games follow a similar technique. Mass-retail chains such as Wal-Mart and Target advertise a new product heavily for a short period. They often offer it for a low price during the first few days, to drive traffic to the store. Frequently, over half of the total sales take place during the first week.

Home video campaigns usually piggyback on the residual awareness of the prior expensive theatrical marketing campaigns, which creates incentives to release the film sooner for home viewing, whether on DVD or online.⁵⁴ In some cases, the home video marketing can be very expensive. The *Spiderman* campaign cost \$100 million in 2002 (\$40 million for TV, radio, print ads, and billboard and mall advertising).⁵⁵ Details on these issues are provided in ► Chap. 12 Distribution of Media and Information.

49 The first four categories are identified by Aris, Annet. *Value-Creating Management of Media*. Hoboken, NJ: John Wiley & Sons, 2005.

50 Grayson, Kent A, Phillip Kotler, and Jonathan D. Hibbard. “Marketing in Different Sectors.” *Encyclopedia Britannica*. Last accessed May 17, 2017. ► <https://www.britannica.com/topic/marketing/Market-research-firms#toc27279>.

51 Martine, Danan. “Marketing the Hollywood Blockbuster in France.” *Adweek Magazines’ Technology Marketing* 23, no. 3 (Fall 1995): 131.

52 Lieberman, Al and Patricia Esgate. *The Entertainment Marketing Revolution*. Upper Saddle River: FT Press, 2002.

53 Surowiecki, James. “Open Wide.” *The New Yorker*, August 4, 2003. Last accessed July 13, 2012. ► http://www.newyorker.com/archive/2003/08/04/030804ta_talk_surowiecki.

54 Eller, Claudia. “Wait Time on DVD Releases Shrinks.” *Los Angeles Times*, March 12, 2007.

Last accessed July 6, 2017. ► <http://articles.latimes.com/2007/mar/12/business/fi-dvd12>.

55 Desjardins, Doug. “Mega Marketing Campaigns Up the Ante in Home DVD Segment.” *DSN Retailing Today* 41, no. 16 (August 26, 2002): 21.

10.6.3 Word of Mouth, Buzz, and Viral Marketing

Viral marketing is a type of promotion that activates the users themselves to speedily distribute positive information to many other individuals. Positive information that is passed on by many people word-of-mouth (WOM), is often called “buzz.” It is not easy to initiate but when it takes off it can be very effective.⁵⁶ The advantages of WOM are its credibility and its low cost. Start-ups and independent product makers therefore benefit most.⁵⁷ Generating buzz is often carefully planned and constructed. For example, a local radio station might do something so bizarre that people will talk about it with friends and work colleagues. A radio station might offer the listener with the ugliest car a free paint job, new tires, and so on. All of the items are traded with local retailers in exchange for free publicity through over-the-air mentions. One radio station gave away, on April Fool’s day, free tickets for a ride on the rollercoaster at an amusement park which had burned to the ground years before. This kind of prank gets listeners’ attention and free press coverage, and provides an image of a fun, casual, media operation.

An example of the different marketing approaches—classic advertising versus WOM—is the contest for internet-based telephone service. One company, Vonage, had \$269.2 million in sales in 2005 and a market share of 21.7% in the USA. It spent \$243.4 million on advertisements that year, which means that almost all of its revenues went into marketing campaigns. In the next year, Vonage spent even more on marketing, \$360 to \$380 million, an increase of 50%.⁵⁸ These are huge numbers relative to its revenues. In contrast, Vonage competitor Skype did not have a high marketing budget. Instead, it used WOM marketing and offered free VoIP service to encourage users to invite their friends. Skype marketed its services using blogs and forums which targeted lead users instead of the mass-market.⁵⁹ Its strategy proved much superior to Vonage’s. By 2010, Vonage had 2.4 million subscribers, almost all of them in the USA, while Skype, with its minimal marketing budget, had 660 million users worldwide. Microsoft acquired Skype in 2011 for \$8.5 billion, while Vonage was barely hanging on.

Examples for creating buzz are the releases of a new book in the *Harry Potter* series, of a new Apple iPhone model, or of a video game console. In each case, consumers have been primed for weeks for the “big event,” making it prestigious to become part of it. They must wait in an intentionally long line to buy the product, and in the process they generate a media frenzy and free publicity. For its PlayStation 4, Sony organized

large, media-intensive launch events in major cities around the world and streamed them live online.⁶⁰ It generated more than 1 million preorders three months before the release. Consumers lined up by the thousands in front of stores, some waiting for more than 18 hours.⁶¹ For the sixth installment of the *Harry Potter* books, its author J.K. Rowling released the names of three of the chapters, which set off widely reported speculation about the new plot. For Harper Lee’s newly found novel *Go Set a Watchman*, bits and pieces were prereleased to keep attention bubbling.

Elements of WOM marketing are:

- Create media events.
- Recruit individuals who are trendsetters, in particular celebrities. The aim is to encourage press coverage and increase the WOM effect. One method is to send teams to “in” clubs where they distribute the product or discount cards to particularly trendy people.⁶²
- Distribute a sample. A movie trailer is an example. The trailer for *Lord of the Rings* was downloaded 1.7 million times on the first day it went live.⁶³ Fox posted the first four minutes of *Borat* on YouTube and received a million views within two weeks, which helped that low-budget and quirky movie to earn \$26 million at the box office in its opening weekend alone.
- Release a film’s music.
- Investigate social media reporting, what the target audience likes and is interested in, what is trending, and how quickly it trends.
- Create sharable content.
- Create a hashtag to help viral attention.
- “Trendjacking”: piggyback on things that are already going viral.
- Humanize the campaign.⁶⁴
- Create “cool.” Google was able to generate buzz for its new Gmail when it offered membership to only a select number of people, which generated a massive WOM marketing.

Buzz, however, works both ways and can be negative. Kryptonite bicycle locks had an image of ultimate security, but then sales nosedived after a blogger posted a video clip of how to pick the expensive lock with a Bic ballpoint pen in ten seconds.⁶⁵ A company normally wants to avoid unfavorable

56 Adams, William J., and Charles A. Lubbers, “Promotion of Theatrical Movies.” In *Research in Media Promotion*. Ed. Susan Tyler Eastman. New York: Routledge, 2000.

57 Joachimsthaler, Erich and David Aaker. “Building Brands without Mass Media.” *Harvard Business Review*. January-February 1997. Last accessed July 12, 2017. ► <https://hbr.org/1997/01/building-brands-without-mass-media>.

58 Kharif, Olga. “Verizon’s VOIP Offensive.” *Bloomberg Businessweek*. May 5 2006. Last accessed June 2, 2011. ► http://www.businessweek.com/technology/content/may2006/tc20060504_327191.htm.

59 Hughes, Arthur Middleton. “A Tale of Two Marketers.” *CRMToday*. 2006. Last accessed June 2, 2011. ► <http://www.crm2day.com/editorial/50282.php>.

60 Grubb, Jeff. “Watch the PlayStation 4’s New York City launch party live on Twitch.” *VentureBeat*. November 14, 2013. Last accessed July 6, 2017. ► <http://venturebeat.com/2013/11/14/ps4-launch-broadcasting-on-twitch-tonight-as-the-site-takes-over-as-webs-top-games-related-video-site/>; GamesIndustry.biz. “Xbox One launch live from London and New York.” Last accessed July 6, 2017. ► <http://www.gamesindustry.biz/articles/2013-11-21-xbox-one-launch-live-from-london-and-new-york>.

61 Frum, Larry. “Gamers line up by the thousands for PlayStation 4 launch - CNN.com.” *CNN*. November 15, 2013. Last accessed July 6, 2017. ► <http://edition.cnn.com/2013/11/15/tech/gaming-gadgets/playstation-4-launch/>.

62 Van Camp, Scott. “Motorola Looks for More Buzz Per Buck.” *Adweek*. July 2004. Last accessed July 12, 2017. ► <http://connection.ebscohost.com/c/articles/16609907/motorola-looks-more-buzz-per-buck>.

63 Finn, Adam et al. “Marketing Movies on the Internet: How Does Canada Compare to the U.S.?” *Canadian Journal of Communication* 25, no. 3 (2000).

64 York, Alex. “What Is Viral Marketing & Does It Actually Work?” *Sprout Social*. May 17, 2016. Last accessed July 6, 2017. ► <http://sproutsocial.com/insights/viral-marketing/>.

65 Hill, Jeffrey. “The Voice of the Blog: The Attitudes and Experiences of Small Business Bloggers Using Blogs As A Marketing and Communications Tool.” Dissertation, University of Liverpool, 2005.

information taking on a life of its own; but some marketing people believe that going viral, for whatever reason, is a good thing because it creates publicity, visibility, and name recognition. The public might remember the brand name Kryptonite even when they have forgotten how they heard about it.

WOM marketing has an image of authenticity, transparency, honesty, and openness. This encourages exploitation. Sony Ericsson paid 60 actors to pretend to be tourists on Times Square, to ask people to take photos of them using their new Sony Ericsson camera phones, and then demonstrating and praising the features. These kind of campaigns led the US government to require that all viral marketing representatives must disclose their identities when operating.⁶⁶

10.6.4 Using Star Power for Promotion

A major way to promote a product is to use star power, in particular if the star is directly associated with the product. Film studios place stars on TV talk shows. Publishers promote top books by placing authors on national TV shows. Music artists appear on TV shows. Directors give radio interviews. Authors sign their book in stores and do readings (“in-stores”), which may create local press coverage.

The online promotional campaign for the film *The Blair Witch Project* in 1999 was a milestone in internet marketing. Segments of the scripted mock documentary about the mysterious disappearance of documentary makers were released online. This created a significant buzz which was a factor in the film earning \$140.5 million in North America alone.⁶⁷ However, few other films achieved the same success. The idea is to create a peer-to-peer (P2P) snowball effect in which viewers pass on recommendations to others. In the case of the small independent *The Blair Witch Project* this worked well because it seemed real rather than manipulated. Once the novelty wore off, this didn’t work for other films, even for the sequel.⁶⁸ Almost immediately, the approach was appropriated by the Hollywood studios. During the Fox Searchlight promotional campaign for *28 Days Later*, moviegoers were encouraged to wear red to the sneak previews via email messages, and those who complied were rewarded with merchandise related to the film.

10.6.5 Publicity and Public Relations

Public relations are communication techniques to help an organization create a good reputation for itself, its goals, and its projects.⁶⁹ Publicity, a sub-set of PR, is the generation of

positive news stories about a person, product, or service.⁷⁰ The target audiences of a publicity campaign are, in particular, the media, potential customers, employees and investors, educators, and government officials.

Publicity is particularly important for films because of their short shelf life, which requires the creation of awareness even before release and advertising. Studios therefore try to generate free publicity for films. This is related to but different from the attempt to influence film critics, who judge a film’s merits. Publicity tries to generate media coverage for the film as an event itself. In the “Golden Age” of film, the studios’ publicity departments used three major tools: their own newsreels, the fan magazines they controlled, and their symbiotic relationships with the leading gossip columnists.⁷¹ These techniques are still in use. Celebrity stories are placed in magazines, cable channels, and entertainment shows owned by the same media companies that own the film studio. In particular, studio publicists collaborate with journalists and magazines, giving selective access to advance film screening. There are “press junkets,” with studios paying for the expenses of traveling journalists, though today most serious media outlets limit acceptance. Press junkets are an efficient way to bring together the talent and the journalists, enabling group interviews.

It is easier to generate publicity about stars than about a film. Magazines also need cover photographs of stars to boost their circulation. When reporters and their publications seek to get access to a film celebrity they often have to go through the studio and agree to make references to the film. To control the information during a film’s production, the crew and cast must sign non-disclosure agreements that limit their talking to journalists. More ingeniously, studios might generate “back stories” that claim to be news, in order to get coverage. For example, for the film *Mission Impossible*, the Paramount studio generated a back story through a short “documentary” entitled *Mission Incredible* about the physical danger for the star Tom Cruise, who was doing his own highly dangerous stunts, or so it was claimed.⁷² This was entirely fictitious: there were actually six stunt doubles for Cruise. But the story about whether Cruise might die the next day was too good to be passed up by the press and by TV entertainment channels.

Celebrity appearances on TV are an effective way of promotion, and they are free publicity; but they need to be carefully orchestrated and booked months in advance.⁷³ Competing TV shows on rival networks will avoid booking the same guest, so choices must be made. For certain books, too, the publicity of authors on TV morning shows and in the press has a major

66 Shinn, Annys. “FTC Moves to Unmask Word-of-Mouth Marketing; Endorser Must Disclose Link to Seller.” *The Washington Post*. December 12, 2006. Last accessed July 6, 2017.

► http://www.highbeam.com/doc/1P2-2793118.html?refid=easy_hf.

67 Marich, Robert. *Marketing to Moviegoers: A Handbook of Strategies and Tactics*, 2nd ed. Carbondale: Southern Illinois University Press, 2009.

68 *Book of Shadows: Blair Witch 2*. See Marich, Robert. *Marketing to Moviegoers: A Handbook of Strategies and Tactics*. 2nd ed. Carbondale: Southern Illinois University Press, 2009.

69 Henry, Kenneth. “Perspective on Public Relations.” *Harvard Business Review* (July-August 1967): 30.

70 Belch, George E. and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*. 4th ed. New York: Irwin/McGraw-Hill, 1998.

71 Epstein, Edward Jay. *The Big Picture, The New Logic of Money and Power in Hollywood*. New York: Random House, 2005.

72 Epstein, Edward Jay. *The Big Picture, the New Logic of Money and Power in Hollywood*. New York: Random House, 2005.

73 Marich, Robert. *Marketing to Moviegoers: A Handbook of Strategies and Tactics*. 2nd ed. Carbondale: Southern Illinois University Press, 2009.

impact. As a result, TV affects the composition of book sales and their publishing through their favoring attractive authors, provocative subjects, and simple conclusions/advice. There is a symbiotic relationship between the broadcasters' need for material and the authors' need for exposure.⁷⁴

Publicity efforts are at work for major awards since they affect the success of a film. The Oscars night is watched by hundreds of millions of viewers worldwide and generates exposure for a film and its stars. In 2007, for example, five of the films nominated for an Oscar as Best Picture had increases in ticket sales right after nominations. Distribution for the film *The Departed* rose from 127 to 1453 theaters. A Best Picture win beyond the nomination adds between \$15 million and \$40 million to the box office alone.⁷⁵ The salary of Oscar winners sometimes doubles or more for their next film. To be nominated or to win therefore has a major economic impact, and the studios and producers organize Oscar campaigns to win awards. They target industry professional rather than the general public, and use advertising in trade newspapers, events with film-makers, private screenings for academy members, direct emails, and so on.⁷⁶ There are publicity consultants to run these campaigns, which can cost millions.

When it comes to technology products, preproduct information is often covered in the press or in trade magazines.⁷⁷ Companies create such stories with great care, to generate attention without disclosing too much information to competitors in advance. More details on managing the PR function are found in ► Chap. 8, Managing Law and Regulation.

10.6.6 Influencing the Influencers: Promotion to Opinion Leaders and Critics

Reviewers are considered very important. Getting a positive review in the *New York Times* or the *New York Review of Books* enhances a book's chance of selling well. The process becomes self-sustaining: reviews create buzz, which generates further attention. Newspaper critics have a significant impact on the success of musicals and plays. Influencing critics therefore becomes part of the marketing campaign. But the question is how much impact do critics have? As discussed in ► Chap. 9, "Demand and Market Research for Media and Information Products," critics may be opinion leaders who influence audience demand (the "powerful critic") or they may just be predictors of their respective audiences (the critic as a

"spokesperson"). This makes a big difference for marketers. If the "powerful critic" theory is true, then the marketing efforts of film studios should indeed target critics. They should wine and dine them, get them to meet and interview stars, and put critics' names in film advertisements. They should also avoid the prescreening of bad films to critics, and try to counter expected negative reviews by a massive advertising campaign and a wide and quick release in order to gain audiences before the negative becomes widely known. However, research studies show that critics appear to act more as leading indicators than as opinion leaders. But if critics are mostly early predictors rather than influencers, efforts of counting them seem to be a waste of money.

10.6.7 Product Placement

Placing a company's product or brand within other media content is a way in which companies can promote their product. Computer companies give computers to film producers to have them featured in the movie. Apple products appeared in more than a third of all number one US movies from 2001 to 2010.⁷⁸ Sony Films often feature Sony consumer electronics products throughout a movie.⁷⁹ For the film *The Devil Wears Prada*, starring Meryl Streep, Prada paid for the title and supplied many of the bags and shoes featured. Other fashion industry companies also placed products. In Dream Works' romantic comedy *The Terminal*, starring Tom Hanks, there were product placements for 40 retailers, such as Burger King, Starbucks, Borders, Verizon, Swatch, Godiva, and several airlines.

Product placement is nothing new. *National Geographic* magazine used product placement in the movie *It's a Wonderful Life* (1947) extensively and did very well. The candy maker Hershey paid \$1 million for placement of its fairly new product Reese's Pieces in the film *E.T.* (1982), and reported a 65% jump in profits two weeks after the movie's premiere. Ray-Ban used product placement, by Tom Cruise in *Risky Business* (1982), *Top Gun* (1986), and *Rain Man* (1988), and its annual sales for that style zoomed up.

Product placement can be an effective way to advertise without being "in your face" and without it getting lost in the clutter of other ads. It is a major way to overcome the trend of consumers skipping advertising commercials on online TV. The viewer is rarely informed about a product that is being featured as a paid promotion, except fleetingly in the final credits. The audience ideally should not notice the placement at the time, yet should remember it in an almost subliminal way. People recall 25% of products that are seen in the

74 Caves, Richard E. *Creative Industries: Contracts Between Art and Commerce*. Cambridge: Harvard University Press, 2000.

75 Enright, Patrick. "How studios manipulate the 'Oscar bump'" NBCNews.com. February 22, 2007. Last accessed July 6, 2017. ► http://www.msnbc.msn.com/id/17228744/ns/business-us_business/t/how-studios-manipulate-oscar-bump.

76 Marich, Robert. *Marketing to Moviegoers: A Handbook of Strategies and Tactics*. 2nd ed. Carbondale: Southern Illinois University Press, 2009.

77 Easingwood, Chris, and Anthony Koustelos. "Marketing High Technology: Preparation, Targeting, Positioning, Execution." *Business Horizons* 43, no. 3 (October 2004): 27–34.

78 Stampler, Laura. "12 Excellent Examples of How Apple Product Placements Rule Hollywood." *Business Insider*. August 7, 2012. Last accessed July 6, 2017. ► <http://www.businessinsider.com/apple-product-placements-in-tv-and-movies-2012-8>

79 Ashcraft, Brian. "Resident Evil: Retribution Trailer? No, You Mean Blatant Sony Ad." *Kotaku*. January 19, 2012. Last accessed July 6, 2017. ► <http://kotaku.com/5877453/resident-evil-retribution-trailer-no-you-mean-blatant-sony-ad>.

background, which is high. Most effective is for the product to feature directly in the story or its dialogue. However, having too many product placements has a negative effect on the credibility of a program, and distracts from it. There is also the possibility that a product will be associated with a negative character. A managerial disadvantage is that a film's audience ought to match the target consumers sought by the product's marketer, which is not always the case as the film evolves. There is also a timing issue. Both a film and the product take a lot of time to develop and they are not necessarily in sync. Product release is difficult to co-ordinate with the film release timing, especially across the globe. For example, Ericsson used product placement for a new cellphone, but the product was not ready when the film was released. In other cases, the film lags behind the product's release by months or years.

Another managerial issue is how to price a product placement and to measure its marketing value. It can cost \$1 million to feature in a Hollywood film. The Ford auto company paid \$14 million for three minutes in a James Bond movie *Die Another Day*. In *Jurassic Park*, a Ford Explorer SUV is chased by dinosaurs, costing Ford \$500,000. Mercedes Benz paid ten times as much to feature its own new SUV in the sequel, *The Lost World: Jurassic Park 2*.⁸⁰ The cost of product placement depends on the amount of time on screen, the popularity of the movie, the fit with the product and the marketing strategy. One company, Kantar Media, tracks the time devoted to in-show branded content (product placement) on primetime broadcast television. Nielsen, similarly, tracks the number of product appearances and brand mentions in broadcast and cable TV shows, linked to the show's viewership ratings.

The number of brand placements in the top ten shows of TV networks was 30,000 in 2008. The number of different brands embedded in shows on broadcast TV was 745 and on cable channels 839. It had increased 11% and 46% respectively in that year. Teen dramas are magnets for product placement. One such show, *One Tree Hill*, had 2575 product placements in 2008—nearly 50 per week on average.⁸¹

Newscasts have generally avoided product placement, but in 2008 two cups of McDonalds iced coffee were placed on the Fox 5 news desk in New York during its morning show. Network executives claimed that in the case of a news story about McDonalds, the coffee cups would be removed.⁸² In the UK, there was a ban on product placement, but it was lifted in 2011. In the USA, the Federal Communications Commission (FCC) has product placement regulation on broadcasters, and aimed to expand this to cable television—that is, to

require cable networks and producers to disclose when they accept payment for embedded advertising. After the agency launched an investigation into rule-making procedures for TV product placement in 2008, Nielsen changed the way it counts embedded ads, and it withholds all product placement figures from its quarterly news releases.

Product placement has moved from film and TV to video games, as a new way to reach young males, a target demographic that has increasingly moved away from television and therefore TV commercials.⁸³ In-game displays integrate the ad and the brand into the visual in front of the player. Online games may communicate with the advertiser's server and identify users. To make these approaches most effective, advertisers collaborate with the game designers in the development stage.

10.7 Advertising

10.7.1 Advertising—General

Advertising is a crucial element in the media industry. It is the vehicle through which consumers are informed and persuaded about a product. Its role for media is twofold:

- Advertising is the economic foundation of many types of media.
- Media products are being promoted through advertising.

Advertising goes back to antiquity. Promotional posters, signs, and spoken announcements already existed thousands of years ago. As previously mentioned, by the 1600s advertisements were regularly printed in European newspapers.⁸⁴ In Japan, the first news media advertisements appeared in around 1615. The Industrial Revolution accelerated advertising by creating mass-products and national brands. Advertisements in the 19th century typically were simply written descriptions of the products. Later, into the 1920s, advertising was product-oriented, in other words informational about the product's features. It then became increasingly customer oriented, projecting the consumer's happiness and benefit from the product. The radio and the television were the main vehicle for such "lifestyle advertising"

Despite all the money spent on it, it is surprisingly unclear how advertising works best. John Wanamaker, owner of the department store chain, memorably said, "half the money I spend on advertising is wasted; the trouble is I don't know which half?" There is a plethora of explanations of how advertising works, from postmodern theory (advertising resonates with cultural "stories") to semiotic theory (ads have symbolic

80 Marich, Robert. *Marketing to Moviegoers: A Handbook of Strategies and Tactics*. 2nd ed. Carbondale: Southern Illinois University Press, 2009.

81 FIT Media. "UPDATE on TV Product Placement and Product Integration." Last accessed July 13 2012. ► http://www.fitmedia.org/images/FITMedia_Research_-_Product_Placement_Embedded_Ads_9-23-09.pdf.

82 Clifford, Stephanie. "ADVERTISING; A Product's Place Is on the Set." *The New York Times*. July 22, 2008. Last accessed July 6, 2017. ► <http://www.nytimes.com/2008/07/22/business/media/22adco.html?adxnnl=1>.

83 Richtel, Matt. "A New Reality in Video Games: Advertisements." April 11, 2005. *The New York Times*. Last accessed July 6, 2017. ► <http://www.nytimes.com/2005/04/11/technology/11game.html>.

84 Eyre, Rachel, and Michael Walrave. *The Media Communications Book*. London: Arnold, 2002.

meanings to consumers),⁸⁵ and much in between. One psychology-based explanation on how ads work is through social identity. In celebrity endorsements, viewers identify with the pitchman and what he stands for. Their personal identity gets wrapped up in the ad.⁸⁶

Who are the largest advertisers in the USA? Collectively, the top 200 spent over \$150 billion on advertising in 2017. The top ten advertisers⁸⁷ were:

1. Procter & Gamble \$2.4 billion;
2. Berkshire Hathaway \$1.9 billion;
3. General Motors \$1.9 billion;
4. Comcast \$1.8 billion;
5. Pfizer \$1.7 billion;
6. AT&T \$1.6 billion;
7. Verizon \$1.3 billion;
8. Ford \$1.3 billion;
9. L'Oréal \$1.2 billion;
10. Toyota \$1.2 billion.

This is quite substantial spending. However, the heaviest advertisers are not consumer products or telecom companies, but rather TV networks and station groups advertising their own media products. The value of such advertising was estimated as 10.8% of all TV advertising value.⁸⁸ This would mean about \$3–4 billion of such “in-house” advertising spent by each of the four-major networks and their affiliated stations. On top of that, they also spend real money in ads in other media, including on other TV networks.⁸⁹ Furthermore, media companies often trade advertising time (or space) with each other. This is done by radio stations, local newspapers, magazines, cable systems, and television stations. Co-owned media cross-promote each other. Alternatively, within one TV or radio channel one program promotes the next, or another. In such a barter system, money does not change hands or only in a minor way, but the two parties agree on an in-kind exchange.

Aside from TV networks, the top advertisers in many countries are another category of communications companies, mobile phone operators. For example, in Tanzania, the cellphone operators were the number one, two, four, and eight advertisers. In Tunisia, the cellphone companies were the number one and two advertisers. In Pakistan, they were numbers two, three, five, six, and eight. In Portugal, they were numbers one, three, nine, and ten.

10.7.2 Advertising Agencies

Standing between the media company and a company's marketers is typically the advertising agency. A few companies do not use outside advertising agencies and have in-house ad departments, for example Calvin Klein, and Benetton. But the use of agencies is more common. Advertising agencies also provide services such as market research, design of a media plan, and its execution.⁹⁰ There are almost 15,000 ad agencies in America alone, but it requires scale to provide clients with integrated advertising and marketing communications services worldwide and across media. Thus, there has been a consolidation of agencies into very large companies. To preserve the creative advantages of smaller size and specialization, these “superagencies” own many smaller agencies. For example, with the boom of the internet, interactive ad agencies emerged, specializing in online marketing services, such as web design or internet advertising, and reaching internet users. Specialized agencies deal with online strategies, for example implementing search engine marketing to attract customers for its clients.⁹¹ Agencies create ads for their client and choose keywords related to the company, and use various techniques to optimize the hit rates and links with other websites, so that their client's website rises to the top of a search result.

Worldwide agencies have advantages, such as the ability to exploit good ideas on a global basis, maintain a consistent international brand and/or company image, and offer simplification of co-ordination and control. Most firms prefer the full-service agency; approximately 75% of all companies employ this type. But there are also drawbacks. For example, marketing a standardized media product the exact same way all over the world can be ineffective. Effectiveness in advertising is difficult in a cross-cultural context. Language is the most obvious limitation. For example, the Swedish maker of the vacuum cleaner Electrolux at some point came up with the slogan “Nothing sucks like an Electrolux,” clearly missing the US English's jargon.

The world's largest advertising agency groups are listed in **Table 10.1**.

Advertising agencies used to receive much of their income as a percentage of advertisement billing—usually 15%.⁹² If Omnicom billed at 15% of advertising volume and its advertising-based revenues are \$4.6 billion, this means that it placed advertising of about \$30 billion in various media. However, negotiated commissions can set a different rate, 10%, for example, or at a cost-plus basis, a set fee, or a

85 Belch, George E. and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*. 4th ed. New York: Irwin/McGraw-Hill, 1998.

86 Klemm, William R. “How Advertisers Get You To Remember Ads” *Psychology Today*. February 21, 2014. Last accessed July 6, 2017. ► <https://www.psychologytoday.com/blog/memory-medic/201402/how-advertisers-get-you-remember-ads>.

87 GroupM. “Top 20 US Advertisers, Ranked by Total Media Ad Spending, 2016.” *eMarketer.com*. September 8, 2017. Last Accessed June 26, 2018. ► <http://totalaccess.emarketer.com/chart.aspx?r=211847&ipauth=y>.

88 TNS Media Intelligence. “The Industry Forecast.” *AdWatch*. 2005.

89 Initially, broadcast networks were reluctant to run ads for shows featuring programming from rival networks, or to pay rivals for advertising time, but they do so increasingly. However, promotions that provide specific time and date of rival programs are typically still rejected by rival networks.

90 Belch, George E. and Michael A. Belch. *Advertising and Promotion*. New York: McGraw-Hill Irwin, 2001.

91 Moran, Mike and Bill Hunt. *Search Engine Marketing, Inc.: Driving Search Traffic to Your Company's Web Site*. Indianapolis: Prentice Hall Technical Reference, 2005.

92 Langley, Stephen. *Theatre Management and Production in America: Commercial, Stock, Resident, College, Community, and Presenting Organizations*. New York: Drama Book Publishers, 1990.

Table 10.1 World's largest advertising agencies by revenue (2017)

	Agency group	Revenue in \$ billion
1	WPP (UK)	19.7
2	Omnicom (USA)	15.3
3	Publicis (France)	11.4
4	Dentsu (Japan)	8.4
5	Interpublic (USA)	7.9
6	Havas (France)	2.5
7	Hakuhodo DY (Japan)	2.2

Source: Agency web pages

performance-based compensation. In the 1990s, fee-based models replaced commissions as the main compensation, accounting to 75% in 2010. Performance-based compensation, on the other hand, accounted for less than 1% of compensation agreements.

When it comes to retaining an advertising agency, a company usually invites several agencies to pitch a proposal. They are chosen based on their plan, its cost, their past record, and their fit. The advertiser gives its agency basic requirements and budget for an ad campaign. The agency then creates a strategy, produces the advertisements, buys time or space, and creates activities such as search engine optimization (SEO) and sponsored links.

10.7.3 How Much to Spend on Advertising?

One of the most important decisions a firm has to make is how large its advertising budget should be. This question is related to but different from the one on how to use that budget most effectively. A company must avoid overspending, which hurt profits, or underspending, which potentially weakens the product.⁹³

There are several approaches:⁹⁴

- resources available;
- percentage of sales;
- competitive parity;
- objectives/tasks;
- marginal analysis;
- return on investment;
- value of customer.

93 Martin, Reed. *The Reel Truth: Everything You Didn't Know You Need to Know About Making an Independent Film*. New York: Faber and Faber, Inc., 2009.

94 Cravens, David W., Gerald E Hills, and Robert B. Woodruff. *Marketing Management*. (Scarborough, ON: Irwin, 1987), 514–520.

10.7.3.1 Resources Available

The advertising budget is whatever the firm can afford in a given year. However, this means that in a good year money would be wasted through overgenerous advertising spending, while in a bad year the low advertising budget would exacerbate problems.

10.7.3.2 Percentage of Sales

This approach may provide a simple rule of thumb, but letting the level of sales determine advertising dollars reverses the cause-and-effect relationship between advertising and sales. Advertising is an investment to grow sales, not the other way around.⁹⁵ The approach is also inflexible: often, the percentage should be raised when sales are dipping. Many general and trade publishers rely on a rule-of-thumb formula of allocating 5% of a published book's retail price to its marketing and promotion. Specific promotional budgets are often based on a book's anticipated revenue. This formula means a marketing budget of about 10% of a publisher's revenues. For smaller educational or academic publishers, the marketing budget is lower and between 6% and 10%.⁹⁶ For theater, one analysis found that for commercial Broadway shows, advertising accounts for 23.5% of a production's budget costs or \$469,000; for commercial off-Broadway theater, 27.6% or \$165,000; and for non-profit off-Broadway 26.1% or \$57,300.⁹⁷

10.7.3.3 Competitive Parity

Firms match one another's advertising budgets. Companies therefore often subscribe to services such as competitive media reporting, which estimates the top 1000 companies' advertising in ten media and in total. Market intelligence firms record firms' advertising presence in various media and extrapolate their spending from such data. While this has some usefulness, companies' marketing situations and strategies are rarely similarly situated. For example, Charter Cable and the satellite broadcaster Dish Network are direct rivals for multichannel TV subscribers. In 2017, Dish had 13.5 million subscribers,⁹⁸ and Charter, after a merger with Time Warner, had 17.1 million.⁹⁹ But should they spend roughly the same on advertising? Charter/Time Warner Cable is an established cable firm and its reputation is established with customers. All it had to do was to keep its customers from defecting. In contrast, Dish's reputation was still developing, and most new customers had to be persuaded to switch away

95 Belch, George E. and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*. 4th ed. New York: Irwin/McGraw-Hill, 1998.

96 Zell, Hans M. *Book Marketing and Promotion: A Handbook of Good Practice*. Oxford: INASP, 2001.

97 Brown, Tony. "Wonderful Town: The Future of Theater in New York." *National Arts Journalism Program*, Columbia University, 2002.

98 Tartaglione, Nancy. "Dish Network Q1 Earnings Fall 6% on 143K Pay-TV Subscriber Attrition." *Deadline Hollywood*. May 1, 2017. Last accessed July 6, 2017. ► <http://deadline.com/2017/05/dish-network-earnings-first-quarter-2017-subscriber-loss-1202080168/>.

99 Huddleston, Jr., Tom. "Netflix Has More U.S. Subscribers Than Cable TV." *Fortune*. June 15, 2017. Last accessed July 12, 2017. ► <http://fortune.com/2017/06/15/netflix-more-subscribers-than-cable/>

from cable. On the other hand, in rural areas unserved by cable, Dish has a much easier time to persuade people to subscribe. Moreover, Charter operated only in certain franchise regions whereas Dish was active nationwide. Charter's advertising must therefore be much more targeted geographically. Considering all of these factors, one can see that the parity approach is inconclusive.

10.7.3.4 Meeting Objectives

The fourth approach is to consider a firm's communications objectives and then identify the budget required to attain these goals. These objectives define communications tasks. These tasks should be measurable, with a target audience, the degree of change sought, and the time period for the objectives. For example, the objectives might be defined as creating among the target audience, over a time period of six months:

- awareness among 90%;
- interest in the brand among 70%;
- positive feelings about the brand among 40%;
- a preference among 25%.¹⁰⁰

A hypothetical illustration of the objectives approach is the promotion of a new film on national TV channels. The analysis proceeds in steps:

1. Define the desired target market:
 - Identify a potential target market for the film (e.g. 50 million people, or ~17% of the U.S. population);
 - Set a goal such as persuading 8% of the target market = 4 million people.
2. Estimate the number of advertising impressions needed to persuade each 1% of target population:
 - For example, assume that each single exposure to a TV advertising will persuade 2% of the target audience (two advertising exposures to get 4%, etc.);
 - This means, for an 8% audience, to generate four exposures of the target population of 50 million. The cost of reaching 1000 viewers (cost-per-mille, CPM), for the target audience, the CPM on TV is about \$50. To buy four ads that reach 50 million people costs hence four exposures × 50 million audience × \$ 50/1000 = \$10 million.

Thus the required budget to reach the objective is \$10 million. This assumes a clean fit of the programs chosen with the target audience—a highly optimistic assumption. If we assume that the TV ads also reach 25% of viewers who are of no real interest to the advertiser, the required budget would be \$12.5 million. Would that expenditure be worth its business impact? The distributor's objective is a 4 million audience × \$5.00 distribu-

tor share per ticket sold at box office. The expected revenues are hence \$20 million. This is more than the advertising cost of the campaign, which is \$12.5 million. But there are also other marketing and distribution costs. (There are, of course, also substantial production costs, but most of these are already "sunk" and hence not part of the decision process on a marketing budget.)¹⁰¹ Therefore, the revenues from aftermarkets would have to be substantial to make the film truly profitable.

10.7.3.5 Marginal Analysis Approach

One would model the optimal advertising budget to find the point where marginal expenditure equals marginal revenue. This model depends on the marginal productivity of advertising. This approach is the more sophisticated version of the objective and task approach.¹⁰² Firms formulate quantitative models to estimate consumer behavior. The models use statistical techniques such as multiple regression analysis to estimate the relative contribution of the advertising budget to sales performance.¹⁰³ They add behavioral and economic parameters and may make various assumptions.¹⁰⁴ These models, are, however, difficult to apply in real world situations owing to data scarcity.

A simple model might look like this:

$$S = \alpha A^\beta X^\gamma$$

- S: sales;
- A: advertising expenses;
- X: other factors, such as the state of the economy, the price of the product, etc.;
- α , β , γ are parameters.

If the exponent is small, for example, a factor of $\beta = 1/2$, the extra impact of advertising is declining; it is more powerful at the beginning, but has diminishing returns as it grows. The model can be more complex, with additional control variable, lagged timing, and so on, but the basic concept remains: the relationship of advertising and sales.

The problem with this approach is that it is difficult to isolate other influences on sales and identify exactly how much the advertising efforts have contributed to the marginal revenue value used in the analysis. However, if one has developed and estimated equations such as the one above and determined its coefficients one can take the first derivative with respect to A (advertising). It will be equal to 1 at the point where further advertising will cost more than it gains.

100 Belch, George E. and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*. 4th ed. New York: Irwin/McGraw-Hill, 1998.

101 The exceptions are variable costs such as profit participation.

102 Cravens, David W., Gerald E Hills, and Robert B. Woodruff. *Marketing Management*. (Scarborough, ON: Irwin, 1987), 514–520.

103 Belch, George E., and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*. 4th ed. New York: Irwin/McGraw-Hill, 1998.

104 For example, they assume that a company's advertising attracts customers probabilistically, that consumers choose only one of the companies based on the ads viewed, and only at the advertised price.

■ **Table 10.2** Impact of advertising budget (schematic)

Advertising expenditure (\$)	Marginal costs (\$)	Net sales revenue (\$)	Marginal revenue (\$)	Total profit (\$)	Marginal profit (\$)
450,000	50,000	400,000	+100,000	−50,000	+50,000
500,000	50,000	550,000	+150,000	+50,000	+100,000
550,000	50,000	770,000	+220,000	+220,000	+170,000
600,000	50,000	880,000	+110,000	+280,000	+60,000
650,000	50,000	950,000	+70,000	+300,000	+2000
700,000	50,000	980,000	+30,000	+280,000	−2000

Usually there are not enough data points for an estimation of this type and must resort to some numbers based on experience and past history.¹⁰⁵

A numeric example follows.

In ■ Table 10.2, optimal advertising expenditure is calculated by comparing the marginal revenue (fourth column) with marginal cost (second column). Doing so results in the observation that additional advertising adds to profit until a budget level of \$650,000 is reached.

10.7.3.6 The Return On Investment (ROI) Approach

This approach involves expanding the impact of advertising into financial valuation. Advertising can be considered an investment, like plants and equipment. A dollar invested today in advertising has a long-term impact, which can be valued by the net present value method and the related ROI. In practice, however, it is difficult to calculate the returns on advertising in the short term, let alone the future impact.¹⁰⁶ A different approach evaluates the profitability of many companies in an industry and relates it to their advertising spend. This enables an estimation of the advertising ROI for an industry, or product category, or market type. The estimation would adjust for a variety of factors, such as the nature of competition in that market.

Such an approach is part of marketing engineering (ME) and marketing management support systems (MMSS).¹⁰⁷ ME is used, in particular, to design online marketing systems where the volume is substantial and much is done automatically by computers. It factors into analytical models variables such as the capacity parameters of the information

technology (IT) infrastructure, the market structure for the product, and the company's business model.

10.7.4 Valuing Customers

One tool companies use to evaluate the profitability of investments in marketing is to establish a customer's "lifetime value" (CLV). In 1999, AT&T paid almost \$4200 per subscriber to buy the cable companies TCI and MediaOne. Deutsche Telekom spent \$6000 per customer to buy Britain's One2One mobile wireless company. Gaining or losing a customer hence makes a big financial difference. The CLV is the present value of all future profits that a company can potentially generate from a customer. It is similar to a discounted cash flow of the revenues coming in from the customer, though it also accounts for customer retention or loyalty. The formula for the CLV is each year's profit from that customer (which may include the multiplier effect from that customer's WOM promotion, plus the value of that customer to advertisers), discounted for the value of money in the future and adjusted for the probability of losing that customer (churn). From that, one must subtract the cost of gaining the customer in the first place. If one assumes for simplicity that the profit margin is the same each year, and continues for a long time, then the CLV can be approximated by the formula

$$CLV = M \frac{R}{1 + I - R} - AC$$

- CLV: customer lifetime value;
- M = margin (profit) per sale;
- I = discount rate;
- R = retention rate;
- AC = acquisition cost.

The firm would invest in customer acquisition up to the value of the lifetime value of the acquired customer. This maximum investment in customer acquisition is:

¹⁰⁵ Cravens, David W., Gerald E. Hills, and Robert B. Woodruff. *Marketing Management*. (Scarborough, ON: Irwin, 1987), 514–552.

¹⁰⁶ Belch, George E., and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*. 4th ed. New York: Irwin/McGraw-Hill, 1998.

¹⁰⁷ Lilien, L. Gary and Arvind Rangaswamy. "Marketing Decision Support Models. The Marketing Engineering approach." *The Handbook of Marketing Research: Uses, Misuses, and Future*. 2004. Last accessed July 6, 2017. ► <http://books.google.com/books?id=RymGgxN3zD4C&printsec=frontcover&sig=QSYKx2Lul8qx203m3Mgl85UJ4Q0#PPA233,M1>.

- higher with higher retention rate R ;
- higher with higher margin M ;
- higher with a lower discount rate (e.g. with lower risk).¹⁰⁸

Marketers sometimes spend all of their budget on winning the customer, and view follow-on promotions as secondary. Yet customer churn is a main cost element and source of revenue loss. For example, for mobile telecom companies the greatest cost in new customer acquisition is an upfront hardware subsidy. It might well be cheaper to raise retention R (lower churn rate of existing customers) through loyalty programs than to acquire new customers (AC).

The firm needs to determine the revenue value of a new subscriber. If that number is limited to the direct profit generated from a subscription it is likely to be an understatement. It would exclude the network effects that are generated through WOM.¹⁰⁹ A new customer generates still more customers. This factor could be readily incorporated into a model, based on certain assumptions about the multiplier effect.

We have now discussed several ways in which to analyze the overall size of an advertising and marketing budget. It should be noted that the optimal budget is not a static

number. For example, it depends on the effectiveness of advertising which may change over time. The rule of thumb in the magazine industry that it takes a minimum of five pages of advertising in a given magazine in a given year to have an impact on a reader.¹¹⁰ That number has been creeping up because of an “advertising spiral.” Consumers ignore advertising because there is more and more of it, and therefore advertisers must expose them to still more ads to generate an impression. The greater supply of media—channels, webpages, apps, and devices—raise the supply advertising inventory and lower its price, increasing it still further and creating clutter.¹¹¹ This means that their quantity and intensity must rise for a campaign to be successful, and it then creates an arms race of aggressive advertising that alienates consumers.¹¹²

Thus advertisements on the internet have decreased continuously in effectiveness in terms of a “conversion rate” because of the growing quantity and loss of novelty. There has been a falling per-user value, per-user revenue, and click-through rates (CTRs). New approaches, especially individualization, better targeting, and virtual reality experiences might improve this, but they are not cheap to implement.

10.7.5 Case Discussion

Condé Nast *Fly & Sky*—How Much Should Condé Nast Spend on a Marketing Effort to Gain a Subscriber?

Customer Lifetime Value (CLV) = CLV
 $= M \times R / (1 + I - R)$ minus acquisition cost

- Margin (M): annual profit per customer (profit = revenue – cost);
- retention rate (R): percentage of customers estimated to renew subscription with *Fly & Sky*;
- discount rate (I): a percentage to account for time value of money of future revenue.
- Acquisition cost (AC) to gain customers.

The calculation of the profit margin

- subscription revenue per year per subscriber = \$20;
- estimated annual revenue of advertising per subscriber = \$10.80;
- estimated annual cost per subscriber (print and mailing, excluding marketing costs): \$8.80;
- margin = $20 + 10.80 - 8.80 = 22$;

The number of subscribers who renew is 90%, which means that the average subscriber is expected to stay on for about 10 years.

Consumer's lifetime value can be calculated, using the discount rate $I = 12\%$.

$$\begin{aligned} \text{CLV} &= M \times 1 / (1 + I - R) - \text{AC} \\ &= 22 \times 1 / (1 + .12 - .90) - \text{AC} \\ &= \$100 - \text{AC} \end{aligned}$$

Thus Condé Nast should not spend more than \$90 to acquire a new subscriber, and possibly less if the marginal effect of spending is low. If retention rate, however, was 55%, then CLV would drop to about \$38.60 and with it the spending to gain such a customer.

10.7.6 The Media Marketing Mix

The preceding section dealt with how to set an advertising budget. The next question is how to allocate that budget; firms must decide how to divide their funds among different media (TV, online, print, etc.), and then within each medium (which radio station, television station, etc.).

Different media types vary in effectiveness and price. Each platform has its own advantage and drawbacks. Each medium has its particular features, along dimensions of

Journal of Marketing Research 45, no. 1 (February 2008): 48–59.

110 Worthington, Shari. “Advertising Reach vs Frequency vs Cost Per Impression, or Should You Just Send in the Salesperson?” *Nelson Publishing*. Last accessed December 15, 2012. ► www.nelsonpub.com/marketing/CN/Advertising-Reach-vs-Frequency.pdf.

111 Stokes, Rob. “EMarketing: The Essential Guide to Online Marketing, v. 1.0.” *Flat World Knowledge*. July 11, 2013. Last accessed July 12, 2017. ► http://catalog.flatworldknowledge.com/bookhub/reader/19?e=fwk-105454-ch03_s08.

112 Brookins, Miranda. “Disadvantages of Online Advertising Options.” *Small Business*. Last accessed July 7, 2017. ► <http://smallbusiness.chron.com/disadvantages-online-advertising-options-10212.html>.

108 Best, Roger. *Market-Based Management*. Hoboken: Prentice Hall, 2012.

109 Villanueva, Julian, Shijin Yoo, and Dominique M. Hanssens. “The Impact of Marketing-Induced Versus Word-of-Mouth Customer Acquisition on Customer Equity Growth.”

- sensory involvement and intensity;
- interactivity and ease of response;
- targetability;
- cost.

Magazine advertising is a good information vehicle that is creative and can target specific groups effectively. But there is a time lag, with ads often requiring months of lead time.

Newspaper advertising is useful for geographic targeting, but while it reaches a broad local audience it tends to be costly. At the *New York Times*, a black-and-white full-page ad costs \$204,251 on Sunday. The high price was based on market power for local ads. Over 90% of daily US papers are the only daily papers published in their markets. The use of local newspapers for national advertising declined from 25% of newspaper ad revenues in 1980 to under 5% in 2012.¹¹³ Classified ads make up a major share of advertising for newspapers. But websites such as Craigslist, as well as free-distribution newspapers, have made significant inroads into the newspaper local ad revenues. Local business ads have been the major economic base of newspapers but these, too, have been eroding with the growth of national retail chains such as Walmart or Home Depot, which have “permanent sales” or use national TV and cable TV to advertise nationally rather than through local papers in the way that the mom and pop stores do.

Even so, it has been argued that newspaper ads generate a lot of bang for the buck. Whereas consumers try to avoid advertising in TV, radio, and online, and are often willing to pay extra to avoid ads, newspaper readers actually welcome ads.¹¹⁴ Moreover, the older demographics of newspapers have some advantages, too, since they tend to have more money than young cohorts. Thus, the film studio Miramax, whose movies target an older, more affluent, and better educated audience, uses newspapers more than other studios. In contrast, Sony, with a lot of action films, allocated only a small share (11.5%) of its marketing budget to newspapers.¹¹⁵

Display Advertising Outdoor/indoor displays such as billboards are good for reinforcing an image but they can only fit limited information owing to a small space and attention time. Three to five words are the most effective, and eight words is the maximum. Outdoor advertising is expensive on a pay-per-viewer basis.¹¹⁶ Outside of providing local information, billboards are not sufficient to generate sales but are used to reinforce an image.

113 Olmstead, Kenneth. “Newspapers: By the Numbers.” *State of the Media*. March 17, 2013. Last accessed July 6, 2017. ► <http://www.stateofthemedial.org/2013/newspapers-stabilizing-but-still-threatened/newspapers-by-the-numbers/>.

114 Elliot, Stuart. “Working to Sell Advertisers on Newspapers and Magazines.” *New York Times*. February 15, 2006. Last accessed July 12, 2017. ► <http://www.nytimes.com/2006/02/15/business/media/15adco.html?ex=1149739200&en=57b13135437d4560&ei=5070>

115 Galloway, Stephen. “Movies & the media.” *The Hollywood Reporter*. July 1, 2006. Last accessed July 6, 2017. ► <http://www.hollywoodreporter.com/news/movies-amp-media-138395>.

116 Newton, Gregory D. *Media Promotion and Marketing for Broadcasting, Cable and the Internet*. (Boston: Focal Press, 2006), 47.

Table 10.3 CPM per 30-second spot of top TV shows

Program	CPM per 30 second spot
<i>Big Bang Theory</i> (CBS)	\$14.74
<i>Two and a Half Men</i> (CBS)	\$16.17
<i>The Good Wife</i> (CBS)	\$7.63
<i>Survivor</i> first season finale (CBS)	\$19.34
<i>Seinfeld</i> finale (NBC)	\$26.32

Radio has the benefit of a relatively wide audience and geographic selectivity and can generate a sense of localism. Its special selling point is mobility and the ability to reach people on the move. Radio spots are much cheaper than those on TV and can be highly targeted. The drawbacks, however, are that the radio medium often only gets divided attention, and that its younger audience cohorts are shrinking.

Television advertising has both a national and local reach and is effective in persuasion, but, like newspapers, it is expensive, especially for national networks with a country-wide reach. Advertising on national television has advantages by giving a product or service credibility and prominence. But this comes at a cost. On the production end, national TV network audiences have come to expect quality commercials.¹¹⁷ The production costs of an average 30-second TV commercial are well over \$300,000.¹¹⁸ Second, the cost of distributing the ad itself is high. An ad on primetime on *American Idol* costs up to \$700,000 for a 30 second ad.¹¹⁹ *Super Bowl* ads cost between \$4 and \$8 million per 30 second spot.¹²⁰ More typical prices were, for 2014, *Big Bang Theory* (CBS) \$344,827, *Two and a Half Men* (CBS) \$147,140, *New Girl* (Fox) \$187,050, and *The Good Wife* (CBS) \$87,210. National TV spots on the final episode of “*Survivor*” sold for \$1 million and on the final episode of *Seinfeld* sold for \$2 million. But, of course, the size of the audiences reached varied. It is therefore most useful to compare the cost for reaching 1000 people, the CPM (Table 10.3). These ranged from \$7.63 for *The Good Wife* to \$26.32 for the *Seinfeld* series finale.

Online Media Advertising on the internet will be discussed further below.

117 Bruneau, Edmond A. *Advertising*. Washington DC: U.S. Small Business Administration, 1989.

118 Hewitt, Derek. “Op-Ed: What Price Online TV Commercials?” *IMedia Connection*. Last accessed July 6, 2017. ► <http://www.imediaconnection.com/articles/ported-articles/red-dot-articles/2004/dec/op-ed-what-price-online-tv-commercials/>.

119 Seidman, Robert. “30 Second Ad Cost for Broadcast Primetime Shows.” *TV by the Numbers*. September 30, 2007. Last accessed July 6, 2017. ► <http://tvbythenumbers.zap2it.com/2007/09/30/30-second-ad-cost-for-broadcast-primetime-shows/962/>.

120 Forbes. “Yes, A Super Bowl Ad Really is Worth \$4 Million.” January 29, 2014. Last accessed July 6, 2017. ► <http://www.forbes.com/sites/onmarketing/2014/01/29/yes-a-super-bowl-ad-really-is-worth-4-million/>.

10.7.7 The Optimal Mix of Marketing Activities

Advertisers will usually diversify the media in which they advertise. In 2003, the Hollywood studios allocated only 1.3% of their marketing spend toward internet advertising, but 60% on TV, 25% on print, 5% on radio, and 3% on outdoor.¹²¹ By 2016, TV still dominated the movie marketing budget, with most big budget films spending 70% or more on TV. In contrast, print radio, and outdoor dropped, and TV, while the internet gained.¹²² For some films, advertising spending on the internet was as high as 50% of the marketing budget.¹²³ In 2013 McDonald's spent 78% of its \$988 million advertising budget on television advertising (\$770 million).¹²⁴ The question is what the optimal media mix is for a company, and within marketing activities. How would one approach this question?

Figure 10.6 depicts conceptually how to analyze the question for the productivity of three different advertising media in generating sales revenues. It shows the sales revenue and the cost of advertising. When there is no advertising at all, sales are at a low-level A. It is not a zero because even in the absence of advertising there will be some WOM, possible press coverage, and so on. How much ad spend should go to newspapers? One might think that B is the optimizing point for that medium, because at that point advertising spending equals the sales revenue. But that would be incorrect. At B the incremental revenue generated by an extra \$1 of advertising is less than \$1, as can be seen by the slope of the newspaper line.

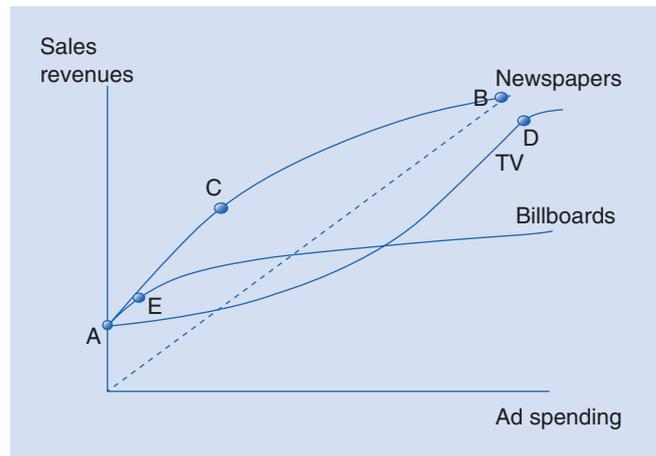


Fig. 10.6 Sales impact of ad spending in different allocation of advertising among media

The optimal point lies at C, where that slope is at a 45-degree angle, meaning that an added \$1 of expense generates an added \$1 in revenues. Similarly, for TV advertising, the optimizing point is D. On the other hand, for billboards the revenues generated exceed, at the margin, the cost of advertising only at a very low level (E). Thus, the optimal advertising mix for the product is to spend C on newspapers and D on TV. (We have assumed, for simplicity, that the different media do not affect each other's impact. This assumption can be relaxed, with an advertising production function calculated for a particular medium, given spending X by other media.)

10.7.8 Case Discussion

What are the Most Effective Ways to Market *Fly & Sky*?

A marketing budget buys impressions, but impressions are not created equal. The number of sales made based on a marketing impression is known as the conversion rate. If fifty people subscribe out of 1000 reached, the conversion rate is 5%.

In Table 10.4, the first column shows the cost per impression, according to the type of marketing activity. (All numbers are hypothetical.) TV, for example, costs \$44, whereas radio costs \$20 and direct mail \$75. However, media and marketing activities differ in impact. First, the probability of the particular marketing approach to reach the target audience

vary. The probabilities are listed in column 2. For example, it is 20% for TV and 50% for Condé Nast's own magazines. The better fit the medium has to the target audience, the higher the percentage. One can now calculate the CPM of reached target audience. That cost would be, for TV \$220, and for billboards \$75.

The second factor is the "conversion rate." How many sales does an impression generate? Column 4 provides the conversion rate, per million, of an ad impression to result in a sale. Thus, for TV impressions it is assumed to be 1; for WOM and for price promotions, it is 2, and so on. This now permits the calculation of the

marketing cost, before overhead, of a sale. These figures are provided in the right-most column. The lowest cost per sale is by using Condé Nast's own magazines (\$40), followed by online advertising (\$66.6), and WOM/publicity (\$83.75). Most of the other media and marketing approaches are considerably more expensive. In addition, we have earlier found that the CLV of a subscriber to *Fly & Sky* is \$100 before acquisition costs. Thus, it would not make sense to invest more than that amount to gain a subscriber. If Condé Nast wants to use the most price-effective way of generating sales, it would stick to promotion in its own

121 Sweney, Mark. "Online ad spend set to double" *The Guardian*. July 12, 2007. Last accessed July 6, 2017. ► <https://www.theguardian.com/media/2007/jul/12/advertising>.

122 Rainey, James. "The Perils of Promotion: Pricy TV Campaigns, Fear of Change Shackles Movie Spending." *Variety*. March 8, 2016. Last accessed July 6, 2017. ► <http://variety.com/2016/film/features/movie-marketing-advertising-tv-campaigns-1201724468/>.

123 Kapko, Matt. "Why Facebook is Key to Sony's Movie Marketing." *CIO*. January 10, 2017. Last accessed July 6, 2017. ► <http://www.cio.com/article/3155960/marketing/why-facebook-is-key-to-sonys-movie-marketing.html>.

124 Rudd Center for Food Policy and Obesity. *Fast Food FACTS*. New Haven: Yale University, Rudd Center for Food Policy and Obesity, 2010.

magazines. If it wants to diversify its approach somewhat and reach beyond its core audiences, it would also include online advertising and WOM/publicity. In addition, one must consider that the productivity of additional marketing expenses declines somewhat. If one assumes that the “conversion productivity” of a marketing activity for *Fly & Sky*

declines, for each additional increment of \$100,000 in marketing spend, by 20%, then the cost per sale for Condé Nast in-house magazines would rise for the second increment by 20% to \$48, for the third increment to \$57.6, and for the third one to about \$70. At that point, it would be more cost effective to add online advertising to the marketing plan, at \$66.6 per sale

generated. Similarly, after that online advertising is increased, its third increment would become less cost effective than WOM/publicity at \$83.75. By the numbers provided, the ratio of spending for the three marketing approaches would be 5:2:1, for a total of \$800,000. Beyond those budgets, the return on marketing activities would be negative.

■ **Table 10.4** The cost-effectiveness of different marketing activities (schematic)

Marketing activity	Cost per 1000 impressions (\$)	Average probability of reaching target audience of selected outlets (%)	Cost per reach of 1000 target audience (\$)	Conversion rate per 1000 impression	Media cost per sale (%)
Newspapers	50	20	250	1	250
Condé Nast magazines	40	50	80	2	40
Other magazines	90	80	112.5	1	112.5
TV	44	20	220	0.5	440
Radio	20	15	133.3	0.5	266.7
Online	10	30	33.3	0.5	66.6
Product placement	1	5	200	0.2	1000
Billboards	15	20	75	0.1	750
WOM/publicity	33.5	20	167.5	2	83.75
Direct mail	75	20	375	0.1	3750
Event sponsor	71	20	355	1	355
Price promotion	74	20	370	2	185

10.7.9 Allocation Within a Media and Marketing Category

Within a medium, a company must allocate its budget to the most effective advertising platforms. Suppose, for example, that a company is trying to determine which magazine to choose for aerobic ads. It considers the following options (■ Table 10.5; numbers are hypothetical):

Shape, *Track and Field*, *Seventeen Magazine*, and *Rolling Stone* have the highest circulation and reach the most people. Should they be the preferred vehicles for the advertisements? For targeting the aerobics users, *Seventeen Magazine*, *Shape*, and *Rolling Stone* have the highest reach in absolute numbers.¹²⁵

Track and Field reaches fewer such aerobics users, and *Scientific American* has one of the highest percentage of its readers as potential aerobics users. *Shape* does not match such a reach among the target audience. If we look at the best fit—the percentage of readers who are aerobics users—the top performers are *Vanity Fair*, *Rolling Stone*, *Scientific American*, and *Seventeen*. These magazines seem to be the most efficient advertising vehicles. But one must also consider the cost. This depends on the price of an ad per thousand (CPM) charged by the magazine’s publisher. When cost is considered, the best buys are *Seventeen* (\$1.06 per aerobics user reached), *Vanity Fair* (\$1.36), and *Rolling Stone* (\$1.99). *Shape* is not in the top three.

125 Belch, George E. and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*. 4th ed. New York: Irwin/McGraw-Hill, 1998.

■ **Table 10.5** Cost-effectiveness of magazines in advertising to aerobics users (schematic)

Magazine	Total circulation 2017	Aerobics users	% Aerobics users	Cost per 1000 impressions(\$)	Cost per reaching aerobics user (\$)
<i>Road & Track</i>	1,100,000	21,000	1.9	219.44	\$6.27
<i>Rolling Stone</i>	1,450,000	117,450	8.1	160.88	\$1.99
<i>Scientific American</i>	350,000	26,250	7.5	171.31	\$2.28
<i>Seventeen</i>	2000,000	146,000	7.3	77.24	\$1.06
<i>Shape</i>	2,500,000	130,000	5.2	129.20	\$2.48
<i>Sports Afield</i>	43,000	1161	2.7	108.14	\$4.01
<i>Sports Illustrated</i>	1,000,000	48,000	4.8	370.50	\$7.72
<i>Vanity Fair</i>	1,175,000	173,900	14.8	200.55	\$1.36

10.7.10 Case Discussion

Condé Nast *Fly & Sky*—How Should Condé Nast Allocate Spending Within Marketing Approaches?

Earlier, we identified that the three most effective marketing approaches for Condé Nast would be to advertise in its own magazines; subsequently to add online advertising; and then to add WOM/publicity. We estimated an overall budget of \$800,000. Within each of these categories there are multiple options. To determine the sub-options, a similar optimization analysis would take place.

1. In-house magazines. Condé Nast is considering three of its magazines. Assume that the number of impressions required for a positive response (the conversion rate) is the same for each magazine, and its value is 2/1000 as used earlier (■ Table 10.6). The cost to generate a sale is lowest by using *Traveler Magazine*.
2. Online sites. Assume three possible online sites, also with an equal conver-

sion rate, of 0.5/1000 as used earlier (■ Table 10.7). The webpage EAAirVenture Airshows costs the least to reach a member of the target audience.

3. WOM/publicity. Condé Nast is considering three possible approaches. Their conversion rate is 2/1000 (■ Table 10.8). The most cost-effective way to generate as sale through a publicity activity is a tour by famous pilots.

In conclusion, it can be seen that the marketing mix to promote *Fly & Sky* would consist of Condé Nast's own magazine *GQ*, the EAA AirVenture webpage, and the publicity generated by famous pilots on tour.¹²⁶

As we can see, the number of variables and options is large. To assist marketers, computer optimization models have been

created as media planning tools; such models have been around since at least 1963 and took off after 2005. They incorporate information about the audiences of each advertising vehicle, such as its size, the cost of generating such exposure, and the impact. Beyond the analytics, the models help to implement their findings operationally: they select media outlets, help schedule the exposure, and guide early buys of advertising space and time slots to reduce cost.

A variety of strategic parameters must be set. For example, there is a choice between reach and frequency. Given a limited budget, advertisers must decide whether to have the message seen or heard by more people (reach) or by fewer people but more often (frequency). Such tradeoffs are part of the optimization models.^{127, 128}

126 If we assume a declining conversion rate with rising budget for that particular media outlet, the calculation could be further refined.

127 Words of caution: there are several problems with quantitative modeling. First, it is based on past behavior and data. Second, it is difficult to predict people's responses to any stimulus.

128 Examples of media mix models are those of ADplus, Adware, Media Control, Media Management Plus, Mediabuy Telmar, Tvscan, and Nielsen.

Table 10.6 Cost-effectiveness of Conde Nast sister magazines as advertising platform (schematic)

Magazine	Cost per 1000 impressions (\$)	Reach in target population (%)	Cost to Reach 1000 persons in target audience (\$)	Marketing cost of sale (\$)
<i>GQ</i>	60	60	100	50
<i>Golf Digest</i>	30	50	60	30
<i>Traveler</i>	20	40	50	25

Table 10.7 Cost-effectiveness of online platforms (schematic)

Online Site	Cost per 1000 Impressions (\$)	Reach of target population (%)	Cost to reach 1000 persons in target audience (\$)	Cost of sale (\$)
NASA webpages	15	25	60	120
EAA AirVenture airshow web page	10	45	22	44
Airliners.net forum	25	20	125	250

Table 10.8 Cost-effectiveness of publicity activities (schematic)

Method	Cost per impression (\$)	Reach of target population (%)	Cost to reach 1000 persons in target audience (\$)	Cost of sale (\$)
Famous pilot road tour	70	50	140	70
Press release	30	15	195	97.7
YouTube video	75	35	214	107

10.8 Promotion to Advertisers, Retailers, and Distributors

Media companies must usually market to various intermediaries. Book publishers deal with wholesalers, book clubs, and retail chains. Film studios deal with theater circuits, TV networks, and cable channels. Music labels deal with retail chains, department stores, and online music download sites. Television networks sell ad space to advertisers. Syndicators allocate much of their promotion budget toward selling their programs to stations rather than promoting their programs to

the public.¹²⁹ In promoting their products to such intermediaries, media companies engage in what has come to be more generally known as business-to-business (B2B) marketing.

B2B marketing strategies are different from business-to-consumer (B2C) strategies in a number of ways. For example, B2B marketing often uses personal relationships and

¹²⁹ Ferguson, Douglas and William Adams. "Local Television Promotion: News, Syndication, and Sales." In *Media Promotion and Marketing for Broadcasting, Cable and the Internet*. Eds. Susan Tyler Eastman, Douglas Ferguson, and Robert Klein. (Boston: Focal Press, 2006), 88.

connections as a selling tool.¹³⁰ Developing these relationships is a long-term investment. Even relatively simple transactions such as the sale of an advertisement may take a year: establishing a relationship, making the pitch, negotiating a deal, and implementing it. The internet has accelerated this considerably (see the discussion below), but the human element had not vanished. Such personal relationship building is not common in B2C because the marketing executives do not have a personal relationship with the large consumer base, nor could they realistically sustain it. B2B is a repeat business with frequent transactions, which tends to keep both sides seeking co-operation and trust. And while this is often also the case for consumer transactions, both sides have less stake in the relationship and act accordingly. B2B marketing also tends to focus on more complex products and systems, whereas B2C strategies are relatively simple for the general public to understand.

10.8.1 Promotion to Advertisers

Media based on advertisements must “sell” themselves to advertisers such as local retailers, national brands, and advertising agencies. To do this, media companies must create an internal organization or hire outside contractors. The head of promotion to the advertisers has a title such as director or VP for advertising sales, or media director. The person with the task to persuade specific prospects to buy advertising space or spots is called an account executive. She deals with the “buy side” of advertising agency managers who hold titles such as media director, media buyer, or media co-ordinator. Account executive salaries are usually paid a flat rate (“draw”) plus a commission on their ad sales—for radio and cable about 15%, for TV where prices are much higher, 7–15%.¹³¹

The advertising sales director’s responsibilities include developing a short-term sales strategy for the firm, managing the sales operation (including hiring, firing, training, compensation, relationships with clients and agencies, relations with independent sales representatives). They also include the creation of sales tools such as major presentations for salespeople, promotion material, special event planning, and recommendations for marketing research projects.¹³²

The advertising sales directors, along with the publisher and the CMO, is responsible for developing the promotion campaigns for the media company. They must make an accurate estimate of the expected advertising revenue. The level of spending in all of the company’s departments and its profit or loss is dependent on this revenue estimate, which is thus highly important. They also have to develop a budget for her tasks.

A media company will promote itself as an advertising platform in a wholesale fashion through marketing as a product itself to create awareness. For example, cable channels put ads in trade magazines such as *Advertising Age* to reach advertisers and media planners. Even more important, however, is the personal sales pitch to potential advertisers.¹³³ Companies hire independent sales representatives for markets where their sales or potential do not justify a full-time sales employee. These independent reps receive a commission of about 10–20%,¹³⁴ and typically must pay their own expenses. They tend to be experienced and come with substantial contacts in the particular market. They may work for several media companies, at times even competitors. There are also advertising brokers who buy large numbers of spots at discounted prices from stations and resell them.¹³⁵

Classically, for a media company to develop its advertising sales involves several basic steps (we will later discuss the impact of the internet on this process):

- finding a prospective buyer;
- learning about what the prospective buyer, its business, its customers, competitors, strategy, performance, and needs;
- establishing a relationship;
- providing the prospect with a proposal, featuring benefits and costs;
- engaging in negotiations, close the deal;
- delivering, evaluating, and following up.

In other cases, the initiative comes from the buyer, that is, the advertiser. An advertising agency might solicit a request for proposals for a package of magazines or shows for a client. The media company then responds with a proposal that details the number of slots, the programs and why they would work for the client, the air dates, and the price for the package. The network and the advertiser then negotiate on the CPM (households or viewers), the package price, and on the list of shows and dates.¹³⁶ In the past, the time needed to sell an ad to a new advertiser and then see it through might have been a year or even longer.¹³⁷ With the internet and ad-services (such as Google), this process can be depersonalized, automated, and can take place almost instantly. The internet also makes direct auctions possible. To link advertising sellers and buyers, the auction site eBay created a platform that allows cable networks to confidentially bid on the advertising needs of agencies through a system of reverse auction.

130 Brennan, Ross, Louise Canning, and Raymond McDowell. *Business to Business Marketing*, California: SAGE Publications Inc., 2007.

131 Smith, F. Leslie, John W. Wright II, David H. Ostroff. *Perspectives on Radio and Television*, 4th ed. New York: Taylor & Francis, 1998.

132 Daly, Charles P., Patrick Henry, and Ellen Ryder. *The Magazine Publishing Industry*. Needham Heights, MA: Allyn & Bacon, 1997.

133 Ferguson, Douglas A. and Robert A. Klein, “Media Promotion and Marketing.” In *Media Promotion and Marketing for Broadcasting Cable and the Internet*. Eds. Susan Tyler Eastman, Douglas Ferguson, and Robert Klein. (Boston: Focal Press, 2006), 214.

134 Daly, Charles P., Patrick Henry, and Ellen Ryder. *The Magazine Publishing Industry*. Needham Heights, MA: Allyn & Bacon, 1997.

135 Smith, F. Leslie, John W. Wright II, David H. Ostroff. *Perspectives on Radio and Television*, 4th ed. New York: Taylor & Francis, 1998.

136 Blumenthal, Howard J. and Oliver R. Goodenough. *This Business of Television*, 4th ed. (New York: Billboard Books, 2006), 421.

137 Woodard, Cheryl. “Advertising Sales Process for Magazine Publishers...in a Nutshell.” *MagazineLaunch.com*. February 14, 2005. Last accessed July 16, 2012. ► <http://www.magazinelaunch.com/article/articles/49/1/The-Advertising-Sales-Process-for-Magazine-Publishers...in-a-Nutshell>.

Normally, the media company will list its prices on a rate card. It may also detail deadlines, policies, additional fees, and artwork requirements.¹³⁸ For the *New York Times*, a black-and-white full-page ad costs, in 2016, \$178,633 (or \$204,251 as part of the Sunday edition).¹³⁹ That year, the daily print circulation was 590,000 and the Sunday circulation was 1.1 million.¹⁴⁰

Against this rate card, discounts are offered in return for an advertising commitment to a certain number of ads within a specified time period, which is called a bulk space contract.¹⁴¹ Prices tend to be negotiable. The network and advertiser negotiate on the CPM (for households or viewers) and the list of shows, dates, and expected rates. The larger the advertisers' commitment, the better the terms of the deal.

Some cable channels, such as The Cartoon Network, create complete marketing packages that they sell to advertisers that go beyond regular TV advertising; these include events, promotions, and online activity, for example.¹⁴² They may also offer package deals. For example, ESPN presents a bundle of spots across its multiple networks, its websites, and magazine. Companies can also form partnerships with other media such as cable, newspapers, or radio to offer multimedia bundles.¹⁴³

Selling media space is not the end of the effort. The media company needs to demonstrate to the advertiser that its advertising spend has been effective.¹⁴⁴ To do so the media company measures the audiences reached and the impact produced.¹⁴⁵

10.8.2 Types of Ads Available

The product sold by media companies—advertising time or space—comes in many varieties. For newspapers, ad space has different sizes, placement location, and color arrangements. Ads are sold by column-inch, with quantity discounts. Other newspaper offerings to advertisers are preprinted sections inserted into the paper that can be microzoned locally. Some online papers sell upfront blocks of their advertisements, as TV networks do. Film distributors, for example, can purchase big blocks of online advertisements well in advance. For example, Fox Searchlight has a long-term

contract with the online edition of the *New York Times* in which they keep the same space but rotate ads. For television, many different types of advertising services are offered, such as sponsorship of an entire program, local ads, national ads, advance buying (“upfronts”), last minute (“spots”), exclusivity by category, and much more. The big networks and channels will typically try to do upfront deals with large advertisers. Smaller channels try to sell their ad space to anyone, any time.¹⁴⁶ National TV networks seek national advertising clients for national exposure. This is attractive to a mass-marketer who wants to reach a large part of the country simultaneously. An “avail” is an available space for a TV commercial. The “inventory” is the sum of avails. The “sell-out rate” is the point at which the inventory is depleted, around 85%.¹⁴⁷ A 30-second avail is standard, a 60-second costs about double the price, but a 10-second ad is about 50% of the price. Rates float according to supply and demand.

On top of the cost of the air time, there are production costs for TV advertising. In the USA, as mentioned, the average 30-second TV network spot costs about \$300,000 to produce. Expensive ads can cost \$3–5 million to produce. That production cost, extrapolated to the length of a regular feature film, would be (without distribution and promotion) about \$1 billion, hugely higher than even the average Hollywood film with its \$70 million production cost.

In the 1950s, TV advertising initially consisted of sponsorships of entire programs (“the GE Hour”). Soon, however, this proved not to be cost effective. Advertising kept getting shorter in the 1960s, with 60-second spots predominating. In the 1980s, they became 30-second spots, and by the 1990s, even five-second spots emerged.

But there is also the opposite trend. Infomercials (unlimited length ads), which emerged after 1992, were made possible by the end of regulatory and self-regulatory restrictions on advertising time and by the proliferation of channels that led to shopping channels and to much lower ad prices.

TV network inventory can be sold in several principal ways.¹⁴⁸

Upfronts: to get the best spots, agencies buy specific ads at specific program times and events. In return for the advance commitment and payment, there might be a discount of about 15% over subsequent prices, but it is all a matter of supply and demand. Moreover, exclusivity within product categories is important to advertisers. Ford does not want to see a Honda commercial on the same program, and vice versa, since they might cancel each other out yet cost a lot. National TV networks sell approximately 65–80% of prime-time avails upfront, and cable networks about 50%. These numbers have been dropping.

138 Waters, Shari. “Understanding Advertising Rate Cards.” *About.com*. Last accessed July 16, 2012. ► http://retail.about.com/od/marketingpromotion/ss/ad_rate_card.htm.

139 New York Times. “2016 Advertising Rates.” Last accessed July 12, 2017. ► http://nymediakit.com/uploads/rates/Current-Rates/CRS-9040_2016_Rate_Cards_Business_SSF_copy.pdf.

140 Ember, Sydney. “New York Times Co. Reports Loss as Digital Subscriptions Grow.” *New York Times*. May 3, 2016. Accessed July 7, 2017. ► <https://www.nytimes.com/2016/05/04/business/media/new-york-times-co-q1-earnings.html>.

141 Waters, Shari. “Understanding Advertising Rate Cards.” *The Balance*. Last updated March 9, 2017. ► <https://www.thebalance.com/understanding-advertising-rate-cards-2890304>.

142 Swinburn, Amanda. “Advertisers toon into kids TV.” *B&T*. September 7, 2005. July 16, 2012. ► <http://www.bandt.com.au/news/archive/advertisers-toon-into-kids-tv>.

143 Ferguson, Douglas A. and Robert A. Klein. *Media Promotion and Marketing for Broadcasting Cable and the Internet*. (Boston: Focal Press, 2006), 214.

144 Lacy, Stephen et al. *Media Management: A Casebook Approach*. Mahwah: Lawrence Erlbaum Associates, Publishers, 1993.

145 Daly, Charles P., Patrick Henry, and Ellen Ryder. *The Magazine Publishing Industry*. Needham Heights, MA: Allyn & Bacon, 1997.

146 Romano, Allison. “Cable Clicks in Upfront.” *Broadcasting & Cable*. June 13, 2004. Last accessed July 17, 2011. ► http://www.broadcastingcable.com/article/92173-Cable_Clicks_in_Upfront.php.

147 Smith, F. Leslie, John W. Wright II, David H. Ostroff. *Perspectives on Radio and Television*, 4th ed. New York: Taylor & Francis, 1998.

148 Smith, F. Leslie, John W. Wright II, David H. Ostroff. *Perspectives on Radio and Television*, 4th ed. New York: Taylor & Francis, 1998.

Scatter: agencies buy the remains on a needs basis. They often get reduced prices but have less control and ability to plan.

Another method is for TV networks to sell packages of commercial time that guarantee advertisers they will reach a certain number and kind of viewers. The network then schedules the commercials in order to deliver on its guarantee. Where there are shortfalls in the viewership guaranteed by the network, additional (“Make Good”) commercials are provided.¹⁴⁹

Many sports programs are sold on a series basis. For example, an advertiser may become a “strip sponsor” with a spot in some or all of the football games in a season.

Local TV Spots: Local television stations sell several minutes of advertising time during the network-provided prime-time programming, and they control all advertising time during non-network programs in non-primetime hours.

Who advertises on local TV stations? In some cases, are national advertisers seek targeted geographic markets, such as rural markets. In other cases, local ads make sense for as local merchants, politicians running for office, or companies running a test marketing of a new product.

Some advertisements are placed by the providers of syndicated programming. The TV stations do not pay for the program but let the syndicator insert a number of ads which it then sells. This is known as barter syndication.

For hundreds of TV stations to deal with thousands of advertisers is too unwieldy. In consequence, many stations contract with advertising representatives. These are independent firms, with branches in major regions and advertising centers, and they receive a commission of about 7–15%. In other cases, brokers buy a large number of spots at discounted prices from stations and resell them.¹⁵⁰

Local stations (and national networks) may fill unsold slots with ads from their large customers, free of charge, for goodwill. They also fill this time with promotions for their own programs and with public service announcements.

In a few cases, broadcasters are compensated by advertisers not based on the advertising time they sell, but as a percentage of the sales gained or store traffic generated. In still another type of compensation scheme, the German media company ProSiebenSat.1 offers media-for-equity deals.

10.9 The Sales Function

The sales function is the process of closing a sale.¹⁵¹ The sales department works with, or is part of, the marketing depart-

ment. Its function is more tactical and interfacing with buyers, while the marketing function is broader, and includes strategic and long-term plans of creating a market for the firm.

10.9.1 Sales Channels

Sales channels are the ways in which companies reach customers’ products.¹⁵²

The main types of sales channels are:

1. Field sales force: face-to-face sales people. For example, book publishers’ sales reps visit book stores, libraries, and school districts.
2. Inside sales force: telephone-based salespersons who call their contacts over the telephone. Examples are account executives in media companies being in touch with advertising agencies.
3. Telemarketing groups: outbound telesales conducts high-volume calls. An example is the signing up of subscribers for satellite TV service.
4. Inbound call centers: staffed by service representatives who sell, upsell, or cross-sell customers who call in on a free dial-in (800”) service responding to a TV ad.
5. E-commerce sales groups: systems that allow customers to make online purchases, such as subscriptions and downloads on Netflix.
6. Third-party sales force: distributors, resellers, retailers, and agents to reach end customers.¹⁵³ An example would be magazines using companies such as Publishers’ Clearance House to sell subscriptions.

10.9.2 Direct Mail and Telemarketing

Direct mail marketing has been around for a long time. While email has made large inroads, direct mail is still big. As recently as 2015, in the USA direct mail accounted for 57% of all mail—about 4 pounds of paper per consumer per year. Because of the cost of paper, handling, and postage, use of direct mail as a marketing tool is not cheap, with a typical CPM of approximately \$500. The average household receives 19.1 direct mail pieces per week, with 21% being discarded without being read.¹⁵⁴

List brokers rent out mailing lists that they compile from many sources. The best lists are of those people who have bought similar products before; for example, people who have already subscribed to similar magazines.¹⁵⁵

149 Blumenthal, Howard J. and Oliver R. Goodenough. *This Business of Television*. (New York: Billboard Books, 1998), 421.

150 Smith, F. Leslie, John W. Wright II, David H. Ostroff. *Perspectives on Radio and Television*, 4th ed. New York: Taylor & Francis, 1998.

151 Lake, Laura. “Marketing vs. Sales: What is the Difference?” *About.com*. Last accessed July 7, 2017. ► <http://marketing.about.com/cs/advertising/a/mrktngvssales.htm>.

152 Marone, Mark and Seleste Lunsford. *Strategies That Win Sales : Best Practices of the World's Leading Organizations*. (Chicago: Dearborn Trade, 2005), 18.

153 Marone, Mark and Seleste Lunsford. *Strategies That Win Sales : Best Practices of the World's Leading Organizations*. (Chicago: Dearborn Trade, 2005), 18.

154 Gustafson, Jennifer. “Direct Mail Stats.” *United Printing + Mailing*. January 29, 2016. Last accessed July 17, 2017. ► <https://blog.mailing.com/direct-mail-stats/>.

155 Kobak, James. *How to Start a Magazine*. New York: M. Evans and Company, Inc., 2002.

The effectiveness of direct mail varies. Take books, for example. For general audience books (“trade books”), target readers cannot be easily identified, making direct mail a costly and inefficient approach. On the other hand, readers of scholarly and professional books can be identified fairly readily and therefore reached via specialized mailing lists.¹⁵⁶ For magazines, direct mail can be used for a “dry” test, when subscriptions are solicited in advance of the magazine being actually published.¹⁵⁷

In the marketing effort for a magazine, a good performance is when 2% of direct mailings result in subscriptions. A mailing to 100,000 potential subscribers that costs about \$50,000 and results in 2000 subscribers would be considered highly successful. The costs are then \$25 per subscriber gained. Renewals will typically cost less than \$1.

Telemarketing—the use of phone calls to reach potential buyers—is a form of direct marketing, though a labor-intensive and hence costly one. Telemarketing is used to promote such media products and services as broadband internet, cable and satellite TV, magazines, and newspapers. Telemarketing is rarely used for films or TV series, one-shot books, music, or consumer electronics.

Telemarketing is most cost effective when approaching current clients about service changes or upgrades, or when almost every consumer is a prospect. Companies often hand over their telemarketing campaigns to contracted telemarketing firms. This allows for short-term bursts of activity by expert operations. The drawbacks are that companies have less control over the message and its delivery. Most consumers regard telemarketers as invaders of their privacy and resent pointless solicitation. This affects the reputation of the advertiser. For example, telemarketing agents who received sign-up bonuses for every new customer they could list blithely signed up telecom service to consumers and canceled previous service, based on the vague expression of interest by a prospect. Such “slamming” led to bitter consumer complaints and investigations, and in the end hurt the clients’ reputations.

A single telemarketer can reach 30–50 prospects per hour and hold conversation with maybe a dozen. A fairly low success rate is acceptable because a 3–8% rate is generally profitable. Success rates increase with quality of leads. Job turnover is high for telemarketers. Quality management is essential, both by telemarketing company and by its clients. Regulation of telemarketing has been increasing, particularly in the form of “do not call” lists, which prevent many types of calls.

There are 5000 telemarketing bureaus in the USA alone, employing over 340,000 workers, plus additional ad-hoc efforts.¹⁵⁸ The city of Omaha, Nebraska, is the center for US telemarketing owing to its low telecom and labor costs,

English spoken with a neutral accent, and location in a central time zone that enables wide sweeps across the country following the sun. With the drop in international phone call prices, the use of offshore telemarketing operations from India, China, the Philippines, Mexico, and the Caribbean has been growing rapidly. Companies usually pay in the range of \$25 to \$60 per hour for telemarketing services, and (depending on extent of commissions) \$10 per hour for off-shore companies. Commissions range from 1% to 10% of revenues generated. One Colorado-based telemarketing company, Teletech, has over 42,000 employees distributed across 69 call centers in over 16 countries. Its sales in 2009 were \$1.2 billion. TeleTech handles approximately 3.5 million customer interactions per day, in 80 countries, in 49 languages.¹⁵⁹

Despite the internet, telemarketing has not disappeared, because many people prefer dealing with people when conducting business.¹⁶⁰

Telemarketing is most useful when

- additional specific data from customers is necessary for a sale;
- a list of target customers is available;
- approaching current clients about service changes or upgrades.

The downsides of telemarketing are¹⁶¹:

- inaccurate and incomplete lists;
- cost;
- legal restrictions.

10.10 The Impact of the Internet on Marketing

The internet is an inexpensive yet powerful tool that reaches a lot of people. Its marketing features include:

- customization, targeting, and individualization;
- interactivity, relationship building, and feedback;
- new types of reach (mobile, for example);
- new ways of making a marketing impression;
- location-based marketing;
- tracking customers;
- tracking products;
- dynamic pricing;
- auctions;
- social network marketing;
- payments and micropayments;
- data mining and online market research.

We will now discuss these elements.

156 Caves, Richard E. *Creative Industries: Contracts Between Art and Commerce*. Cambridge: Harvard University Press, 2000.

157 Kobak, James. *How to Start a Magazine*. New York: M. Evans and Company, Inc., 2002.

158 U.S. Bureau of Labor Statistics. “Telemarketing: Five Industry Centres.” December 2006. Last accessed July 12, 2017. ► <https://www.bls.gov/opub/btn/archive/telemarketing-five-industry-centers.pdf>.

159 TeleTech. “When everything is connected, how you connect is everything.” 2016. Last accessed July 12, 2017. ► <http://www.teletech.com/sites/default/files/teletech-brochure.pdf>.

160 McLuhan, Robert. “Contact Centres: Marketing Contact Centres Manual - The Power of the Phone.” *Campaign*. September 13, 2006. Last accessed July 12, 2017. ► <http://www.campaignlive.co.uk/article/contact-centres-marketing-contact-centres-manual-power-phone/592408>.

161 Sissors, Jack et al. *Advertising Media Planning*. (New York: McGraw Hill, 2002), 245.

10.10.1 Customization, Targeting, and Individualization

Information Technology gives companies the ability to transform classic mass-marketing into a much more microtargeted approach. This is known under various names such as mass-customization, 1:1 marketing, individualization, niche marketing, or long tail marketing. The basic idea is to form a more direct relationship with a customer or customer group to customize marketing efforts.

The problem with traditional marketing is inefficiency due to difficulties in accounting for impact. In contrast, customized advertising such as interactive TV ads can link ad expenditures directly to results. Marketers can know whether an individual received a communication and how she responded. Marketers can therefore identify the most effective marketing strategies and analyze specific customers' preferences. Companies then engage in product differentiation in their advertising by highlighting the unique characteristics of their product that are consistent with the target's preferences. Differentiation in marketing also encourages a shift in production strategy, from generic mass-products to tailored products for particular customers. Such product customization strategy may also be a price differentiation strategy.

In television-based advertising, targeted advertising means the uncoupling of the TV ads from the surrounding TV program. Early efforts for television were to create smaller zones for ads, so that an advertiser could target a smaller geographic zone than an entire metropolitan area. A car dealer or a political candidate, for example, need not reach (and pay for) hundreds of square miles when all they need to do is reach a particular small town. On cable television this is not difficult to do. But a geographic separation is a fairly crude audience segmentation. Similarly, broadcast TV has been using "dynamic advertising" for sporting events. Different television audiences are exposed to different banners and billboards, depending on where the event is shown and who the sponsors are. An international soccer match will show one billboard for Swedish viewers and another for Italians.¹⁶² The advertised products might be different, or the language of the message might vary. Product placement in a film or video program could be differentiated too. The Swedish household would see a Volvo in the driveway, while the Italian sees an Alfa Romeo. This could be varied depending on the timing of an advertising campaign.

The internet accelerates individualization. Online media can differentiate much better. First, the variety of ads provided to the user can be infinite. Second, the differentiations of audiences can be infinite. Third, there is vastly more

known about the viewer. Fourth, the effectiveness of the ad can be observed. The selection of advertisement is supported by algorithms that consider the viewer's demonstrated interests and needs, demographics, and personal tastes exhibited in previous program choices.

Behavioral targeting uses prior behavior and reactions by the viewer to determine the ad with the greatest receptivity.¹⁶³ It picks out advertisements based on past specific behaviors such as surfing the web in a particular way, searching for certain terms, making a purchase, and watching a video program.¹⁶⁴ Example for behavioral targeting are Google AdWords and AdSense which brought customized advertising into the online mainstream. Google uses automated technology to analyze the meaning of the content of a web page and serve relevant ads based on the meaning of such content. For example, a web page on an aviation blog that contains an entry about vintage planes might display ads for air shows featuring World War II "warbird" planes.¹⁶⁵ Similarly, a search request for a tourist destination leads to the serving of ads that are relevant. Google can aggregate user behavior and interests over time.

Once user characteristics are identified, the marketing responses can go beyond the choice of products and advertising clips that are pitched. They can vary itself in terms of price, or they can fine-tune product placement.

These opportunities change marketing considerably. The traditional model was one of mass-consumer products advertised on mass-media to mass-audiences by mass-advertisements with a mass-offer, in a one-way fashion. But now, each of these elements could be differentiated, though not all of them need to change simultaneously. Different combinations of individualization levels become possible. Customers can be identified, targeted in a differentiated way, the product and the offer can be customized, and a follow-up conducted. These elements add to the marketing effectiveness, and they also engender customer loyalty.

But they are also expensive to operate. After all, one reason for the decline of door-to-door salesmen—who were masters at one-on-one marketing—was their cost. The shift to massive TV advertisements had its economic logic. Individualization is much more demanding in creation, strategy, implementation, and operation. Thus, the question for the IT-based next generation of individualization is not whether or not it will work, but rather how cost effective it is.

For mass-products, the end of mass-advertising is not near, even as automatized approaches of individualization will create new ways to reach niches of potential customers.

163 Wikipedia. "Ad Serving." Last accessed July 7, 2017. ► http://en.wikipedia.org/wiki/Ad_serving#Ad_targeting_and_optimization.

164 Palmer, Shelly. *Television Disrupted: The Transition from Network to Networked TV*, 2nd ed. New York: York House Press, 2006.

165 Securities and Exchange Commission. "Form 10-K Google Inc." 2011. Last accessed July 12, 2017. ► <https://www.sec.gov/Archives/edgar/data/1288776/000119312511032930/d10k.htm>.

162 Palmer, Shelly. *Television Disrupted: The Transition from Network to Networked TV*, 2nd ed. New York: York House Press, 2006.

10.10.2 New Tools for Creating Marketing Impressions

Consumers react to well-delivered marketing pitches, but that reaction declines over time as they are inundated by similar messages. To remain effective it is therefore necessary to raise the sensory intensity of such pitches. Online media create the tools for doing so. For example they can create an immersive experience through “Virtual Reality” in which the user experiences new worlds, new activities, and new products. In VR the intensity of the marketing experience can be enormous. Similarly, users can be familiarized with the product in a convenient way. They can “test drive” a car online, try on an overcoat, explore travel routes, or furnish a home.

Another way for a company to raise its profile is to participate in new and “cool” online activities. Some companies use virtual worlds such as Second Life as a marketing tool, creating a presence there. The actual resultant sales might not be high but it helps a company to generate an image of innovation and youth orientation.

10.10.3 New Types of Reach (Mobile, etc.)

Email e-marketing, mobile m-marketing, or social media are potentially powerful tools, and they are inexpensive. However, their effectiveness is undermined by at least two factors: because everybody uses them for the same reasons there is an overload, which cuts into the attention they receive. And because there are so many such messages—“spam”—they may actually generate negative backlash rather than positive promotion.

10.10.4 Tracking Customers

Online marketing gives companies the ability to track and measure what types of consumer are being reached and how they respond. Cookies and other software help online advertisers track user activity, including viewing, viewing time, pages visited, and return visits. Ad serving companies use cookies to keep track of ads which the browsers have been exposed to. Advertisers can then deliver ads tailored to their browsing habits and track the effectiveness of campaigns.¹⁶⁶ The main metric for determining the success of online advertising has been the CTR or how often the advertisement is clicked on. As the internet evolves, it is becoming increasingly difficult to entice viewers to click on an ad. A typical CTR has dropped from 0.5% in the 1990s to as low as 0.2% by 2017.

10.10.5 Tracking Products

Radio Frequency Identification (RFID), an automated identification technology based on product-embedded microchips that require no battery power, allows companies to track products and humans in real time. It is most often used in the supply chain to track goods, and can also be used for targeted and customized marketing. The ability to track goods allows companies to launch personalized marketing campaigns by mapping consumer behavior.¹⁶⁷ RFID can also provide consumers with the entire history of the products that they purchase. There can be more information attached to the product, and more authentication to prevent the buying of counterfeit products that are ineffective or dangerous.

10.10.6 Location-Based Marketing

More generally, mobile communications create new opportunities to link up with consumers. Such ads can be text messages, location-based messages, app based ads, and regular internet, using smartphones and tablets as terminal devices. However, consumer resistance is high for audio ads on mobile devices, especially if they are an intrusive “push” ads. Smaller screens and data caps on wireless service contracts also make mobile advertising more difficult.

10.10.7 Dynamic Pricing and Auctions

Prices can be varied in real time, based on supply and demand conditions and on the characteristics of the potential buyer. It is also convenient and easy to set up auction arrangements for the sale of products. This means that one can leave the pricing of a product—one of the important aspects of marketing—to an automatic market clearing mechanism. This is discussed in ► Chap. 10 Pricing of Media and Information.

10.10.8 Social Marketing

Social media has created new marketing tools. It helps engage consumers with each other and with the brand.¹⁶⁸ Social media is used to:

- Strengthen brand image and brand awareness.
- Allow marketers to gain a better understanding of consumer needs and how they feel about a product or rival products.

166 Berke, Adam. “How Do Cookies Work?” *AdRoll Blog*. May 4, 2010. Last accessed July 12, 2017. ► <https://blog.adroll.com/product/how-do-advertising-cookies-work>.

167 Roberti, Mark. “Two Visions of an RFID-Enabled Future.” *RFID Journal*. February 11, 2008. Last accessed July 12, 2017. ► <http://www.rfidjournal.com/articles/view?3899>.

168 Bradshaw, Tim. “The fickle value of friendship.” *The Financial Times*. March 30, 2011. Last accessed July 7, 2017. ► <http://www.ft.com/cms/s/0/240f19d4-5afc-11e0-a290-00144feab49a.html#axzz1JspQCrry>.

- Allow the consumer to design their product through the use of social networking tools. Starbucks did this for the design of an ideal Christmas beverage online, and it was credited with a 15% sales increase in the UK alone.
- Exploit the reach of a social network as an audience for advertisements.
- In the case of Facebook, offer a self-service system that allows advertisers to design their own ads and tailor them to hundreds of millions of users.¹⁶⁹ The advertisement is then targeted to finely segmented Facebook users based on gender, age, location, and preferences such as favorite movies and activities.
- Allow the use of social ads. On Digg, users determine what ads appear on the website news streams by voting up or “burying” ads, in the same way that they can dig or bury organic news items.¹⁷⁰ This creates user involvement with the ads themselves. Digg rewards ads with high positive votes by charging them less and placing them in attractive locations.¹⁷¹
- Integrate ads into communication. Ads on Facebook and Digg are intended to blend seamlessly into the conversational nature of the site. These ads appear as stories posted to the site and are identified by a tag.
- Communicate the brand values through social media.
- Set up exhibits and pavilions on virtual world sites, some for sales, most for publicity and brand. Sony Music provides samples and retail service for artist’s songs and videos. Users can purchase Adidas sneakers in Second Life.¹⁷²
- Use the community to generate buzz and viral marketing. For example, Old Spice had a big viral hit with its “Smell Like a Man” series. It created several irreverent commercials which were shared over 60 million times on social media.
- Use of the community to generate advice to customers. An example is Amazon.com, which suggests books to the customer based on what other people have liked in the past who seem to share interests.

There are also drawbacks. Online social interactions are difficult to control. Negative feedback can escalate to nastiness, and buzz can become negative.¹⁷³ In some cases,

this is justified, as when the pricey Kryptonite lock was shown to be vulnerable to being opened by the deft use of just a ballpoint pen, as mentioned earlier. In other cases, however, the negatives are exceptional cases blown out of proportion or outright fabrications by rivals or people with a grudge.

10.10.9 Payments and Micropayments

Internet-based transactions permit instantaneous payment, including for very small amounts and internationally. This opens up new market segments to marketers and helps in promoting and closing a deal almost immediately. It also reduces the risk element for the seller, especially once payment mechanisms have become secure from fraud.¹⁷⁴

10.10.10 Data Mining and Online Market Research

The internet is also an inexpensive, fast-turnaround medium for conducting marketing research in advance and sales analysis in real time. In contrast with traditional advertising, it gives real-time results about effectiveness of attention, of reach, and of sales. Promotional offerings and ads themselves can be tested in real time as to their effectiveness, using tools such as A/B testing.

10.10.11 Relationship Building and Supplemental Information

Building and maintaining of customer relationships becomes possible online. Customer relationships can be built through blogs, social media/social networks and email newsletters, and more.¹⁷⁵ Strong online relationships also help with feedback and direct communication with customers. They also enable users’ participation in the creation of the product through their input.¹⁷⁶

Another advantage is the potential to personalize a large company by having its people engage. If done honestly this can create trust. This means that company people must identify themselves as such, be willing to

169 Arthur, Charles. “Facebook IPO: What We’ve Learned From its S-1 Filing.” *The Guardian*. February 2, 2012. Last accessed July 7, 2017. ► <http://www.guardian.co.uk/technology/2012/feb/02/facebook-ipo-facts>.

170 Shanahan, James G. “Digital Advertising: Going from Broadcast to Personalized Advertising.” Machine Learning in Online Advertising MLOAD Workshop, December 12, 2010.

171 Rijk, Louise. “Social Network Advertising Using Digg Ads and StumbleUpon Advertising.” *Advanced Media Productions*. February 2, 2011. Last accessed July 11, 2013. ► <http://www.advmidiaproductions.com/blog/digg-ads-stumbleupon-advertising/>.

172 Bannister, Larissa. “Adidas targets avatars with shop in Second Life.” *Campaign*. September 14, 2006. Last accessed July 12, 2017. ► <http://www.campaignlive.co.uk/article/adidas-targets-avatars-shop-second-life/592537>.

173 Leimkuehler, Katie. “Startup Social Media: Why Relationship Marketing is Essential for Growing Your User Base.” *Technori*. February 5, 2013. Last accessed July 7, 2017. ► <http://technori.com/2013/02/3118-startup-social-media-why-relationship-marketing-is-essential-for-growing-your-user-base/>.

174 The emerging blockchain technology of transfer of documents and payments is one way to do so, at least for larger transactions.

175 Search Engine Land. “What is SEO/Search Engine Optimization?” Last accessed July 7 2017. ► <http://searchengineland.com/guide/what-is-seo>.

176 Muscio, Christopher. “The 7 Benefits of Online Customer Service Communities.” July 11, 2009. ► <http://www.destinationcrm.com/Articles/CRM-News/Daily-News/The-7-Benefits-of-Online-Customer-Service-Communities-55084.aspx>.

admit problems and faults, and not attempt to discredit critics personally.

Unlike TV, newspaper, and radio advertising, websites can be used to provide detailed information about a manufacturer's entire product line,¹⁷⁷ with follow-up questions possible and links to additional information sources relevant to the product.

10.10.12 Identifying Customers

Companies can create connections and increase the number of names in their prospect database, including through registrations, e-newsletters, contests, or premium content.¹⁷⁸ Social network media also allows the identification of high-value customers and the creation of communications with them. Such high-value customers are more likely to follow the company online.

10.10.13 Advertising Platform

As we have discussed before, the internet provides numerous opportunities for advertisers to target and serve customers more effectively, while advertising prices have dropped per impression owing to an ever-increasing supply of inventory. However, advantages for the advertising by one company tend to be advantages to all other companies, too. As a result, there is an advertising glut on the market, and lower attention paid to the ads. This "advertising fatigue" has led to a decrease of CTRs, even for targeted display ads, to less than 0.5%. Advertisers have thus begun to question the efficiency of online ads. For example, General Motors stopped Facebook advertising for a year. Display ads on the internet are usually charged by CPM (per thousand impressions). An impression is when an ad is displayed on a web page. In 1998, Yahoo was getting about \$25 per CPM, but the price for an online display ad fell to \$13.35 in 2009, \$11.50 in 2011, \$2.80 in 2015, and \$2.03 in 2016.¹⁷⁹

Another problem is the measurement of users. This might be surprising since it should be easy to measure clicks, but there has been considerable fraud in order to raise click rates. At first this was done through automated software (bots). When bots began being blocked, low-paid individuals in poor countries were used to click all day on links to generate higher counts.

In the past, it was difficult for small websites to attract advertisers.¹⁸⁰ Google changed this. Google AdSense lets

websites earn advertising money by displaying ads delivered by Google, based on the website's content, geographical location, and other factors. AdSense uses pay-per-click and pay-per-impression (on one's content page) advertising. The provision of these ads to partner websites is a big business for Google and its major revenue source. Google also places ads in RSS feeds, on mobile websites, and into videos. It bought its largest competitor for ad serving, DoubleClick. Almost all of Google's revenues are advertising sales, 50% of it from such Google-delivered advertising on other companies' web sites.¹⁸¹ Web sites that host the ads delivered by Google then split the ad revenue with Google. They need not deal directly with actual advertisers. Google generates information for advertisers on how often an ad was clicked on, where it was displayed, how much the customer spent,¹⁸² and the cost of the transaction.

10.10.14 Creating a Marketplace for Online Advertising

There are four major ways in which an advertiser can buy online ad space:

1. *Websites*: ads are bought direct from a website, publisher, or portal.
2. *Ad networks*: these are "supply-side networks" intermediaries such as Google Adwords, which offer ad space by numerous publishers/websites. An ad network aggregates a publisher's inventory and then slices it up, by different characteristics such as geographic location, age of viewer, or gender and then offers it to advertisers or ad agencies. This simplifies the optimal buying of ad space by advertisers.¹⁸³ Examples, besides Google, are Yahoo Advertising Network, the Microsoft Ad Network, and advertising.com. Google claims in its Economic Impact report that advertisers average \$2 in revenue for every \$1 they spend on AdWords. To get a particular spot on a website, an advertiser must submit a confidential bid for the ad space, and the highest bid wins and pays per click the amount that was bid, roughly, by the second-highest bid, along the economic principles of a second-price auction (see ► Chap. 11, "Pricing of Media and Information.") Websites get 68% of that ad revenue if they are content network partners (e.g. blogs such as Gawker and Breaking Media) and 51% for search ads.¹⁸⁴

177 Sissors, Jack et al. *Advertising Media Planning*. (New York: McGraw Hill, 2002), 8.

178 Egol, Matthew, Harry Hawkes, and Greg Springs. "Reinventing Print Media." *Strategy + Business*. August 27, 2009. Last accessed July 7, 2017. ► <http://www.strategy-business.com/article/09308?gko=2c407>.

179 CPM translated from CPI of \$2.16, from Hochman, Jonathan. "The Cost of Pay-Per Click (PPC) Advertising—Trends and Analysis." *Hochman Consultants*. February 22, 2017. Last accessed July 12, 2017. ► <https://www.hochmanconsultants.com/cost-of-ppc-advertising/>.

180 Graham, Jefferson. "Google's AdSense a bonanza for some Web sites." *USA Today*. March 10, 2005. Last accessed July 12, 2017. ► https://usatoday30.usatoday.com/tech/news/2005-03-10-google-ads-usat_x.htm.

181 Auchard, Eric. "Google lets Web sites sign up advertisers directly." *Reuters*. November 18, 2005. Last accessed May 11, 2011. ► <http://www.signonsandiego.com/news/business/20051118-1343-media-google-advertising.html>.

182 Clayton, Nick. "How to turn your clicks to cash." *The Guardian*. September 29, 2006. Last accessed July 12, 2017. ► <https://www.theguardian.com/technology/2006/sep/29/businesssense.businesssense>.

183 Nitin Narang. "#5 Concept Series: What is the difference between Ad Exchange and Ad Network." February 12, 2014. Last accessed July 12, 2017. ► <http://www.mediaentertainmentinfo.com/2014/02/5-concept-series-what-is-the-difference-between-ad-exchange-and-ad-network.html/>.

184 Qwaya. "A Guide to Facebook Ads." Last accessed July 10, 2017. ► <http://www.qwaya.com/facebook-ads/guide-to-facebook-ads>.

3. *Demand side platforms (DSPs)*: these came into being as a counter-move to powerful supply side ad networks, such as Google's AdWords, that act as agents of the websites that seek advertisers. Supply side platforms provide advertisers access only to their own system and to their website partners. Because of Google's strong position, the advertising space it provided on websites was costlier than that offered through other ad networks. To generate more competition and price competition among ad networks, DSPs emerged. They provide advertisers access to several supply side platforms and as well as direct ad placement on some websites,¹⁸⁵ and the resultant competition exerted a pressure on advertising prices.¹⁸⁶

A DSP connects an advertiser to multiple ad networks and other media suppliers. It is also an analytical tool with statistical and operations models to help optimize marketing strategies. This permits an analysis of the value of ad locations, types, and frequencies. DSPs put together such information in a single "dashboard."¹⁸⁷ Major DSPs are AdLearn Open Platform (owned by AOL/Verizon), Turn, MediaMath, and DataYu.

DSPs, too, function through auction mechanisms. In this case, however, it is the websites that do the bidding for the business of the advertisers. Parameters for such bidding can be set by advertisers,¹⁸⁸ and include:¹⁸⁹

- CPM: cost per 1000 impressions;
- CPC: cost per click;
- bid range: how much an advertiser is willing to pay for an ad;
- frequency capping: limits the number of ad displays to a user to avoid overexposure;
- target audience metrics: age, gender, and so on;
- audience segmentation: positions ads at a different stages in a user's purchasing funnel.

4. *Ad exchanges*: these bridge the supply-side ad networks and the demand side platforms. They connect multiple online publishers, advertisers, ad networks, and third-party DSPs. These parties can buy and sell ad inventory automatically. Ad impressions are auctioned off on a global basis in real time to the highest bidder.¹⁹⁰

Examples are AdMarvel, AppNexus, Right Media by Yahoo, Open X, Double Click Ad Exchange, and AdECN (Microsoft).¹⁹¹

10.10.14.1 Case Discussion

Private Ad Exchange

Condé Nast launched a private ad exchange to place unsold inventory through its online sites to a select group of advertisers. The exchange featured real-time bidding with CPM price floors. In effect, it offered large customers advertising space at lower prices, though with a price stop to protect prices from dropping too far if the number of bids was small. There was a minimum requirement for access: the advertiser's ad spend with Condé Nast that year had to be higher than over the previous year. Five advertisers, including eBay and Macy's, had access to the exchange in its first year.

10.10.15 Search Engine Marketing

SEO is a way to attract users to a website through a variety of techniques, with the goal of generating high traffic. A major way for websites to get a high traffic volume is to end up high on the search results, because most users click on the top-most options. According to one study, 53% of clicks go to the website listed first in the search results, 15% to #2, 9% to #3, 6% to #4, and 4% to #5. The remaining websites listed for the search get 13%.¹⁹²

Websites often resort to professional SEO in order to reverse-engineer the search algorithms and what people search for. Using their guesstimates on how search engines work, SEO programmers specifically include these tags and keywords, because they believe Google and other search engines are designed to look for them.

In the preceding pages, we have explored the numerous ways in which internet-based tools are transforming marketing operations and their economics and players. They facilitate many marketing operations. Yet one should not conclude that marketing will become easier and cheaper. Quite to the contrary. The new tools are widely available and will be adopted by many competitors in their efforts to gain attention and raise persuasion and sales. Hence, there will be a costly arms race among companies in their marketing operations. Creating information and interaction is not cheap: it requires skilled people and technology. Despite its powerful elements of automation, the internet generates more human

185 Marketing Land. "Beyond AdWords: Demand Side Platforms Explained." April 6, 2016. Last accessed July 10, 2017. ► <http://marketingland.com/beyond-adwords-an-intro-to-demand-side-platforms-44139>.

186 However, Google countered by acquiring the DSP Invite Media.

187 Hunter, Matt. "Demand Side Platforms: Silver Bullet or Fog of War?" *Demand Side Platforms: Silver Bullet or Fog of War?* June 27, 2012. Last accessed July 10, 2017. ► <http://de.slideshare.net/MattHunter/20120628-matt-hunter-demand-side-platforms..>

188 Ilana. "8 Best Practices for Running a Retargeting Campaign." *ReTargeter Blog*. July 2, 2013. Last accessed July 10, 2017. ► <https://retargeter.com/blog/retargeting/8-best-practices-for-running-a-retargeting-campaign>.

189 Bateman, Scott. "Online Advertising Models: CPC, CPM or CPA?" *Promise Media*. Last accessed July 10, 2017. ► <http://www.promisemedia.com/online-advertising/best-revenue-deals-cpm-cpc-or-cpa>.

190 WhatRunsWhere. "Media Buying 101: Ad Networks & Ad Exchange." August 2015. Last accessed June 11, 2016. ► <http://blog.whatrunswere.com/media-buying-101-ad-networks-ad-exchanges/>.

191 OpenX whitepaper. "Ad Networks vs. Ad Exchanges: How They Stack Up." July 2010. Last accessed February 6, 2017. ► https://www.cs.princeton.edu/courses/archive/spring13/cos448/web/docs/adnets_vs_exchanges.pdf.

192 Miller, Miranda. "53% of Organic Search Clicks Go To First Link [Study]." *Search Engine Watch*. October 10, 2012. Last accessed July 10, 2017. ► <https://searchenginewatch.com/sew/study/2215868/53-of-organic-search-clicks-go-to-first-link-study>

interaction, not less. One should not expect it to cut the aggregate costs of relationship creation. On the contrary, internet-based marketing will require more people, more effort, and more creativity.

10.11 The Promotion of Media Products

10.11.1 Film

In the film business until the mid-1980s, the marketing of films used to be mostly publicity-driven and newspaper-oriented rather than based on advertising. The studios pitched stories to newspapers and magazines, which in turn lapped them up to serve their readers' interest in glamorous stars and talked-about movies. This symbiotic relationship worked well for both sides. Starting in the 1980s, film marketing shifted to television ads and then cable ads, which was much more costly.¹⁹³ In around 2000 the internet became a major platform for promotion. The shift by film distributors to the advertising model was based on the release strategy that moved from a gradual ramp-up to one of a simultaneous national opening in thousands of theaters. This required short nationwide bursts of TV advertising. The ads tended to feature appealing images from the film, and quotes from critics' favorable reviews. Such campaigns cost around \$10–20 million. The rule of thumb seems to be a spend of 50% of the production costs (preproduction, filming and post-production). Thus, if a movie costs \$100 million to make, it will take an additional \$50 million to market.¹⁹⁴ That ratio is even higher for small independent firms. Opening an independent film in the USA requires a marketing budget that is rarely under \$1 million. Many such films do not even cost \$1 million to produce and will not earn that much at the box office.¹⁹⁵

Because the largest and most committed audiences for independent films live in New York and Los Angeles, these cities are essential for any independent release. But they are also the two most expensive media markets. A five-city run (New York, Los Angeles, Boston, San Francisco, Chicago, and Dallas) for one week could cost \$850,000, without TV—\$500,000 in newspaper ads plus \$350,000 in trailers and prints. A quarter-page ad in the *New York Times* alone costs approximately \$20,000 for just one day. To save money on advertising, independent film producers focus on free publicity, including appearances on talk shows, public events, press conferences, previews, and awards to generate free media coverage and exposure. But even this has costs that add up rapidly. The cost of an independent film's poster pro-

motion for a five-city release can cost \$45,000. A publicist is another \$30,000 plus extra cash in each city.¹⁹⁶

There are expenses for press screenings, public appearance tours by actors, and film festival premieres. The premiere party costs around \$10,000–\$20,000. Hotel rooms and airfare for actors on publicity tours can reach up to \$40,000. If even minor TV advertising in the five cities is added for the independent film, it will cost an extra \$500,000. Another method for independent film promotion is to hold special screenings and web marketing. One film had 400 WOM screenings. The cost was only \$800 per screening, but it added \$320,000 to the marketing budget, plus a huge organizational effort.¹⁹⁷

The major studios generally allocate to foreign marketing only a fraction of the amount they spend in the USA and Canada. For example, Disney spent \$42 million on advertising and publicity for *Gone in 60 Seconds* in North America, but \$25 million combined for the rest of the world.¹⁹⁸ Of this, over one-quarter went to Japan (\$6.5 million), \$3.1 million to Germany, \$2.5 million to the UK, and about \$1 million to five other countries. A quarter went to the rest of the world. For the Hollywood studios, the American audience becomes a kind of test market for global release. A movie's success in the USA is a selling tool elsewhere. In some cases however, US failures can be reengineered by changes to the film or its marketing. For example, Sony's film *Hero* was a huge failure in the USA. But when the movie was released in Europe six months later, the marketing presented the movie as a satire rather than a comedy and the title was changed.

Online marketing of films has grown enormously in importance. Advantages are relatively low cost for the basics, the ability to measure clicks and the viewing of trailers, the ability to observe (and generate) buzz and WOM in a viral marketing approach, and the ability to target audience segments. Studios release appealing clips on popular websites such as YouTube or Yahoo Movies. Social media sites increasingly influence moviegoers' choices. A study showed that 62% of moviegoers used the internet or mobile apps to learn about films.¹⁹⁹

10.11.2 TV & Cable Channels

TV networks promote their programs and themselves in a variety of ways.

On-Channel Promotion This is self-promotion on a channel that encourage viewers to stay tuned or come back later for a particular program. On-channel promotion only effectively reaches loyal, regular viewers.

193 Epstein, Edward Jay. *The Big Picture, the New Logic of Money and Power in Hollywood*. New York: Random House, 2005.

194 HowStuffWorks. "Why do movies cost so much to make?" December 09, 2009. Last accessed July 10, 2017. ► <http://entertainment.howstuffworks.com/movie-cost1.htm>.

195 Martin, Reed. *The Reel Truth: Everything You Didn't Know You Need to Know About Making an Independent Film*. New York: Faber and Faber, Inc., 2009.

196 Martin, Reed. *The Reel Truth: Everything You Didn't Know You Need to Know About Making an Independent Film*. New York: Faber and Faber, Inc., 2009.

197 Martin, Reed. *The Reel Truth: Everything You Didn't Know You Need to Know About Making an Independent Film*. New York: Faber and Faber, Inc., 2009.

198 Epstein, Edward Jay. *The Big Picture, the New Logic of Money and Power in Hollywood*. New York: Random House, 2005.

199 McClintock, Pamela. "\$200 Million and Rising: Hollywood Struggles With Soaring Marketing Costs." *The Hollywood Reporter*. July 31, 2014. Last Accessed July 10, 2017. ► <http://www.hollywoodreporter.com/news/200-million-rising-hollywood-struggles-721818>.

Cross-Channel Promotion Promotions on sister channels owned by the same company, or alternatively traded with other channels. Time Warner's cable networks, for example, cross-promote their own programs. Promos for TBS, Headline News, and CNN regularly appear on TNT, and vice versa. Such promotions can be advertising spots, or they can involve the use of new shows' stars on a talk show or entertainment news program. For new shows, cross-channel promos are key because viewers to a new show that were only exposed to on-channel promotion are a minority of a program premiere's audience.²⁰⁰ Promotions on opening day are critical. Typically, around one-third of the total audience of a premiere was exposed to a promo that same day.²⁰¹

Publicity The use of other media to report on a new show and its stars as news. It is discussed elsewhere in this chapter.

10.11.3 Music

For music, print reviews and promotions have only a limited influence on sales. Airplay on radio and then on cable music channels were the key, with the internet rapidly gaining the central role. Record companies have traditionally focused on promotion to radio broadcasters. This is a major effort since there are so many radio stations (12,000 commercial radio stations in the USA alone.)²⁰² That number becomes more manageable as one looks at specific music genres, and within them at those stations that set the tone, as well as focusing on station groups rather than individual stations. There is a strong incentive for influential stations or their disc jockeys to sell airplay to music companies, known as "payola." Depending on one's perspective, it is a bribe paid in order to influence a gatekeeper's choice or a legitimate commercial transaction no different from a publisher paying a bookstore to place a book in the window. Even though payola is illegal in the USA, promoters have found other ways to reward disc jockeys and others who make decisions, such as hospitality and gifts.

Of great importance has been the creation of a music video of a song, coupled with hoopla about the video itself. The promoters hope that this will create buzz and drive traffic to the video. YouTube and VEVO have become important platforms and measures of audience interest. This leads to strategies of "YouTube optimization" to steer traffic to the video. The three big music groups own Vevo, along with Google and Abu Dhabi Media. Music videos on Vevo are those provided by the music groups, not by users as is the case for YouTube videos. Vevo has a channel on YouTube, and Google serves ads to Vevo. Google pays Vevo part of the ad revenue it gets from advertisers according to its normal

policies of revenue sharing on YouTube and for ad serving. Vevo then pays out a percentage of that revenue to the artists. Estimates are that artists receive about \$0.001 (one-10th of 1 cent) per stream.²⁰³ A million streams would thus yield only \$1000 to the artist.

There are many music video promotional companies that offer a wide range of services, from placing videos on broadcast and cable music video shows, to putting videos in retail and entertainment locations or on music websites.

The artists themselves play an increasing role in the marketing of their music. A major way to promote is music tours. Beyond the direct revenues of ticket sales, studies show a measurable sales increase of recordings where a tour has taken place.²⁰⁴ The internet has also enabled self-promotion, marketing, and sales of music by the artists themselves. They can use email and social networks for marketing to their fan base, and sell via their own websites. Major stars such as Kanye West and Justin Bieber have created their own high-end merchandise, unconnected to a tour. A Justin Bieber jacket sold through Barneys for \$1675. Kanye West held a pop up merchandise store in New York to promote his new album *The Life of Pablo*. The store was only open for a few days and sold over \$2 million worth of merchandise. Selling merchandise not associated with a tour is beneficial for artists since they do not have to share the revenue with a concert venue, which takes 5–25% on merchandise sales.²⁰⁵

10.11.4 Books

The basic problem for the promotion of books is that there are so many of them each year relative to the number of buyers. How then to differentiate a title? The easiest segment to manage is the educational market. The K-12 (kindergarten through 12th grade) textbook market is essentially one of B2B marketing in which large purchases are being made by school districts or even states. For public primary and secondary schools, education departments typically screen textbooks and determine which will be approved for purchase and which should be replaced. Buying many books at the same time according to a schedule tends to lower the price. Books are then marketed to the decision-makers by specialized sales personnel. The books themselves require a substantial upfront investment, followed up by extensive direct sales efforts. Partly as a result, the number of competitor publishers is relatively small.

For publishers, successful college texts are the most profitable business. There is less price sensitivity (the cost of a textbook is typically small relative to tuition) and books are

200 Eastman, Susan T., Douglas A. Ferguson, and Robert A. Klein. Eds. *Media Promotion and Marketing for Broadcasting Cable and the Internet*. Boston: Focal Press 2006.

201 Eastman, Susan T., Douglas A. Ferguson, and Robert A. Klein. Eds. *Media Promotion and Marketing for Broadcasting Cable and the Internet*. Boston: Focal Press 2006.

202 Krasilovsky, William M. and Sidney Shemel. *This Business of Music* (New York: Billboard Books, 2000), 24.

203 Hassan, Charlotte. "Surprise! YouTube Slashed its Royalty Rate by 50% Last Year." *Digital Music News*. July 12, 2016. Last accessed July 10, 2017. ► <http://www.digitalmusicnews.com/2016/07/12/youtube-per-stream-royalty-rate-halved/>.

204 Krasilovsky, M. William, and Sidney Shemel. *This Business of Music*. (New York: Billboard Books, 2000), 26.

205 Indvik, Lauren. "Justin Bieber, Kanye, and Others are Helping Create and Sell Their Own Merch—Tour be Damned." *Billboard*. August 16, 2016. Last accessed July 10, 2017. ► <http://www.billboard.com/articles/news/magazine-feature/7476035/justin-bieber-kanye-merchandise-tour>.

assigned by intermediaries, namely teachers and professors, who are readily identifiable and then targeted. Competition, however, is high. In consequence, marketing costs are major expenses for the textbooks and account for 25% of publisher revenues.

Book publishers supply instructors with examination copies.²⁰⁶ They will also visit professors, especially those with large introductory courses, and send out informational materials about new books and updated editions. They will exhibit their books at meetings of professional associations, where they wine and dine prospective adopters, and will place ads in academic journals. When it comes to college texts, one of the aims of publishers is to prevent the resale of a pricey book by a student who has just completed a course to another one who starts it. Counter-efforts take a variety of routes, in particular the rapid turnover of editions, typically every three years. This makes academic sense in fields where knowledge is added rapidly, such as in bio-medical studies, but less so in fields where the basics remain steady. In such fields as art history it is more likely to be motivated by marketing considerations. A new edition obsoletes the earlier edition on the resale market even if it remains a perfectly good book. Another technique is to offer the book online, as well as creating online services such as quizzes, workbooks, reviews, exercises, and supplementary materials, and then tying access to them to a purchase.

Books for the consumer market, are called trade books, and they are mostly sold by intermediary bookstores and online sites. Here, the landscape has changed rapidly:

- from independently owned stores to large national chains;
- from small stores to megastores;
- From bricks-and-mortar stores to e-commerce online bookstores;
- from physical books to e-books.

For a publisher's marketing operations, it means that the efforts move from one of relationships with thousands of small expert retailers to one that must cater to two very different constituencies: huge corporate chains and online marketers at one end—in the USA in particular Barnes & Noble and Amazon.com—and, at the other end, to millions of consumers who have lost the curating guidance of small booksellers.

To deal with retailers and bulk buyers, publishers display and present at trade shows and book fairs. Of these, the largest is the annual fair at Frankfurt, Germany. Closer to the retailers, sales reps also keep in with retail stores and chains. These reps receive training in the details of the titles they will promote.²⁰⁷ To be effective they must focus on pushing only a few of the books of their publisher's list. But which? Some are obvious choices such as new books by a best-selling author or a celebrity. Books whose authors receive a high advance (upfront payment) attract more marketing push since the

downside to failure is greater. Most books, however, do not fit these criteria. Therefore, it often makes sense to delay promotional efforts until information comes in about the reactions of relevant audiences, and only then to invest more heavily in promotion.²⁰⁸ This approach means that publishers are often fairly passive, at least at first. They wait for the market's reaction ("throw it against the wall and see what sticks"). This disappoints authors, many of whom sincerely believe that their book would be a bestseller if only it received appropriate marketing efforts. The conclusion they should draw is that they themselves must be engaged in the marketing of their book and often execute it on their own. For example, authors may create a website for the book, and also send out information to their professional and personal circle. Authors may get enlisted in the publisher's publicity campaign. For professional books, their contracts are valuable and can get a book started. For trade books, there are book tours with signings at book stores and media interviews.

There are two major promotional seasons. The spring release of titles anticipates the summer selling window for light reading. The fall release season anticipates Christmas gifting sales and is heavier in non-fiction, coffee table display, and specialty books.²⁰⁹

Publishing houses will send out review copies and press releases to major reviewers and newspapers.²¹⁰ Prerelease, they send sales representatives to book stores or chains. In some cases, especially for professional books, they might engage in direct mailing or emailing. Even more important is to create WOM hype. Any kind of press or media appearance generates attention on the author and the book.

For publishers, one strategy in creating awareness of certain books involves book clubs. Of these, the most popular has been Oprah Winfrey's Book Club, which has reached over 2 million members nationwide.²¹¹ It does not actually sell books directly but recommends, comments, and curates. Winfrey's "approved" books receive a sticker on the jacket to alert shoppers to the recommendation. A new version, dubbed Oprah 2.0, offered multimedia and social network interaction. Winfrey's initial 69 recommended books sold an estimated 55 million copies.²¹² Publishers estimate that her endorsement adds 500,000 copies to sales.²¹³ Most book clubs are much more intimate affairs, taking place in a small social setting for the purpose of discussing an assigned book. Demographically,

206 Zell, Hans M. *Book Marketing and Promotion: A Handbook of Good Practice*. (Oxford: INASP, 2001), 24.

207 Greco, Albert N. "Market Practices and Procedure." In *The Book Publishing Industry*. (Viacom Publishing, 1997), 173–215.

208 Caves, Richard E. *Creative Industries: Contracts Between Art and Commerce*. Cambridge: Harvard University Press, 2000.

209 Lieberman, Al. *The Entertainment marketing revolution*. Hoboken: Prentice Hall, 2002.

210 Henderson, Marilyn. "Marketing Your Novel: Building the 'Buzz.'" *Writing-World.com*. Last accessed July 10, 2017. ► <http://www.writing-world.com/promotion/buzz.shtml>.

211 Bosman, Julie. "The Return of Oprah's Book Club." *New York Times*. June 1, 2012. Last accessed July 12, 2017. ► <https://mediadecoder.blogs.nytimes.com/2012/06/01/the-return-of-the-oprahs-book-club/>; Minzesheimer, Bob. "How the 'Oprah Effect' changed publishing." *USA Today*. May 22, 2011. Last accessed July 12, 2017. ► https://usatoday30.usatoday.com/life/books/news/2011-05-22-Oprah-Winfrey-Book-Club_n.htm.

212 The Daily Beast. "Oprah's Book Club By the Numbers." June 3, 2012. Last accessed July 10, 2017. ► <http://www.thedailybeast.com/oprahs-book-club-by-the-numbers>.

213 Garthwaite, Craig L. "Demand Spillovers, Combative Advertising, and Celebrity Endorsements." *American Economic Journal: Applied Economics* 6, no. 2 (April 2014): 76–104. ► <https://doi.org/10.1257/app.6.2.76>. There is an impact on the sales of other books too. The study reports a statistically significant impact on books in the quarter following an Oprah endorsement, with other adult fiction book sales decreasing by a statistically significant 2.5%.

75–80% of book club members are women.²¹⁴ Even here, in-person meetings are often replaced or supplemented by internet services such as online forums and participation or presentations using Skype and other video connections. These are easier to schedule, can be done more frequently, and can involve more people.²¹⁵ Publishing houses have recognized book clubs as important marketing tools to promote titles, and include them in an author's book tour. Clubs also recommend authors to one another.²¹⁶ Authors may therefore send out or list information as an encouragement for invitations. In contrast, book store publicity tours with signings can be demoralizing and unproductive if attendance is poor.²¹⁷

Such book clubs must be distinguished from another arrangement bearing the same name that are essentially book subscription services. Book-of-the-month clubs such as the Doubleday Book Club offer substantial discounts to their readers by purchasing books directly from the publisher instead of the retailer, and locking subscribers ("club members") into a choice from a short list or to receive a default choice.²¹⁸ They used to be an important way to distribute books, including a multiplier effect by creating WOM, but have generally declined.

10.11.5 Newspapers

Newspapers have been hard hit by the shift to online digital. They are being deserted both by paying readers and by advertisers. In the past, print ad space was priced at a significant premium (on a per-impression basis) over other kinds of advertising. Newspapers enjoyed market power by often being the only daily news medium in a local community that could deliver detailed local information. But online ads have cut into that market. Marketers have been more reluctant to cut broadcast and cable TV ad spending so print newspapers have taken the major hit. On top of that, newspapers also face a decline in demand for their product itself. In a survey question: "Is it important to follow the news?" of the age cohort 30 years and younger only 36% agreed, whereas 62% of the age 50+ agreed. There was also a major gender gap, especially among women 20 years or younger. The age gap always existed but was much smaller. Thus, the news audience of the future is failing to regenerate.

This is not just a matter of education or civics, but also of information overload. Herbert Simon, who received a Nobel Prize for Economics for his work on information theory, said

a long time ago: "Reading daily newspapers is one of the least cost-efficient things you can do ... Read the World Almanac once a year."²¹⁹

As a result of this decline, newspaper publishers have tried to engage in new ways of marketing their product,²²⁰ but also in changing it and creating more audience-oriented stories and styles. In other words, to help in the marketing the product itself should be modified. This has led to a pushback by some journalists who find that such an orientation is unhealthy for a newspaper's integrity. They are concerned that this shift will generate publications of low validity, originality, and authenticity. They believe that this is a short-term strategy, and that only quality will result in long term success.²²¹

10.11.6 Magazines

There are thousands of magazines titles but a few account for most of the circulation and advertising. In the USA, 160 titles account for 85% of consumer magazines' total revenues. Of magazine revenues, 75% is generated by advertising, 18% by subscriptions, and 7% by news-stand sales.

Tools for marketing to consumers to solicit subscriptions include list brokers and subscription agencies (such as Publishers Clearing House). Promotion tactics for magazines include a catchy and descriptive title, a logo that is frequently displayed, and attractive covers. Even if most magazines are received by subscription, being displayed at a news-stand or drugstore generates attention.

To attract advertisers, magazines have increased their targeting through "selective binding" which permits the creation of multiple editions of a magazine issue. *Farm Journal*, a leader in this approach, had 9000 different editions in 1984, based on crop and livestock types and region.

Another trend has been to make the marketing effort more efficient by creating economies of scale and scope. This has led to the emergence of magazine groups, with a magazine company owning dozens of titles, often related to each other, especially for trade interests. Such a structure enables the common use of databases, central services, and marketing organizations. There is also more stability: as one industry struggles and its advertising lags, other industries may be doing well. A publishers' rule of thumb is that it takes about 12 magazine titles to establish such efficiencies.

10.11.7 Video Games

Video games have become a major media business, along with marketing strategies that borrow from film, publishing,

214 Masters, Tom. "Future Perfect Publishing." *Future Perfect Publishing*. Word Press, July 3, 2007. Last accessed July 10, 2017. ► <http://futureperfectpublishing.com/2007/07/03/an-interview-with-diana-loevy-author-the-book-club-companion/>.

215 Masters, Tom. "Future Perfect Publishing." *Future Perfect Publishing*. Word Press, July 3, 2007. Last accessed July 10, 2017. ► <http://futureperfectpublishing.com/2007/07/03/an-interview-with-diana-loevy-author-the-book-club-companion/>.

216 Otto, Audra. "Book marketing 101: Book club visits out-perform press tours" *MinnPost*. November 3, 2009. Last accessed July 7, 2017. ► <https://www.minnpost.com/books/2009/11/book-marketing-101-book-club-visits-out-perform-press-tours>.

217 Paik, Eugene. "Straight Off the Shelves." *The Star-Ledger*. Advance Publications, June 10, 2012. Last accessed July 7, 2017. ► http://www.nj.com/news/index.ssf/2012/06/straight_off_the_shelves_autho.html.

218 Book Club Resource. "What Is a Book Club?" June 12, 2012. Last accessed September 13, 2012. ► <http://www.book-clubs-resource.com/book-club.php>.

219 Bennis, Warren. *An Invented Life: Reflections on Leadership and Change*. New York: Basic Books, 1994.

220 Lloyd, John. "How to Effectively Market your Newspaper." Last accessed July 10, 2017. ► <http://www.aip.org.za/wp-content/uploads/2015/07/Quick-Guide-How-to-Effectively-Market-your-Newspaper-John-Lloyd.pdf>.

221 Underwood, Doug. "The Marketing and the Management Move In." *When MBAs Rule the Newsroom*. New York: Columbia University Press, 1995.

and software releases.²²² Whereas in the past games were sold by “push” to the potential user, the relationship has become much more a two-way interaction, as well as one of P2P and social media marketing through the generation of WOM.

Marketers have been pushing in particular games for females. Women make up half of the population but account for a much smaller share of gaming participants (higher numbers get periodically released by trade groups but are often self-serving). Video game companies have addressed this problem by creating games targeted at girls and women such as Buena Vista Games’ *Disney Princess* (young girls) and *Desperate Housewives* (middle aged women). The family-friendly Wii console by Nintendo was a major attempt to reach the female market.²²³ As mentioned earlier, Nintendo merged viral marketing strategies with Tupperware-style parties, using “alpha moms” to position the Wii as a family-bonding game for the living room instead of being relegated to the teenager’s bedroom.

Live broadcasting of video games online has added buzz. Platforms such as Twitch.tv (acquired by Amazon) allow gamers to stream their gaming activities and let people follow and comment. Video game publishers advertise on these channels and sponsor competitions or players in order to raise awareness for their game titles. Popular users, such as the commentator known as PewDiePie, who has 38.8 million YouTube subscribers and 9.8 billion total views, entertain their audience by testing and recommending games. Game publishers sponsor these YouTube influencers in order to promote games and increase awareness for new releases.²²⁴ They aim to create a buzz before a launch by sending out beta versions to selected users. Traditional marketing channels, too, are intensively used before the launch, such as display advertisements, TV (advertising and game shows), and print (advertisement and advertorials, that is, ads that appear to be objective editorial content).²²⁵

10.12 The Marketing of Technology Products

Marketing is often the costliest stage for high-tech products.²²⁶ There are several dimensions to this: marketing to consumers, to retailers, to business customers, and to provid-

ers of complementary services. Consumer electronics (CE) product lines are typically quite large and fast changing. Marketing is therefore heavily dependent on the brand reputation and visibility. The emphasis is therefore often on promoting the corporate brand rather than the specific product.²²⁷

When it comes to consumers of tech products, different types respond differently to innovations and must be approached differently. “Innovative adopters” love to acquire advanced devices and content, and the marketing approach has to be to let them remain as “the first on their block to get XYZ.” Pragmatists or the early majority are the large group that follows the early adopters. They are nervous about state of the art and like to join an industry standard.²²⁸ Such users get confused by choice and opt for the safe choice and the market leader. These consumers (and businesses) must be approached with a reassuring approach.

Last are the conservatives or late adopters. They join reluctantly, when they have no choice. They are best dealt with by offers of easy returns, free service for a period, smooth transitions, and customer support options.

A related question is about which technology customers to target as a priority. One approach is to focus on one’s own existing customers for upgrade, especially where technology is rapidly changing. The advantages are that there is already an established relationship and that consumer anxieties are lower. Another strategy is to target competitors’ customers. This is helped by the fact that longer-term brand loyalty has declined and there are more “butterfly consumers.”

A technology firm will try to get the person who interacts with tech buyers to be on its side. Companies therefore try to influence retail salespeople at big stores. This includes information and training so that they can knowledgeably explain features to customers. It also means financial incentives such as bonuses and discounts. And it calls for the creation of positive relations by sponsoring events, gifts, and so on.

Another strategy is pricing. In the past, low prices were considered a poor approach for high-tech products because they implied that a product was either dated or of poor quality. Early adopters were also thought to be price insensitive. But low price has been increasingly used in high-tech markets to create early market penetration,²²⁹ which also generates network effects and WOM.

Another strategy to promote electronics is product placement in films. Apple, Nokia, and others have used this strategy extensively. But, as mentioned, product release may be challenging to co-ordinate with a film’s release.

Another consideration is the fit of a new product with related and complementary products. Tactical alliances are

222 Bachelor, James. “The New Rules of Video Games Marketing.” *MCV UK*. Last accessed July 10, 2017. ► <http://www.mcvuk.com/news/read/the-new-rules-of-games-marketing/0111541>.

223 Bulik, Beth Snyder. “Video games unveil feminine side.” *Advertising Age*. October 30, 2006. Last accessed July 12, 2017. ► <http://adage.com/article/print-edition/video-games-unveil-feminine-side/112830/>.

224 Kain, Erik. “YouTuber ‘PewDiePie’ Is Making \$4 Million A Year.” *Forbes*. June 18, 2014. Last accessed July 10, 2017. ► <https://www.forbes.com/sites/erikkain/2014/06/18/youtuber-pewdiepie-is-making-4-million-a-year/#29a9dbd65b25>.

225 Zackariasson, Peter and Timothy L. Wilson. “Basics In The Marketing Of Video Games – The Nature Of The Offering, Internal Marketing Of Projects, And A Product Manager’s View Of The Overall Process.” Paper prepared for 2009 NFF Conference, Turku, Finland. Last accessed July 12, 2017. ► https://www.academia.edu/766246/BASICS_IN_THE_MARKETING_OF_VIDEO_GAMES_THE_NATURE_OF_THE_OFFERING_INTERNAL_MARKETING_OF_PROJECTS_AND_A_PRODUCT_MANAGER_S_VIEW_OF_THE_OVERALL_PROCESS.

226 Easingwood, Chris and Anthony Koustelos. “Marketing High Technology: Preparation, Targeting, Positioning, Execution.” *Business Horizons* 43, no. 3 (October 2004): 27–34.

227 P-O-P Times. “Who Needs Friends? Study finds P-O-P stronger influence than word-of-mouth.” December 2005, 78.

228 Newton, Gregory, D. “Marketing Radio.” In *Media Promotion and Marketing For Broadcast Cable and the Internet*, 5th ed. Eds. Susan Eastman, Douglas Ferguson, and Robert Klein. (New York: Focal Press, 2006), 35.

229 Easingwood, Chris, and Anthony Koustelos. “Marketing High Technology: Preparation, Targeting, Positioning, Execution.” *Business Horizons* 43, no. 3 (October 2004): 27–34.

an important marketing tool. When done well, the firm's product might become a de-facto standard. Thus, prior to coming out with a major new product, a firm must approach major buyers, suppliers, retailers, even rivals and providers of complementary products and services, in order to introduce them to the new product and technology and to bring them into co-operative relationships.²³⁰ An important tool for this effort is to provide prelaunch information, especially to developers of software that utilizes the device. It also generates a prerelease buzz, and informed reviews. This marketing effort includes arranging for press articles by trusted journalists about the anticipated product. It can also serve to undercut a rival's product by creating uncertainty about its competitive viability. When such anticipated products never materialize they are known as "vaporware."

Techniques for consumer electronics marketing include:

- Endorsements. Sony, for example, used golf star Michelle Wie for its Vaio.
- In-store live demonstrations. Customers first have to get to know and understand new technologies. 28% of respondents have said that seeing products in-store had most influence on their purchasing decisions, with more impact than traditional media.
- Industry-wide promotion and education.
- Building "experience centers" in big cities.
- Event marketing, for example with a consumer electronics-equipped mobile trailers that tours around the country, allowing people to experience a product.
- train retail salespeople to master and explain features to customers and recommend products, and give them special incentives through bonuses.
- Invite celebrities and trendsetters to events and get them to try new devices.
- Generate press coverage.
- Guerrilla marketing: send street teams to trendy clubs and other similar venues.
- Product placement on films and TV shows.
- Generate WOM. Consumers are reluctant to trust electronics manufacturers. They tend to turn to friends and relatives for information before making purchase decisions.
- Concentrate on developing trusted relationships with previous customers to maximize brand loyalty and referrals.

10.13 The Regulation of Marketing

10.13.1 Self-Regulation

Marketing activities try to persuade through promises of performance and satisfaction. When these promises are exaggerated, the disappointed users may seek legal redress or will badmouth the product, and the entire industry might be tarred

in the process. The promoters of a product can easily over-promise. Even a conscientious marketer will face moral dilemmas about how strongly to word or depict a product in which they truly believe or on whose success their job depends.²³¹ To prevent the worst marketing abuses, reputable companies tend to support some type of regulatory scheme, either by the industry itself or by government. The self-regulation of marketing practices can be done by advertisers and agencies, trade associations, and by the companies themselves.²³²

Examples of industry-led self-regulation by advertising firms include:

- Advertising Self-Regulation Council (ASRC), New York;
- European Advertising Standards Alliance, an umbrella of various national bodies, Brussels;
- International Code of Advertising, International Chamber of Commerce, Paris;
- World Federation of Advertisers, Brussels.

In 1971, four industry and business associations in the USA joined forces to establish the National Advertising Review Board, which was subsequently expanded to include direct marketers and electronic retailers to become the ASRC. This is the US advertising industry's primary self-regulatory mechanism.²³³ Several of the regulatory uses have been discussed more generally in ► Chap. 8, Entertainment Law and Media Regulation. It reviews complaints from consumers and consumer groups, local "better business bureaus" and competitors. If the ASRC (and its sub-units NAD for advertising and CARU for children) and the advertiser fail to resolve the controversy, either can appeal. If the appeals panel rules against the advertiser, the advertiser must discontinue the particular promotion. If the advertiser refuses to comply, the ASRC refers the matter to the appropriate government agency and indicates that fact in its public record. The ASRC has no power to order an advertiser to modify or stop running an ad and cannot impose any sanctions, but advertisers who participate in an investigation rarely refuse to abide by the panel's decision.

In Brazil, similarly, an advertising self-regulation code has been created and is enforced by the Brazilian Advertising Self-Regulating Council (CONAR). It has no formal enforcement powers but courts usually uphold its findings. CONAR recommends to the publication that it should suspend the publication of an advertisement; and it can make its findings public.²³⁴

There also exists global media self-regulation. The World Federation of advertisers, based in Brussels, Belgium,²³⁵ is an association of major advertisers with global brands who have committed themselves to follow the Federation's marketing standards.

231 Kotler, Phillip. *Marketing Essentials*. Upper Saddle River, NJ: Prentice Hall, 1984.

232 Belch, George E. and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*, 4th ed. New York: Irwin/McGraw-Hill, 1998.

233 Belch, George E. and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*, 4th ed. New York: Irwin/McGraw-Hill, 1998.

234 Rocha, Valdir. "Advertising in Brazil-The Success of Self-Regulation." *Global Advertising Lawyers Alliance*. 2003. Last accessed July 7, 2017. ► <http://www.gala-marketlaw.com/pdf/AdvertisingRegulation.pdf>.

235 World Federation of Advertisers. "About Us." Last accessed July 10, 2017. 7 <http://www.wfanet.org/en>.

230 Easingwood, Chris, and Anthony Koustelos. "Marketing High Technology: Preparation, Targeting, Positioning, Execution." *Business Horizons* 43, no. 3 (October 2004): 27–34.

Another self-regulatory approach is that of the media itself. Many media outlets check and review advertisements before airing or publication to ensure that they are not deceptive or offensive. Some of this is based on self-protection. While media companies need not verify the claims made by advertisers, they can be held responsible if they should have known better or if they acted negligently. To avoid legal problems, media advertisers and agencies tend to check the ads for misstatements. There are also industry-wide codes of practice, such as among television broadcasters. Such industry-wide agreements reduce the ability of a large advertiser to pressure a TV outlet to accept its ads or lose them to a competitor. Such agreements are close to the line of anti-competitive practices, however, and have been disfavored by antitrust authorities.

The effectiveness of self-regulation goes only so far, because it is often hard for companies to inflict painful restrictions on themselves, or to police “free-riders” who will try to profit from other firms’ self-restraint on advertising. In other cases, self-regulation often becomes a mechanism by which established firms limit outsiders. For example, the legal and medical professional associations in America prohibited through their codes of ethics all practitioners to advertise their services, until courts forced them to stop these restrictions. Lastly, self-regulation operates as a private system and hence does not have the same protections of due process that exist in a public system of regulation.

10.13.2 Government Regulation of Advertising

Consumer protection agencies exist in most countries and in lower levels of government, such as states, cities, and provinces. In the USA, on the federal level the Federal Trade Commission (FTC) is in charge of complaints of unfair competition and false advertisement.²³⁶ In the EU, the Directorate-General for Health and Consumers focuses mainly on claims in the food and medical arena. It provides guidelines to the national regulatory bodies regarding truth of advertising.²³⁷ The Commission enforces its decisions through the European court system and has an investigative arm of 300 local offices.²³⁸

The FTC may issue cease-and-desist orders on marketing practices and fine violators. It may require corrective advertising. The FTC also has jurisdiction over false advertising of

foods, drugs, cosmetics, and therapeutic devices.²³⁹ There are triple damages for false advertising. Damages also include profits from the offending ad and attorneys’ fees. The FTC may require advertisers to include certain types of information in their ads so that consumers will be aware of all the performance and risks of the product or service. Fuel mileage claims in car ads are an example. Cigarette ads must contain a warning about the health risks associated with smoking. For ads using the internet, too, disclosures must be conspicuous and understandable by the intended audience.

10.13.2.1 False Advertising

Advertisers must have a reasonable basis for ad claims and possess substantiation of any claims made in the ads before dissemination. False advertising includes misrepresentation, bait and switch (advertising a product with no intention of selling, then switching to a higher priced item), and false price comparison. But “puffery” is permitted. Advertisers can make exaggerated, boasting, and subjective claims, provided that no reasonable buyer would rely on them, such as “the World’s Best Hot Dog.”

Companies engaged in false advertising as marketing practices can also be sued by competitors. An ad need not be literally false if it deceives. A US district court fined the Jartran company a record \$20 million in punitive damages, on top of \$20 million in compensatory damages, to pay to U-Haul International to make up for losses resulting from ads by Jartran comparing the companies’ prices that were ruled deceptive.²⁴⁰

Other countries, similarly, have rules governing advertising. In China, laws prohibit commercial ads from displaying content that may be injurious to social stability, present a danger to individuals or property, harm public interest, jeopardize social or public order, or violate positive social conventions. Violations may result in criminal prosecution.²⁴¹

10.13.2.2 Privacy Regulation

The growth of online media transactions and consumption poses challenges to individual privacy as more data becomes available, and as it becomes easier for marketers to collect, store, correlate, and distribute data about an individual and her transactions. With traditional broadcast TV no particular data privacy issue existed, given the medium’s one-way and synchronous nature. In contrast, cable TV, which operates a return channel for “addressable” communication, is technologically quite capable of identifying and recording each subscriber’s TV viewing in real time, including that of advertising messages. In the USA, the cable TV industry, to forestall government regulations as well as to give their sub-

236 Additional US regulatory agencies involved in marketing practices are the Federal Communications Commission, for the misuse of broadcasting and other licenses; the US Postal Service, for the use of the mails for fraudulent marketing; and 51 state attorney generals, and numerous state, county, and local consumer protection agencies.

237 Directorate-General for Health and Consumers (European Commission). “About Us.” Last accessed May 18, 2011. ► http://ec.europa.eu/dgs/health_consumer/about_us/our_vision_en.htm.

238 Molnár, Tamas. “Law Enforcement In the E.U.” Presented at *Pace University Law School ODR Conference*. Pace University Law School, White Plains, NY, March 30, 2010.

239 Belch, George E. and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*, 4th ed. New York: Irwin/McGraw-Hill, 1998.

240 Belch, George E., and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*, 4th ed. New York: Irwin/McGraw-Hill, 1998.

241 China Knowledge. “China Multi-faceted Stage: Rules and Regulations.” Last accessed July 7, 2017. ► <http://www.chinaknowledge.com/Marcom/Book-ChinaConsumer.aspx?subchap=4&content=12>.

scribers a greater comfort level, agreed internally to refrain from the collection or use of such data for marketing purposes. In time, the regulatory agency FCC established rules prohibiting the collection of such data on consumers when it is in identifiable form without getting their consent first, as well as from sharing that data with third parties without consent. In Europe, cable companies collect various usage data but also must maintain privacy. With the next generation of media and digital activities—mobile communications, websites, and online video—the issue is still further magnified. Now, the service providers possess real time behavioral data, locational whereabouts, plus vastly more information about the individual user, including her non-video activities, interests, shopping, and personal profile. That information is valuable to marketers and could be sold and resold. It might also be hacked by others for the purpose of commercial gain or malicious tampering.

None of this is a new phenomenon. But the new generation of communications creates a new generation of privacy issues. The number of communications carriers, platform providers, e-commerce sites, financial intermediaries, and individual participants is huge, leading to an increasingly open communications system in which information about use and user is exchanged as part of interoperability.²⁴² A troublesome aspect of the problem, both for consumers and for companies, is that different jurisdictions around the world come to different regulatory treatments of data privacy, yet the data travels globally.

A ban on data collection and individualization has its cost, too. It may prevent positive aspects of customization, such as providing suggestions to viewers based on their past preferences, or those of others who viewed the same content. As has been noted, it is only a small step from providing good service to stalking. Giving users options on their willingness to have their data used encounters several issues. First, should there be an opt-in or an opt-out? In other words, is the default a user's approval of a provider's activities, or is the default non-approval? Because of consumer inertia, people tend to stick with the defaults, so this makes a big difference on the outcomes. Where companies must induce consumer approval, they will typically need to provide some reward, such as a discount or an outright payment. Thus, the default system greatly affects the costs to the provider. A second issue is whether a marketer should in fact be able to buy a consumer's "right" to privacy, or whether such privacy should be outside the market place. Even where a country has not enacted strict rules of protecting individual data privacy, marketers in their activities should keep certain principles in mind if they wish to avoid having governmental rules enacted, or where they transact business with countries that have such rules. Companies must find ways to protect their customers' privacy, or they will face a backlash.²⁴³ People do

not want to find themselves targeted by ads for liquor, nightclubs, or escort services if they are using an online dating website.

The legal and public image pressures lead forward-looking marketers toward certain data policies:

1. Transparency: users should be clearly told what their transaction data will be used for, and by whom.
2. Access: users should be able to review the data collected on them, with the option of deleting or correcting it.
3. Collection limitation: companies should only collect personal data that is needed, and any such data should be obtained by lawful and fair means with the knowledge/consent of the user.
4. User participation: users should have the right to amend or remove the info if inaccurate or incomplete.
5. Security safeguards: personal data should be protected by reasonable security safeguards from unauthorized access and use.
6. Use limitation: companies should share personal data with third parties only with consent. Personal data shall not be kept for longer than is necessary for the purpose for which it was collected.
7. Technical and organizational protections: measures should be implemented to protect the data against unauthorized use and against accidental damage.
8. Data collection must be limited to lawful and fair means of collection.

10.14 Analyzing Marketing Performance

To run an efficient marketing operation requires an effective feedback loop. There are several dimensions of performance analysis.

10.14.1 Advertising Analysis

This type of evaluation aims to observe the impact of marketing activities, in particular of advertising, on the target market's attitude toward and awareness of the product. In advance of creating a fully fledged ad, an advertising agency may organize a focus group or a theater test audience to observe participants' reactions to a cheaply produced preliminary version of an ad.²⁴⁴ After the ad has been shown widely the advertiser can test its effects on

- awareness of the brand;
- awareness of the ad;
- Recall;
- willingness to purchase the product;
- purchase activity.

242 Noam, Eli. "Privacy in Telecommunications, Part I," *New Telecommunications Quarterly* 3, no. 2 (September 1995): 51–59.

243 Steinbock, Dan. *The Birth of Internet Marketing Communications*. Westport, CT: Praeger Books, 2000.

244 Poltrack, David. "Measuring Television Advertising Effectiveness." *Television Marketing*. (New York: McGraw-Hill, June 1983), 331–357.

One of the most popular and established audit tests in market research is the recall test. The Burke market survey company contacts an ad's audience a day after the test commercials are shown and collects information to configure the "Burke Score," which is based on consumers' recall of specific or general facts about the commercial that was aired.

It should be noted that there is a debate between advocates of studying pre/post-attitude and awareness, versus those who use audits and sales measurements. The former believe that the role of advertising is to communicate and persuade, while the latter believe that advertising's role is ultimately to increase sales, not attitudes. Proponents of pre/post-attitude and awareness studies argue that sales audits do not isolate the effect of advertising.

Part of advertising analysis is to identify whether the ads reach the target audience. A study by Nielsen in the UK showed that fewer than half of all ad impressions reached the advertiser's intended audience. For example, for a product aimed at young women, ads were actually being viewed mostly by older women and by men.²⁴⁵ According to Nielsen, if advertisements' targeting were improved, a company could, on average, either reduce the budget by 11% or improve campaign performance by 14%.

Indicators of advertising efficiency include:

- average cost per buyers reached (by media category and media vehicle);
- number of inquiries generated by ad and the cost per inquiry.²⁴⁶

10.14.2 Sales Analysis

Sales analysis evaluates measures and evaluates actual sales in relation to sales goals. It looks at changes in sales volume and in market share.

Methods of sales analysis are:²⁴⁷

- Sales variance analysis: this identifies gaps in actual performance over forecasts, and the relative contributions of different factors to that gap, for example the product's price or the advertising budget.
- Micro-sales analysis: this looks at specific products, territories, and so on, which did not reach the expected sales targets.
- Market share analysis: this identifies the sales results of a company relative to its competitors.

10.14.3 Marketing Cost Analysis

Marketing cost analysis measures the efficiency of the firm's marketing mix. It measures advertising costs, test market expenses, and sale force expenses. Marketing expenses can

be broken down by the cost of sales force, promotion, advertising, market research, sales administration, and so on. This cost can then be checked in relation to sales, in terms of various performance ratios. For example:

- sales-force cost/sales;
- advertising cost/sales;
- market research expenses/sales.

10.14.3.1 Sales-Force Efficiency

Indicators of sales-force efficiency include:

- average cost per sale (time and money);
- average revenue per call;
- number of new customers per period;
- number of lost customers per period.²⁴⁸

10.14.4 Marketing Audit Tools

We have reviewed the various metrics and analyses to evaluate marketing performance. Which works best? A marketing audit is a comprehensive review of a company's marketing activities, putting together the various types of analysis discussed and studying the performance over time. A combination of the several approaches makes most sense, combining real-world results (sales performance) with the qualitative measures of surveys of consumer attitudes.²⁴⁹ It would also incorporate measures for the effectiveness of the various marketing activities such as advertising, the cost ratios of achieving the performance, and an identification of the gaps in performance. It might isolate the sales performance pre-campaign, during the campaign, and post-campaign.

A formal marketing audit will take time and might be outdated when it reaches top managers. The profusion of marketing data can also easily create information overload for managers. To alleviate this problem, marketing performance "dashboards" have been introduced that present data and metrics as graphic and useful information.²⁵⁰ A gauge might show performance of actual outcomes against objectives or the performance of core marketing strategies and processes.

■ Figure 10.7^{251, 252} depicts a marketing dashboard with needles that show where the company stands compared with a target goal (defined by round targets). The graph breaks down the different areas of marketing into business outcomes, marketing objectives, and strategy and programs.

Another dashboard segments the marketing performance by brand metrics (e.g. brand awareness), advertising metrics (e.g. advertising awareness), and purchase metrics (e.g. mar-

245 Moss Linda. "A.C. Nielsen buys AdExpress SpotCable software." *Multichannel News*. January 25, 1993. Last accessed July 7, 2017. ► <http://www.highbeam.com/doc/1G1-13373859.html>

246 Other measures include indicators of sales promotion effectiveness such as percentage of coupons received or the number of inquiries resulting from demonstrations. Kotler, Phillip. *Marketing Management: Analysis, Planning, and Control*. Hoboken: Prentice Hall, 2015.

247 Kotler, Phillip. *Marketing Management: Analysis, Planning, and Control*. Hoboken: Prentice Hall, 2015.

248 Kotler, Phillip. *Marketing Management: Analysis, Planning, and Control*. Hoboken: Prentice Hall, 2015.

249 Poltrack, David. *Television Marketing*. (McGraw-Hill, June 1983), 331–357.

250 Wikipedia. "Marketing Performance Measurement and Management." Last accessed July 7, 2017. ► https://en.wikipedia.org/wiki/Marketing_performance_measurement.

251 Vision Edge Marketing. "Marketing Dashboards." Last accessed July 7, 2017. ► <https://visionedgemarketing.com/develop-a-marketing-dashboard/?platform=hootsuite>.

252 Source copyright 1999-2017, VisionEdge Marketing, Inc. All rights reserved. Illustration of Actionable Marketing Dashboard based on Accelance® Connecting Marketing to Business Results™, patent-pending Marketing alignment and accountability methodology and application. Accelance is a registered trademark of VisionEdge Marketing, Inc.



Fig. 10.7 Marketing dashboard

ket share). A third dashboard may present the effectiveness of marketing techniques on online websites by showing visitors, cost of advertisements, and the websites that led most viewers to the target website. Still another dashboard might show the effectiveness of different marketing types (e.g. ROI on website, direct mail, and conferences). These techniques and approaches are only in their infancy.

10.15 Marketing and the Product Life Cycle

The life cycle of media and technology products moves from early introduction, to growth, to maturity, and to decline. This life cycle can be short and intense. What are the implications for marketing management? There are different marketing strategies for each phase. Earlier in this chapter, we identified the Bass Model as a tool for forecasting sales growth of an innovation. It attempts to predict how many consumers will eventually adopt the new product and when will they adopt it.

In the early stage, the product is introduced to customers who are innovators. As we discussed, innovators are fundamentally committed to new technologies or styles. They view

technology as toys and style as creativity. For some of them money is not the major consideration. This means that the marketing needs to be based on quality, performance, and innovation, not on price. For the company, being able to charge a high price helps recover the upfront expenses, lends cachet to the product, and when prices come down in the next stage, give other buyers the sense that they got a good deal.

In contrast, another important group of early adopters have no money and are often young, but they have considerable influence and multiplier factor, and may add a “cool” factor. To reach them, WOM marketing is effective. To gain them, the marketer might seek ways to offer major discounts, and help organize a community. In this phase of the product, costs are high relative to sales, and the risk is considerable.

In the second stage, the growth phase, the product’s sales, profits, and the number of competitors all increase. The focus shifts from early adopter demand to brand-specific and broader-gauged advertising. Distribution is key. Another consideration is the need to build market share in advance of competitors. One major strategy is to give away the product to build market share and loyalty. This foregone revenue from consumers is a marketing investment. Companies often practice this strategy toward consumers by giving away com-

puter programs so that they can sell pricey software to business firms. In a growth market, where many potential users are not quite prepared for the product, cost elements might be high: advertising expenses, consumer educational efforts, customer support, and the offering of high margins to retailers, that is, wholesale discounts, to carry the product.

The third stage, the maturity phase, is generally characterized by slow growth. This is the state where cautious customers adopt technology when it has been proven and its style has been established.²⁵³ Profits are stable to decreasing. Consolidation among competitors is strong, and there is a stronger differentiation of market segments. Prices also stabilize, then decline. This is the longest phase of the product life

cycle. It is a time for stylistic rather than functional modifications. Companies start to invest in heavy consumer promotion to maintain market share. Moreover, as dealer margins shrink companies must give promotions to dealers to retain loyalty.²⁵⁴

Marketing strategies in the maturity phase include the promotion of more frequent and different uses of product and low pricing. This is followed by consolidation and tacit cartel behavior, in which competition—and marketing—is oriented around features rather than price. Branding becomes very important. The decline phase is characterized by a long-run drop in sales and declines in profits and the non-essential market.

10.15.1 Case Discussion

Marketing Efforts Over the Life Cycle of the Magazine *Fly & Sky*

1. *Start-up phase.* *Fly & Sky* is a young and unknown brand during the start-up phase. The strategy is to introduce the *Fly & Sky* product and the brand to the public. Marketing activities during the start-up phase will focus on activities that create buzz and reach the specific target audience who will become loyal subscribers in the future.

WOM and prelaunch information should be the focus of the marketing activity. This is a cheap and effective way to create buzz in the communities of the target audience. It can be jump-started through giveaways (pens, etc.), selective offers of free copies, and so on.

- Marketing activities for the start-up phase, as discussed earlier, include the use of
- ads in related magazines (*Golf Digest*);

- promotion at air shows and similar venues;
- celebrity endorsers;
- press releases.

The company should help create a social media infrastructure that will generate an outlet for prerelease information, generate early buzz, and create a community of users.

2. *Rapid growth phase.* *Fly & Sky* marketing should target larger potential sub-markets of readers. It should put an effort into building a brand and generate a high market share that appeals to advertisers. It should encourage its online community.
3. *Plateau and stability phase.* Brand-building activities are the focus. *Fly & Sky* should be a driver for flight education, offer summer camps and fly-ins for aviation enthusiasts, employ young people interested in the industry, sponsor air

shows and adventure flights, and advocate on aviation policy issues.

Marketing should try to convert occasional news-stand buyers into regular subscribers, and encourage existing subscribers to renew their subscriptions. This would be done by rewarding loyal subscribers with discounted prices on merchandise, apparel, flight electronics, and so on, and through membership events.

4. *Decline phase.* Existing infrastructure and social media should be maintained. It should continue to hold annual charity events, push existing programs, and be a presence at air shows. But new initiatives are less likely for budget reasons. As in the start-up phase, the marketing plan should use, in particular, other Condé Nast magazines.

10.16 Outlook

In this chapter, we have learned what marketing is; the Four Ps of marketing: product, pricing, placement, and promotion; community-based marketing; and online tools. We have seen how to set the advertising budget, how to allocate among media types, how to promote to advertisers, how to use the internet for marketing, and how to analyze marketing performance.

The abundance of products and services enhances a market. When food ceased to be scarce, its quality, variety, and consumption increased. The same is true for media information. How should a company compete in an abundant and over-supplied market? Price competition is not a strong option, since if one company lowers its price so will

the others, given the cost characteristics of information and services with their low marginal cost. Therefore, product differentiation is the prime competitive strategy. But it is expensive and difficult for a media firm to differentiate itself by consistent and long-term originality and quality. A similar approach, customization, moves products out of industrial-style mass-production and mass-media and in the direction of individualization. But this, too, is expensive and difficult. New technologies provide an edge for early adopters among marketers, but soon will be used by most competitors, too, and the advantages of innovation are often temporary.

This leaves marketing as a major competitive approach. Marketing activities will therefore be even more important, more complex, more expensive, and require more creativity

253 Moore, Geoffrey A. *Inside the Tornado*. (New York: HarperBusiness, 1995), 17.

254 Lamb, Charles W., Joseph F. Hair, and Carl D. McDaniel. *Marketing*. Cincinnati, OH: South-Western College Publishing, 1996.

than ever. Marketing efforts and the associated costs will have to greatly expand. In the information economy, marketers are even more central. The new generation of media marketers will play a major role in shaping the product, refining techniques for getting attention, analyzing data on users, customizing the offerings, and creating better links with behavioral sciences to make marketing efforts more effective. Much of the responsibility for success or failure of media products will rest on their shoulders, keyboards, and creative abilities.

10.17 Review Materials

Issues Covered

In this chapter, we have covered these issues:

- How the marketing function is organized.
- What the special aspects of media marketing are.
- How firms integrate marketing and product design.
- How firms position products.
- What the advantages of internet brands are.
- What the pricing strategies for media firms are.
- How marketers gain people's attention with WOM, buzz, and viral marketing.
- What the implications of limited attention span are.
- What the role of advertising agencies is.
- How to choose the most effective advertising platform.
- How to determine an advertising budget.
- How to allocate within a media and marketing category.
- What the pros and cons of product placement are.
- What problems in e-marketing and m-marketing are.
- What the types of online marketing approaches are.
- What demand-side and supply-side advertising platforms do.
- How media forms promote their products to advertisers.
- How influencers help with promotion.
- What the challenges in the marketing of high-tech products are.
- How marketing is regulated.
- How to manage the self-regulation of marketing.
- What the privacy issues and laws affecting marketing are.
- How to analyze marketing performance.
- How to customize through consumer-generated information.
- What the constraints on marketing through privacy protections are.
- What types of pricing approaches marketers use.

Tools Covered

We used various tools to deal with these issues, such as:

- Customer lifetime valuation.
- Conjoint analysis.
- Positioning analysis.
- Bass Model of diffusion.
- Determination of overall advertising budget.
- Optimal advertising mix.
- Allocation of advertising within a medium.
- Ratings, shares, and CPM analysis.
- Behavioral targeting.
- Sales analysis.
- Marketing Cost Analysis.
- Marketing dashboards.
- Econometric demand estimation.
- SEO.
- Brand management.

10.17.1 Questions for Discussion

1. What are the budget considerations when promoting a film in global markets?
2. What problems will a globalization of bookstore chains face?
3. How can one generate free promotion for a new novel?
4. The internet has made it possible to practice interactive one-to-one marketing. What are the challenges that face this? For which media products and services would it work best?
5. How can a consumer magazine assess the effectiveness of a campaign?
6. How does the advent of internet and interactive marketing alter the role of traditional media outlets in the marketing of media products?
7. How is marketing research implemented for magazines to increase marketing efficacy? And for blogs, in comparison?
8. In what ways, if any, does marketing of media products and services differ from marketing of other consumer goods?
9. What kinds of new internet tools do media companies have at their disposal to promote their product? What are the strengths and weaknesses of these tools over traditional methods?

10.17 · Review Materials

- ? 10. Describe the various ways in which Google is involved in online advertising.
- ? 11. Is product placement an effective means of marketing a product? How can firms track the effectiveness of their product placement?

10.17.2 Quiz

- ? 1. At what phase of the product life cycle would you see differentiation and price stabilization?
- Introductory phase;
 - Growth phase;
 - Maturity phase;
 - Decline phase.
- ? 2. Which groups make the bulk of purchases and adopt technology only when it is proven?
- Innovators;
 - Early adopters;
 - Early majority;
 - Late majority.
- ? 3. What is the lifetime value of the customer?
- The present value of all future profits that a company can potentially generate from customer;
 - The future value of all the profits that a company can generate from its present customer;
 - Customer retention and loyalty is incorporated;
 - Both A and C;
 - Both B and C.
- ? 4. Which of the following is a fundamental challenge to media marketing?
- Price deflation;
 - Slow growth and cost inflation of gaining attention;
 - Increased creation and production;
 - A and C;
 - All of the above;
 - None of the above.
- ? 5. Which of the following is a forecasting tool for customer demand?
- Focus groups;
 - Test marketing;
 - Computer models and simulation;
 - Historical analogy;
 - Expert survey;
 - All of the above.
- ? 6. What percentage of magazines will survive their first four years?
- 85%;
 - 60%;
 - 50%;
 - 20%;
 - 10%.
- ? 7. To which stage of a product's life span do these features correspond?
- Slow growth
Stable and slowly decreasing profits/prices
Heavy marketing
- Introductory phase;
 - Growth phase;
 - Maturity phase;
 - Decline phase;
 - None of the above.
- ? 8. Price difference between hardback and paperback books is much larger than the cost difference between the two. This is an example of:
- Market pricing;
 - Penetration pricing;
 - Flat rate pricing;
 - Value based discriminatory pricing;
 - Cost-plus pricing;
 - Value pricing based on customer's willingness to pay;
 - None of the above.
- ? 9. In which advertising budgeting method does a company establish budgeting amounts by matching competitor's percentage of sales marketing expenditures?
- Marginal analysis approach;
 - ROI;
 - Competitive parity approach;
 - Objectives approach;
 - Quantitative model approach;
 - None of the above.
- ? 10. Which formula approximates the life-time value of a customer?
- LV: Lifetime value.
M = margin.
I = discount rate.
R = retention rate.
AC = acquisition cost.
g = growth rate
- $LV = \frac{M \cdot R}{(1+I) - R(1+g)} - AC$;
 - $LV = \frac{M \cdot R}{(1+I) + R(1-g)} - AC$
 - $LV = \frac{M + R}{(1-I) - R} - AC$
 - $LV = \frac{M \cdot R}{(1+I) + R} - AC$
 - None of the above.

11. True or false: repeating a television ad more frequently than the competition affects brand preference in a mature market.
A. True;
B. False.
12. A Warner Brothers movie is discussed on CNN.com. What is this an example of?
A. Zone targeting;
B. Media globalization;
C. Database marketing;
D. Cross media marketing;
E. All of the above.
13. Which of the following can affect the effectiveness of an ad?
A. Length and frequency of exposure;
B. Ancillary costs of production;
C. Customer “reach”;
D. A and C;
E. All of the above.
14. Research shows that the percentage of positive/negative movie critic reviews is a significant indicator of which of the following?
A. Revenues in the first one to four weeks after the movie’s release;
B. Revenues in later weeks;
C. Overall movie revenue;
D. A and C;
E. B and C;
F. All of the above.
15. An artist’s album sales increase in the regions they tour after their concert.
A. True;
B. False.
16. What is the most influential advertising platform for theatrical musicals?
A. Radio;
B. Magazines;
C. Television;
D. Newspapers;
E. None of the above.
17. What is the most influential advertising method for video games?
A. Movie-like trailers;
B. Movie websites;
C. Both;
D. None.
18. Which of the following is a method for marketing books?
A. Get the title mentioned in magazines and newspapers;
B. Book fairs;
C. Talk shows;
D. B and C;
E. All of the above.
19. Approximately what percentage of the revenue is used for marketing of academic textbooks?
A. 45%;
B. 30%;
C. 25%;
D. 10%;
E. 5%.
20. Which of the following corresponds to the biggest book sales outlet?
A. Retail stores (bookstores, Wal-Mart, etc.);
B. Direct sales via book clubs;
C. Direct sales via mail or internet;
D. None of the above.
21. Which of the following tools can be used to enhance magazine subscription sales?
A. Rate cards;
B. List brokers;
C. Third party partnerships;
D. B and C;
E. All of the above.
22. What time of the year is considered the best for mailing material for direct mail testing of magazine subscriptions?
A. The beginning of the summer;
B. The end of the summer;
C. Before Christmas;
D. After Christmas;
E. Any season;
F. None of the above.
23. Future magazine pricing strategies will shift from massive advertising discounts to:
A. Consolidating titles for advertising purposes;
B. Offering more package deals to advertisers;
C. Increasing circulation revenues;
D. A and C;
E. None of the above;
F. All of the above.

24. Which of the following TV ad services guarantees to the advertiser a certain number of viewers and entitles the advertiser to “make goods” in case this viewership level is not reached?
- A. Sponsorship of a whole program;
 - B. Partial sponsorship of a program;
 - C. Upfront buying;
 - D. Spot buying;
 - E. None of the above.
25. Which of the following is a reason to use telemarketing?
- A. An active marketing strategy;
 - B. Can reach a specific audience;
 - C. Allows for customer feedback;
 - D. Allow for differentiation of pitch;
 - E. A and D;
 - F. All of the above.
26. What is one disadvantage of contracted telemarketing?
- A. It is more costly than TV advertising;
 - B. Unauthorized service transfer, slamming;
 - C. Customers are not answering their phones;
 - D. Contractors are outsourcing their employees;
 - E. None of the above.
27. Which of the following is not an advantage of internet marketing?
- A. Powerful in collecting useful data for targeting individuals;
 - B. Internet is interactive;
 - C. It can reveal whether an ad is working or not;
 - D. Very effective in persuading indifferent customers;
 - E. Most households are not connected to the internet;
 - F. D and E;
 - G. C, D, and E.
28. What is one of the problems that face online bookstores (Amazon.com, etc.)?
- A. Price pressure, more price competition online;
 - B. Bookstores are not able to handle the very high online demand;
 - C. Globalization of these stores can pose problems, such as selling books which are unauthorized in different countries;
 - D. A and C;
 - E. All of the above.
29. Sequential movie distribution is based on:
- A. Releasing the movie to all markets and sub-markets at once;
 - B. Releasing the movie to the markets that make the most revenue per unit time first, and then cascade to the other markets by revenue/time decreasing order;
 - C. Releasing the movie to American markets first and then to foreign markets;
 - D. None of the above.
30. What is a disadvantage for book chains?
- A. They have an influence on publishers in choosing which books to publish;
 - B. Central buying system;
 - C. Poor inventory control.
31. Which of the following statements about the marketing of media products and services is incorrect?
- A. Media products have low marginal costs and high fixed costs that provide strong economics of scale;
 - B. It is difficult to exclude unauthorized consumption and compete with “free” products as a marketer;
 - C. There is often a short product cycle and a short marketing window;
 - D. The product must be strongly differentiated from those of rivals;
 - E. There is a normal distribution of success in the media industry.
32. Which of the following statements is correct?
- A. Product placement is not an effective way to advertise without being obtrusive;
 - B. Product placement is not a major way to overcome the trend of consumers skipping advertising commercials;
 - C. Product placement is not a way of advertising that informs the audience in detail about a product;
 - D. Product placement is not increasingly used in video games, as a new way to reach young males.

Quiz Answers

- ✓ 1. C
- ✓ 2. B
- ✓ 3. D
- ✓ 4. E
- ✓ 5. F
- ✓ 6. D
- ✓ 7. C
- ✓ 8. D
- ✓ 9. C
- ✓ 10. A
- ✓ 11. A
- ✓ 12. D
- ✓ 13. D
- ✓ 14. E
- ✓ 15. A
- ✓ 16. C
- ✓ 17. A
- ✓ 18. E
- ✓ 19. C
- ✓ 20. A
- ✓ 21. D
- ✓ 22. C
- ✓ 23. F
- ✓ 24. C
- ✓ 25. F
- ✓ 26. B
- ✓ 27. F
- ✓ 28. D
- ✓ 29. A
- ✓ 30. A
- ✓ 31. E
- ✓ 32. C