



Marketing of Media and Information

10.1 Marketing: General – 270

- 10.1.1 What Is Marketing? – 270
- 10.1.2 The Marketing Function: Structure and Organization – 271
- 10.1.3 How Does the Marketing of Media Products and Services Differ from Regular Marketing of Other Products? – 271
- 10.1.4 Limited Attention – 272

10.2 Case Discussion – 273

10.3 Product Design – 274

- 10.3.1 Statistical Tools for Product Design – 274

10.4 Product Positioning – 275

- 10.4.1 Case Discussion – 276
- 10.4.2 Demand and Audience Analysis – 276
- 10.4.3 Case Discussion – 277
- 10.4.4 Competitor Analysis – 277
- 10.4.5 Branding – 277

10.5 Pricing – 278

10.6 Promotion – 279

- 10.6.1 Promotion: General – 279
- 10.6.2 Timing – 279
- 10.6.3 Word of Mouth, Buzz, and Viral Marketing – 279
- 10.6.4 Publicity and Public Relations – 280
- 10.6.5 Product Placement – 280

10.7 Advertising – 281

- 10.7.1 Advertising: General – 281
- 10.7.2 Advertising Agencies – 281
- 10.7.3 How Much to Spend on Advertising? – 282

- 10.7.4 Case Discussion – 284
- 10.7.5 The Optimal Mix of Marketing Activities – 284
- 10.7.6 Case Discussion – 285
- 10.7.7 Allocation Within a Media and Marketing Category – 286

10.8 Promotion to Advertisers, Retailers, and Distributors – 287

- 10.8.1 Promotion to Advertisers – 287

10.9 The Impact of the Internet on Marketing – 288

- 10.9.1 Customization, Targeting, and Individualization – 289
- 10.9.2 New Tools for Creating Marketing Impressions – 289
- 10.9.3 New Types of Reach – 290
- 10.9.4 Tracking Customers – 290
- 10.9.5 Location-Based Marketing – 290
- 10.9.6 Dynamic Pricing and Auctions – 290
- 10.9.7 Social Marketing – 290
- 10.9.8 Payments and Micropayments – 291
- 10.9.9 Data Mining and Online Market Research – 291
- 10.9.10 Relationship Building – 291
- 10.9.11 Creating a Marketplace for Online Advertising – 291

10.10 The Promotion of Media Products – 291

- 10.10.1 Film – 291
- 10.10.2 TV and Cable Channels – 292
- 10.10.3 Music – 292
- 10.10.4 Books – 292
- 10.10.5 Newspapers – 293
- 10.10.6 Magazines – 294
- 10.10.7 Video Games – 294

10.11 The Marketing of Technology – 294

10.12 The Regulation of Marketing – 295

- 10.12.1 Self-Regulation – 295
- 10.12.2 Government Regulation of Advertising – 296
- 10.12.3 False Advertising – 296
- 10.12.4 Privacy Regulation – 296

10.13 Analyzing Marketing Performance – 297

- 10.13.1 Advertising Analysis – 297
- 10.13.2 Sales Analysis – 297



10.13.3 Marketing Cost Analysis – 298

10.13.4 Marketing Audit Tools – 298

10.14 Outlook – 298

10.15 Review Materials – 299

10.15.1 Questions for Discussion – 300

10.15.2 Quiz 300

Quiz Answers – 303

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 after 2000, the media and information industries experienced a series of calamities: the dot.com bubble, the telecom crisis, the music bust, the cable-TV cord-cutting, the e-publishing's 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 to go around, 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.

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.

In this chapter we will learn what marketing is: the 4 Ps (product, pricing, placement, and promotion); the use of word-of-mouth; the advertising system; 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.

10.1.1 What Is Marketing?

Marketing is the process of creating a 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.¹

Marketing vs. distribution These two terms are often used interchangeably but they are really different. Marketing is the creation of the market. Distribution is the delivery of the product to the market.

Marketing vs. 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 coordinated, with a feedback loop from salespeople based on their experience with customers. Marketers, in turn, use the information to improve products and marketing plans.

Upstream marketing vs. 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).

Typically, media firms must market in both directions—upstream and downstream.² This is a major difference to the marketing of most other products, where marketing is purely downstream. However, this duality is spreading to other industries as firms add advertising for third parties their products.

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

2 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.

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 CEO and typically oversees vice presidents of sales and of marketing, and often of customer relations, and marketing communications. He or she manages and coordinates 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 of advertising,” “associate publisher/advertising director,” “advertising director,” “national sales manager,” or “sales manager.”³

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 to the much longer 53.8 months of the average CEO.⁴ In Brazil, similarly, the average CMO tenure is 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 them 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 combine these dimensions in a matrix system that combines regions, products, customer classes, and platforms.

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 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*—e.g. piracy—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.⁵ At the same time, greatly reduced costs of transmitting information over distances leads to global rather than local markets.

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

4 ANA/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>.

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

- *Unique products.* 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.”⁶
- A special complicating factor is that *some media industries are in secular decline.* From 1950–2000, newspaper penetration in the USA declined from 38 to 24% of the population. Circulation increased by 19%, but the population was up 70%. After 2000, strong declines in absolute terms began, driven by online-based news, totaling by 2016 to a loss of about one-third of circulation.
- There is especially *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.⁷ There has been a large increase in the number of product makers. Success is increasingly rare in statistical terms. Compared to 1998, fewer than half the new releases make it to the bestsellers lists, reach the top of audience rankings, or win a platinum disc.
- There are *strong “network effects.”* Preferences of users 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, leads in competition to a *price deflation* near marginal cost levels. That 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 are a significant and growing number of competing products in the media market. 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 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.” While supply is growing exponentially, the demand is growing much more slowly, due 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 in the USA, 81% of women aged 18 to 34 could be effectively reached with three TV advertisements. By 2000, 97 were needed,⁸ and the number keeps rising.

The mismatch with 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 movie climbed from \$12 million in 1991, to \$22 million in 1997, to \$31 million in 2001, and to \$35 million in 2006. (The Motion Picture Association of America subsequently stopped reporting these figures.) For some films, marketing expenses were easily double that.

Thus, the most fundamental problem for marketing media is the rising competition for attention: there is 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,

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

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

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

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, and that often requires a higher advertising volume, which benefits those media companies that are platforms

for such advertising. Such advertising, however, is declining in price in terms of per unit cost, due to the increased supply to advertisement placement opportunities.

For these reasons and others, 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 hypothetical magazine project called *Fly & Sky*.

Condé Nast is owned by Advance Publications, a privately held company controlled by the Newhouse family. In 2015, Advance Publications took \$8 billion in revenue and had 25,000 employees. It 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*), with two 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.⁹ 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 owns Condé Nast (founded in 1909 and acquired in 1959) and Fairchild Publications (founded in 1892 and acquired in 1991 from Disney). These two mag-

azine 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 are sizeable revenues from high-priced copies at the newsstand but most sales are by subscription. The industry is moving fast into e-publishing. Overall, the market for magazine publishing has declined, however.

Condé Nast's magazine title line-up is sprawling. Perhaps best known are *The New Yorker*, *Vanity Fair*, *Vogue*, and *Wired*. Others 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. Perhaps the biggest success in male-oriented magazines is *Hemmings Motor News*, which is an 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. The *Hemmings Motor News* website includes the 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 250,000 copies a month. It includes around 20,000 pages of advertisements per year.¹⁰

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

9 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>.

10 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

The field of marketing is full of easy-to-recall catchphrases and terminology. Among these are the “4 Ps” of marketing:

- Product;
- Positioning (or placement);
- Price;
- Promotion.¹¹

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.¹² 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 of consumer disfavor. Originality is one dimension of a new product. It may make a product “cool,”¹³ 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.

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 cater purely to the preferences of the market. In time, product design became increasingly an interactive process of both supply and demand considerations. Technology product 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.

Taking one step further, customers provide their input into the design process directly. Traditionally, surveys, focus groups, and test marketing have been used. More recently, online social platforms have been used for feedback. A fundamental problem 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.”¹⁴ 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 being drawn into the marketing orbit. Newspaper publishers came up with the concept of the “total newspaper,” attempting to coordinate editorial and business departments with each other in order to create an audience-oriented newspaper.¹⁵ Stories and topics being covered, it was hoped, would reflect audience interests more 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 brand reputation.

10.3.1 Statistical Tools for Product Design

Given the great uncertainties about media products, companies have looked for statistical tools

11 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>.

12 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.

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

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

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

for identifying product designs that improve 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. Conjoint analysis 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.

10.4 Product Positioning

The positioning of a product into the market is an essential factor for demand. Positioning is the way a company wants customers to think about its brand versus that of the competition. To position a product it must understand the market and its customers. The methods for accomplishing this goal are several 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.

Positioning is becoming increasingly important as mass production for mass markets gets partly substituted by specialized products for niche markets. 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 a “hard” type of positioning. Content industries favor the “soft” approach.

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 videogame console maker positioned Nintendo's Wii 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. Many radio stations 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 public relations department of a major company. “Tiffany” is single but would like to have a family in the future, lives in an apartment with a room mate, enjoys music and the outdoors, is comfortable in casual clothing, and is a member of a health club. For the radio station, “What would Tiffany think?” is a key question in any discussion.

This approach is a short hand 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 rival offers is usually important in order to avoid being in a “commodity” market.

10.4.1 Case Discussion

Condé Nast—Positioning Fly & Sky

Condé Nast must shape an image or identity for the magazine, a process known as “product positioning.” Who are the rivals? Where are the under-served market 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. Plus, aviation magazines from other English-speaking countries aimed at an international readership.

What Condé Nast needs to do is to decompose the market for aviation magazines and its

components (■ Fig. 10.1) and look how well-served by other magazines these segments are.

The bars represent different use types, such as student pilots and helicopter pilots. For each category the bars show its size as well as how well it is served by existing magazines, and the 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 under-served, as is the market for pilots who fly for fun on weekends. The market thus leaves room for those serving aviation enthusiasts who are looking for adventure

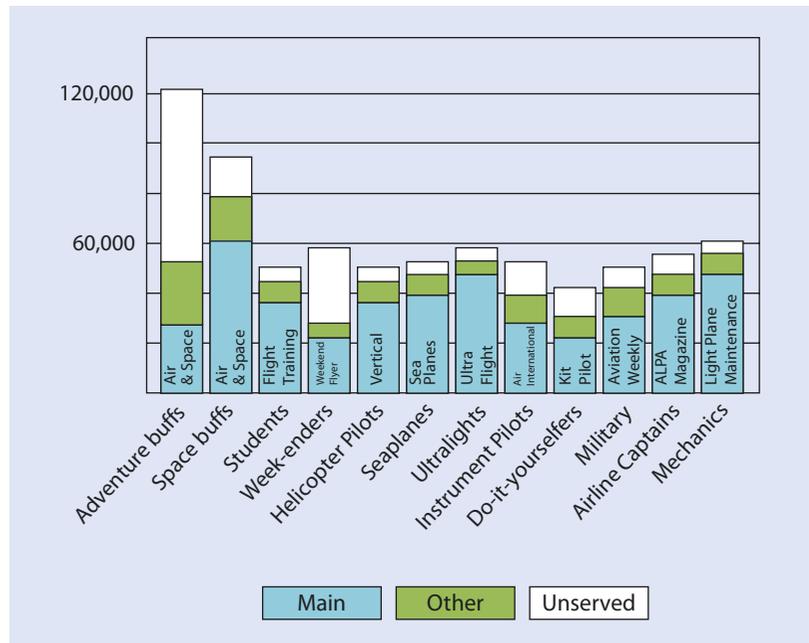
fantasies, or who fly only occasionally for recreation. These are overlapping customer groups that Condé Nast can consider attracting.

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:

- He 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;
- So right now he’s dreaming.

10

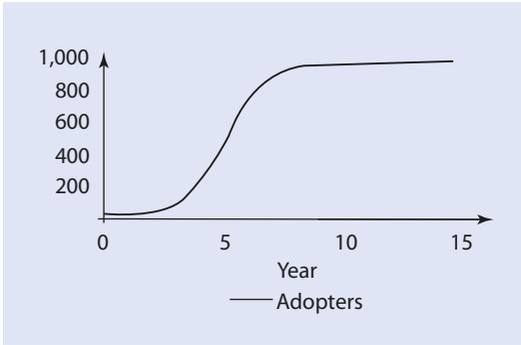
■ Fig. 10.1 Coverage of reader segments by major magazine



10.4.2 Demand and Audience Analysis

An important task is to estimate the size of the market in which one operates, and what realistic sales goals would be. The *Bass diffusion model* is

a way 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 products and technology.¹⁶ It postulates that the penetration of a product over time depends on two



■ Fig. 10.2 The Bass model: diffusion of adoption

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.

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

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

where:

- $N(t)$: 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, e.g. word-of-mouth effects).

The average value of p is 0.03 and often less than 0.01. The average value of q is between 0.3 and 0.5.¹⁶ 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 would be reached in about six to seven years. (See ■ Fig. 10.2).

10.4.3 Case Discussion

Condé Nast's *Fly & Sky*—The Bass Diffusion Model

According to the US Census Bureau, the population of American males aged 22 to 55 is about 74 million. Assume that 2% of this demographic group is interested in aviation. Thus, the potential market for the magazine is:

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

We assume that the parameters of innovation and imitation are the average values found for other products, $p = 0.015$, $q = 0.20$.

Suppose that in 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 a 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.

10.4.4 Competitor Analysis

In order to position one's product, one must understand the appeal and identity of one's competitors. Competitor analysis is discussed in more detail in ► Chap. 14 Strategy Planning in Media and Information Firms.

10.4.5 Branding

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

16 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.

17 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.

Effective branding has several advantages to 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.

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 a news source with credibility¹⁸ and research has shown that trust raises circulation.

Branding usually involves a name, a logo, a distinctive look, and so on. 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; every Globo-affiliated TV station, as well as many of its newspapers and magazines, use it.

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 (same 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.

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. 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.”

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.

10.5 Pricing

The third element of marketing’s classic 4 Ps is pricing. It is the setting of prices by the seller and is an expression of a business’s strategy and its marketing plan. It 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 differentiation among customers, because each values the product differently. Price differentiation is prevalent in media. Books are sold as expensive hard-cover volumes first, then as cheap paperbacks. The price difference is much larger than the cost difference. In consumer electronics, a 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 a strategic goal 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.¹⁹ Conversely, a firm might use “premium pricing,” setting a high price as part of creating a superior image of quality.²⁰

18 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.

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

20 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, public relations, 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."²¹

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.²² New generations of videogame consoles 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 as gifts to others.

A second dimension for timing is the sequencing of "release windows" to different submarkets or distribution platforms—whether geographic, willingness-to pay, or technology-based. The basic principle for a 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.²³

10.6.3 Word of Mouth, Buzz, and Viral Marketing

Viral marketing is a type of promotion that activates the users themselves to distribute speedily

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.²⁴ The advantages of WOM are its credibility and its low cost. Start-ups and independent product marketers therefore benefit most.²⁵ Generating buzz is often carefully planned and constructed.

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 word-of-mouth effect. One method is to send teams to "in" clubs where they distribute the product or discount cards to particularly trendy people.²⁶
- Distribute a sample. A movie trailer is an example. 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 and what the target audience likes and is interested in, what is trending, and how quickly they trended.
- Create shareable content.
- Create a hashtag to help increase viral attention.
- "Trendjacking": piggyback on things that already are going viral
- Humanize the campaign.²⁷
- Create "cool." Google was able to generate buzz for its new Gmail when it offered memberships to only a select number of people, which generated a massive WOM.

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

22 Martine, Danan. "Marketing the Hollywood Blockbuster in France." *Adweek Magazines' Technology Marketing* 23, no. 3 (Fall 1995): 131.

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

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

25 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>.

26 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>.

27 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/>.

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 asking 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 U.S. Government to require that all viral marketing representatives must disclose their identities when operating.²⁸

10.6.4 Publicity and Public Relations

Public Relations are communication techniques to help an organization create a good reputation for itself, its goals, and its projects.²⁹ Publicity, a subset of PR, is the generation of positive news stories.³⁰ The target audiences of a publicity campaign are, in particular, other media, potential customers, employees, 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. 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 need 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 the journalists. More ingeniously, studios might generate "back stories" that claim to be news, in order to get news coverage.

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.³¹ 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 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 broadcaster's need for material and the author's need for exposure.³²

When it comes to technology products, pre-product information is often covered in the press or in trade magazines.³³ 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 to be found in ► Chap. 8 Managing Law and Regulation.

10.6.5 Product Placement

Placing a company's product or brand within other media content is a way by which companies can promote their product. For the film *The Devil Wears Prada*, starring Meryl Streep, Prada paid for the title and supplied many of the bags and shoes featured in the film. 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.

28 Shinn, Anns. "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.

29 Henry, Kenneth. "Perspective on Public Relations." *Harvard Business Review* (July–August 1967): 30.

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

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

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

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

Product placement can be an effective way to advertise without being “in-your-face” and without it getting lost in the clutter of other advertisements. They are a major way to overcome the trend of consumers skipping advertising commercials on time-shifted online TV. The viewer is rarely informed about a product being featured as a paid promotion except fleetingly in the final credits. The audience, ideally, should not notice the placement at the time yet remember it in an almost subliminal way. People recall 25% of products seen in the background, which is high. 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. Product release is difficult to coordinate with the film release timing, especially across the globe.

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 prime time 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.

Product placement has moved from film and TV to videogames, as a new way to reach, in particular, young males, a target demographic that has increasingly moved away from television and therefore TV commercials.³⁴

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 two-fold:

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

10.7.2 Advertising Agencies

Standing between the media company and a company’s marketers is typically the advertising agency. It also provides services such as market research, design of a media plan, and its execution.³⁵ 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 (■ Table 10.1). 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 Internet advertising campaigns and search engine optimization.

Advertising agencies used to receive much of their income as a percentage of advertisement billing—usually 15%. However, negotiated commissions can set a different rate, for example 10%, or at a cost-plus basis, a set fee, or a 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.

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

	Agency group	Revenue in \$ billions
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 webpages

34 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>.

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

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 the basic requirements and budget for an ad campaign. The agency then creates a strategy, produces the advertisements, buys time or space, and creates activities.

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, which will be discussed further below. A company must avoid over-spending which hurt profits, or under-spending, which potentially weakens the product.³⁶ There are several approaches.

1. *Resources Available.* The advertising budget is whatever the firm can afford in a given year. However, this means that money would be wasted through over-generous advertising spending in a good year, while in a bad year the low advertising budget would exacerbate problems.
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.³⁷ 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%.³⁸
3. *Competitive Parity.* Firms match one another's advertising budgets. Companies therefore often subscribe to services such as "Competitive Media Reporting," which estimate 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 subscribers³⁹ and Charter, after a merger with Time Warner Cable, had 17.1 million.⁴⁰ But should they spend roughly the same on advertising? Charter/Time Warner Cable is a well-known 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 from cable. On the other hand, in rural areas unserved by cable, Dish has a much easier time to persuade people to subscribe. Also, 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.
4. *Meeting Objectives.* The fourth approach is to consider the firm's communications objectives and then identify the budget required to attain these goals. These objectives define communications tasks. These tasks should be measureable, with a target audience, the degree of change sought, and the time period for the objectives. A hypothetical illustration of the objectives approach is the promotion of a new film on national TV channels. The analysis proceeds in steps:

36 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.

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

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

39 Tartaglione, Nancy. "Dish Network Q1 Earnings Fall 6% on 143 K 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/>.

40 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/>.

1. Define the desired target market:
 - Identify a potential target market for the film (young adult males) as 50 million people (i.e. about 17% of the US population);
 - Set the goal of 8% of the target market (four million people).
2. Estimate the number of advertising impressions needed to persuade each 1% of the target population:
 - For example, assume that each single exposure to a TV advertisement will persuade 2% of the target audience (two advertising exposures to get 4%, etc.).
 - This means, for an 8% audience, four exposures of the target population of 50 million.
 - The cost of reaching 1000 viewers (CPM), for the target audience, is about \$50. To buy 4 ads that reach 50 mil people costs hence 4 exposures × 50 million audience × \$50/1000 = \$10 million.
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.⁴² 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.⁴³ They add behavioral and economic parameters and make various assumptions.⁴⁴ These models are, however, difficult to apply in real world situations due to data scarcity.
6. *Valuing Customers.* One tool companies use to evaluate the profitability of investments in marketing is to establish a customer's "lifetime value" (CLV), which is the present value of all future profits that a company can potentially generate from a customer. This 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 word-of-mouth 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

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

where M = margin (profit) per sale;
 I = discount rate;

Thus the required budget to reach the objective is \$10 mil. 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 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 audiences × \$5.00 distributor 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.)⁴¹ Therefore, the revenues from aftermarkets would have to be substantial to make the film truly profitable.

⁴² Cravens, David W., Gerald E Hills, and Robert B. Woodruff. *Marketing Management*. Scarborough, ON: Irwin, 1987, 514–520.

⁴³ Belch, George E., and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*. 4th ed. New York: Irwin/McGraw-Hill, 1998.

⁴⁴ For example, they assume that a company's advertising attracts customers probabilistically and that consumers choose only one of the companies based on the ads viewed and at only the advertised price.

R = retention rate;

AC = acquisition cost.

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

- Higher with higher retention rate R ;
- Higher with higher margin M ;
- Higher with a lower discount rate (e.g. with lower risk).⁴⁵

We have now discussed several ways to analyze the overall size of an advertising and marketing budget.

10.7.4 Case Discussion

How Much should Condé Nast Spend on a Marketing Effort to Gain a Subscriber?

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

Margin (M): annual profit per customer (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 is:

- 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 ten years.

The consumer's lifetime value can then be calculated using the discount rate $I = 12\%$.

$$CLV = M \times I / (1 + I - R) - AC$$

$$= 22 \times 1 / (1 + .12 - .90) - AC$$

$$= \$100 - AC$$

Thus, Condé Nast should not spend more than \$100 to acquire a new subscriber, and possibly less if the marginal effect of spending is low. If the retention rate, however, was 55%, then the CLV would drop to about \$38.60 and with it the spending to gain such a customer.

It should be noted that the optimal budget is not a static number. For example, it depends on its effectiveness which may change over time. 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 increased supply of media—channels, webpages, apps, and devices—raises the supply advertising inventory and lowers its price, increasing it still further and creating clutter.⁴⁶ This means that quantity and intensity must rise for a campaign to be successful, which then creates an arms race of aggressive advertising that alienates consumers.⁴⁷

10

10.7.5 The Optimal Mix of Marketing Activities

Advertisers will usually diversify the media in which they advertise. In 2003, 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.⁴⁸ By 2016 TV still dominates the movie marketing budget, with most big

budget films spending 70% or more on TV. Print, radio, and outdoor dropped and TV and Internet gained.⁴⁹ For some films, advertising spending on the Internet was as high as 50% of the marketing budget.⁵⁰ In 2013 McDonald's spent 78%⁵¹ of its \$988 million advertising budget on television advertising (\$770.6 million.) The question is what the optimal media mix is for a company, and within marketing activities. How would one approach this question?

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

46 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.

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

48 Sweny, 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>.

49 Rainey, James. "The Perils of Promotion: Pricey 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/>.

50 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>.

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

10.7.6 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 five people subscribe out of 1000 reached, the conversion rate is 0.5%.

The first column in [Table 10.2](#) 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 aimed the medium is to the target audience, the higher the percentage. One can now calculate the cost per thousand of reached target audience. That cost would be, again 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 thousand, of an ad impression to that results in a sale. Thus, for TV impressions it is assumed to be 1; for WOM and for price promotions, it is 2. This now permits the calculation of the marketing cost, before overheads, of a sale. These figures are provided in the right-most column. The lowest cost per sale is obtained 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. 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 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 decline 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’s in-house magazines would rise for the second increment by 20% to \$48, for the third increment to \$57.6, and for the fourth 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 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 10.2 The cost-effectiveness of different marketing activities

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
Prod. placement	1	5	200	0.2	1000
Billboards	15	20	75	0.1	750

(continued)

Table 10.2 (continued)

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 (%)
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

Table 10.3 Cost-Effectiveness of Magazines in Advertising to Aerobics Users

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>	2,000,000	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

10.7.7 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 10.3).

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;⁵² *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 3.

As one 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

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

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.⁵³

10.8 Promotion to Advertisers, Retailers, and Distributors

Media companies usually must 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.⁵⁴ In promoting their products to such intermediaries, media companies engage in what has come to be more generally known as “B2B” business-to-business marketing.

B2B marketing strategies are different from B2C (business-to-consumer) strategies in a number of ways. For example, B2B marketing often uses personal relationships and connections as a selling tool.⁵⁵ 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, make the pitch, negotiate a deal, and implement it. The

Internet has accelerated this considerably, but the human element has not vanished (see the discussion below.) 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 cooperation 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 “vice president 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.” He or she deals with the “buy side” of advertising agency managers with titles such as “media director,” “media buyer,” or “media coordinator.” 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%.⁵⁶

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 the tasks.

A media company will promote itself as an advertising platform in a wholesale fashion through marketing as a product itself to

53 A word 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. Examples of media mix models are ADplus, Adware, Media Control, Media Management Plus, Mediabuy Telmar, Tvscan, and Nielsen.

54 Ferguson, Douglas and William Adams. “Local Television Promotion: News, Syndication, and Sales.” In *Media Promotion and Marketing for Broadcasting, Cable and the Internet*. Boston: Focal Press, 2006, 88.

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

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

create awareness. For example, cable channels put ads in trade magazines like *Advertising Age* to reach advertisers and media planners. Even more important, however, is the personal sales pitch to potential advertisers.⁵⁷ 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%⁵⁸ and typically must pay for 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.⁵⁹

Classically, for a media company, the development of 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 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 and closing the deal;
- Delivering, evaluating, and following up.

In other cases the initiative comes from the buyer, that is, the advertiser. An advertising agency solicits 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 this package. The network and the advertiser then negotiate on the CPM, the package price, and on the list of shows and dates.⁶⁰ In the past, the time needed to sell an ad to a new advertiser and then see it through may have been a year or even

longer.⁶¹ With the Internet and ad-service (such as Google), this process can be de-personalized, automatized, 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 bid confidentially on the advertising needs of agencies through a system of reverse auction.

Normally, the media company will list its prices in a “rate card.” It may also detail deadlines, policies, additional fees, and artwork requirements.⁶² 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).⁶³ That year, the daily print circulation was 590,000 and the Sunday circulation was 1.1 million.⁶⁴ 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.⁶⁵ Prices tend to be negotiable. The network and advertiser negotiate on the CPM and the list of shows, dates, and expected rates. The larger the advertisers’ commitment, the better the terms of the deal.

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.⁶⁶ To do so the media company measures the audiences reached and the impact produced.⁶⁷

10.9 The Impact of the Internet on Marketing

The Internet is an inexpensive yet powerful tool to reach a lot of people. Its marketing features will now be discussed.

57 Ferguson, Douglas A. and Robert A. Klein, “Media Promotion and Marketing,” *Media Promotion and Marketing for Broadcasting Cable and the Internet*. Boston: Focal Press, 2006, 214.

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

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

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

61 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>.

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

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

64 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>.

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

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

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

10.9.1 Customization, Targeting, and Individualization

Information technology gives companies the ability to transform classic mass marketing to one of many more micro-targeted approaches. 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 expenditures directly to results. Marketers can know whether an individual received a communication and how he or she responded. They 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.

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 large. Third, there is vastly more known about the viewer. And 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.⁶⁸ 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.⁶⁹ Example of 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.⁷⁰ Similarly, a search request leads to the serving of ads that are relevant. Google can aggregate such 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 get pitched. They can vary price. Or they can fine-tune product placement. These elements add to the marketing effectiveness, and they also engender customer loyalty. But they are also expensive to operate. Thus, the question for the IT-based next generation of individualization is not whether or not it will work, but rather its cost-effectiveness. 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.

10.9.2 New Tools for Creating Marketing Impressions

Consumers react to well-delivered marketing pitches, but that reaction declines over time as they are being 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, it 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, where they created a presence. The actual resultant sales might not be high but it helps a company to generate an image of innovation and youth orientation.

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

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

70 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>.

10.9.3 New Types of Reach

E-mail e-marketing, mobile 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 on the attention they receive. And because there are so many such messages—“spam”—they may actually generate a negative backlash rather than positive promotion.

10.9.4 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 users have been exposed to. Advertisers can then deliver ads tailored to their browsing habits and track the effectiveness of campaigns.⁷¹ The main metric for determining the success of online advertising has been the click through rate (CTR) or how often the advertisement is clicked on. As the Internet evolves, it becomes 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.

10.9.5 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 the regular Internet, using smartphones and tablets as terminal devices. However, consumer resistance is high to advertisements on mobile devices, especially if they are an intrusive “push.” Smaller screens and data caps of wireless service contracts also make mobile advertising more difficult.

71 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>.

10.9.6 Dynamic Pricing and Auctions

Prices can be varied in real time, based on supply/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. 11 Pricing of Media and Information.

10.9.7 Social Marketing

Social media have created new marketing tools. They help engage consumers with each other and with the brand.⁷²

- Strengthen brand image and brand awareness.
- Gain a better understanding of consumer needs and how they feel about a product or rival products.
- Allow the consumers to design their products.
- 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.
- Use the community to generate buzz and viral marketing.
- Use 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 nastiness⁷³ and the buzz then becomes negative. 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. In other cases, the negatives are exceptional cases blown out of proportion, or outright fabrications by rivals or people with a grudge.

72 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#axzz1JspQCry>.

73 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/>.

10.9.8 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 on the seller, especially once payment mechanisms have become secure from fraud.⁷⁴

10.9.9 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 effectiveness, using tools such as A/B testing.

10.9.10 Relationship Building

Building and maintaining of customer relationships becomes possible online, through blogs, social media/social networks, e-mail newsletters, and more.⁷⁵ 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.⁷⁶

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

10.9.11 Creating a Marketplace for Online Advertising

There are four major ways for an advertiser to buy online ad space:

1. *Websites*. Ads are bought directly from a website, publisher, or portal.
2. *Ad Networks*. These are “supply-side networks” and are intermediaries such as those of Google Adwords, which offer ad space by numerous publishers/websites.
3. *Demand side platforms (DSPs)*. These came into being as a counter-move to powerful supply-side platforms such as Google Adwords, that act as agents of the websites that seek advertisers. These supply platforms provide advertisers access only to their own system and their website partners. And because of Google’s strong position, the advertising space it provided on website was costlier than that offered through other suppliers. To generate price competition, DSPs emerged. They provide advertisers with access to several supply side platforms and their websites,⁷⁷ and the resultant competition exerted a pressure on advertising prices.⁷⁸
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 through algorithmic trading. Ad impressions are auctioned off on a global basis in real time to the highest bidder.^{79,80}

10.10 The Promotion of Media Products

10.10.1 Film

In the film business until the mid-1980s, the marketing of films used to be mostly publicity-driven

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

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

76 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>.

77 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>.

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

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

80 OpenX. “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.

and newspaper-oriented rather than based on advertising. This symbiotic relationship worked well for both sides. Starting in the 1980s, film marketing shifted to television ads and then cable, which was much more costly.⁸¹ Around 2000 the Internet became a major platform for promotion. The shift by film distributors to an advertising model was based on the release strategy that had moved from a gradual ramp-up to a simultaneous national opening in thousands of theaters. This required short nationwide bursts of TV advertising whose cost added up to about half of the production costs. 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.⁸²

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 word-of-mouth 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.⁸³

10.10.2 TV and 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 encourages viewers to stay tuned or come back later for a particular program.

Cross-channel promotion. Promotions on sister channels which are owned by the same company, or advertising time traded with outside channels.

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

10.10.3 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 control 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.)⁸⁴ There is a strong incentive for influential stations or their disk jockeys to sell airplay to music companies. Even though such “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. This leads to strategies of “YouTube optimization” to steer traffic to the video. YouTube and Vevo have become important platforms and measures of audience interest.

The artists themselves play an increasing role in the marketing of their music. A major way to promote is by music tours. Beyond the direct revenues of ticket sales, studies show a measurable sales increase of recordings where a tour has taken place.⁸⁵ 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 on their own website. Major stars such as Kanye West and Justin Bieber created their own high end merchandise, unconnected to a tour.

10.10.4 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 made

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

82 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.

83 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>.

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

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

by school districts or even states. For public primary and secondary schools, education departments typically screen textbooks and determine which books 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 by extensive direct sales efforts. Partly as a result, the number of 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 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.

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 various forms, 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 biomedical studies but less so in fields where the basics remain steady. Another technique is to offer the book online, as well as to create online services such as quizzes, workbooks, reviews, exercises, and supplementary materials and to tie access to them to a purchase.

Books for the consumer market, are called a “trade books” and are mostly sold by intermediary book stores and online sites.

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 stores and chains. These reps receive training in the details of the titles they will promote.⁸⁶ To be effective they must focus on pushing only a few of the books of their publisher’s list. But which ones? 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) require 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.⁸⁷ 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 best seller 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 trade books, there are book tours with signings at book stores and media interviews.

10.10.5 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, printed 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.

As a result of this decline, newspaper publishers have tried to engage in new ways of marketing their product,⁸⁸ but also to change it and to create more audience-oriented stories and styles. In other words, to help in the marketing of the product

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

88 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>.

86 Greco, Albert N. “Market Practices and Procedure.” In *The Book Publishing Industry*. Viacom Publishing, 1997, 173–215.

itself should be modified. This has led to a push-back by journalists who find that such an orientation was unhealthy for a newspaper's integrity.⁸⁹

10.10.6 Magazines

There are thousands of magazine 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. 75% of magazine revenues is generated by advertising, 18% by subscriptions, and 7% by newsstand sales.

Tools for marketing to consumers to solicit subscriptions include list brokers and subscription agencies (such as the 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 newsstand or drugstore generates attention.

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 magazines. Such a structure enables the common use of data bases, 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.

10.10.7 Video Games

Video games have become a major media business, along with marketing strategies that borrow from film, publishing, and software releases.⁹⁰ Whereas in the past, games were sold by "push" to the potential user, the relationship has become much more of a two-way interaction, as well as one of peer-to-peer and social media marketing through the generation of word-of-mouth.

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.

Live broadcasting of video games online have added buzz. Platforms like 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 like the commentator known as PewDiePie, who has 38.8 million YouTube subscribers and 9.8 billion total views, and plays games in order to entertain the audience by testing and recommending games. Game publishers sponsor these YouTube influencers in order to promote games and increase awareness for new releases.⁹¹ They aim to create 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 advertisement, TV (advertising and game shows), and print (advertisement and advertorials, that is, ads that appear to be objective editorial content).⁹²

10.11 The Marketing of Technology

Marketing is often the costliest stage for high-tech products.⁹³ There are several dimensions to this: marketing to consumers, to retailers, to business customers, and to providers of complementary services. Consumer Electronics (CE) product lines typically are 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.⁹⁴

89 Underwood, Doug. *When MBAs Rule the Newsroom*. New York: Columbia University Press, 1995.

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

91 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>.

92 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.

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

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

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 stay “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.⁹⁵ Such users get confused by choice and opt for the safe one and the market leader. These consumers (and businesses) must be approached in a reassuring way.

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 that of which technology customers to target with 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 buyers to be on its side. Companies therefore try to influence retail sales people 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.

Techniques for CE marketing include:

- Endorsements: Sony, for example, used golf star Michelle Wie.
- In-store live demonstrations: customers first have to get to know and understand new technologies; 28% of respondents say seeing products in-store had most influence on their purchasing decisions and had more impact than traditional media.
- Industry-wide promotion and education.

- Building “experience centers” in big cities.
- Event marketing, such as with consumer electronics, using mobile trailers that tour around the country, allowing people to experience the product.
- Train retail sales people to master and explain features to customers and recommend products, and give them special incentives through bonuses.
- Invite celebrities and trend setters to events and get them to try new devices.
- Generate press coverage.
- Guerrilla marketing: send street teams to trendy clubs and so on.
- Product placement on films and TV shows.
- Generate word-of-mouth: 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.

10.12 The Regulation of Marketing

10.12.1 Self-Regulation

The promoters of a product can easily overpromise. Even conscientious marketers will face moral dilemmas about how strongly to word or depict a product in which they truly believe⁹⁶ or on whose success their job depends. To prevent the worst of marketing abuses, reputable companies tend to support some types of regulatory schemes, either by the industry itself or by government.

Several of the regulation issues have been discussed more generally in ► Chap. 8, Managing Law and Regulation. The US advertising industry’s primary control mechanism⁹⁷ is the Advertising Self-Regulation Council (ASRC). Several of the regulatory uses have been discussed more generally in ► Chap. 8 Managing Law and Regulation. It reviews complaints from consumers and consumer groups, local “better business bureaus” and competitors. The ASRC has no power to order an

95 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.

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

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

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.

Another self-regulatory approach is that of the media companies themselves. Many media outlets check and review advertisements before airing or publication to ensure that they are not deceptive or offensive. Some of that 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 anti-trust 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. 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.

10.12.2 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 advertisements.⁹⁸ 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 regu-

latory bodies on the truth of advertising.⁹⁹ The EU Commission enforces its decisions through the European court system and has an investigative arm of 300 local offices.¹⁰⁰

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.¹⁰¹ 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 issues 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. In the USA, there are also 51 State Attorney Generals, and numerous state, county, and local consumer protection agencies.

10.12.3 False Advertising

Advertisers must have a reasonable basis for ad claims and possess substantiation of any claims made in them 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, boastful, and subjective claims, provided that no reasonable buyer would rely on them, such as “the World’s Best Hot Dog.”

10.12.4 Privacy Regulation

The growth of online media transactions and consumption poses challenges to individual privacy. But a ban on data collection and individualization

98 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.

99 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.

100 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.

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

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. 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”? Meaning, 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 typically will 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 in fact a marketer should be able to buy a consumer’s right to privacy, or whether such privacy should be outside the marketplace. 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.¹⁰² 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 information if it is 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 should 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.

10.13 Analyzing Marketing Performance

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

10.13.1 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 full-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 it.¹⁰³ 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.

Part of advertising analysis is to identify whether the ads reach the target audience.

10.13.2 Sales Analysis

Sales analysis evaluates measures and actual sales in relation to sales goals. It looks at changes in sales volume and in market share. The methods of sales analysis are:¹⁰⁴

¹⁰² Steinbock, Dan. *The Birth of Internet Marketing Communications*. Westport, CT: Praeger Books, 2000.

¹⁰³ Poltrack, David. “Measuring Television Advertising Effectiveness.” *Television Marketing*. New York: McGraw-Hill, June 1983, 331–357.

¹⁰⁴ Kotler, Phillip. *Marketing Management: Analysis, Planning, and Control*. Hoboken: Prentice Hall, 2015.

- *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.

10.13.3 Marketing Cost Analysis

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

10.13.4 Marketing Audit Tools

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. 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.¹⁰⁵ A gauge might show performance of actual outcomes against objectives, or the performance of core marketing strategies and processes.

Figure 10.3¹⁰⁶ depicts a marketing dashboard with needles that show where the company stands compared to a target goal (identified a round targets). The graph breaks down the different areas of marketing into business outcomes, marketing objectives, and strategy and programs. Within each of these areas, several measures are displayed.

Another dashboard may segment marketing performed by brand metrics (e.g. brand awareness), advertising metrics (e.g. advertising awareness), and purchase metrics (e.g. market 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.

10.14 Outlook

In this chapter we learned what marketing is: the 4 Ps of marketing (product, pricing, placement, and promotion); community-based marketing; and online tools. We saw 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

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

106 Source: ©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. 10.3 Marketing dashboard

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 than ever. Marketing efforts and the associated costs will have to expand greatly. Thus, 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 of getting attention, analyzing data on users, customizing the offerings, and creating better links with the 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.

10.15 Review Materials

Issues Covered

- 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 peoples attention with word-of-mouth, 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 the 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

- 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.

10.15.1 Questions for Discussion

1. What are the budget considerations when promoting a film in global markets?

2. How can one generate free promotion for a new novel?
3. The Internet has made it possible to practice interactive one-to-one marketing. For which media products and services would it work best?
4. How can a consumer magazine assess the effectiveness of a campaign?
5. How does the advent of the Internet and interactive marketing alter the role of traditional media outlets in the marketing of media products?
6. How is marketing research implemented for magazines to increase marketing efficacy? And for blogs, in comparison?
7. In which ways, if any, does the marketing of media products and services differ from the marketing of other consumer goods?
8. 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?
9. Describe the various ways Google is involved in online advertising.
10. Is product placement an effective means of marketing a product? How can firms track the effectiveness of their product placement?

10.15.2 Quiz

1. What is the customer lifetime value?
 - A. The present value of all future profits that a company can potentially generate from a customer.
 - B. The future value of all the profits that a company can generate from its present customer.
 - C. Customer retention and loyalty is incorporated into LV.
 - D. Both A and C.

E. Both B and C.

2. 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.
3. 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.
4. 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.
5. In which advertising budgeting method does a company establish budgeting amounts by matching a competitor's percentage-of-sales marketing expenditures?
- Marginal analysis approach.
 - Return on investment (ROI).
 - Competitive parity approach.
 - Objectives approach.
 - Quantitative model approach.
 - None of the above.
6. 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

- $LV = \frac{M \cdot R}{(1+I) - R} - AC$
- $LV = \frac{M \cdot R}{(1+I) + R(1-g)} - AC$
- $LV = \frac{M + R}{(1-I) - R} - AC$
- $LV = \frac{M \cdot R}{(1+I) + R} - AC$
- None of the above.

7. True or false: repeating a television ad more frequently than the competition affects brand preference in a mature market?
- True.
 - False.
8. A Warner Brothers' movie is discussed on CNN.com. What is this an example of?
- Zone targeting.
 - Media globalization.
 - Database marketing.
 - Cross media marketing.
 - All of the above.
9. Which of the following can influence the effectiveness of an ad?
- Length and frequency of exposure.
 - Ancillary costs of production.
 - Customer "reach."
 - A and C.
 - All of the above.
10. An artist's album sales increase in the regions toured after a concert.
- True.
 - False.
11. What is the most influential advertising platform for theatrical musical shows?
- Radio.
 - Magazines.
 - Television.
 - Newspapers.
 - None of the above.
12. What is the most influential advertising method for video games?
- Movie-like trailers.
 - Movie websites.
 - Both.
 - None.

13. Which of the following is a method for marketing books?
- Get the title mentioned in magazines and newspapers.
 - Book fairs.
 - Talk shows.
 - B and C.
 - All of the above.
14. Which of the following tools can be used to enhance magazine subscription sales?
- Rate cards.
 - List brokers.
 - Third party partnerships.
 - B and C.
 - All of the above.
15. Future magazine pricing strategies will shift from massive advertising discounts to:
- Consolidating titles for advertising purposes.
 - Offering more package deals to advertisers.
 - Increasing circulation revenues.
 - A and C.
 - None of the above.
 - All of the above.
16. Which of the following is a reason to use telemarketing?
- An active marketing strategy.
 - Can reach a specific audience.
 - Allows for customer feedback.
 - Allows for differentiation of pitch.
 - A and D.
 - All of the above.
17. Which of the following is *not* an advantage of Internet marketing?
- Powerful in collecting useful data for targeting individuals.
 - Internet is interactive.
 - It can reveal whether an ad is working or not.
 - Very effective in persuading indifferent customers.
 - Most households are not connected to the Internet.
 - D and E.
 - C, D, and E.
18. Sequential movie distribution is based on:
- Releasing the movie to all markets and submarkets at once.
 - 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.
 - Releasing the movie to American markets first and then to foreign markets.
 - None of the above.
19. Which of the following statements about the marketing of media products and services is incorrect?
- Media products have low marginal costs and high fixed costs that provide strong economics of scale.
 - It is difficult to exclude unauthorized consumption and compete with “free” products as a marketer.
 - There is often a short product cycle and a short marketing window.
 - The product must be strongly differentiated from those of rivals.
 - There is a normal distribution of success in the media industry.
20. Which of the following statements is correct?
- Product placement is not an effective way to advertise without being obtrusive.
 - Product placement is not a major way to overcome the trend of consumers skipping advertising commercials.
 - Product placement is not a way of advertising that informs the audience in detail about a product.
 - Product placement is not increasingly used in videogames, as a new way to reach young males.

Quiz Answers

✓ 1. D

✓ 2. E

✓ 3. F

✓ 4. D

✓ 5. C

✓ 6. A

✓ 7. A

✓ 8. D

✓ 9. D

✓ 10. A

✓ 11. C

✓ 12. A

✓ 13. E

✓ 14. D

✓ 15. F

✓ 16. F

✓ 17. F

✓ 18. A

✓ 19. E

✓ 20. C