

## **Teaching Note**

### **Benetton Group: Evolution of Communication Strategy**

#### **Case Overview**

This case examines the controversial “shock advertising” campaign that was used by Benetton, the Italian-based clothing manufacturer and retailer for nearly two decades. Thanks to its unusual communication strategy, the Benetton Group is one of the most visible specialty retailers in the world. Benetton has used some very controversial images in its communication campaigns. Masterminded by Benetton’s creative director and photographer Oliviero Toscani, the shock ads generated both criticism and accolades throughout the world. However, in 2000 Toscani went too far when he created the controversial “We, on Death Row” campaign which featured ads showing piercing pictures of death row inmates along with their names and date they were to be executed. The criticism surrounding this campaign was so intense that Toscani was forced to resign. Under the new creative director James Mollison, Benetton began using more traditional product-based advertising. This case examines Benetton’s unique communication philosophy and the controversy generated by it. The case can be used as a basis for a lively discussion on the use of shock advertising as well as ethics in advertising.

Benetton has always been well known for its colorful and provocative advertisements. The company employs unusual, controversial advertising techniques and themes that use “shock value” and powerful images to grab viewers’ attention. Unlike most advertisements which center on a company’s product or image, Benetton’s advertising campaigns have focused on social and political issues such as racial integration, AIDS awareness, war, poverty, child labor, death, hunger, and pollution. Many of these ads evoked controversy as critics have argued that the real goal of the shock ads has been to generate publicity for Benetton and the some have criticized the company for exploiting human suffering to sell its products. Following the controversy surrounding the “We, On Death Row” ads, Benetton realized that it had crossed even the boundaries of unconventional advertising. Various surveys suggested that some loyal customers had been put off by this campaign and some retailers refused to carry the company’s products.

This case can be used with Chapter 22 which deals with social, ethical and economic aspects of advertising. This chapter includes a discussion of ethical issues of advertising and promotion and notes how companies such as Calvin Klein, Abercrombie & Fitch, and Benetton have received a great deal of criticism for their use of “shock ads” containing controversial images. The case can also be used with either Chapters 8 or 9 which deal with creative strategy. Benetton has used the shock ads to position the

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company as a cutting-edge, socially conscious marketer. Many students will be familiar with Benetton and its controversial ads as they are part of the company's primary target market. Thus, the case should generate a lively discussion as to what Benetton's was trying to accomplish with the ads, whether they had pushed the envelope too far with the death row campaign and whether the use of more conventional, product-focused advertising will be successful.

## **Discussion Questions**

### **1. What are the basic objectives of advertising? What are the advertising objectives of Benetton?**

Advertising may be used to achieve a variety of objectives including building awareness of the brand and/or company, informing customers about the product/service or company, providing information and developing an image. Additional objectives include creating favorable attitudes and preferences for a brand, persuading the target audience to switch brands, and encouraging them to try new products. Advertising may also be used to maintain top-of-mind awareness of a brand and/or company.

The objectives of Benetton's advertising appear to differ from those discussed above. Benetton's shock advertising did not focus on the company or its products, choosing instead to address socially relevant issues that might concern the global audience such as war, poverty, AIDS, discrimination and the death penalty. Benetton believed that its advertisements could project the company as a supporter of social causes and that its customers would highly value that stance. Of course many would argue that while Benetton's goal was to use the ads to position itself as a socially conscious company, the ultimate objective was to use this image to help generate sales of its products.

### **2. Discuss the pros and cons of the shock advertising campaign that Benetton used for many years.**

There are few companies in the world that enjoy the global brand recognition of Benetton. The unconventional shock advertisements used in this campaign evoked strong feelings among consumers and helped the company attract attention and generate publicity. One of Toscani's quotes is appropriate here: "Most good ads are forgotten after six months, but who still remembers the Benetton ad with the priest kissing the nun? Ten years later and people remember! That's immortality!" Benetton has always had an image as somewhat of a renegade in the advertising community because of the avant-garde approaches the company has used. However, the company is also known for being very socially concerned and trying to make consumers realize the realities of the world in which they live. Benetton's goal with the shock advertising campaign was to raise public awareness of social issues and position the company as a cutting-edge, socially conscious marketer. However, one might argue that the ultimate goal of the

campaign was to help the company sell more of its products. The controversy surrounding the various shock ads that Benetton used over the past two decades generated a tremendous amount of publicity and made many consumers aware of the company. Also, it is important to note that Benetton's primary target market is teens and young adults who are likely to be more tolerant of the shock ads as they may identify with the issues and causes the company is raising in these ads. Thus, the campaign might have actually helped Benetton's image and sales.

There are also a number of negative aspects to the Benetton shock ads. Many critics argued that Benetton was exploiting human suffering to sell its products and felt that the company used the ads to create controversy and generate publicity rather than to address social issues. One might question whether the type of publicity Benetton was getting from its shock ads was really beneficial to the company. The Benetton ads were controversial even in more liberal European countries, and advertising self-regulatory bodies in Britain, France, and Spain condemned some of the ads and urged magazines to reject them. As long as the advertisements were just unconventional in nature, Benetton's image was enhanced and sales grew. However, when Toscani resorted to using "shock techniques" from 1991 onwards with the pictures of a priest and nun kissing, a baby with uncut umbilical cord, etc., it generated huge furor among religious and social groups, not to mention the advertising regulatory bodies in various countries. Toscani argued that the company's intentions were misunderstood by the public. While many thought the kiss to be inappropriate and the uncut umbilical cord to be disgusting, the position of the company was that all that was meant was to demonstrate love and motherhood. Unfortunately for Benetton, many countries banned the two ads. Another ad which created problems due to its intensity was the scene of a dying AIDS victim. The ad angered many viewers because they thought Benetton exploited the man's suffering and intentionally made him look like Jesus Christ.

**3. Oliviero Toscani has defended Benetton's use of shock advertising by noting that it constitutes nothing less than a debate between advertising and art. He argues that potentially offensive images are acceptable in the world of art and journalism while in other realms such as advertising they are not. Do you agree with Toscani's position?**

The position taken by Oliver Toscani, Benetton's former creative director, is that advertising should be free from any type of censorship or scrutiny since it is often a form of art. When viewing advertising as art it becomes difficult to say where one ends and the other begins. If one views the Benetton ads as a form of art, this suggests that there should be a wide tolerance for the types of images used. The statement by Toscani which is shown at the beginning of the case summarizes his position very well:

*When Life magazine makes a cover about war, it makes the cover to inform, but also to sell the magazine and to sell the advertising pages inside the magazine -- Chivas Regal and all the others. So Time magazine and all the others make a cover to inform and to sell. To do what I do, I do that to sell but also to inform. And as soon as you inform, people point a finger at you and say, "You are exploiting!" No. It's the people who don't even inform [who are exploiting]. I don't care about the rejection; I'm not afraid to be rejected. Actually, it's a big honor in this world.*

There are other examples which support Toscani's argument. For example, the December 22, 2003 issue of *Time Magazine* featured the Year in Pictures 2003 and showed disturbing images of the Iraq and Afghan war injured and dead -- not very different from Toscani's image of the bloodied uniform of the Bosnian soldier shown in one of the Benetton ads. Ethical or moral standards are very subjective and relative as evident from reactions to the Benetton ads showing an image of a priest and nun kissing. While this ad was banned in Italy, it won the Eurobest Award in Britain.

Some people question Toscani's position, however, and argue that advertising is intrusive in nature and the public cannot decide what ads they will be exposed to in a medium. Advertising must often respond to a different set of standards since consumers often have no way of controlling their exposure to the images used in advertising and these images are often offensive to many people. Benetton has taken a novel approach and people are likely to disagree as to whether the ads are unethical. However, as noted discussed in question five, Benetton may have gone too far with the "We, on Death Row" campaign. The surviving family members of those killed by the inmates shown in the death row campaign were very offended by the ads and opposed to the idea of having the killers lionized in the national media. However, there were also those who feel that capital punishment is inhumane and praised Toscani's effort to increase awareness of the issue.

**4. Can you think of any other companies that use shock advertising? For what type of companies might this type of advertising be effective?**

Calvin Klein and Benetton are the two companies that are probably best known for using shock ads although there are a number of other companies that have used the technique. Calvin Klein has been using shock ads for nearly two decades and built the company and brand by tapping into both the charge and the cultural unease surrounding youthful sexuality. The company's controversial ads have explored the taboo of youthful sexuality and appeal to the independent spirit of young people. Calvin Klein was willing to accept the controversy that accompanies its ads because the scandal and sex appeal surrounding them help differentiate CK products. It also helped generated hundreds of millions of dollars worth of free publicity. Like Benetton, CK handles its advertising in-house which means that an agency does not have to become involved with the negative publicity and controversy surrounding their shock ads. However, Calvin Klein also found that there is a limit to how far they could push could push the envelope with their advertising.

Many retailers rebelled against the Calvin Klein ads featuring childlike models in provocative poses which was referred to as “kiddie porn” by many critics.irate consumer groups also called for boycotts and threatened to picket stores carrying the brand.

Another company that has used shock ads is FCUK (French Connection UK) who has been criticized for what many perceive as pornographic images in its campaigns. As discussed in Chapter 22 of the text, clothing retailer Abercrombie & Fitch has also been criticized for using shock techniques its ads as well as in other promotional materials such as its quarterly catalog. It should be noted that all of these companies are involved in the fashion industry and their primary target market consists of young people. Younger consumers are less likely to perceive shock ads as offensive or in bad taste and may even help create favorable attitudes toward these companies because of their edgy, rebellious tone.

While other companies have used shock ads, Benetton’s use of the advertising genre is unique. While the ads of Calvin Klein and FCUK are meant to differentiate these brands and increase sales, Benetton’s goal (at least according to Toscani) was to raise the public’s awareness and make them more conscience of important social issues. Few companies are brave enough to experiment to such a degree with their advertising. One exception is Egg Banking, a United Kingdom based online financial services group that has used campaigns based on stereotyping of men, women and certain ethnic groups. One advertisement shows a dark-skinned man in an orange string bikini that revealed the outlines of his small sex organ. The caption reads, 'Black men are well endowed.' Another ad shows a blonde woman studying a modern painting as the brunette next to her studies an exit sign. The caption reads, “Blondes have nothing in their heads.” However, while some consumers in the UK have viewed the ads as humorous, other have been offended by them and have protested.

##### **5. Do you agree with Benetton’s decision to drop the use of shock ads and return to the use of more conventional ads?**

Benetton appears to have pushed the envelope too far with the “We, On Death Row” campaign as the ads generated very negative reactions and there were strong repercussions as a result. Families of the victims objected strongly to the campaign and accused Benetton of glamorizing murderers while ignoring the crimes they had committed. The state of Missouri filed a lawsuit arguing that it had been misled regarding the use of the photos. The lawsuit was settled in June 2001 when Benetton agreed to write letters of apology and to donate \$50,000 to the Missouri Crime Victims Compensation Fund. In the US, retailer Sears canceled an exclusive \$100 million contract to sell a line of Benetton clothes, calling the death row images “terribly insensitive.” Sears ended its contract even after Benetton agreed to allow the retailer to preview future ads. Toscani believed that the sharp criticism in the US was not justified as many countries

in Europe had more already banned the death penalty. However, as a result of the increasing furor, Toscani resigned in May 2000. He was replaced by James Mollison, a graduate of Fabbrica, Benetton's cultural research and development center that backs young artists from all over the world.

In 2001 Benetton began running a new campaign featuring product-focused ads that ran in print and on TV and billboards. The ads showed exuberant teen models clad in Benetton sweaters and jackets against a crisp white background and were designed to convey a sense of freedom and a positive, dynamic expression of the Benetton style. The impact of Benetton reverting back to more conventional advertising is yet to be determined, although given the way Benetton had built its brand image under Toscani, this approach does appear rather conservative. As noted in the case, Toscani dismissed the more conventional ads as a "waste of money." In some countries such as Britain they were panned as "so innocuous as to be invisible." Benetton may be able to capture the customer's attention and interest with more conventional ads focusing on young people wearing its colorful clothing and emphasizing product qualities and perceived value. While these types of ads may not generate as much attention and interest as the shock ads, they may be effective in shifting attention to Benetton's products and image as a retailer rather than as a social crusader.

Rather than moving solely into product based advertising after Toscani's exit, the company could still continue to address social issues like war, poverty, education, child labor and exploitation and the like but with less controversial ads. In fact, Benetton indicated that it would not be completely abandoning its social issues messages and planned to run ads speaking to the refugee issue. The subject is very important to James Mollison who wrote a book on Kosovan refugees in conjunction with the United Nation's High Commission for Refugees as well as an earlier book on foreign workers in the factories of northeast Italy. In 2003 Benetton began a social issues campaign dealing with the problem of hunger that exists in many countries and promoting its work with the World Food Program. The "Food for..." campaign consists of ads promoting the important role the availability of food plays in relations to issues such as education, work, peace, and life. Examples of messages from this campaign, as well as other Benetton ads, can be found on the company's web site at [www.benetton.com](http://www.benetton.com).

# CHAPTER 2

## ORGANIZING FOR INTEGRATED MARKETING COMMUNICATIONS

### **Chapter Overview**

The purpose of this chapter is to familiarize the student with the ways that organizations organize for purposes of developing and executing integrated marketing communications programs. A description of the role and functions of advertising agencies is provided, as is an explanation of how agencies are compensated and evaluated. The chapter also discusses organizations that provide specialized integrated marketing communication services including direct-response, sales promotion and interactive agencies as well as public relations firms. It is important for students to understand that a variety of different organizations may play a role in the development of a company's IMC program.

### **Learning Objectives**

1. Identify the role of the advertising agency and the services it provides.
2. Describe methods for compensating, and evaluating advertising agencies.
3. Contrast the role and functions of specialized marketing communications organizations.
4. Evaluate the perspectives on the use of integrated services across agencies or within one agency, and agency-client responsibilities and partnerships.

### **Chapter and Lecture Outline**

#### **I. ADVERTISING AGENCIES**

##### **A. Advertising Agency Decision**

Companies can employ the services of an external advertising agency or use an in-house agency.

1. In-House Agency —companies set up their own internal ad agencies. The design varies from as small as an advertising department to as large as an external agency. In the latter case, the in-house agency will operate as a separate entity and control advertising and promotional expenditures in millions of dollars. This option is usually chosen so that costs are minimized and control over the agency's activities is maximized.
2. Advertising Agency —external agencies provide a variety of services to their clients, including those discussed in the previous section. Though clients have the capabilities of performing these roles themselves, they elect to use outside agencies for the following reasons: (1) the skills offered, (2) objectivity and (3) experience.

##### **B. Advertising Agency Industry**

Figure 2-3 captures the state of the major players in the Canadian advertising agency industry. Most agencies are an amalgamation of other agencies like sales promotion, digital, PR etc. and are part of large international consortiums. Not captured in the table are smaller regional or local agencies that remain independent. However, these firms presumably represent a substantial portion of the money spent on agencies.

##### **C. Full Service Advertising Agencies**

These agencies offer their clients a full range of services including account/client services, planning and research services, creative services, digital creative services, production services, media services, , specialized services (e.g., sales promotion, direct, PR, interactive).

- Account services—the link between the advertising agency and its clients. **Account executives** serve as the liaison between the agency and client and are responsible for coordinating the agency's efforts in planning, creating and producing ads.
- Planning and research services—many full-service agencies provide a variety of marketing services to their clients and maintain departments such as research, strategy and planning. These departments assist the other services by ensuring that the marketing communication strategy addresses the communication issue accurately.
- Creative services—agency personnel in this department include **artists** and **copywriters** who are responsible for the creation and execution of the client's advertising messages. Creative services may also include print and broadcast production departments, which are responsible for actually producing the advertising messages and putting them into final form. Digital creative specialists are now part of many marketing communication plans as customized messages for Internet media may be required.
- Production services—dedicated staff may be responsible for the physical development of ads in all or select formats. The **traffic department** coordinates all phases of production and sees that all ads are completed on time and deadlines for submitting the ads to the media are met.
- Media services—the media department is very important since many clients are consolidating their media buying to save money and improve media efficiency. This department analyzes, selects and contracts for media space and time on behalf of clients.
- Specialized services—as implied in the term, full-service agencies, provide a variety of additional services to their clients so that a complete IMC plan can be delivered that includes all tools (e.g., sales promotion, PR, direct, digital).

Attention should be given to the two types of agency organization structures used by agencies. Under the **departmental system** each of the agency functions is set up as a separate department and is called upon to perform its specialty for all of the agency's clients. Agencies can use the **group system** in which individuals from each department work together as teams to service a particular account. Many clients prefer the group system because agency employees become very familiar with their business and it ensures continuity in servicing the account.

## II. AGENCY COMPENSATION

The services that advertising agencies provide may be compensated in a variety of ways including:

- A. Commissions from media—the agency is compensated based on the time or space it purchases for its client. The commission is typically 15%. The commission system is criticized since it ties agency compensation to media costs and encourages agencies to rely on commissionable media (i.e., TV) that is more expensive than non-commissionable media. However, some prefer this system because it is easy to administer and forces agencies to compete on bases other than price. Many advertisers have moved to a **negotiated** commission system that takes the form of reduced percentage rates, variable commission rates and minimum and maximum compensation rates.
- B. Fee arrangements are of two types: a **fixed-fee method** where the agency charges a basic monthly fee for all of its services and credits to the client any media commissions earned. Under a **fee-commission combination** the media commissions received by the agency are credited against the fee. If commissions are less than the agreed-on fee, client must make up the difference.



- C. Cost-plus agreement—under this compensation method the client agrees to pay the agency a fee based on costs of its work plus some agreed-on profit margin. This system requires the agency to keep detailed records of costs incurred in working on a client's account.
- D. Incentive-based compensation—while there are many variations on this system, the basic idea is that the agency's compensation level will depend upon how well it meets predetermined performance goals for its clients such as sales or market share. Incentive-based compensation
- E. Evaluation of agencies—given the substantial amounts of money being spent on advertising by many companies, demands for accountability are increasing. The agency evaluation process generally involves two types of assessments—**financial audits** and **qualitative audits**. An increasing trend among larger firms is to formalize this process.
- F. Reasons for Losing Clients—agencies are like their clients in the sense that they must solicit business, and often gain and lose business. The text offers a variety of reasons as to why agencies lose clients. Current issues of *Marketing Magazine* will be useful in providing the instructor with examples of account changes and the reasons the clients decided to change agencies.

### III. SPECIALIZED SERVICES

In addition to advertising agencies, other outside organizations may provide marketers with specialized services that are important in developing and executing integrated marketing communication programs.

- A. Creative boutiques—these types of agencies specialize in and provide only advertising creative services. Because of their specialty of creative ideas, clients look to these types of agencies for new inspiration to portray their brands or for specific messages to more focused target audiences.
- B. Media buying services—are specialists at working with media companies and packaging offering to clients to meet their media strategy and tactic decisions.
- C. Sales Promotions Agencies—are companies specializing in sales promotions. Services provided by large sales promotion agencies include promotional planning, creative, research, tie-in coordination, fulfillment, premium design, and contest/sweepstakes management.
- D. Public Relations Firms—develop and implement programs to manage an organization's publicity, image, and affairs with consumers and other relevant publics including employers, suppliers, stockholders, government, labor and the general public.
- E. Direct Response Agencies—provide their clients a variety of services including data base development and management, direct mail, research, media services, and creative and production capabilities.
- F. Interactive Agencies—develop web sites, kiosks, Internet ads, and other forms of interactive advertising.

### IV. IMC PLANNING: AGENCY RELATIONSHIPS

A trend in the advertising industry is to combine all of the above services under one roof. These **one-stop service agencies** bring together service providers so that the client needs only to use their firm to receive all of the marketing support s/he requires. Advantages and disadvantages of these arrangements include:

- A. Integrated IMC Services—It has been argued that IMC is nothing new, particularly in smaller companies and communication agencies that have coordinating promotion tools. The text discusses the advantages and disadvantages of the one-stop shop.
  - 1. Advantages of integrated services:
    - Greater control of the promotional process allows for more synergy among each of the communication program elements

- More convenient for clients to coordinate all promotional efforts with one agency
  - Agencies with IMC capabilities can create a single image for the client
2. Disadvantages of integrated services:
- Synergy and economies of scale are often not achieved by a single agency handling all communication areas
  - Internal conflicts often arise within various departments within a large agency over areas such as advertising, public relations or sales promotion
  - Limits client's ability to take advantage of specialists in various IMC areas
- B. Agency-Client Responsibility—Another topic covered in this section is whether the client or advertising agency should have the primary responsibility for planning and coordinating the IMC process. Most marketers believe it is their responsibility to set strategy for and coordinated integrated campaigns while agency executives see this as their domain. The major barrier is a lack of people in agencies with the broad perspective and skills needed to make IMC work effectively. Internal turf battles, agency egos, and fear of budget reductions are also cited as major barriers to successful integrated marketing campaigns.
- C. Agency-Client Partnership—A summary of recent research on the nature of agency-client relationships is presented with a number of survey findings. This material can be selectively used to give an idea as to the present situation.

## **Teaching Suggestions**

Students are usually unfamiliar with how companies organize for advertising and promotion, and the role that various organizations play in this process. While most students are familiar with advertising agencies, they are less likely to know anything about direct response and sales promotion agencies, public relations firms and interactive agencies. You might note that there are some excellent career opportunities available in these areas. Students are often interested in working for an advertising agency. This chapter will help to familiarize them with other major participants in the IMC process and the important role they play.

It is important for the instructor to keep up to date with events that are taking place. Good sources of information on advertising are publications such as *Marketing Magazine*, *Info Presse*, *Advertising Age*, *AdWeek*, and *BrandWeek*. You can also access information from these publications online at [www.adage.com](http://www.adage.com) and [www.adweek.com](http://www.adweek.com). For excellent articles and sources of information on sales promotion students should be referred to *Promo* magazine, which can be accessed online at [www.promomagazine.com](http://www.promomagazine.com). We suggest that use of the outline provided here be supplemented by additional articles from the media listed above. We have also found strong student interest in identifying which current advertisements have been created by various agencies. Most major agencies have excellent websites that contain client rosters, examples of their advertising, information about their advertising philosophy, approaches to branding and other IMC content.

In addition, books written by those in the business on the advertising world are also well received. There are some very interesting books on the advertising industry that could be suggested readings for students. Some of these provide insights into the workings of the advertising world while others discuss the various perspectives that agencies operate from. Some suggestions include:

- Rosser Reeves, *Reality in Advertising*
- Alison Fendley, *Saatchi & Saatchi, The Inside Story*

- Kevin Goldman, *Conflicting Accounts (The Creation and Crash of the Saatchi & Saatchi Advertising Empire)*
- David Ogilvy, *Ogilvy on Advertising*
- David Ogilvy, *Confessions of an Advertising Man*
- Eric Clark, *The Want Makers*
- John Oliver, *The Image Makers*
- John O'Toole, *The Trouble With Advertising*
- Martin Mayer, *Madison Avenue, U.S.A.*

### **Vignette**

1. As the owner of Sid Lee, would you sell the agency to a major super agency or retain your independence?

This question gets to the heart of the matter regarding an issue that many successful innovators face which is to stay independent and entrepreneurial or become part of big entity and draw upon the resources of a larger organizational structure. The advertising industry, like any other, faces this same issue and the Sid Lee example provides an opportunity to explore this issue in light of other smaller firms going in the direction of selling. Clearly, there is no right answer, but an opportunity to develop arguments as to whether the creativity would continue if it did not remain independent.

### **IMC Perspective 2-1**

1. Do you agree that the marketing communication identified by the agencies is worth recognition?

This is a relatively simple question in that it reviews the vignette's facts, whereby DDB is responsible for very innovative creative executions that have led to important and relevant communication and business results. This is consistent with the criteria for winning the Cassies and generally considered the right approach for advertising since it is consistent with the PRB for agency remuneration. An additional key point for students to realize that some of the most creative communication observed in Canada is the work of marketing suppliers (i.e., agencies) and not the actual managers of the products advertisers. While this is relatively elementary of instructors, it is quite illustrative for many unfamiliar students. Students should have no trouble identifying a couple key points for each winner along the lines of uniqueness and clever message for a particular target audience.

The question encourages an open-ended debate to generate discussion that hopefully would lead to some consensus on the criteria for selecting creative campaigns. It acts as an entry point for much of the material over the next few chapters and can generate some excitement for the early material in the text and the course.

Each snippet gives some idea of originality and allows students to describe how it is unique or how it could help solve a communication problem or take advantage of a communication opportunity. Instructors could look for examples of each of these to round out the discussion. The question is another lead in to the positioning and creativity that is so important in the first half of the text.

### **IMC Perspective 2-2**

1. Explain why a media agency is so critical for advertising.

These examples show that a media agency is critical for arranging special execution of the creative strategy and therefore shows the strong interdependency of both media and creative. This point reinforces the idea of IMC very well since deciders from all major agencies should be “at the table” to ensure consistency across all elements of the strategy.

## **Answers to Review Questions**

1. How are the characteristics of a full-service agency contrasted with the characteristics of specialized communication agencies?

Full service agencies provide their clients with services including planning, creating and producing the advertising, account planning, marketing research, developing media strategies and selecting and purchasing media. Some full service agencies also provide non-advertising related services including strategic market planning, direct marketing, promotional programs, interactive marketing and web site design, and public relations. The importance of the services provided by a full service agency will depend upon the client. Some companies want agencies that are very strong in the creative area and can develop ads that strike a responsive chord with consumers. Companies that are competing in markets where brand image and identity is very important may put a major emphasis on creative capabilities in selecting and agency. Some companies want agencies that are very strong in media strategy and buying and can maximize their media expenditures.

Specialized agencies offers particular services that clients may value over the same service provide by a full service agency due to stronger competency. For example, creative boutiques have developed in response to some companies’ desires to use only the creative talent of agency. These smaller agencies often turn out excellent creative work and do not have the bureaucracy and politics of larger agencies. Many companies also feel that by working with a smaller creative boutique they can get more attention and better access to creative talent than they would at a larger agency. Another reason why a company might use a creative boutique is that there are companies available to handle other parts of the advertising and promotional program.

Similarly, media specialist companies provide an important service by specializing in the analysis and purchasing of media time and space. Also, because media specialist companies purchase large amounts of time and space, they often receive large discounts and can save a client money on media purchases or provide them with more exposure from a media budget. Many agencies, as well as their clients, have recognized that it is very difficult to staff and operate a media department that can provide the same level of service as media specialist companies. Thus, agencies have been unbundling media buying from the services they offer clients.

2. Why is compensating with the performance by results approach optimal in comparison with other methods?

Agencies are historically compensated in three ways: through commissions from the media, fee arrangement or percentage charges. Compensating agencies through media commissions occurs when the agency receives a specified commission from the media on any advertising time or space it purchases for the client. Under the fixed-fee method the agency charges a basic fee for all of its services and credits to the client and credits any media commissions earned. Agencies are also compensated through a fee-commission combination, whereby the media commissions received by the agency are credited against the fee. The cost-plus system occurs when the client agrees to pay the agency a fee based on the cost of its work plus some agreed-on profit margin.

These methods have given way to an improved performance-based system where advertisers use incentive-based systems where agency compensation is tied to performance. The performance measures may include objective measures such as sales and/or market share as more subjective

measures such as evaluations of the agency's creative work. As more marketers adopt an integrated marketing communication perspective and move away from traditional mass media, changes in compensation systems are taking place. This may include a combination of compensation systems such as a negotiated set fee or media commission rate as well as incentives.

There are several reasons why many companies are moving away from the traditional 15 percent commission system and using an incentive-based method of compensating their agencies. One of the major reasons for this change is that companies are demanding greater accountability from their agencies and feel that an incentive-based compensation system is one way of achieving this. Companies feel that if agencies really want to be true partners, they will be willing to share in the sales performance of the product or service with them. For many companies, advertising plays a major role in determining the sales success of their product or service. Incentive-based compensation systems also encourage agencies to look beyond traditional mass media advertising and to consider how other IMC tools that might be more effective in driving sales.

There are a number of reasons why an agency might be reluctant to accept an incentive-based compensation system. A system in which the agency is compensated based on the brand's performance in the marketplace has the potential to be a fair system, but may be fraught with problems as well. If the basis for evaluation is tied to communications objectives (as will be discussed later in this text) the system may be acceptable to the agency. On the one hand, tying the compensation to market performance measures such as brand share and/or sales could be unfair. As the student will learn later in this text, it is very difficult—if not impossible—to tie market share and sales figures directly to advertising. For example, while the advertising may be working very well, other marketing variables may hinder sales and/or market share performance. Excellent advertising will not compensate for poor product quality, over pricing or a poor distribution system. Thus, if one were to see poor performance of the brand in the marketplace, the advertising agency might be punished for problems beyond their control. On the other hand, many agencies see incentive based compensation methods as a way of differentiating themselves and proving to clients that they are confident in their ability to develop advertising that will have a favorable impact on sales. Since clients are expecting more accountability from their advertising and promotional programs, and agencies may feel that their willingness to work under an incentive based compensation system will increase their likelihood of getting a company's advertising business.

3. What are the similar and dissimilar functions of each of the specialized marketing communication agencies?

All agencies share a similar function of providing marketing communication recommendations to resolve the communication issue faced by its client. Each is also tasked with offering a customized service with expertise that may not be readily found elsewhere. Furthermore, each has a responsibility of ensuring that their staff is well versed in the latest trends and tools to provide optimal service.

While the core service may be consistent to some degree, each agency offers a specialty that others cannot match and this specialization suggests different processes for delivering service and a unique skill-set to ensure client satisfaction.

4. What are the issues of using one full-service agency versus multiple specialized agencies?

Some marketers prefer to have all of their IMC activities performed by one agency rather than using multiple agencies that specialize in various areas such as direct marketing, sales promotion, interactive marketing, and public relations. These companies feel that by having all of the IMC functions performed by one agency makes it easier to develop and implement a consistent and uniform program where everyone is working with the same information and toward the same goals and objectives. They also feel that giving one agency control of entire IMC program achieves greater synergy among each of the communication elements. It also makes it easier for the client when all of

the promotional elements such as advertising, direct mail, event marketing, sales promotion, interactive marketing and public relations are handled by one large agency.

### **Answers to Application Questions**

1. The chapter distinguished between full service and specialized agencies. Using Figure 2-1 as a guide for different agency names based in Canada, examine the websites of different types of marketing communication agencies. Identify which type of services each type offers. Using the websites as the main source of information, which agencies would be best suited to be hired?

This Internet application questions encourages students to investigate and see what creative work is done by different agencies. In doing so, the services offered by each should be readily seen, thus demonstrating what is occurring in the field. The part of the questions suggests to students early on that they can and should be thinking critically of all marketing communication recommendations that they observe while studying this material.

2. Which type of compensation system that an agency faced most often from its clients is an environment where a young advertising graduate would most like to work?

This is a projective question where students could be describing where they would like to work in the industry. Some might like the pay by performance approach since they enjoy the added pressure and this system places on the creative supplier. Presumably, the environment might be a bit more entrepreneurial and offer great opportunity for career advancement. Others who have certain skills may appreciate the fixed fees, noting that they would like to be recognized for producing their work. Whatever the answer, the key point is for student to look at all facets of how an agency operates to decide where they may like to consider working.

3. Again, using Figure 2-1 as a guide for different agency names based in Canada, examine the websites of different specialized marketing communication agencies. Identify which type of services each type offers. Using the website as the main source of information, which agency would you be best suited to be hired?

This exercise is an opportunity to achieve the goal of introducing students to all sources of marketing communication services. It is much like question 1 and can be a useful exercise for in-class discussion or mini-presentations where students showed each other the work of different agencies.

4. Given the evaluation of different agencies in the above questions, which approach is recommended for smartphone brands? For breakfast cereal brands? For energy drink brands?

Multiple agencies could be suitable for smartphone brands since there are so many target audiences to direct marketing communication towards across a multitude of segmentation variables with a product still in a growth phase. This could suggest more focused campaigns requiring customized IMC tools to provide a convincing message. Breakfast cereal is a mature product category with less opportunity or need for multiple target audiences. Combined with the fact that many brands have existed for decades, a single agency with one point of contact for all marketing communication may be more suitable. Energy drinks present an interesting option to consider both options, however, in the case of Red Bull and all of their varied marketing communication activities, it suggests a multiple agency approach. While the Sid Lee vignette mentions the agency's involvement with Red Bull the vast international operations of Red Bull would suggest it using numerous agencies.

### **Additional Questions (not in text)**

- A. Discuss some of the reasons why traditional advertising agencies have been developing more IMC capabilities. What changes might these agencies have to make to improve their service?

IMC capabilities because their clients are shifting more and more of their promotional dollars away from mass media advertising to other areas of marketing communication such as direct marketing, public relations, sales promotion, the Internet and event marketing and sponsorships. By expanding their capabilities, traditional agencies can offer a full range of IMC services and provide a total communications solution to their clients. By expanding their IMC capabilities and services, traditional agencies can also make money from other areas of their clients promotional spending.

The greatest change that traditional agencies have to make to improve their IMC capabilities is to develop or acquire expertise in these other areas. Traditionally agencies have been experts in areas related to advertising including creative and media. To expand their IMC capabilities agencies have to offer a broader range of services and develop expertise in other areas. Many agencies have been acquiring these capabilities by purchasing companies such as interactive agencies, public relations and direct marketing firms or promotional agencies. Others have been working to develop these IMC skills internally through their hiring and training processes.

The decision as to whether to expand service offerings may not be as easy to make as one might wish. The changes in the advertising marketplace—that is monies shifting from advertising to direct marketing, promotions and other areas may necessitate this expansion just to survive. Certainly the trend, even among smaller agencies, to provide these services is evidence that they recognize that they need to bring these monies “in house.” Beyond the requirement of the agency side, the client is now becoming more sophisticated and demanding. These clients are now recognizing the need to provide an integrated communications mix, and if it is not provided by their agency they will seek such services elsewhere.

While all advertising agencies may not necessarily become full service or super agencies, they may eventually have to form working relationships with other collateral agencies or face losing business. Many smaller agencies have already established such working relationships, and have found them to be of benefit to the agency as well as the client.

- B. Discuss the pros and cons of using an in-house agency. What are some of the reasons why companies might change from using an in-house agency and hire an outside agency?

Some of the reasons why firms use in-house agencies include: (1) cost savings; (2) control; and (3) increased ability to coordinate marketing and promotional activities. Negative aspects include: (1) internal employees may have less experience and inferior skills than their external counterparts; (2) they may be less objective about the product and its capabilities; and, (3) they may be less flexible with respect to what they are willing and able to do with the product and/or brands programs. Companies often use an in-house agency when they have sufficient and capable staff to conduct the advertising and promotional activities themselves; they have a very large advertising and promotional budget and wish to save the costs of fees and commissions; and/or when they believe that the ability to coordinate and control the promotional activities is more feasible with this design.

Companies change from using an in-house agency and hire an outside agency for various reasons. Many marketers feel that the use of an outside agency provides greater objectivity with respect to the advertising. When an in-house agency is used, management may get too close to the advertising process and product and lose its objectivity when evaluating the ads. Outside agencies can provide a more objective perspective on the market and business that is not subject to internal biases and politics. Companies often move from in-house to outside agencies as they become larger and their advertising and other marketing communication needs become greater. Rather than continuing to expand the in-house agency, many companies will move to using an outside agency that has the

various services and expertise needed by the company. It should be noted that perhaps the major reason why outside agencies are used is that they provide the client with the services of highly skilled individuals who are specialists in the advertising area. Outside agencies also offer more flexibility to an advertiser as they can always switch agencies and hire a new one if they are dissatisfied with the work being done. It is much more difficult to terminate an in-house agency and hire new personnel to replace them.

- C. Discuss the various reasons why marketers often choose to switch advertising agencies. Find an example of a company that has recently changed advertising agencies and analyze the reasons given for the change.

The relationship between a client and an agency is influenced by a variety of factors. These include perspectives on compensation policies, the demands clients place on agencies, the level of service the agency provides, the personalities of agency and client personnel, the performance of the client's product or service, the perceived quality of the agency work in various areas (including account planning and management, creative, media, use of non-traditional media), and changes in the competitive situation. Changes in top management of a client may also affect the agency client relationship. New management may prefer a particular agency or certain approach to advertising and promotion which can affect the client's relationship with the agency.

An advertiser may decide to switch agencies for a number of reasons. These reasons can apply to long-term clients as well. When marketers are having problems such as stagnant or declining sales or losses in market share they will often look to advertising. Often the problems are blamed on advertising agencies. In the competitive world of advertising, agencies are always looking for new business and major advertisers know they can attract a great deal of interest and attention when they put their accounts up for review.

### **IMC Exercise**

Find several examples of companies who have switched advertising agencies recently. Conduct some library research using sources such as *Marketing Magazine*, *Strategy Magazine*, *The National Post*, *Advertising Age*, *AdWeek* and *The Wall Street Journal* to determine the reasons why the company decided to change agencies and their rationale for choosing their new agency. Discuss the implications of your findings with respect to client-agency relationships. Find examples of advertising and other promotional programs that were developed by the old agency and examples of ads developed by the new agency. Do you think the advertising campaign and messages being developed by the new agency are better and/or more appropriate for the company than those of the old agency? Why or why not?

### **IMC Comprehensive Project**

The assignment for this chapter is for the students to determine how they will organize for advertising and promotion both internally and externally.

#### **IMC Project Assignment for Chapter 2**

Your assignment at this stage of the project is to determine how you will organize your company for advertising and promotion. You must develop an internal organization chart and specify whether you are going to use a centralized or decentralized system and whether you will use an in-house agency or hire an outside agency. If you decide to hire an outside agency you should specify what type of criteria you will use for selecting an agency. Do you plan on using a full service agency or a creative boutique? What type of agency compensation system do you plan to use and why? How will you evaluate the performance of the agency? Attention should also be given as to whether you will be using any specialized marketing



communication services such as direct-response agencies, sales promotion agencies and public relations firms. Would you prefer to use a large agency that has all of these integrated services capabilities?