# Ist Internal, 2019
# B.Com 3rd Year
# Advertisement and sales promotion
# Set A

Max. Marks 40
Time 1.30 Hrs.

Compulsory to attempt all the questions. All Questions carry equal marks

Section: A Multiply Choice Questions [1*10=10]

1. Promotion mix includes Sales Promotion, Personal Selling, Advertising and
a) Marketing b) Sales c) Publicity d) None of these
2. Copy testing is also known as
a) Pre Testing b) Copy writing c) concurrent testing d) Preview
3. Consumer promotion, trade promotion and ____ are the three forms of sales promotion
a) Media Promotion b) Sales Force Promotion c) Core Promotion d) Media Mix
4. ______ media can give 24 hour exposure to the public eye
a) Television b) Print c) Internet d) Flex Board
5. It is popularly known as free form of promotion
a) Advertisement b) Publicity c) Personal Selling d) Marketing
6. Which among the following is an example of Trade promotion?
a) Coupons b) Samples c) Push Money d) None of these
7. Which among the following is a Pull Strategy?
a) Trade promotion b) Consumer Promotion c) Sales Force Promotion d) None of these
8. If a company gives false message to the customers, it is known as
a) Obscene ads b) Subliminal ads c) Deception d) None of these
9. The strategy that encourages dealers and distributors to sell a product is known as
a) Push b) Pull c) Combination d) Marketing
10. Creating image of product in the minds of target group is called
a) Marketing b) positioning c) Branding d) Popularizing

Section: B- Compulsory to attend all the questions.

1. Explain the concept of advertising. What are the various types of advertising? [10]

3. Explain 5- M model in detail with examples. [10]

4. What is advertising budgeting? Explain the various techniques of budgeting. [10]

# Solutions

1. Types of advertising

A successful advertising campaign will spread the word about your products and services, attract customers and generate sales. Whether you are trying to encourage new customers to buy an existing product or launching a new service, there are many options to choose from.

The most suitable advertising option for your business will depend on your target audience and what is the most cost effective way to reach as many of them as possible, as many times as possible. The advertising option chosen should also reflect the right environment for your product or service. For example, if you know that your target market reads a particular magazine, you should advertise in that publication.

The following list is an introduction to advertising tactics that you could use. Remember, you can always be creative in your advertising to get noticed (within advertising regulations).

Newspaper

Newspaper advertising can promote your business to a wide range of customers. Display advertisements are placed throughout the paper, while classified listings are under subject headings in a specific section.

You may find that a combination of advertising in your state/metropolitan newspaper and your local paper gives you the best results.

Magazine

Advertising in a specialist magazine can reach your target market quickly and easily. Readers (your potential customers) tend to read magazines at their leisure and keep them for longer, giving your advertisement multiple chances to attract attention. Magazines generally serve consumers (by interest group e.g. women) and trade (industry/business type e.g. hospitality).

If your products need to be displayed in colour then glossy advertisements in a magazine can be ideal - although they are generally more expensive than newspaper advertisements.

Magazines do not usually serve a small area such as a specific town. If your target market is only a small percentage of the circulation, then advertising may not be cost-effective.

Radio

Advertising on the radio is a great way to reach your target audience. If your target market listens to a particular station, then regular advertising can attract new customers.

However, sound has its limitations. Listeners can find it difficult to remember what they have heard and sometimes the impact of radio advertising is lost. The best way to overcome this is to repeat your message regularly - which increases your costs significantly. If you cannot afford to play your advertisement regularly, you may find that radio advertising does not generate strong results.

Television

Television has an extensive reach and advertising this way is ideal if you cater to a large market in a large area. Television advertisements have the advantage of sight, sound, movement and colour to persuade a customer to buy from you. They are particularly useful if you need to demonstrate how your product or service works.

Producing a television advertisement and then buying an advertising slot is generally expensive. Advertising is sold in units (e.g. 20, 30, 60 seconds) and costs vary according to:

- the time slot
- the television program
- whether it is metro or regional
- if you want to buy spots on multiple networks.

Directories

Directories list businesses by name or category (e.g. Yellow Pages phone directories). Customers who refer to directories have often already made up their mind to buy - they just need to decide who to buy from.

The major advantage of online directories over print directories is that if you change your business name, address or telephone number, you can easily keep it up to date in the directory. You can also add new services or information about your business.

If your target market uses print and online directories, it may be useful to advertise in both, although print directories are being used less.

Outdoor and transit

There are many ways to advertise outside and on-the-go. Outdoor billboards can be signs by the road or hoardings at sport stadiums. Transit advertising can be posters on buses, taxis and bicycles. Large billboards can get your message across with a big impact. If the same customers pass your billboard every day as they travel to work, you are likely to be the first business they think of when they want to buy a product.

Even the largest of billboards usually contain a limited amount of information; otherwise, they can be difficult to read. Including your website address makes it easy for customers to follow up and find out more about your business. Outdoor advertising can be very expensive especially for prime locations and supersite billboards.

Direct mail, catalogues and leaflets

Direct mail means writing to customers directly. The more precise your mailing list or distribution area, the more of your target market you will reach. A direct mail approach is more personal, as you can select your audience and plan the timing to suit your business. A cost effective form of direct mail is to send your newsletters or flyers electronically to an email database. Find out more about direct mail.

Catalogues, brochures and leaflets can also be distributed to your target area. Including a brochure with your direct mail is a great way to give an interested customer more information about your products and services. Learn more about leaflet marketing using letterbox drops and handouts.

Online

Being on the internet can be a cost-effective way to attract new customers. You can reach a global audience at a low cost. Many customers research businesses online before deciding whom to buy from.

A well-designed website can entice customers to buy from you. There are a number of ways you can promote your business online via paid advertising or to improve your search engine rankings. Learn more about doing business online.

Other ways to advertise your business online include promoting your products or services on social media sites, blogs and search engines and other websites that your target audience visits. Find out more about social media.

2. Five M's of Advertising

- mission
- money
- message
- media
- measurement

The five M's of advertising are described by Philip Kotler in his book Marketing Management, Eleventh Edition (Prentice Hall). Advertising is any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor. In developing an advertising program, always start with identifying the target market and the buyers motives. After that, make the five major decisions in developing the advertising program known as the Five M's of Marketing. They are: mission, money, message, media and measurement.

Target Market

Before developing your advertising plan you need to have already decided on your target market and their characteristics. It is also important to know where in the product life cycle your offering lies. Your advertising mission will depend on your target market and your market offering's stage in it's product life cycle.

Mission

The mission has two parts: specific sales volume goals for a period of time and the advertising objective. Advertising objectives are specific communication tasks to be accomplished with a specific audience in a specific period of time. In other words, who and how many will believe what when? For a new retail clothing store, the mission may be to increasing awareness of the store's existence by people living in the surrounding area who have household incomes in a certain range. A more specific statement than this would be even better. If you knew by what percentage your increase of awareness would be and by when, it would make your communications more effective. The above statement should also be more descriptive of the target market. What about your competition? Advertising can attempt to stimulate primary demand for the product category itself or the specific brand you are selling. If your ad mentions your brand name, should it also mention the competitor's brand name specifically, or should it just reference those "other brands" or should it not hint at the competition at all? New brands entering a competitive market often choose to just talk about their own brand and it's benefits.

Advertising Objectives

There are four possible objectives of an advertisement: to inform, to persuade, to remind and to reinforce. Normally an advertisement only uses one of these objectives at a time. What you are advertising is your store. Focus on that. The brands in your store are important too, so mention those as you see fit. Since your store is new, your main objective will be to inform and to some extent persuade.

Inform: Advertisements of this type are often used for new stores, to create awareness among consumers. This type of ad provides the consumer with information about a store, its image, its type of customer and the location and contact information. To some extent all advertising must inform the consumer. New brands entering the market will either focus on informing or persuading customers. Later on they may switch to reminding and reinforcing. Persuade: This advertising attempts to create appeal, liking and preference. Some advertisements do this by aiming to convince the target market through comparison to others. What makes your store different? What makes it better. If price is the primary feature, be sure to also include something else about the store that is attractive. Price alone may not be enough. How you have positioned your store in the marketplace will drive the content of this type of ad. Remind: Once a store is established, the public has already been informed and some have been persuaded. Some customers may be loyal customers. Now you just want to keep the store brand visible and remind the public of the benefits of shopping there. People do forget. Reinforce: This advertising aims to convince purchasers that they made the right choice. Advertisements may show satisfied customers using the product.

Money

It is difficult to know exactly how much you should spend on advertising. Any amounts of money spent are written in the accounting books as an expense in the period that the expenditure was made. Advertising expenses are not capitalized. To capitalize means to record as an asset and then depreciate that asset over time. Money spent on advertising builds the intangible asset called brand equity which exists in the minds of the people in the market. There are five factors to consider when setting the advertising budget as described by Philip Kotler in his book Marketing Management, Eleventh Edition, as he references Strategic Advertising Campaigns by Donald E. Schultz, Dennis Martin and William P. Brown. They are: the stage in the product life cycle, market share and consumer base, competition and clutter, advertising frequency and product suitability.

Message

Before discussing the process of generating a message, it should be noted that there are two main types of advertising: product advertising and institutional advertising. Product advertising attempts to sell a product or service that is aimed at either final users or distribution channel members. Institutional advertising attempts to sell an organization’s image, reputation or ideas. The objective is to promote organization’s goodwill.

The process of developing the advertising message involves message generation, message evaluation, message selection, message execution. The objective here is to create an effective message. With the target audience in mind, the message should be something that they can relate to and believe. For example, some ads show people solving problems with the product. Some ads simply show people having a good time using the product. It helps if the message is memorable and unique. The message should be easily understood and be more than just the facts. In the fashion industry, many advertisements for high-end designer fashions include social and status benefits of wearing a particular brand of clothing. A product is portrayed as being exclusive. For lower-end clothing, an ad might focus on the product's comfort while wearing it or it's low price. How the message is delivered is also important. Ads are often designed to appeal to the emotions with a positive tone, appealing music, attractive colours, appealing images, humour or a testimonial. Caution must be observed that the ad does not cross social or legal norms. The ad should not be offensive to anyone including ethnic, racial and minority groups. The ad should not be false or deceptive. If you are advertising a product for a certain price, you must be willing to sell it for that price. Also, if an item is ticketed at a certain price, you must be willing to sell it at that price.

Media

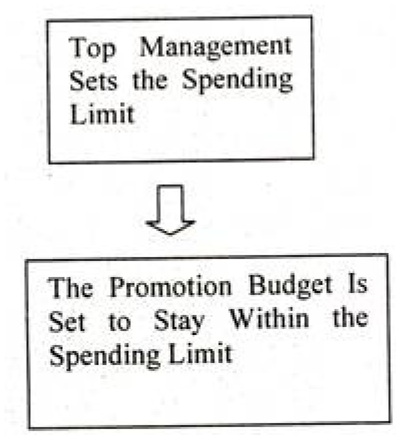
The method of message delivery is made after you have decided on the message. Choose media that will reach your target audience. That media must also be able to reach and create an impact on the consumer. An ad for ladies designer purses will likely have a greater impact in a fashion magazine than in a home gardening magazine. Also, to create an impact, the message must be well-designed and it may have to be repeated several times. It may be in more than one media form. The media mix is the use of two or more different media forms in one advertising plan that are usually scheduled either simultaneously or close to each other. It must also be within your budget. One of the other decisions you have to make is who will actually do the work. For example, if you are confident with your computer and design skills, you can create your own ad on a computer and send it to the print media company for publishing. To "farm out" is to give work out to people other than yourself or your own employees. This is also called outsourcing.

There are several terms that an advertising agency will use that are useful to know. An advertising agency is an organization that typically creates advertising messages on behalf of its advertiser clients and then places those messages on various media forms. A full service advertising agency will do the above functions and more. They will be able to conduct marketing research, develop marketing and media strategies, develop the message content itself by either doing it themselves or outsourcing the work and supervising the process and report back to the client the progress and success of the advertising campaign.

Measurement

To better plan for future advertisements, many companies have set up formal measurement systems that attempt to evaluate an ads effectiveness. Larger companies will develop an ad campaign and test it in a certain geographic region before launching it nationally. To do this research, marketers ask two different questions. First, they ask if the message was effectively communicated to the target audience. Secondly, they ask if the ad generated additional sales volumes. Effective communication could be measured by conducting primary market research to ask if the audience remembers, understands and believes the advertising message. They could also be asked how they feel about the ad and if it might influence their purchasing decisions in the future. Measuring changes in sales volumes can be more difficult because there are many factors that influence a person's decision to buy a product. A competitor may have also just launched an aggressive ad campaign.

3. Budgets are essentially predetermined at the top level who generally fails to get a clear-cut field level picture and hence the models under this approach have no true theoretical basis. The following figure illustrates the approach.




The following figure Illustrates various methods of setting up of advertisement budgets under top down budgeting method:

FIGURE 11.4: METHODS OF SETTING UP OF ADVERTISEMENT BUDGETS UNDER TOP DOWN BUDGETING METHOD


1. Affordable method:

This is a very simple method of budget allocation. After the budget has been allocated in all the areas i.e. all the other expenses have been taken care of the company then allocates the left over money for the advertisements. This method is also called "All you can afford". Those companies, which follow this method, consider advertisement as an expenditure and no expectations on returns are associated with this method.

2. Arbitrary Allocation:

This method seems to be a weaker method than the affordable method for setting a budget. The arbitrary allocation method is completely dependent on the management's discretion and hence has no theoretical basis. The budget is determined by management solely. They on the basis of what they feel to be necessary. So ultimately the decision depends on the psychological and economical build up of the people in the management and not on the market requirements.

ADVERTISEMENTS:

It is thus understood that that the manager believes some money must be spent on advertising and promotion and that is why he picks up an amount, which has no logical explanation. Amazingly there are many companies both large and small, profit making and non-profit making who continue to set their budgets this way. It is now upon the readers to decide whether this method should be used or not.

3. Percentage of Sales method:

This is the most commonly used method for budget setting. Large firms generally go by this method. According to this method, advertising and promotions budget is based on sales of the product. Management determines the amount by either.

Some companies instead of considering the past sales consider the percentage-of-projected future sales as a base. This method also uses either a straight percentage of projected sales or a unit cost projection. In the straight-percentage method, the marketing manager estimates projected sales for the coming year. The budget is a percentage of these sales, often an industry standard percentage.

In its simplest application, a fixed percentage of last year's sales figure is allocated as the budget. For example, suppose the total sales of a company ABC Pvt. Ltd. in 2005-2006 were Rs 20, 00,000. Now according to this method the simplest calculation for advertisement budget is say 10% of the last year's sales. So the advertisement budget for the year 2006-2007 is 10% of Rs 20, 00,000 i.e. Rs 20,00,00.

In case the ad budget is to be decided on the basis of sales units, let us assume that the manufacturing cost per unit of table fan for ABC Pvt. Ltd. is Rs 500 and the advertising money allocated per unit is Rs 30. The projected sales figure is 1,00,000 fans for the coming year 2007-2008, then the total advertising budget can be calculated as Rs 1,00, 000 x 30 = 30,00, 000).

The percentage figure selected is definitely not a standard percentage across any industry. This figure varies from one industry to the other and also among different firms in the same industry. It depends on the company policy. Actual money spent varies considerably depending on the individual company's total sales figure.

As shown in the example the budget for a current year depends on the sales of the last year. Now if a company keeps the percentage fixed and then sales this year decreases then advertisement budget for next year is also less. But marketing says that if the sales are less in a year one way out of many to increase it in the next year could be an increase in the advertisement and promotional budget.

Thus one advantage of using future sales as a base is that the budget is not based on last year s sales. As the market changes, management should consider the effect of these changes on sales into next year's forecast rather than relying on past data. There are a number of advantages associated with this method.

iv. This budgeting approach is generally stable when competing firms spend approximately the same percentage of their sales on promotion

v. Promotion expenditures vary with what company is aiming for in terms of sales

vi. It encourages management to think of the relationship among promotion cost, selling price and profit per unit.

vii. This method is suitable for the companies whose ad budget is small relative to sales

However the percentage-of-sales method has some disadvantages as well.

The basic premise on which the budget is established is sales. As just discussed if the level of sales determines the amount of advertising and promotions to be spent then the cause-and-effect relationship between advertising and sales is reversed. It treats advertising as an expense associated with making a sale rather than an investment. Companies that consider promotional expenditures an investment and reap the rewards.

In explaining the advantages it was just mentioned that since it is a percentage of sales, either past or future expected, the method is stable. Now this can happen when all firms in the industry uses a similar percentage, but then what happens if one firm varies from this standard percentage? The problem is that this method does not allow for changes in strategy either internally or from competitors. But this is a highly impractical proposition because there are many kinds of market structures and in any time the leader can choose to divert from the standard.

The percentage-of-sales method of budgeting may result in severe misappropriation of funds i.e. over budgeting or under budgeting. When sales decrease we may need more budget in advertisement as decrease in budget might lead to further decrease in incremental sales.

The percentage-of-sales method is also difficult to employ for new product introductions because in this case there is no sales history available. Also projections of future sales may be difficult, if the product is highly innovative and absolutely new in the market.

4. Percentage of Profits method:

In this method, companies set their budget at a certain percentage of their current or forecasted profits. The problems and advantages of this method is more or less in line with the previous method. Moreover the cost factor is also there which has an effect on profit. Now due to changes in macro environmental factors like, political, social, demographic, economic (inflation) and legal the cost component might change over time and across geography in the same industry. This in turn will affect the stability of this method of budget setting.

5. Unit of Sale Method:

Consumer durable firms make use of this method as a variant on sales percentage. While it mostly works out same as a sales percentage, here the firm puts an amount of advertising expenses on the unit as add on. This method may also be referred to as the fixed-sum-per-unit-of product method. It is based on the premise that a specific amount of advertising is required for marketing each unit.

This method proves more useful specially in the case of advertising of speciality goods with higher prices, however this method might not prove efficient for consumer goods of lower price bracket because the market situations are very volatile and change frequently. This method is further undependable in case of fashion products as the market is even more dynamic.

6. Historical Method:

In this method last year's advertising budget is adopted for the year with a view that practically no change has taken place in the market and market growth is slow, which does not justify any addition to the budget. Last year's budget could be multiplied by a factor to cover media rate increase.

7. Competitive Parity Method:

This method involves setting budgets to match competitors' outlays and funds. In this method, the company monitors competitors' advertising and follows it. This method is generally used in markets in which advertising is heavier and it is felt absolutely important to the companies not to be left behind the competitors.

Normally, it is felt that the brand leader needs to spend proportionately less as a share of total advertising to maintain its market share, while conversely a brand trying to improve its market share will have to spend proportionately more. But such a type of budgeting plan fails to reflect the firms' own advertising needs or marketing requirements.

None of the marketing managers in practice ever will accept the fact that they set their advertising and promotions budgets on the basis of what their competitors allocate. But a close examination of their advertising expenditures, both as a percentage of sales and in respect to the media where they are allocated, will show little variation in the percentage-of-sales figures for firms within a given industry.

The rationale for setting the budget this way is that the collective wisdom of the industry is involved. Some are of the opinion that since it takes the competition into consideration, marketplace is more stable and marketing warfare is minimized in turn minimizing the unusual or unrealistic ad expenditures. However there are a number of disadvantages with this method.

i. It ignores the fact that advertising and promotions are designed to accomplish specific objectives and not merely to face competition.

ii. It assumes that the ad campaigns will be equally effective because firms have done similar expenditures. This highly ignores the contributions of creative executions and/or media allocations.

iii. It ignores a very natural possibility that some companies simply make better products than others.

iv. There is no guarantee that competitors will not increase or decrease its own expenditures, regardless of what other companies do because competition cannot be fully assessed at the beginning of a financial year.

v. Finally there is no reason why competitive parity should avoid promotional wars. We are a witness to the Coke versus Pepsi wars.

Nevertheless companies employ the competitive parity method. But a wiser decision is not to ignore the competition but use this method in conjunction with the percentage-of-sales or other methods. Marketing never suggests to always keep parity with competitors however it suggests a very meticulous vigilant on them.

8. Return on Investment (ROI):

In the percentage-of-sales method, advertising budget depends on the level of sales. But advertising causes sales. In the marginal analysis and S-shaped curve approaches increase in advertisement budgets may lead to increases in sales. In other words the advertisement budget can be considered as an investment.

In the ROI budgeting method, advertising and promotions are considered investments, like plant and equipment. In other words investments in advertisements lead to certain returns. Like other aspects of the firm's efforts, advertising and promotion are expected to earn a certain return.

To many the ROI method is an ideal method of setting advertisement budget. But in reality it is rarely possible to assess the returns provided by the promotional effort-at least as long as sales continue to be the basis for evaluation.

9. Vidale and Wolfe's model:

This model calls for a larger advertising budget, as it believes that higher the sales response rate, higher the sales decay rates i.e. the rate at which customers forget the advertising and brand, and higher the untapped sales potential. This model leaves out other important factors, such as the rate of competitive advertising and the effectiveness of company's ads.

10. The compromise model:

In actual practice, marketing executives usually blend some well-accepted methods and arrive at a compromise budget. The compromise however does not mean a senseless averaging of the different methods; instead it is a logical and practical approach. The marketing men know that they will have to find answer to certain basic questions described below in order to arrive at the compromise budget.

11. Composite Method:

This method takes in to consideration several factors in formulating the advertising budget which include indices like firm's past sales, future sales projection, production capacity, market environment, sales problems, efficiency level of sales personnel, seasonality of the market, regional considerations, changing media scenario and changing media impact on the target market segment, market trends and results of advertising and marketing.

12. Incremental Concept Approach to Advertisement Budgeting:

According to Managerial Economics a business maximizes its profits at that point where the incremental cost is equal to the incremental revenue. Businessmen are fully aware that as long as the cost of producing one extra unit is less than the revenue generated by it, the business is a profitable one. Any further production after the level at which the additional per unit cost equals the per unit additional revenue will be unprofitable.

A similar approach can be applied for advertisement as well. Advertisers can keep on increasing the advertisement budget to the extent where the last unit spent on advertising is equal to the net profit contribution by the additional sales generated from the promotion.

From managerial economics viewpoint, this is the optimum advertisement expenditure giving maximum profit. This is also referred to as the concept of marginality. In other words the advertisement expenditure should be carried on to that point where there is no further scope of increasing the incremental revenue from the incremental expenditure on advertising. Also the total advertisement budget should be apportioned among various media and product lines until marginal returns are equal.

Inspite of being theoretically sound, this model is very difficult to be implemented because it is very difficult to measure the additional profit generated by additional expenditure on advertisement.