Chapter 12
Promotion, Advertising, and Sales Promotion Strategies

➢ Promotion Strategy
➢ Advertising Strategy
➢ Sales Promotion Strategy

The Vuitton Machine*
Inside the world’s biggest, most profitable luxury brand

BENCHMARKING VUITTON

<table>
<thead>
<tr>
<th>Brand</th>
<th>2003 Sales Billions</th>
<th>Percent Change*</th>
<th>Operating Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Louis Vuitton</td>
<td>$3.80</td>
<td>+16%</td>
<td>45.0%</td>
</tr>
<tr>
<td>Prada</td>
<td>1.95</td>
<td>0.0</td>
<td>13.0</td>
</tr>
<tr>
<td>Gucci**</td>
<td>1.85</td>
<td>-1.0</td>
<td>27.0</td>
</tr>
<tr>
<td>Hermès</td>
<td>1.57</td>
<td>+7.7</td>
<td>25.4</td>
</tr>
<tr>
<td>Coach</td>
<td>1.20</td>
<td>+34.0</td>
<td>29.9</td>
</tr>
</tbody>
</table>

*At constant rate of exchange **Gucci division of Gucci Group Data: Company reports. BW

Vuitton increased advertising 20% in 2003—spends only 5% of revenues on advertising—about half the industry average

PROMOTION STRATEGY

- The Composition of Promotion Strategy
- Developing a Promotion Strategy
- Communications Objectives
- Deciding the Role of the Promotion Components
- Determining the Promotion Budget
- Promotion Component Strategies
- Integrating and Implementing the Promotion Strategy
- Effectiveness of Promotion Strategy

Promotion Strategy is —

Initiating and maintaining a flow of communications between a company (brand) and its market targets.
Composition of Promotion Strategy

Interactive/Internet Marketing

Direct Marketing

Personal Selling

Promotion Components

Advertising

Sales Promotion

Public Relations

Annual Expenditures (billions)

- Personal Selling/Sales Promotion: $600
- Advertising: $400
- $200
- 0
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OBJECTIVES

DESIGNING PROMOTION STRATEGY

MARKET TARGETING AND POSITIONING STRATEGIES

COMMUNICATION OBJECTIVES

ROLE OF PROMOTION COMPONENTS

Advertising
Sales Promotion
Public Relations
Personal Selling

PROMOTION BUDGET

PROMOTION COMPONENT STRATEGIES

INTEGRATE AND IMPLEMENT PROMOTION COMPONENT STRATEGIES

EVALUATE EFFECTIVENESS OF PROMOTION STRATEGY

ILLUSTRATIVE COMMUNICATION OBJECTIVES

- Need Recognition
- Finding Buyers
- Brand Building
- Evaluation of Alternatives
- Decision to Purchase
- Customer Retention
DECIDING THE ROLE OF THE PROMOTION COMPONENTS

- Expected contribution for each of the promotion components.
- Which communication objective(s) will be the responsibility of each component?
- What part of the budget will go to each component?

Factors Guiding the Role Assigned to Each Component

- Market Target(s)
- Desired Positioning
- Role of Promotion in Positioning
- Product Characteristics
- Stage of Life Cycle
- Situation Specific Factors
DETERMINING THE PROMOTION BUDGET

Objective and Task

All You Can Afford

Budgeting Approaches

Follow the Competition

Percent of Sales

Budgeting Methods

<table>
<thead>
<tr>
<th>Features</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of Sales</td>
<td>- Fixed percent of sales, often based on past expenditure patterns.</td>
</tr>
<tr>
<td></td>
<td>- The method is very arbitrary. Budget may be too high when sales are high and too low when sales are low.</td>
</tr>
<tr>
<td>Comparative Parity</td>
<td>- Budget is based largely upon what competition is doing.</td>
</tr>
<tr>
<td></td>
<td>- Differences in marketing strategy may require different budget levels.</td>
</tr>
<tr>
<td>Objective and Task</td>
<td>- Set objectives and then determine tasks (and costs) necessary to meet the objectives.</td>
</tr>
<tr>
<td></td>
<td>- The major issue in using this method is deciding the right objectives so measurement of results is important.</td>
</tr>
</tbody>
</table>
### Integrating and Implementing Promotion Strategy

**Integration Challenges**
- Avoiding fragmentation
- Difficulty in evaluating productivity
- Differences in priorities
- Separate organizational units
- Assigning integration responsibility

### Illustrative factors that influence the design of Promotion Strategy

<table>
<thead>
<tr>
<th>Advertising/ sales promotion driven</th>
<th>Balanced</th>
<th>Personal selling driven</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number and dispersion of buyers</td>
<td>Small</td>
<td></td>
</tr>
<tr>
<td>Buyers’ information needs</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Size and importance of purchase</td>
<td>Large</td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td>Direct</td>
<td></td>
</tr>
<tr>
<td>Product Complexity</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Post-purchase contact required</td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>
Promotion Strategy Issues

- Expense/Response Relationships
- Allocation
- Impact on Brand Equity
- Integration of Promotion Components
- Evaluating Effectiveness

ADVERTISING STRATEGY

- Setting Objectives and Budgeting
- Creative Strategy
- Media/Programming Strategy
- Role of the Agency
- Program Implementation and Effectiveness
ADVERTISING STRATEGY

Target Audience

Advertising Objectives

Advertising Budget

Creative Strategy

Advertising Media and Programming Schedules

Implement and Evaluate Strategy Effectiveness

Illustrative Advertising Objectives

Expose communication to target audience

Create awareness

Change attitude(s)

Increase Sales

Generate profits
Alternative Levels for Setting Advertising Objectives

Increasing Uncertainty About Impact on Purchasing Behavior

Type of Objective

• Exposure
• Awareness
• Attitude Change
• Sales
• Profit

Increasing Difficulty of Measurement

Determining Advertising Objectives

1. Does the advertising aim at immediate sales?
2. Does the advertising aim at near-term sales?
3. Does the advertising aim at building a long-range consumer franchise?
4. Does the advertising aim at helping increase sales?
5. Does the advertising aim at some specific step that leads to a sale?
6. How important are supplementary benefits of advertising?
7. Should the advertising impart information needed to consummate sales and build customer satisfaction?
8. Should advertising build confidence and goodwill for the corporation?
9. What kind of images does the company wish to build?

Source: from Exhibit 12-5.
Budget Determination

OBJECTIVE AND TASK METHOD HAS A STRONGER SUPPORTING LOGIC THAN THE OTHER METHODS.

CREATIVE STRATEGY
The creative strategy is guided by the market target and the positioning strategy.

- Product
- Distribution
- Price
- Promotion
- Advertising

(How to communicate intended positioning to buyers and others influencing the purchase.)

Provide a unifying concept that binds together the various parts of the advertising campaign.

Creative Strategy
MEDIA / SCHEDULING DECISIONS

- Television
- Radio
- Magazines
- Online
- Website
- Outdoor

SPREADING the Word on the Net

Online advertising is growing at a sizzling 29% rate, to $9.3 billion this year.
Here’s why:

SEARCH WORKS
Google and Yahoo! have demonstrated the power of the Web by using customers’ search queries to connect them with advertisers. This combination fuels a search industry expected to hit $3.9 billion this year.

CUSTOMERS ARE ONLINE
More than half of American households have always-on Net connections. And the Web reaches millions at the office. The Big Three portals-Yahoo, AOL, and MSN-reach a combined 50 million a day-twice the TV audience of a World Series game.

VIDEO ROCKS
The adoption of broadband, which can handle video, lets advertisers put TV-like ads online. Longer spots by BMW and Adidas have reached cult status. As demand for video soars, portals sell choice slots in advance, much like TV’s up-front sales.

FEEDBACK IS INSTANT
Marketers and online publishers have tools to track an ad’s performance in real time, allowing them to make quick adjustments if customers aren’t clicking. This turns the Net into a vast marketing lab. And as video grows, it becomes a test bed for TV ads.

CUSTOMERS LEAVE TRAILS
It was an empty promise during the dot-com days, but now advertisers have the technology to follow customers, click by click, and to hit them with relevant ads. The upshot? No wasted money peddling dog food to cat owners.

ADVERTISING AGENCIES IN PERSPECTIVE

- Fast change has come to the advertising industry.
- Huge, integrated agencies face a challenging future.
- Do clients want a full-service agency?
- The business model is in need of change.
- The basis of compensation continues to be debated and altered.
- Specialists (e.g. media buying services) are being used.
- Importantly, the core of the creative process is the agency.
- Several methods are available to evaluate advertising results.

Role of the Advertising Agency

Target Audience

Advertising Objectives

Advertising Budget

Creative Strategy

Advertising Media and Programming

Evaluate the Effectiveness of the Strategy
ADVERTISING STRATEGY IMPLEMENTATION AND EFFECTIVENESS

- Decide how to measure effectiveness before implementing the strategy.
- Assign responsibility for tracking performance.
- Assessing the quality of advertising is important.
- Exposure to advertising is not a very sensitive measure of effectiveness.

MEASURING ADVERTISING EFFECTIVENESS

- Test Marketing
- Controlled Tests
- Recall Tests
- Rating Services
- Sales and Expense Analysis

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SALES PROMOTION STRATEGY

SALES PROMOTION consists of various incentives, mostly short term, intended to stimulate quicker and/or greater purchase of particular goods/services by end-user consumers or value chain organizations.

The strategy process is similar to the design of advertising strategy.

Sales Promotion Activities and Targets

Activities include trade shows, specialty advertising, contests, displays, coupons, recognition programs, and free samples.

Sales Promotion Targets

- Consumer Buyers
- Business Buyers
- Salespeople
- Value Chain

**Review Question**

Define promotion, list the components of promotion and the steps to develop the promotion strategy.