



Because learning changes everything.®

Chapter Two

The Environment of Advertising

M
start here.

Chapter Seven
How did Hyundai make sure Super Bowl viewers would remember the Sonata by spoofing an accent?

Chapter Twelve
How did Tim Sweeney use social media principles to make billions... by giving a game away for free?

Chapter Thirteen
How did ocean garbage help Corona create one of the best billboards in the world?

ADVERTISING

ARENS | WEIGOLD
4e

HOW DID MARS
MAKE FICTIONAL CANDY FIGURES SOME OF THE WORLD'S BEST KNOWN CELEBRITIES?
Chapter Eleven

McGraw Hill

M is Motivation. M is Momentum. M is Moving Forward. M is McGraw-Hill.

Learning Objectives

- 2-1** Describe the impact of advertising on the economy.
- 2-2** Examine the validity of the various social criticisms of advertising.
- 2-3** Explain the difference between social responsibility and ethics in advertising.
- 2-4** Describe how government agencies regulate advertising to protect both consumers and competitors.
- 2-5** Discuss the activities of nongovernment organizations in fighting fraudulent and deceptive advertising.

The Many Controversies About Advertising

Public Activity

- Cannot be judged by the standards of journalism, education or entertainment.
- Purpose of advertising is to sell a product, service or idea.

Advertisers face variety of economic, social, ethical, and legal issues.

Who is responsible?

- Marketers?
- Consumers?
- Government?

Offensive?



Views of offensiveness vary a great deal. This advertisement was banned by Britain's Advertising Standards Authority. The agency said the ad was likely to cause widespread offense.

Underlying Principles of Free-Market Economics

Four Fundamental Assumptions Provide Framework

- Self-interest.
- Many buyers and sellers.
- Complete information.
- Absence of **externalities**: benefit or harm caused by sale or consumption of products to people who are not involved in the transaction and didn't pay for the product.

Overall goal is to achieve the greatest good for the most people.

The Economic Impact of Advertising

Money Spent on Advertising

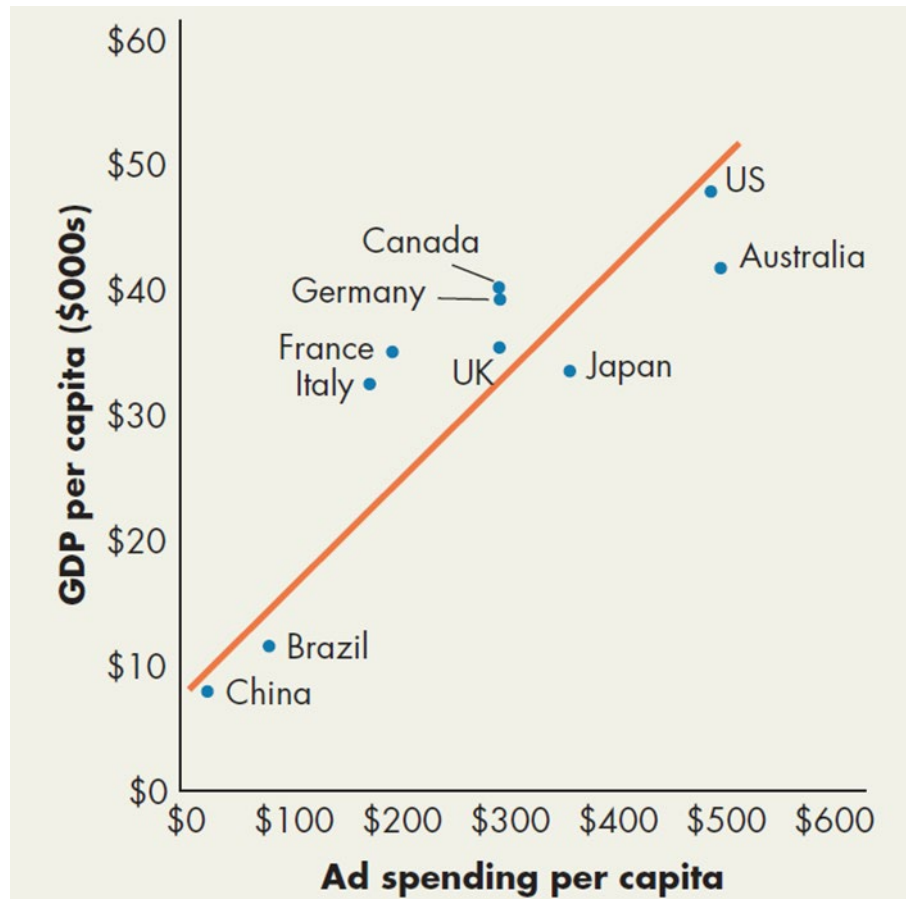
In the United States, equals about 2 percent of the GDP.

- Among highest per capita ad spending.

Relationship between advertising spending per capita and a country's standard of living.

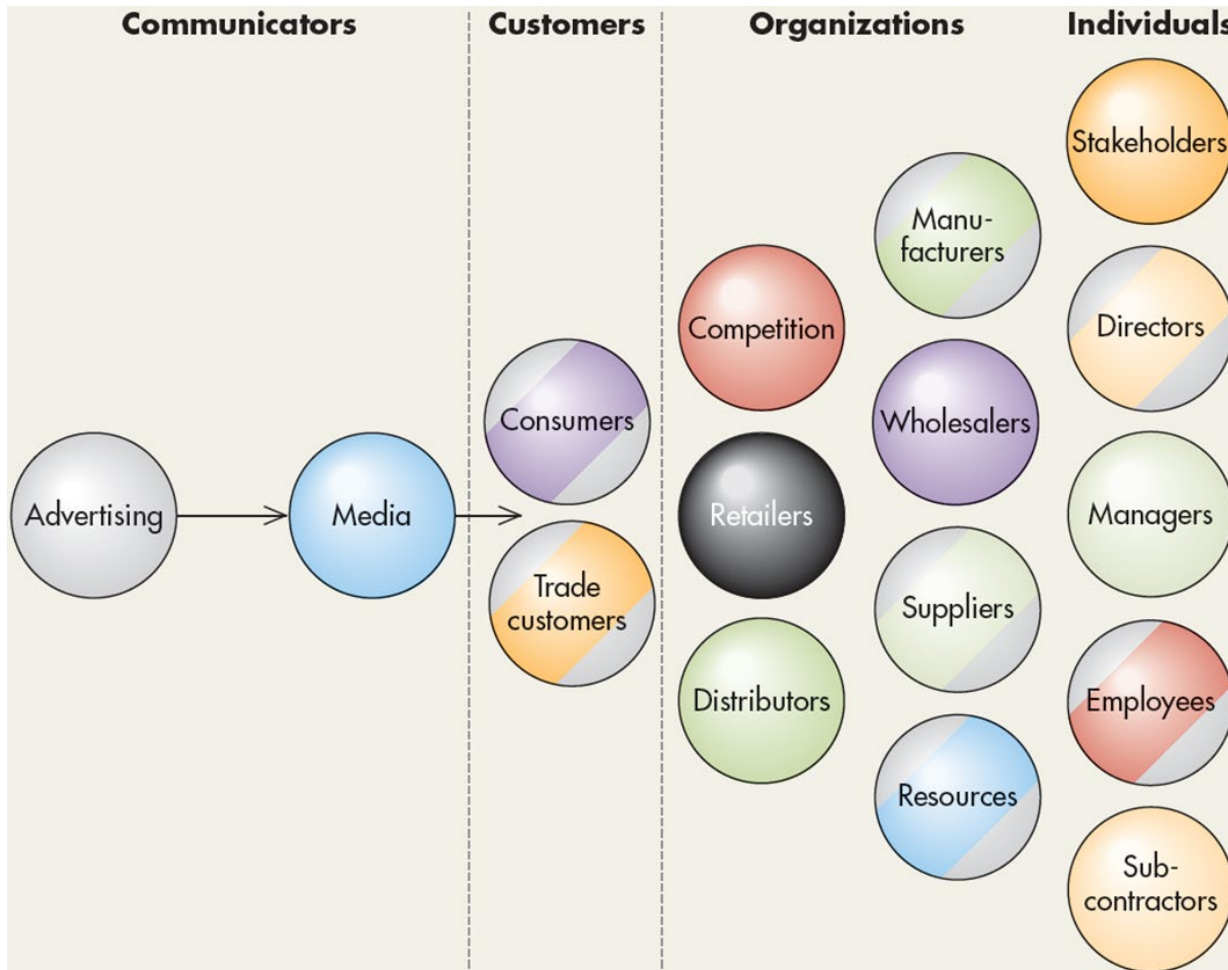
- China among lowest per capita ad spending.

Exhibit 2-1 A Country's Level of Ad Spending Is Closely Related to Its Standard of Living



[Access the text alternative for slide images.](#)

Exhibit 2-2 The Economic Effect of Advertising Like the Opening Break Shot in Billiards



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Effect on the Value of Products

Advertising Gives Brands Added Value

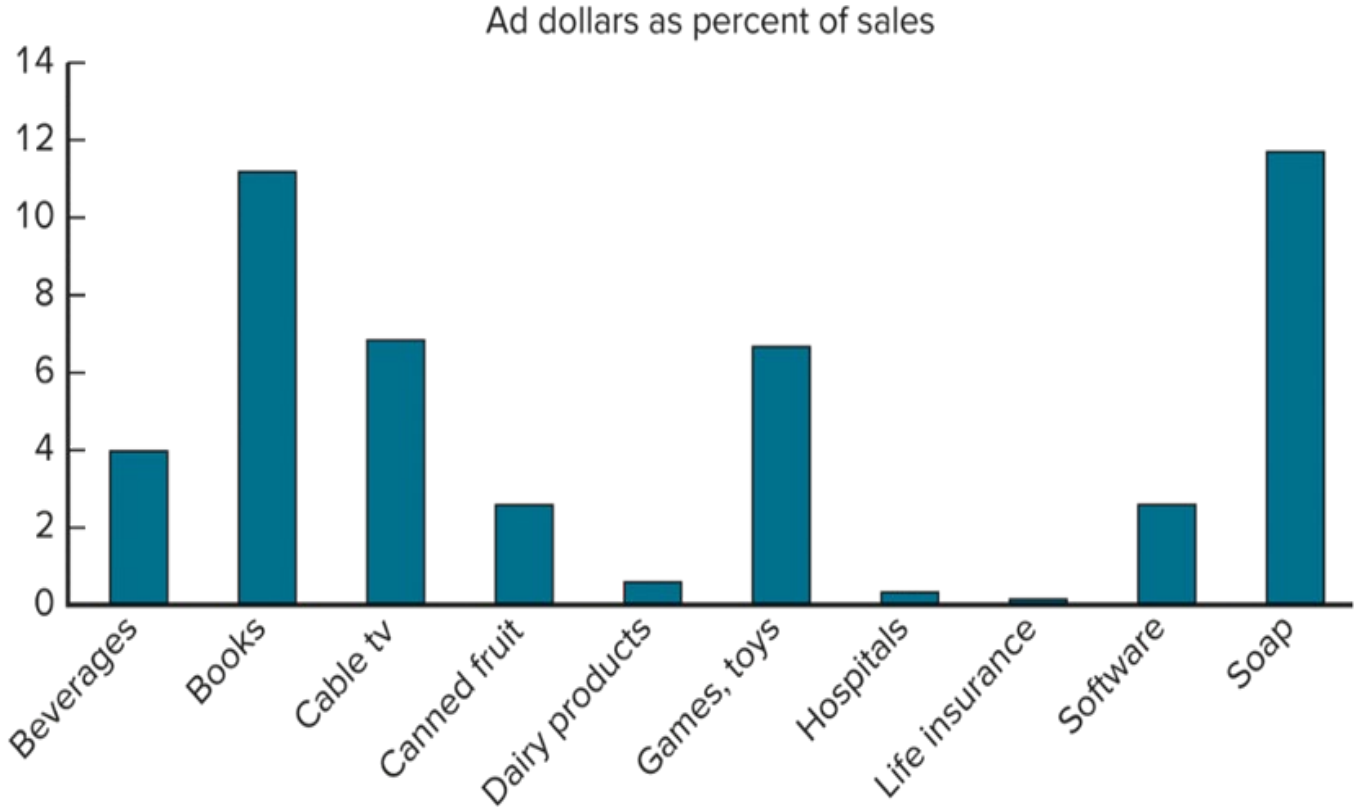
- **Added value:** increase in worth of a product or service provided by communicating benefits over and above those offered by the product itself.
- Creates a positive image that makes a product more desirable to consumers.
- Educates consumers about new uses for a product.
- Allows consumers to communicate who they are (or want to be) through the products they use.

Effect on Prices

Advertising Paid for by the Consumer

- But, a small part of a product's cost.
- Enables mass production, which lowers the cost per unit of a product.
- Regulated industries see no price increase associated with advertising.
- Retailing—advertising contributes to both higher and lower prices.

Exhibit 2-3 Advertising Spending as a Percentage of Sales Across Products



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Effect on Competition

Big Advertisers Have Limited Effect On Competition or Small Businesses.

- One advertiser is not large enough to dominate national advertising.
- Freedom to advertise encourages more sellers to enter the market.
- Nonadvertised store brands compete with nationally advertised brands.

Effect on Consumers and Businesses

Effect on Growing Markets

- Provides more “complete information.”
- Stimulates **primary demand**: consumer demand for a whole product category.
- Helps businesses compete for a share of the growing market.
- Helps businesses compete for each other’s market share.

Effect on Declining Markets

- Mainly provides price information.
- Influences **selective demand**: consumer demand for the particular advantages of one brand over another.

Increasing Consumer Choices

Elon Musk unveiled the Tesla Cybertruck, introducing a radically new product in the competitive world of pickup trucks. The freedom to advertise can lead to more sellers, resulting in greater consumer choice.



The Abundance Principle: The Economic Impact of Advertising in Perspective

Advertising Serves Two Purposes

- Informs consumers of their alternatives (complete information).
- Allows companies to compete more effectively, resulting in more and better products at similar or lower prices (self-interest).

Advertising stimulates competition and a healthy economy.

Failing Customer Expectations



The EDSEL LOOK is here to stay
—it has the new ideas next year's cars are copying!

Edsel dared to break out of the look-alike rut to bring you fresh, distinctive styling. And it's an open secret in Detroit—the Edsel look will be the most copied look next year. So Edsel is naturally worth more now when you buy it—and it's bound to bring you more when you finally trade it in. Yet you can actually buy an Edsel for less than fifty dollars over the price of V-8's in the Low-Priced Three.* And see for yourself how much

more you get. Swing in behind the wheel and start Edsel's powerful new engine. Shift with exclusive Tektouch Drive—just a fingertip touch at the steering-wheel hub. Then sit back in luxurious contour seats and enjoy Edsel's room and roadability, its smooth handling. This is the wonderful new way to drive. Why settle for less? See your Edsel Dealer.

EDSEL DIVISION • FORD MOTOR COMPANY

Less than fifty dollars difference between Edsel and V-8's in the Low-Priced Three

*Based on comparison of manufacturer's suggested retail list prices.

Despite extensive advertising efforts, some products, like the Edsel automobile, will fail simply because they do not meet the expectations of customers at that particular time. Many of the best-known cars developed in the twentieth century are no longer sold today. Ironically, the Edsel has since become a pricey collector's item for automobile aficionados.

The Social Impact of Advertising ¹

Deception in Advertising.

To be effective, consumers must find advertising credible.

Puffery: exaggerated, subjective claims that cannot be proven true or false.

Under current law, ads only considered deceptive if factually false or convey a false impression.

- Difficulty lies in seeing the line.

The Social Impact of Advertising ²

Subliminal Advertising

Advertisements with messages (often sexual) supposedly embedded in illustrations below the threshold of perception.

No study to date has proved that subliminal advertising works or even exists.

Taps into consumer fears that they are being manipulated by advertising.

- Reality is that we receive information from many different sources.

The Social Impact of Advertising ³

Advertising and Our Values

- Advertising promotes a materialistic way of life.
- Promises greater status, social acceptance, and sex appeal.
- Only 17 percent of U.S. consumers see advertising as a source of information to help them decide what to buy.

The Proliferation of Advertising

- Common complaint: too much exposure to advertisements in all media.
- Average U.S. consumer exposed to 500 to 1,000 commercial messages a day.

The Social Impact of Advertising ⁴

Stereotypes in Advertising

Stereotype: a negative or limiting preconceived belief about a type of person or a group of people that does not take into account individual differences.

Trend toward more positive representations of women and other groups.

- Problems still exist, especially in local and regional advertising, and certain product categories.

The Social Impact of Advertising ⁵

Offensive Advertising

- Taste is highly subjective and subject to change.
- Offended consumers can boycott a product.
- Marketplace veto power—campaign will falter if ads do not pull in audiences.



Critics have long complained about the way some ads depict women as sex objects. This ad for Hirter Beer created a controversy in Austria.

The Social Impact of Advertising in Perspective

- Encourages development and speeds the acceptance of new products and technologies.
- Fosters employment.
- Consumers and businesses have wider variety of choices.
- Helps keep prices down through mass production.

- Promotes healthy competition between producers.
- Promotes a higher standard of living.
- Pays for much of news media and subsidizes the arts.
- Supports freedom of press.
- Disseminates public information on health and social issues.

Social Responsibility and Advertising Ethics ¹

Ethical advertising: doing what the advertiser and advertiser's peers believe is morally right in a given situation.

Social responsibility: doing what society views as best for the welfare of people in general or for a specific community.

Together, ethics and social responsibility can be seen as the moral obligation of advertisers, even when there is no legal obligation.

Social Responsibility and Advertising Ethics ²

Ethics of Advertising

- Traditional customs and principles of a society.
- Attitudes, feelings, and beliefs that form a personal value system.
- Singular ethical concepts (good, bad, right, wrong, duty, integrity, truth).

Advertisements are reviewed and modified to create complete information and to reduce unwanted externalities.

Current Regulatory Issues Affecting U.S. Advertisers ¹

Freedom of Commercial Speech

Some forms of commercial speech (speech that promotes a commercial transaction) are protected under the First Amendment.

- The Supreme Court ruled against restrictions on attorney advertising in the 1976 case *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council*.
- In 1980, the Supreme Court established the *Central Hudson* test for regulating commercial speech.
- In 2011, Supreme Court ruled against restrictions on data mining in *Sorrell v. IMS Inc.*

Current Regulatory Issues Affecting U.S. Advertisers ₂

Tobacco Advertising

- Tobacco kills or disables more than 500,000 people each year.
- It costs taxpayers billions of dollars in health care costs.

Tobacco Companies Historic Settlement (1998).

- Limits brand name promotion at events with young attendees.
- Eliminates the use of cartoon characters in ads.
- Creates a \$200 billion fund to cover the health costs associated with smoking.

Current Regulatory Issues Affecting U.S. Advertisers ³

Advertising to Children

Child-oriented advertising can lead to false beliefs or highly improbable product expectations.

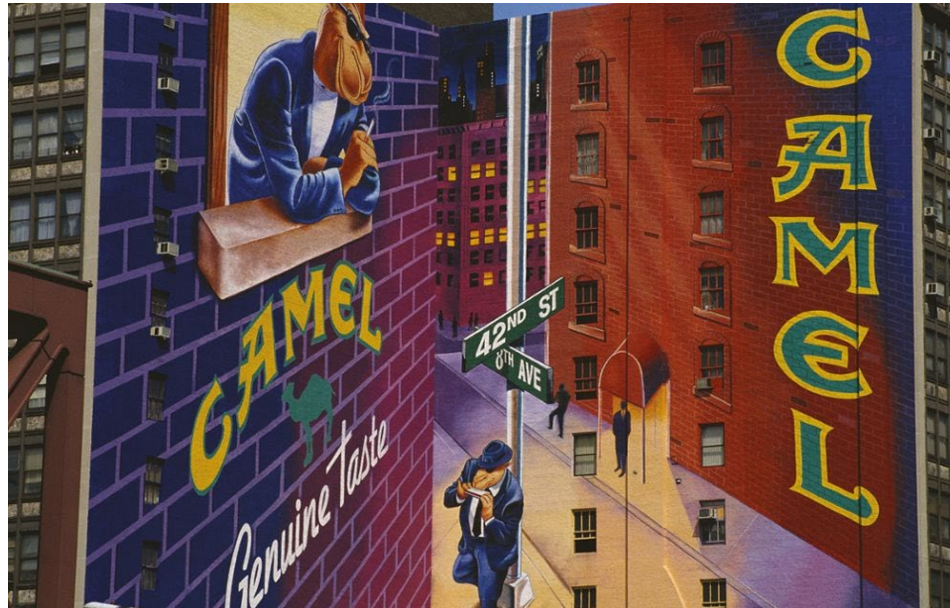
Should not be intentionally deceptive.

Children's Advertising Review Unit (CARU):

- Reviews and evaluates child-directed advertising.
- Seeks changes through voluntary cooperation of advertisers.

Other developed countries much stricter about advertising to children.

Targeted at the Youth Market



Joe Camel appeared in R.J. Reynolds' Camel advertising beginning in 1988. He became widely recognized among children, but R.J. Reynolds denied that Joe was targeted at the youth market. In 1997, under pressure from various public-interest groups, R.J. Reynolds replaced Joe Camel with a more traditional, four-legged dromedary.

Current Regulatory Issues Affecting U.S. Advertisers ⁴

Consumer Privacy

- Increased use of smartphones and Internet has led to growing consumer concern.
- **Privacy rights:** an individual's right to prohibit personal information from being divulged to the public.
- Has ethical, legal, and practical consequences for advertisers.

Current Regulatory Issues Affecting U.S. Advertisers ⁵

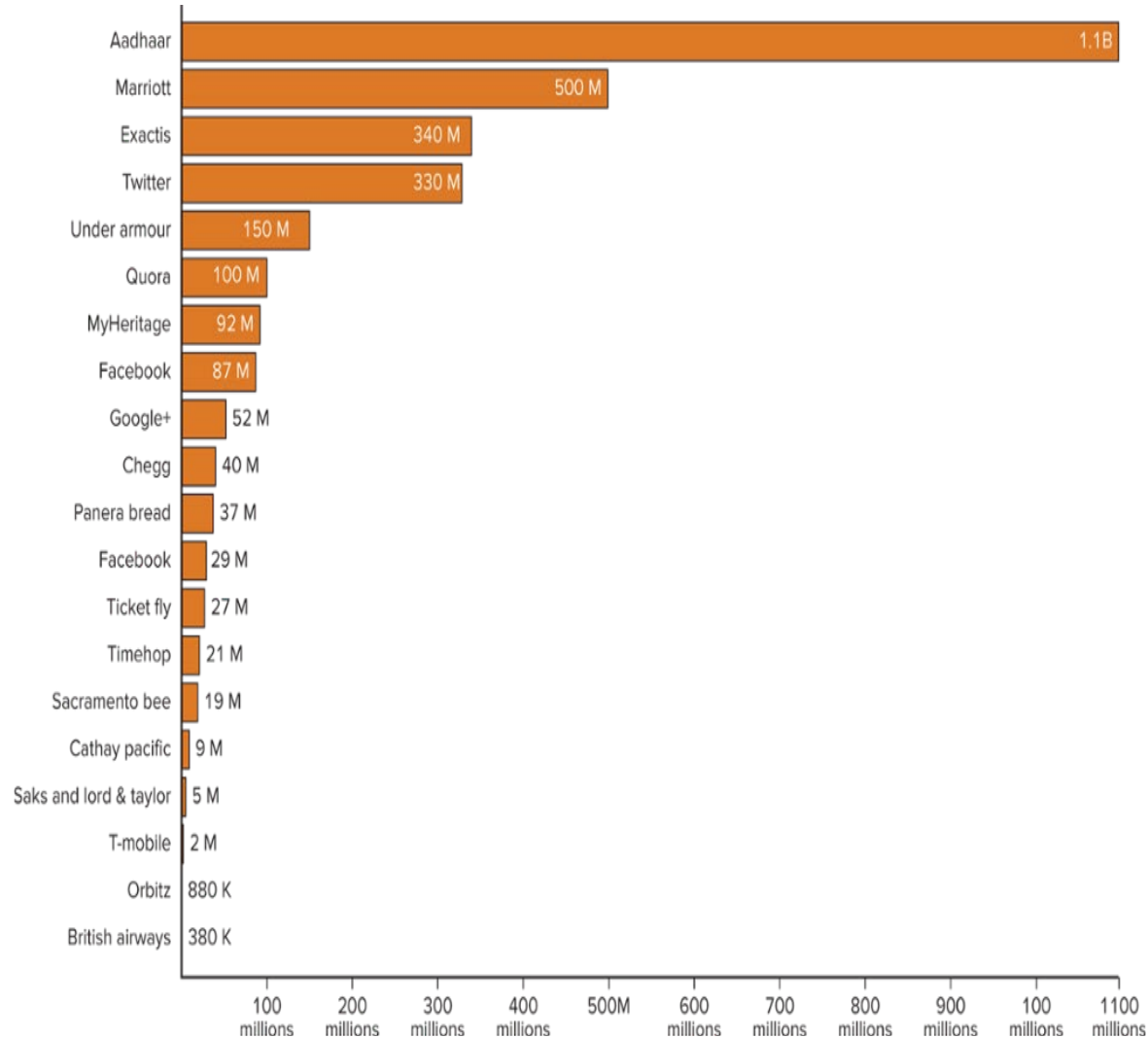
Consumer Privacy continued

Internet users worry about people they don't know, and even businesses they do know, getting personal information.

Many sites create profiles of their visitors or track browsing habits using **cookies**: small files that keep a log of where people click, allowing sites to track customers' web-surfing habits.

- Google, Amazon, Facebook, and many other companies use cookies to track users.
- Some sites require that cookies be accepted.
- Users can “opt in” or “opt out” of sharing information.

Exhibit 2-4 The 20 Biggest Data Breaches of 2018



[Access the text alternative for slide images.](#)

Current Regulatory Issues Affecting U.S. Advertisers ⁶

Consumer Privacy continued

The FTC and the Network Advertising Initiative created “Fair Information Practice Principles” to respond to consumer privacy concerns.

Five core elements:

- Notice.
- Choice.
- Access.
- Security.
- Enforcement.

Current Regulatory Issues Affecting U.S. Advertisers ⁷

Consumer Privacy continued

European **General Data Protection Regulation (GDPR)** provides regulations for how, when, and where businesses in Europe can collect and manage consumer data.

California Consumer Privacy Act guarantees consumers can learn what data companies are collecting and if it is being shared.

- Consumers can demand that companies delete all personal information.
- Expected to impact all companies that do business globally.

Governmental Regulation of Advertising in the United States

Federal Trade Commission

Federal Communications
Commission

Food and Drug
Administration

Patent and Trademark
Office

Library of Congress

The Federal Trade Commission ¹

Major Regulator of Advertising

Must maintain existence of many sellers, to provide more complete information to consumers, and to keep marketing activities as free of externalities as possible.

Deceptive advertising: misrepresentation, omission, or other practice that can mislead consumers to their detriment.

Unfair advertising: causes a consumer to be unjustifiably injured or violates public policy.

Comparative advertising: claims superiority to competitors in some aspect.

- Must be truthful.
- Must compare on an objectively measurable characteristic.

Exhibit 2-5 Unfair and Deceptive Practices in Advertising

Court rulings suggest that some acts constitute unfair or deceptive trade practices and are therefore illegal.

- False Promises.
- Incomplete Description.
- False and Misleading Comparisons.
- Bait-and-Switch Offers.
- Visual Distortions and False Demonstrations.
- False Testimonials.
- Partial Disclosure.
- Small-Print Qualifications.

The Federal Trade Commission ²

Investigating Suspected Violations

Substantiation: if an ad cites survey findings or scientific studies, the FTC may request this data from a suspected advertising violator.

Endorsements and testimonials: When customers or celebrities endorse a product in advertising.

- FTC requires paid endorsements to be disclosed, claims be substantiated, and celebrity endorsers be actual users of what they endorse.

Affirmative disclosure: making known a product's limitations or deficiencies is another FTC requirement.

The Federal Trade Commission ³

Remedies for Unfair or Deceptive Advertising

Consent decree: document signed by advertisers without admitting any wrongdoing, in which they agree to stop objectionable advertising.

Cease-and-desist order: issued by the FTC if an advertiser won't sign a consent decree.

- Prohibits further use of an ad.

Corrective advertising: required by the FTC for a period of time to explain and correct offending ads.

The Food and Drug Administration (FDA)

Responsible for the safety of food, cosmetics, and medicine and therapeutic devices.

Nutritional Labeling and Education Act (NLEA)

- Sets legal definitions for terms such as fresh, light, low fat, and reduced calories.
- Sets standards for serving sizes.
- Requires labels to show food value for one serving alongside the total recommended daily value as established by the National Research Council.
- Due to increased FDA scrutiny, advertisers are now more cautious about their health and nutritional claims.

The Federal Communications Commission (FCC)

Independent federal agency with jurisdiction over radio, television, telephone, satellite and cable TV industries, and the Internet.

- Can grant or take away broadcast licenses.
- Restricts the products advertised and the content of ads.
- After deregulation in the 1980s, no longer limits commercial time or requires detailed logs.
- 1992 Cable Television Consumer Protection and Competition Act placed new controls over cable industry.

The Patent and Trademark Office and the Library of Congress ¹

Patent and Trademark Office registers intellectual property protected by patent or trademark.

Intellectual property: intellectual works legally protected by copyright, patent, or trademark.

- **Patent:** confers upon the creator of an invention the sole right to make, use, and sell that invention for a set period of time.
- **Trademark:** word, name, symbol, device, or any combination adopted and used by manufacturers or merchants to identify and distinguish their goods from those manufactured or sold by others.

Trademark Protections



Coca-Cola's trademark varies from country to country. But the overall look is retained through use of similar letterforms and style, even with different alphabets.

The Patent and Trademark Office and the Library of Congress ²

Library of Congress protects all copyrighted material.

Copyright: protects an original work from being plagiarized, sold, or used by another without the individual's express consent.

- Granted by the Copyright Act to authors and artists.
- Exclusive right to print, publish, or reproduce the protected material for the life of the copyright owner plus 70 years.

State and Local Regulation

All states have consumer protection laws governing unfair and deceptive practices.

- State legislation for advertising is often based on the truth-in-advertising statute: any maker of an ad found to contain “untrue, deceptive, or misleading” material is guilty of a misdemeanor.
- States work together to investigate and prosecute violations.
- Differences between state laws can frustrate advertisers.
- Localities also have consumer protection agencies.

Nongovernment Regulation ¹

The Better Business Bureau (BBB)

- Operates at the local level to protect consumers against fraudulent and deceptive advertising and sales practices.
- Maintains public records of violators.
- Sends records of non-compliant violators to appropriate government agencies.
- May work with local law enforcement to prosecute advertisers guilty of fraud and misrepresentation.

Nongovernment Regulation ²

The Advertising Self-Regulatory Council (ASRC)

Promotes and enforces standards of truth, taste, morality, and social responsibility.

National Advertising Division (NAD).

- Monitors advertising practices.
- Reviews complaints from consumers, consumer groups, brand competitors, local BBBs, and trade associations.

National Advertising Review Board (NARB).

- Serves as an appeals board for NAD decisions.
- Consists of chairperson and 40 national advertisers, 20 agency representatives, and 10 consumers.

Regulation by the Media

Type of Media	Regulation Status
Television	<ul style="list-style-type: none">• Strictest of the media.• Cable/local stations less strict than broadcast networks.• Broadcast standards department: reviews all programs and commercials to be broadcast to see that they meet all applicable standards.
Radio	<ul style="list-style-type: none">• Have unwritten guidelines.
Magazines	<ul style="list-style-type: none">• Older magazines stricter than newer media.• Some test products before accepting ads.
Newspapers	<ul style="list-style-type: none">• Staff monitors and reviews ads.• Codes are not uniform.

Regulation by Consumer Groups

Consumer movement increasing active since 1960s.

- **Consumerism:** social action designed to dramatize the rights of the buying public.
- **Consumer advocate:** individual or group that actively works to protect consumer rights, often by investigating advertising complaints received from the public and those that grow out of their own research.
- Advertising must stand out, yet not attract negative attention from activists.

Self-Regulation by Advertisers and Ad Agencies

In-house legal counsels review advertisements before they are made public.

Associations that monitor industry-wide advertising practices include:

- American Association of Advertising Agencies (AAAA).
- American Advertising Federation (AAF).
- Association of National Advertisers (ANA).

Exhibit 2-7 Principles and Practices for Advertising Ethics of the American Advertising Federation (AAF)

1. Truth.
2. Ethics.
3. Distinctiveness.
4. Complete Information.
5. Fairness.

6. Privacy.
7. Lawfulness.
8. Acknowledging Concerns.
9. Transparency and Disclosure.

Government Restraints on International Advertisers

Foreign Governments Regulate Differently

Greater restrictions in some areas.

- Regulate what ads say, how or do.
- Product bans or restrictions.
- Paid product placements often prohibited.

Different legal environments.

New restrictions on digital content providers such as Facebook and Google.

The Ethical and Legal Aspects of Advertising in Perspective

Advertising has often been misused.

- Experts suggest industry should work to raise its ethical standards to avoid increased pressure to regulate.

Vast majority of advertising found to be satisfactory by the FTC.

Advertisers and consumers must work together to ensure advertising used intelligently, ethically, and responsibly.



Because learning changes everything.®

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