

NEWSLETTER

PVRS and Advertising Exposure: A Video Ethnographic Study

Qualitative Market Research

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Consumers have more control over their broadcast media consumption today than ever before, thanks to digital technologies such as personal video recorders (PVRs), video on demand (VoD), internet protocol television (IPTV) and mobile TV. Forecasters predict that we are rapidly moving from linear real-time broadcast to a world of on-demand, "what we want when we want it" TV and, because of all this, the industry needs to radically rethink advertising-supported programming.

This UK study focuses on PVRs, set-top boxes with hard disks that record, pause live TV, play back, rewind and fast forward more easily than a VCR. Integrated PVRs (those compatible with and provided by specific cable and satellite service) are designed to be intuitive, suggesting that the technology would dramatically alter viewing behaviour. Research found that early PVR adopters claimed that the new technology enabled them to time-shift their viewing and avoid ads. This prompted concerns that PVRs would undermine traditional television advertising and render the 30-second spot obsolete.

The quality of research and analysis of the PVR threat has, given its potential impact been disappointing. To-date the research has three reliability issues. First, answers given in focus groups, interviews and self report questionnaires are in danger of being skewed by the subjects' self-serving bias.

Secondly, research to-date has focused on the solitary viewer and provides only a partial understanding of how television is watched in a social, family context.

Thirdly, there has been limited research into the impact of

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actual use of PVR features such as fast-forwarding although research into zipping on VCRs, which were arguably less convenient to use, suggested that time-shifting capabilities could have a significant impact on ad avoidance.

While some believe viewers fast-forwarded ads indiscriminately and would use fast-forward to avoid all ads without prior evaluation, not all research into fast-forwarding suggested that ads seen in fast-forward were wasted. The uncertainty regarding actual use and impact of fast forwarding has led to significant problems with the base case for measurement.

This exploratory study uses video ethnography, recording second-by-second audience behaviour in front of the main TV using an unobtrusive video camera and microphone, while monitoring precisely what was on the television. An earlier study found audience behaviour during regular

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PVRS and Advertising Exposure

commercial breaks could be studied successfully using this methodology. This study extends the methodology to understand the use of the PVR and the implications for advertising. It was designed to test the conclusions and address some of the limitations of previous PVR research by exploring detailed actual rather than claimed behaviour within a small sample of 22 individuals in eight homes.

The sample roughly matches the demographic profile of the UK PVR homes population and several of the results can be independently tested by looking at BARB.

Aim of the study

Explore the range of actual behaviour during commercial breaks in a qualitative sample of eight UK homes with PVRs during:

- time-shifted viewing; and
- live viewing.

The study focuses on the complex range of behaviours when people are present during commercial breaks, especially during time-shifted programmes and is complementary to large-sample peplemeter research (e.g. Nielsen in the USA, BARB in the UK) providing standardised, statistically robust data on audience presence and the extent of time-shifting and fast-forwarding.

It is also complementary to more controlled laboratory-based studies and to studies which focus directly on advertising awareness or effects on PVR versus non-PVR homes.

Methodology

Eight families were identified that were prepared to be filmed for a total period of three weeks during the autumn. In exchange, the families received a gift of £500.

They were told that the study was on the use of the lounge/living room and television, with no reference to advertising or the PVR. The families were filmed for 2-3 weeks in September-October 2005. They were unaware that the study was about exposure to advertising and were told that the study was to do with their living space and television. The last 4-5 days of data were analysed. Footage from these days (including at least two weekdays and a full weekend) was edited to include only the commercial breaks plus 5-10 seconds each of the preceding and following programme(s).

The edited footage was analysed ethnographically (i.e. qualitatively) to generate a set of insights for each household. These then formed the basis of a semi-structured interview, including showing each participant roughly five clips from the footage and asking further questions.

Finally, the data were coded to provide a detailed second-by-second analysis of the micro-behaviours – including who was holding the remote, who was in the room, their atten-

tion, whether they were watching live or recorded and whether they were fast forwarding and if so what speed. Contextual behaviours and time of day were also recorded.

Results and discussion

Each family and each individual had a personal routine for watching TV. For 21 of the 22 individuals, the PVR was “grafted” onto their existing routine. The viewers embedded routines was to watch live television first and if after consulting the electronic guide nothing they wanted to watch was on, they viewed something recorded. The PVR was largely used as backup by most users and participants tended to watch favourite programmes live. One of the participants, a 40-year-old heavy viewer, used live rather than recorded TV as backup.

A significant number of participants (nine out of 22) were never observed using the PVR, although some were still exposed to high proportions of time-shifted viewing due to the preference of the dominant user. Some participants, when in charge of the remote or watching on their own, would never use the PVR.

Within this study, there was no evidence of use of PVR by anyone below the age of 21. Children’s programmes were recorded but no playback was observed. Instead, the children of all ages watched live TV with some degree of routine.

Conclusions

- Observation of TV viewing in the natural context revealed a significant disparity between claimed and actual behaviour. In contrast to claimed behaviour, actual PVR use was low.
- All participants valued the product highly although not all participants used it. Actual use was low and the vast majority of commercials were still viewed live.
- The term speed-watching may be more accurate than fast forwarding. Participants’ visual attention often remained high and they were able to recognise and interact with ads viewed in fast forward.

A note to CARF Members:

This is a synopsis of the UK study. CARF members can read the report in its entirety – including details of audience attention during live, time-shifted, and fast-forwarded commercial viewing – at www.carf.ca.

Factors Influencing Word-Of-Mouth Effectiveness: Receiver Perspectives

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In an environment in which there has been a reduction in consumer trust of both organizations and advertising, as well as a decrease in television advertising, word-of-mouth (WOM) offers a way to obtain a significant competitive advantage. However, there has been very little research into this important topic, on what happens when WOM is received or on the conditions in which WOM will be most effective in enhancing a receiver's perceptions or actions.

The objectives of this Australian study had three major objectives:

1. to identify the variety of receiver outcomes that follow WOM delivery about a service organization;
2. to identify the factors that are likely to enhance the chances of a receiver acting on such WOM; and
3. to develop a conceptual model that relates to a consumer's experiences when receiving such WOM.

Outcomes of WOM

WOM has a strong influence on product and service perceptions, leading to changes in judgments, value ratings and the likelihood of purchase. Research has also suggested electronic WOM (eWOM), such as online customer forums, generates greater empathy, credibility and relevance, than does information generated by the organisation itself, such as through a corporate webpage, apparently because eWOM relates personal experiences and stories. However, research on a receiver's psychological state following WOM is scarce.

Factors impacting the degree on influence of WOM on such outcomes

Characteristics of the sender and the receiver and their interrelationship

Two key motivations to the acceptance of WOM are the perceived interest of the giver in the receiver and the expertise of the giver. These aspects underlie the importance of the credibility of the messenger. Opinion leadership research has highlighted the impact of source expertise on interpersonal influence. However, the effect of receiver

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expertise on the impact of WOM on outcome, which was suggested to be negative, has not been supported, suggesting further investigation is warranted.

The context within which interpersonal and non-interpersonal factors interact

Several situational factors seem to impact on WOM acceptance. WOM seems to be more effective when the information was sought by the receiver, although research into this issue has been limited. Further, little research has addressed the impact that the type of product has on WOM influence.

However, researchers agree WOM is most important in high risk, high involvement contexts and for more complex services, such as professional services. It is not clear if WOM is more effective in these services or only more important.

Message characteristics

Curiously, the characteristics of the WOM activity itself have not been widely considered. WOM has been suggested as vivid, which relates to whether information is emotionally interesting, concrete and imagery provoking and "proximate in a sensory, temporal or spatial way". Past reports concluded that while positive WOM refers to pleasant experiences, negative WOM includes product denigration, unpleasant experiences, rumour and private complaining.

The present study

A total of 54 participants, representing customers and potential customers of a financial institution, that was a partner in the research project, attended a series of focus groups. All of the focus groups, which lasted for an hour and a half on average, were facilitated by an experienced moderator using a common discussion protocol that was prepared by the research team.

Overall, the sample was balanced with respect to gender, while participants were aged from 18 to 64 years and came from a wide range of occupations.



Factors Influencing Word-Of-Mouth Effectiveness

The discussion within the focus groups was based on WOM in a variety of contexts, although a short period at the end of each session focused on the financial institution itself. The groups addressed issues such as the meaning of WOM and the outcome of WOM to them. Participants were also asked about the factors that were likely to influence a person, whether themselves or others, to act on WOM, or the kind of person who might or might not act on WOM and why WOM might be an effective means of promotion.

The outcomes of WOM

WOM *outcomes* were investigated from a receiver's point of view. Overall, positive messages led to a sense of enthusiasm, confidence and optimism in the receiver. Such sentiments are consistent with the earlier discussion about the reduction in perceived risk created by WOM, which was expected based on previous research. Positive WOM also led to an improved opinion of the firm. Negative messages led to sympathy with the WOM provider, anger and a poorer image of the organization. In some cases however, the recipient was somewhat doubtful of the credibility of the WOM.

Factors that increase WOM's influence

Personal factors

When participants were asked to think about situations in which WOM may be most effective, three themes emerged. The first concerned the perceived credibility of the sender and the associated expertise of the sender and, as a consequence, the *risk* associated with taking the advice.

The second personal factor enhancing the effectiveness of WOM was whether a *receiver needed reassurance* or further information before making a decision because the purchase decision was complex or because they lacked experience with the product or the service being considered.

Interpersonal factors

As well as sender and receiver characteristics, the personal relationship between the parties influenced WOM acceptance. The key aspect in this context was the closeness of a sender and a receiver. There was also some evidence that WOM was not always dependent on "strong ties" but could be well received when given by more distant relationships.

Situational factors

The third theme concerned situational factors that did not relate to the sender, the receiver or the message. WOM was seen as more valuable to a receiver in some service contexts than in others. WOM was least effective for highly involved, complex services involving higher risk. When services were highly involved or complex, WOM was most effective when it was received from multiple separate sources. WOM value also increased when a receiver lacked the information needed to make the decision. WOM was most attentively

listened to when the receiver had a vested interest in the conversation, or when the information was sought by the receiver.

Message characteristics

The final, and perhaps most interesting, theme concerned the characteristics of the WOM itself. The perceived credibility of the WOM sender was important to the outcome, but the way in which the message was delivered and the nature of the message also impacted on WOM effectiveness. In particular, the richness of the message, including how vividly the message was portrayed, such as through story telling impacted on WOM receptiveness.

Discussion – a proposed model of WOM impact

Prior research, the focus groups and the critical incident findings suggested a WOM impact model that includes sender and receiver attributes, the interpersonal relationship between the actors, the situational factors including the nature of the product or service that is the subject of the WOM message and the way in which the message is transmitted by the sender to the receiver.

While several outcomes of WOM (that is, how a receiver reacts) have been identified previously, these outcomes were functional in nature (e.g. purchase rate or product evaluations). The present study identified several additional psychological outcomes (other than a reduction in perceived risk) including increased relief, confidence and enthusiasm for positive WOM.

Conclusions

This study provides some useful insights for marketers seeking to systematically generate WOM as a promotional tool.

Although many of the factors are beyond the control of the organizations seeking to market their goods and services, they suggest that WOM is likely to be more effective when the receiver needs further information about the product/service offering, when they have limited time for comparison and when they wish to reduce the perceived risk of the purchase. The chances of a sender providing WOM is likely to be enhanced when they are satisfied with the product/service experience and the receiver is more likely to act on this if they already have a good opinion of the product/service provider.

A note to CARF Members:

This is a synopsis of the WOM study. CARF members can read it in its entirety at www.carf.ca, including detailed focus group results and the proposed model for WOM impact.

The Impact Of Electronic Word-Of-Mouth

The adoption of online opinions in online customer communities

Internet Research

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In a time where Web 2.0 applications are starting to infiltrate every aspect of our lives, retailers are looking for the opportunities to unleash the power of this new marketing channel to promote their products and services. In particular, the web has created the opportunities for electronic word-of-mouth (eWOM) communication through electronic media, such as online discussion forums, electronic bulletin board systems, newsgroups, blogs, review sites, and social networking sites. eWOM communication through electronic media allows consumers to not only obtain information related to goods and services from the few people they know, but also from a vast, geographically dispersed group of people, who have experience with relevant products or services.

A recent survey found that most consumers perceive online opinions to be as trustworthy as brand websites also proposed that commercial enterprises should try organizing online communities rather than to simply advertise on the Internet. These studies indicate how great of a potential impact eWOM can have on the consumer decision process.

Current studies mostly focused on the factors driving consumers to share knowledge/information, but very little attention was paid on the factors driving consumers to use online consumer reviews for purchase decisions. The objective of this study is to investigate how eWOM in online customer communities affects the consumption decision by discovering which factors encourage information adoption.

Electronic word-of-mouth (eWOM)

Traditional word-of-mouth (WOM) has proven to play a major role in consumer buying decisions by influencing consumer choice. Past research has also illustrated that WOM is more effective than traditional marketing tools of personal selling and conventional advertising media.

Information adoption model

Although eWOM creates a basic information transfer, the actual impact of the information received may vary person to person. The same content can engender very different responses in different recipients, depending on the recipients' perceptions, experience and sources. In the existing

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information systems literature, dual process theories are used to explain how people are influenced in adopting ideas, knowledge or information.

Information quality and source credibility

The importance of information quality and source credibility has also been highlighted and strongly validated in prior research on information seeking. Information quality has long been discussed in the context of information systems. With the ability to publish information now in the hands of almost anyone, the quality of some online information will inevitably be diminished.

The role of credibility in informational influence has been found to most significantly alter a recipients' opinion in the direction advocated by the communicator when the material was attributed to high-credibility source than when it was attributed to a low-credibility source.

Research model and statement of hypotheses

The research model used in this study examines individual relationships between argument quality, source credibility, information usefulness, and information adoption.

Information adoption and information usefulness

Information adoption is a process in which people purposefully engage in using information. Information adoption behavior is one of the principal activities that users seek to conduct in virtual communities.

Argument quality/information quality

In a computer-mediated environment, consumer-purchasing decisions of products and services can be determined by the perceived quality of information they receive. When customers perceive that the information meets their needs and requirements, they are willing to critique the value of



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each product or service based on their purchase decision criteria. Therefore, determining customers' perception of information quality on the web is an important element for assessing their potential buying behavior. This study used the four commonly used dimensions of information quality: relevance, timeliness, accuracy, and comprehensiveness.

Relevance of messages is important as most Internet users are conscious of their time. Internet users rarely read web pages in detail but rather scan the pages to find the information they need. Users want to find the information that they want quickly and with little so it's important to have only the most relevant information present in the online community.

Timeliness of messages concerns whether the messages are current, timely, and up-to-date. When the website is not updated consistently, the website cannot deliver the expected performance and therefore provide no added value to users.

Accuracy of messages concerns their reliability. It also represents user's perception that the information is correct. The more accurate the messages are, the higher the perceived information usefulness of the message.

Comprehensiveness of messages refers to their completeness. The more comprehensive the messages are, the higher the perceived information usefulness of the message:

Source credibility

In the online environment, people have almost unlimited freedom to publish and express their feelings towards certain products or services without disclosing his/her real identity. It is therefore left up to users to determine the expertise and trustworthiness of the contributors in order to either adopt or reject the information presented. If the consumer thinks that the comments are posted by high-credibility, they have a higher perception of the usefulness of the comments.

Research methodology

This focuses on the factors affecting information adoption within online consumer opinion platforms, the research model was tested based on an existing online consumer community, Openrice.com – a platform used for sharing information about restaurants and food in Hong Kong.

Data collection

The target respondents of this study were individuals who visit particular virtual opinion platforms and who are influenced by the comments shared within the platform. The questionnaire was divided into different parts, each examining the factors affecting information adoption from online communities. These were mainly the quality of the comments, source credibility and information usefulness. The degree of information adoption was also asked in the questionnaire, to see if the comments affected buying decision

and induced them to take any consumption action. Finally, demographic information was asked, including average monthly income and information on dining habits.

The sample of respondents consisted of both students and members of the workforce from all age groups. There was no significant difference in the usage of OpenRice.com between the two groups of respondents. A total of 154 usable questionnaires were returned. The respondents were asked to complete the questionnaire based on their experience with OpenRice.com

Discussion and conclusion

This paper sought to explore the motivations behind adoption of online opinions. The study found that Information usefulness had a strong and significant impact on consumer decision to adopt information within online communities. This study also investigated the precursors to informational usefulness (source credibility and information quality).

Source expertise, Source trustworthiness, and the four dimensions of information quality explained 65 percent of the variance in information usefulness. Among the antecedents of Information usefulness, only Relevance and Comprehensiveness exhibited significant impacts on perceived Information usefulness.

Source credibility (Source expertise and Source trustworthiness), Accuracy and Timeliness were not found to impact information usefulness as much as Relevance and Comprehensiveness. Source credibility did not play a significant role in influencing information usefulness in this study.

Similarly, **Accuracy** was another dimension of information quality that may have been difficult for users to evaluate within the online community.

Timeliness also displayed no significant relationship to information usefulness. In the online environment, comments about casual topics like food and restaurants may not be as time sensitive as other topics. Online comments about products or services that do not need to be absolutely up to date will not have timeliness impact on the usefulness of the information as highly as more imminent topics.

A note to CARF Members:

This is a synopsis of the eWOM study. CARF members can read the report in its entirety at www.carf.ca. The full study includes an indepth discussion of the methodology, the data and outcomes as well as the research model and several tables.

Advertising Specialties Impressions Study

The Advertising Specialty Institute (ASI), the US organization serving the advertising specialty industry, recently released the results of its new advertising specialties study.

In June and July of 2008, a team of interviewers surveyed 465 businesspeople in New York, Chicago, Los Angeles and Philadelphia on behalf of ASI regarding promotional products they had received. The purpose was to understand how advertising specialties influence end-users' purchasing decisions; determine the number of impressions of popular advertising specialties; and analyze the Cost Per Impression (CPI) of advertising specialties compared with other popular advertising media.

Further, during October 2008, an online panel survey was conducted among recipients of advertising specialties to augment the non-wearables sample from the in-person interviews. Results have been combined in the report where appropriate. There were 213 completed Web based interviews, for a total of 618 completed surveys for this study.

Respondents were asked if they had received any promotional products in the last 12 months. Most respondents were business/professional people (84%) and all were age 21 or older.

Summary of Conclusions:

Instant recall: More than 8 out of 10 (84%) respondents remembered the advertisers of the promotional products they're received.

Very impressionable: 42% of respondents had a MORE favorable impression of an advertiser after receiving the item. And nearly a quarter (24%) said they are MORE likely to do business with the advertiser on the items they receive.

It's all business: Most respondents (62%) have done business with the advertiser on a promotional product after receiving the item.

Pens are in: Writing instruments are the most-recalled advertising specialty items (54% of respondents recall owning them), followed by shirts, caps and bags.

User-friendly: The majority (81%) of promotional products were kept because they were considered useful.

Staying power: More than three-quarters of respondents have had their items for more than 6 months.

Bag it!: Among wearables, bags were reported to be used most frequently with respondents indicating that they used their bags an average of 9 times per month. They also deliver the most impressions: Each bag averages 1,038 impressions per month.

Most impressive: The average CPI of an advertising specialty item is \$0.004; as a result, marketers get a more favorable return on investment from advertising specialties than nearly any other popular advertising media.

Detailed Findings:

Where promotional product items are kept:

- Over one-half (56%) of promotional products are kept at home and over one-quarter (28%) at the office.
- The majority of shirts (83%) and recognition-jewelry (83%) are kept at home.
- Over two-thirds (63%) of desk/office/business accessories are kept in the office.

Commonly owned advertising specialty items:

- The most commonly owned promotional products among all respondents were writing instruments (54%) followed by shirts (45%) and caps (31%).

Wearables

Usage:

How often do you wear/use the item per month? (Asked to those who had shirts, caps, other wearables and bags)

- On average, bags were reported to be used most frequently with respondents indicating that they used their bags 9 times per month.

Contact:

About how many people would you say you come in contact with when you are wearing the item? (Asked to those who had shirts, caps, other wearables, bags and recognition-jewelry)

- Among recognition jewelry received, over one-third (38%) indicated that they did not come in contact with anyone when wearing it. One-quarter (25%) were reported to be seen by 26-50 people.
- Out of shirts, caps and bags, a little below one-quarter (23%) were seen by 26-50 people when the item was worn or used.
- On average, bags were seen by the most people (111), followed by shirts (84) and caps (79).

Number of Impressions:

Impressions were calculated based on the number of times items were worn or used per month and the average number of people that came in contact with the user.

- Bags made the highest number of impressions (approximately 1,038 per month) followed by caps (approximately 476 per month).
- Among non-wearables, writing instruments made the most impressions, with 363 per month.

Length of Time an Item Is Held:

- The average length of time a wearable was held among respondents was nearly 7 months.
- Bags and Other Wearables were kept for an average of 9 months and Glassware/Ceramics items were kept for an average of 7 months.



Advertising Specialties Impressions Study

- Over three-quarters (81%) of advertising specialties had been owned for less than one year.

Non-Wearables

Frequency of Use:

How often do you use the item? (Asked to those who had writing instruments, glassware/ceramics, desk/office/business accessories and other promotional products)

- Nearly one-third (32%) of glassware/ceramics items received were used once per week and another one-quarter (25%) were used once per day.
- 40% of writing instruments were used at least two times per day.
- On average, writing instruments were used most frequently per month (approximately 64 times per month).

Do you have the item displayed? (Asked to those who had recognition-awards and calendars)

- The vast majority (76%) of calendars received are displayed.
- Conversely, only 24% of recognition awards are displayed.

Are you able to identify the advertiser of the item?

- Respondents were able to identify the advertiser the vast majority of the time (84%).
- Wearables were the most often cited product where the recipient was familiar with the sponsor.

Why do you keep the item you received?

- The majority (81%) of promotional product items were kept because they were considered useful.
- Receivers of wearables items were more likely to keep these items because they were considered attractive.

Was the advertiser familiar to you before you received the item?

- The majority of respondents (83%) were familiar with the advertisers of the promotional product items they received before receiving the item.

Had you ever done business with the advertiser before you received the item?

- Nearly two-thirds (65%) of respondents of total promotional product items received indicated that they had done business with the advertiser before receiving the item.

Which of the following best describes your impression of the advertiser after receiving the item?

- Among respondents of all promotional products received, 42% indicated that their impression of the advertiser had become either significantly or somewhat more favorable after receiving the item.
- This was especially true among receivers of bags with over one-half (53%) reporting that they viewed the advertiser more favorably.

Since receiving the item, have you actually done any business with the advertiser?

- Among respondents of all promotional products received, 62% indicated that they had done business with the advertiser after receiving the item.

If no, how likely would you be to do business with the advertiser after receiving the item?

- Among those who had not done business with the advertiser after receiving the item, nearly one-quarter (24%) reported that they would be significantly or somewhat more likely to do business with the advertiser in the future.
- About three-quarters (74%) indicated that receiving the promotional product item would not change their likelihood to do future business with the advertiser.

When you receive a promotional product you don't plan to keep, which of the following best describes your action?

- After receiving a promotional product they don't plan to keep, a little over one-half (51%) of respondents indicated that they give the item to someone else.
- About one third (29%) throw the item away and 20% file the item away and never notice it again.

Approximately how many promotional products do you own?

- Over one-third (35%) of total respondents indicated that they owned between 1 and 5 promotional products. On average, respondents owned about 10 promotional products.

Total Impressions/Cost Per Impression:

- The cost per impression of ad specialties is very low, with fractions of a cent per impression.

Cost Per Impressions of Other Media:

- Advertising specialties are less expensive per impression than nearly any other media.
- For a modest investment, an advertiser can reach cost per impression with shirts (\$0.005) that are very similar to Syndicated Daytime TV (\$0.006), for example.
- Prime time TV is nearly 5 times as expensive as ad specialties in total.

Demographic Information

- Over one-third (36%) of respondents were aged 21-34 and 31% were aged 35-44.
- Over one half (57%) of total respondents were male and 43% were female.
- 39% of total respondents reside in New York
- 59% of respondents were interviewed in New York.
- Professions varied among respondents. The most frequent professions reported were Education/Teacher (8%) and Medical/Healthcare (6%).
- 8% of respondents interviewed were unemployed/retired/homemaker and another 8% were students.

Advertising in a Recession

**Presentations from the CARF Workshop,
April 6, 2008**

The “R” Word

Benjamin Tal – Senior Economist, CIBC World Markets

In these days of economic uncertainty, Benjamin Tal concludes that while there certainly has been a slow-down in the Canadian economy, especially in the manufacturing sector, there currently is no recession in Canada nor is there likely to be one in the near future. This optimistic view is based on a strong housing market in Canada and in rising commodity pricing, especially for oil.

Read more at www.carf.ca.

Lessons for Effective Advertising in Uncertain Times

Summer Vallillee – Account Executive, AC Nielsen Analytic Consulting and Jessica Avery – Account Director, Client Consulting, Nielsen BASES

With the increased cost of commodities and the rising value of the Canadian dollar putting the squeeze on Canadian manufacturing, it's not a big surprise that advertisers will be forced to cut their advertising budgets to maintain product profitability.

It has been the Nielsen experience that continuing to advertise, especially on television for a FMCG, yields a

higher long-term (3+ years) return on investment than other types of marketing efforts, including trade deals. According to Nielsen, advertising ROI also improves when TV advertising is combined with other marketing tools such as trade deals. While trade dealing may yield the highest ROI in the short term, the combination of the two marketing tactics can yield 18% greater profitability over the longer term. To cut TV advertising just to reduce short-term marketing expenses can have negative results in the long run.

Read more at www.carf.ca.

Making the Strategic Argument for Advertising During Difficult Economic Times

Dr. Jay Handelman – Associate Professor of Marketing, Queen's University

In uncertain economic times, advertising budgets are sometimes cut to help companies weather any difficulties ahead. Dr. Jay Handelman suggests that rather than automatically making cuts, in an unsettled economy the place of advertising in the marketing mix should be reviewed from a strategic perspective. When considered in this light, advertising is not an expense but an investment and a source of innovation. He advises that advertising continue to be used to help build the value of the product to the consumer.

Read more at www.carf.ca.

Different Approaches To Recession Advertising And Marketing

**Carlos Grande, Editor, WARC.com
February 2008**

When NTC Publications, the company now known as WARC, published a 1999 guide to Advertising in a Recession, in cooperation with London Business School, the publication began by quoting approvingly the thoughts of Sam Walton, founder of Wal-Mart, on a recession.

“I thought about it,” Mr Walton is reported to have said. “And decided not take part.”

Fortunately, NTC's contributors proved less reluctant.

The resulting book, produced in relatively benign economic conditions (the dotcom crash and September 11th were two years away), is as good a place to start on the history of this topic. You will find its chapters, and many other pieces on recession, in WARC.com's subject index.

For the background to the current context and arguments about why a future recession may differ from previous advertising slumps, read Are we heading for an advertising and marketing recession?

I. Ask the right questions

In his introduction to the book, editor Professor Patrick Barwise says the book's collection of papers and case studies represent an attempt to establish principles “for how much to spend on advertising, including when the economy slows down”.

In doing so, he considers the key questions as:

- assessing the impact of advertising expenditure on the short-term profitability of a business
- assessing the impact of advertising expenditure on long-term shareholder value
- evaluating the combined impact of ad expenditure, short-term financial performance and long-term shareholder value on shareholder reaction
- establishing both the short and long-term impact of advertising in the context of a recession
- and establishing the impact of a recession on shareholder reaction to the above variables

Prof Barwise argues that research in these areas is hard to summarise, extensive and “controversial, including the very concept of general patterns”.



Different Approaches To Recession Advertising

He writes: "What we can realistically aim for is informed discussion of the short and long-term value of advertising for a particular brand, based on clear advertising strategy and planning, backed up with good metrics, models and research".

The case studies that follow -involving the Renault Clio, De Beers Diamonds, Barclaycard, BMW and Gold Blend, the coffee brand - give practical examples of this approach

Prof Barwise argues that, contrary to belief in some quarters, financial investors are prepared to support marketing expenditure, even if it involves a short-term hit to already declining profits.

This support is dependent, however, on marketing expenditure being accountable and strategic, with a clear case made for how it would contribute to long-term shareholder value.

Concluding, Prof Barwise highlights three principal strategies for brands wishing to weather a recession:

- look for new creative, media or targeting opportunities
- strengthen market position against weaker rivals
- hold firm to a long-term direction

The last of these, he maintains, is the most important.

2. Save now, pay later

Perhaps the most widely-adopted approach to recession marketing is to contrast the business performance of brands during and after a downturn. These are divided into those which cut their marketing budgets, those which maintained them and those which increased their outlays.

Essentially, this exercise is part of a wider debate into the long-term commercial impact of advertising and establishing methodologies with which to measure such long-term effects.

It is not a particularly new approach. Changes in US magazine advertising by hard-pressed manufacturers were tracked in a similar way as early as a 1927 Harvard Business Review piece, reprinted for the 1981 recession.

The article argued that the companies which recorded the biggest sales increases during the 1920s had advertised the most. It did not look at the impact of an advertising downturn on a company's market share or its profitability. Almost 80 years later, Tony Hillier and Marilyn Baxter offered a more rigorous application of the same basic method.

They wrote: "The natural reaction of many businesses experiencing a downturn in their revenue is to cut costs in areas like advertising and promotion. Our findings prove that they should do exactly the opposite if they are to ride out a recession and thrive thereafter."

They arrived at this conclusion after examining the costs - including marketing and research and development - and the business performance of 1,000 companies. Their primary source was information from the PIMS (Profit in Marketing Strategy) database.

The authors focused on three measures:

- average profitability - defined as return on capital employed - during recession
- changes in profitability (ROCE) during the first two years of recovery
- changes in market share during the first two years of recovery

They argue that: "The data shows that businesses which increased marketing spend were not significantly less profitable during recession. However, their profits increased dramatically faster once recovery started; unlike cutters of marketing spend whose profitability actually fell when recovery began. Furthermore, businesses which increased marketing spend in recession, gained market share three times as fast as cutters once recovery began."

They contend this re-enforced the findings of an earlier 1999 PIMS survey which examined the impact of marketing budget decisions on 183 UK companies in comparable market conditions.

However, the authors argue, marketing expenditure is not a panacea. It relies on having a sound proposition and the communication to consumers that a company offers superior value and quality to those of its competitors. Advertising, they posit, can articulate just such benefits, especially in a period of changing consumer attitudes such as recession.

They continue: "What is the mechanism by which advertising works, even in a declining market? How do we expect consumers to behave in a slowdown? The effects will differ by product category but generally consumers will put off purchases, trade down to cheaper alternatives and stick to what they know..."

"The case for advertising during a recession is that advertising can counteract all of these effects ... advertising that focuses on product quality, company reputation and/or other attributes that drive customer perception of relative quality and hence value will be successful in business terms."

In WARC's spotlight area on Recession, you will find case studies which share a broadly similar outlook to this argument. They feature advertising campaigns from Canadian airlines, Nissan, Range Rover, the charitable sector and IKEA among others.

However, this approach is sometimes criticised for failing to eliminate a sufficient number of non-advertising factors which could have contributed to part or even all of the success achieved by companies which maintained or grew marketing expenditure in the tough times. One of the clearest objections to this general method was laid down in a 1991 paper by the late Simon Broadbent.

Dr Broadbent wrote: "One simply cannot believe that advertising was a "treatment", applied to one set of companies, which produced this advantage over another set of similar companies. More successful companies advertise. This, I



accept; but that advertising alone makes a company successful does not logically follow.”

Instead, Dr Broadbent embraces less sweeping approaches to coping with a downturn. These include:

- Redoubling efforts to make marketing accountable (“It is a bit late to start on this job in the middle of a recession”)
- Monitoring share, not volume as a way to prepare for recovery
- Taking advantage of tough times to turn the screw on rivals
- Spotting opportunities for new product launches: they can make more impact if competitors are weak
- Buying media cheaply, and locking in long-term deals

3. Building Recession Muscles

“Every recession is fundamentally different” claims a paper from Leo Burnett Chicago first published in 1998, and updated for the UK in 2001. Understanding the dynamics of any particular recession, it argues, is:

- key to spotting changing consumer needs during the downturn
- identifying opportunities for the agile marketer
- ensuring clients and agencies are structured to exploit these

From this point of view, the key question for marketers is therefore: “After a lengthy stretch of prosperity, do you have the strength and cross-disciplinary insight to seize opportunity in uncertain times?”

The paper uses a three-part structure to demonstrate what this might mean in practice and develops a particular focus on public relations.

First, it sets out four broad categories of recession, and attempts to identify the peculiar dynamics of each. (These include a “liquidity desert” which sounds like a prescient description of the international credit crunch which began in 2007.)

Second, based on interviews with 1,200 consumers across age groups, it profiles four typical mindsets at work in consumers in a recession, and suggests how to address them.

Third, it sets out specific competitive strategies for marketers and their agencies from continuing “brand building among the recession-proof” to creating “safe harbours for the nervous”.

4. Recession Fundamentalists

“Just as they can respect integrity, customers can also smell uncertainty and desperation,” warns Paul Richards in a 2002 paper.

The article falls into another broad category of response to recession. This type of intervention focuses less on specific questions of budget-setting, structure or campaign tactics, and more on articulating the changed marketing priorities of a business in a temporarily shrinking sector.

Mr Richards argues: “Even more than in good times, in an economic downturn, brands must decide what they stand for or they could fall for anything ... In times of downturn, it is the responsibility of the brand owner to ensure that the company’s most valuable asset is not fragmented by competing and partisan demands on a reduced budget. It is their responsibility to own the nature of the communication, not channel specialists.”

Unsurprisingly, this case is made by a branding strategy agency. One sees a similar stance made on the primacy of research by research agencies, and on media expenditure by media buyers.

Arguably, the more persuasive illustrations of this category are those which demonstrate how their marketing discipline can be used to develop a new business opportunity for both the recession, and any subsequent recovery.

One example might be a 1996 consumer attitudes study into UK financial services in a recession. It argues that a combination of rising home repossessions, excessive personal debt and unemployment during the 1990s led consumers to develop a more cynical and cautious outlook to buying financial services products.

This in turn created opportunities for suppliers to launch new products, tapping into repayment worries, for example. It also required companies to change tone in their advertising and other customer-facing activities.

5. Sophie’s Choice for Marketers

Even if they have won the arguments, many marketers have to cut some of their budgets in a recession. How to decide what to axe and what to keep?

As a 2007 paper argues, “In an age of integrated marketing, how do you go about determining what is expendable when everything seems so important?”

It sets out guidance which, although developed specifically for new product development teams, can be applied more widely. It urges businesses to:

- Focus spend on bigger brands/projects likely to deliver bigger returns
- Exploit seasonality to make cuts in off-peak periods
- Examine highest spending projects/channels to identify whether any are over-invested in and likely to produce diminishing returns. These are candidates for cuts

The authors conclude: “None of these approaches is even a close second to the option of proactively developing a comprehensive measurement structure that clearly demonstrates the link between each investment and the financial value it creates. Doing so will both reduce your risk and allow you to make more informed decisions on what to eliminate.”

And with one eye on the long-term future, they add: “More importantly it might just become the deterrent weapon to keep the CFO looking elsewhere the next time he or she is looking for givebacks.”

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