1986

The Effect of Corporate Advertising on Stock Prices

Teresa M. Burke

THE EFFECT OF CORPORATE ADVERTISING ON STOCK PRICES

TERESA M. BURKE, B.S.

A Culminating Project Presented to the Faculty of the Graduate School of the Lindenwood Colleges on Partial Fulfillment of the Requirements for the Degree of Master of Science

1986

COMMITTEE IN CHARGE OF CANDIDACY:

Faculty Adminstrator and Professor of Business Adminstration Jack Kirk, Ph.D.
Chairperson and Advisor

Advertising Manager, Graybar Corporation,
Donald Folkemer

Assistant Professor Carla Lane

TABLE OF CONTENTS

CHAPTER I
CORPORATE IMAGE ADVERTISING

As the name implies, corporate or image advertising is designed to convey a favorable impression of a company's policies, products, and overall corporate health to its various publics. Here the advertising objectives are not to stimulate immediate sales, but to create and nurture positive attitudes on the part of consumers and distribution partners, legislators and their constituencies, influential opinion leaders, and, often, current or prospective investors.

My objective in this paper, is to make a determination about the effectiveness of image advertising. After generally defining corporate advertising I will give some examples of corporations and their use of corporate advertising; a discussion of the elements of corporate advertising will follow; I'll examine the objectives of corporate advertising; by citing some corporate examples, I will show how the public can be influenced by corporate advertising; the next section will discuss the effect on the price of stock that image advertising has and further justify the cost of corporate advertising; I'll discuss why some companies avoid image advertising and finally I will draw some conclusions about the effectiveness and merit of corporate advertising.

I beleive those conclusions will show that corporate advertising can affect the price of stock in a company and also can affect the profitability of that company. The surveys and research all point to the fact that a well-executed corporate advertising campaign can affect these factors.

In 1968, roughly 20 percent of the American people held that big business was a positive force in this country. Today, only slightly more than 20 percent still maintain that favorable view. According to John Gilfeather, senior vice president at Yankelovich, Skelly & White, five factors account for business's fall from grace.[1] In loosely chronological order they are: the Vietnam War; Ralph Nader's Consumerist crusade; Watergate; the oil embargo; and inflation. But business is not a lone victim of public mistrust; government and all large institutions are today viewed with skepticism.

Historically, American business - being private and for the most part, self-governing - has united its communications efforts to sales-related audiences and availed itself of little public participation. How-

---

[1]Jeff Williamson, "Corporately Speaking," Madison Avenue, February, 1980. p. 41

ever, in recent years, public pressure and ensuing government regulation has forced America's large business institutions to recognize a broader constituency and communicate corporate views and roles to a wider range of influential forces.

Throughout the 70's and into the 80's, business has increasingly come to act on its communications responsibilities. Corporate communications today are addressed to the world beyond executive chambers, industrial facilities and distribution channels. Insofar as each company is a separate entity, the messages it communicates necessarily differ.

A recent study by the Association of National Advertisers[2] (A.N.A.), conducted with 302 major U.S. corporations, indentified the most common communications objectives as "improving the level of awareness of the company, its business interests, profitability". It noted however, a marked increase in the number of companies listing "to inform, educate or advocate relative to public issues" as the primary objective.

Nevertheless, at the heart of all corporate communications are self-concerned goals: Continued and accelerated growth as measured by sales volume; share

---

[2] Association of National Advertisers survey on Corporate Advertising, reprinted in Madison Avenue, March, 1981. pp. 61-67.

of market; return on investment; and the valuation of corporate securities. While the business of business is still business, more companies realize that corporate reputation impacts on all of the above, and corporate communications, many firms have come to believe, is the best means of solidifying that reputation.

ELEMENTS OF CORPORATE COMMUNICATIONS

Corporate communications programs now encompass sophisticated, highly technical and highly personal elements designed to reach a corporation's varied publics. Briefly, they include: corporate identification (name and logo); internal communications (to employees, divisions and subsidiaries); customer and trade communications; shareholder communications; community, government and university relations; international communications; and merchandising. The means of communications - public relations, speeches, annual reports, meetings and seminars, and advertising - vary, often overlap and, if the program is as solid as intended, become integrated and inseparable.

Corporate advertising is probably the most visible aspect of a corporate communications programs. Once considered unnecessary, ineffective and unmeasurable, a mere ego trip for overzealous chief executive officers, several studies conducted over the last few years now provide documentation that corporate advertising can indeed serve a vital role in a corporation's overall functioning.

The A.N.A. survey showed a sharp increase in the number of companies now using corporate advertising. It cites an increase of 29 percent between 1975 and 1979 and 38 percent between 1975 and 1980. Of those companies responding, 58 percent increased corporate advertising expenditures over the last three years, while 26 percent have spent about the same (discounting inflation) and 16 percent have decreased spending.[3]

Diversified industrial marketers and oil companies, followed by diversified corporations which market both consumer and business products and services, topped the list with 88 percent of respondents from each category reporting corporate advertising budgets. The sharpest increase in the use of this form of communication came from consumer packaged-goods manufacturers. In a previous study (1977) only 12.5 percent of these companies reported corporate advertising budgets. The current study reveals that 22 percent now do. In fact, six of the 15 companies that will initiate corporate advertising programs in 1985 are in the consumer packaged-goods category.[4]

---

[3]Ibid. p. 63.

[4]Ibid.

CASE IN POINT: BRISTOL-MYERS

As one of the country's leading consumer packaged goods pharmaceutical manufacturers, Bristol-Myers company feels obliged to take a consumerist stance on behalf of its buying public. A print campaign is designed to provide greater public access to important product information.

At the core of the campaign is a paperback book now in its third edition entitled Guide to Consumer Product Information. Edited by consumer advocate Bess Myerson, the 190-page book is full of helpful, even lifesaving, tips on how to use and not use more than 40 kinds of products in the household, health and personal care categories, as well as a directory of poison control centers and a guide to the company's own products and their functions.

The ads themselves, says B-M Vice President of corporate communications Harry Levine, "are designed to provide as much information as possible within their given amount of space as related to the information in the Consumer Guide."[5] One ad, for example, shows a bottle of Excedrin, a Bristol-Myers product, and reads: "4 reasons why you should read the label before you

---

[5]Francis Cronin, "Efficient Corporate Persuasion," Industrial Marketing, February, 1980. pp. 58-61.

take a pain reliever." Another pictures a can of Drano and reads, "Take care, it's powerful stuff. If it weren't so powerful it wouldn't clean tough drains." And relating to the chapter in the Consumer Guide, another ad pictures Bess Myerson and reads, "How to write an effective complaint letter." The company has even addressed itself to the fluorocarbon propellant problem with an ad entitled, "What you can do if you're concerned about the effect of aerosols on the environment."

These ads, as well as one solely promoting the free Consumer Guide, appear in major-market newspapers, women's publications, such as Family Circle, general interest magazines and Readers Digest.

More then three quarter million people have requested copies of the Consumer Guide and, says Harry Levine, "We get a fair amount of correspondence, too. Our feeling is, with several divisions manufacturing a broad range of products, if a customer writes us a letter, we better read it, because it's up to us to keep in touch with the consuming public."[6]

GTE: Creating Confidence

General Telephone and Electronics Corporation (GTE) began a corporate advertising program in 1953

---

[6]Ibid.

and it has run uninterrupted ever since. Over the years, most of the ads have stressed "the company's technical competence in devoloping fine services and products," according to vice president of advertising George Norton.[7] Most recently, however, the ads have taken a more marketing-oriented approach, featuring a different product, different service or a new technological development from a GTE subsidiary. "It's kind of an all-for-one, and one-for-all approach," he says. And there's always a strong sales message included.

It's important that they create confidence on the part of lending institutions and the investing public, because a parent company needs additional capital annually to expand subsidiaries and finance new technological developments.

The internal advantages of corporate advertising, he continues, is that it arouses interest among employees. "Some like it, some don't, but they talk about it.... because its their advertising.... and it provides a common focal point with which all employees can relate to their company." Moreover, corporate advertising creates a "blanket of confidence in the marketplace so that when a subsidiary launches a new product, the environment for it is an accepting one."

In 1980, GTE invested ten million dollars in its

---

[7]The quotes and following materials are from Ibid.

corporate advertising program.

LISTENING TO SPERRY CORPORATION

Sperry Corporation, in their corporate ad campaign, tackles a less controversial but, perhaps, no less important issue to the business of business: listening. Sperry's corporate campaign has elicited 16,000 responses in a four-month period, and one letter was from no less an institution than the State Department.[8]

Sperry's premise is that listening is one activity we all participate in every day or so we like to think. But alas, in many instances we merely hear. Bringing the critical difference between the two acts to light, this diversified capital goods manufacturer is investing millions of dollars to shape its 90,000 employees worldwide and the business community in general into better listeners. Sperry's major share of sales lies in the computer field.

Equally significant, the print and television campaign, also strives to convince the financial world that Sperry does indeed listen, and respond, with more gusto than its competition. The effort is a subtle and well-executed jab aimed almost directly at IBM,

---

[8]This material was adapted from Stephen Bowen, "A Case For Corporate Advertising," Public Relations Journal, November, 1979. pp. 27-30.

the computer giant with which Sperry's Univac Divison battles and which, according to Sperry's vice president and corporate communications director Robert Mau, is sometimes perceived as complacent by its customers.[9]

On the market share scoreboard, IBM claims 65 percent. Sperry at nine to ten percent. (NCR, Honeywell and Burroughs all trail with share points of ten percent or less each). "We need to break away from the pack, to stand out, to be unique," reasons Mau, who's been involved with the listening theme since its embryonic stage. Not entirely certain how the company was perceived by its customers and prospects, Sperry turned to both structured and informal research for the answers. While pumping Sperry employees for their own opinions on the company's points of difference, researchers discovered the nugget they had been digging for when a Dallas branch manager uttered, "We're different because we listen." Dick Mau interprets this competitive edge: "In the computer field, there's great parity among products, but different Packages (sic) are assembled by each company to suit the needs of various industries. Our research indicated some people feel IBM itself dictates what the package should be rather than working with the customer to determine his

---

[9]Ibid.

individual needs. We're more flexible than that... partially because we're hungrier."

PULLMAN INCORPORATED - SPEAKING OUT FOR BUSINESS TO CREATE A "FAVORABLE" COMPANY IMAGE.

Not the least of business's concerns is low credibility. In recent years, virtually every public opinion poll has charted a decline in public confidence in business. But because of, or perhaps even despite, the public's low estimation, corporations are increasingly eager to take stands on public issues, even controversial ones.

One such company is Pullman Incorporated, a diversified enterprise with revenues of approximately $5 billion last year from the manufacture of transportation equipment and the construction and engineering of processing and manufacturing plants for a variety of industries worldwide.

Over the past several years, Pullman has voiced opinions via corporate advertising on a variety of issues confronting corporate America and has not shied away from criticizing that seemingly ubiquitious adversary of business today, government bureaucracy. A series of Pullman advertisements graphically decry government restrictions on foreign trade, interference in capital formation and overregulation.

In the process, Pullman Inc. has apparently earned high marks. Letters praising the company for its courage have poured in. Writes one New York-based executive: "it's really good to see American business speaking up and out against government regulation at last."[10]

Pullman's decision to take forthright stands on important common corporate concerns is, many contend, doing both the business community and the public a service. However, other questions remain. Is it doing the company itself a service? Why should Pullman spend its hard-earned corporate dollars running advertisements that don't sell specific products or services? Why has Pullman set itself up as a spokesman for business?

The fact of the matter is, however, that Pullman has not set out to "educate" the general public or to stem the tide of public antipathy toward business in general. Whether the ads would "play in Peoria" is a question that probably never concerned Pullman executives. Rather, the issue-oriented and occasional advocacy nature of Pullman's corporate communications program represents a well-thought-out strategy designed to satisfy several specific objectives among distinct audiences.

"This campaign is not unmindful of the commerical

---

[10] The following quotes and material are from R. L. Heath, "Image and Issue Advertising", Journal of Marketing, Spring, 1985. pp. 58-68

world in which Pullman does business," says Todd Lief, a Director of BDM, the small Chicago-based agency that in 1975 landed the then $300,000 Pullman corporate account. The most important of the programs' objectives, Lief reports, is to improve the corporation's relationship with the financial community. Another objective is to strengthen customer ties by building respect for the corporate institution behind the products and services of various Pullman divisions.

But before Pullman could build respect or improve relations, it first had another overriding problem - a problem of identity.

Like many companies during the '70's Pullman, Inc. found it lacked a cohesive corporate sense of itself. But more importantly, it was discovered that many of its key publics had no feel for the character of the company; or even a real understanding of its businesses. In January of 1978, a Corporate Communications Department was formed.

Pullman executives found that the overriding impression of Pullman, Inc. among those people who had an impression was in fact, a misimpression. Research indicated that a great number of individuals believed Pullman Inc. was in the business of operating sleeping cars, a business the company basically got out of in 1947. A survey of brokers, financial analysts and bankers in selected cities, showed many thought

Pullman was active in electronics, aviation and pharmaceuticals, businesses in which it plays no notable part, while only 3.5 percent knew the company was involved in the manufacture of truck-trailers.

In addressing the finanical community for the first time as a single corporate entity, many of the company's ads extolled specific Pullman virtues: for example, "the longest unbroken string of quarterly cash dividends ever declared in the history of the industrial corporation". However, according to Todd Lief, as the program progressed the company found that "those ads in which we were most clearly committed to a point of view, not about the company per se, but about shared business concerns, turned out to generate the greatest response."[11]

An issue-oriented approach, the Corporate Communications personnel realized, was a highly effective way to utilize the impact and drama inherent in the advertising medium. And with this approach, Pullman has, by and large managed to avoid a common corporate advertising pitfall, namely the assumption that the company is as fascinating to the general reader as it is to corporate insiders.

---

[11] Ibid.

CHAPTER II

METHODS AND GUIDELINES OF CORPORATE ADVERTISING

GUIDELINES FOR CORPORATE-IMAGE ADVERTISING

Judging by the swelling budgets for corporate advertising reported, image ads seem to be on the rise.[12]

Several factors probably account for the growth of image advertising, including (1) the pressures of the new "era of accountability" for advertisers, (2) the perceived need to counteract "antibusiness" editorial coverage, and (3) the desire to follow a competitor's lead in doing corporate ads. This last tends to exert a "bandwagon effect".

In view of the fact that increasing reliance on corporate image advertising will probably remain a concern for people who enter the corporate communications world, it's an area many advertisers are looking at closely.

Some guidelines for getting the most mileage out

---

[12] C.H. Patti, "Corporate Advertising's Process and Practices," Journal of Advertising, November 1985, pp. 42-49

of image advertising, offered by British adman Roy Birch:[13]

1. Establish the Problem. It may be lack of interest among investors, a low awareness among customers, a lack of credibility with legislators. Before you do anything at all stand back and think. You may even find that you do not have a problem. Is this wishful thinking on your part?

Mere general awareness of a problem is never a sufficient basis for action. Thorough research is vital, and this means time and money. If money is tight, it may be better to sacrifice some of the advertising budget than to cut corners here. If problems are identified, quantify them.

2. Make sure the execution is right. Trust the specialists to know what is effective communication and what is not. If you don't trust them, fire them. If you do trust them, then listen to what they say. You may not be the best judge of what is or, could be interesting about your company. Beware of assuming that the public is agog to know everything about your company. It is not. At the same time, it is always ready to be interested by a newsworthy story, a specific benefit, or an engaging approach. Do not mistake stuffiness and tedium for dignity; you are

---

[13]Ibid.

repelled by boring conversation, as is the public by boring advertising. Test advertising, wherever possible, before it runs. If this is not possible, consider including a coupon or other response device.

3. Set definite objectives. You will, of course, research attitudes when the campaign has run, to measure progress. But you should also set fixed, and above all measurable, objectives in order that the progress achieved can be realistically assessed. If progress has been too slow, consider changing the campaign, again testing advertisements before the campaign starts.

4. Integrate your advertising with other activities. Even if you decide to mount a large corporate advertising campaign tomorrow, never forget that it will be but one of the many ways in which your company will be communicating with the outside world. Just as your product advertising, though it may consist of many advertisements in various media, will be based on a common theme, so the whole range of corporate communications you make should be conceived and executed with a clearly-defined strategy in mind. Where necessary, adapt the execution to suit the tastes and assimilative capacities of the audiences.[14]

---

[14] Ibid.

Each communications element, or combination of elements, is chosen and coordinated in relation to communications goals and target publics in a total, structured plan which makes use of those communication elements to their fullest potential for the company and its communications objectives. It is at this point that a corporate communication program can now begin to take shape.

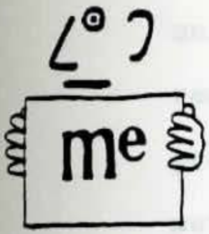
The accompanying Exhibit 2-1 pictorially shows the various elements of a corporate advertising program.[15]

If management is to take advantage of or control its image or its reputation, it needs information feedback on what its image is now, how it is changing, and with what groups. The appropriate course of action concerning corporate image advertising depends on knowing the answers to such important questions as the following: How well-known are we among the groups we are particularly concerned about? What is our reputation now? How does our reputation vary among the key publics? Is it the reputation we want to have? Are we capitalizing on our strengths? How do we compare with our competitors? With other companies? With business in general? Through what channels are people currently receiving information about us? Do we have any

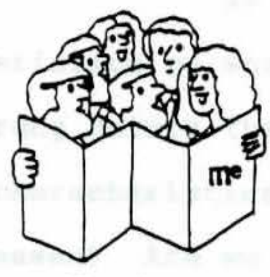
---

[15]Roy Birch, "Corporate Advertising: How, Why and When?" <u>Advertising</u>, Autumn, 1975, p. 8.

Elements of the corporate communications program



Corporate Identification, Name and Graphics

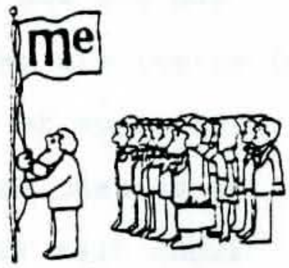


Employee Communications

Customer and Trade Communications

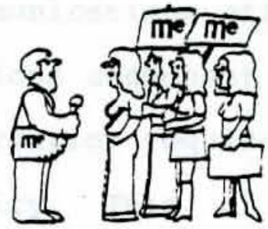
Shareholder Communications

Public Relations



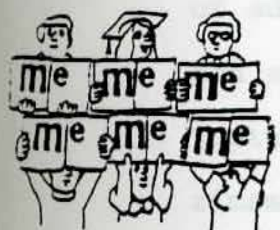
Corporate Advertising

Speeches and Meetings



Community Relations

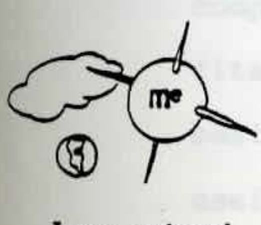
Government Relations



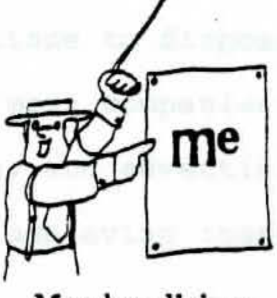
University Relations

Coordination of Division Communications and Corporate Communications

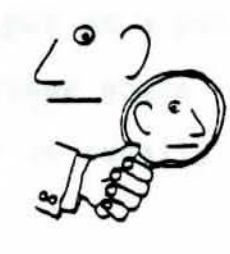
Special Communications, Corporate Brochures, Films



International Communications



Merchandising



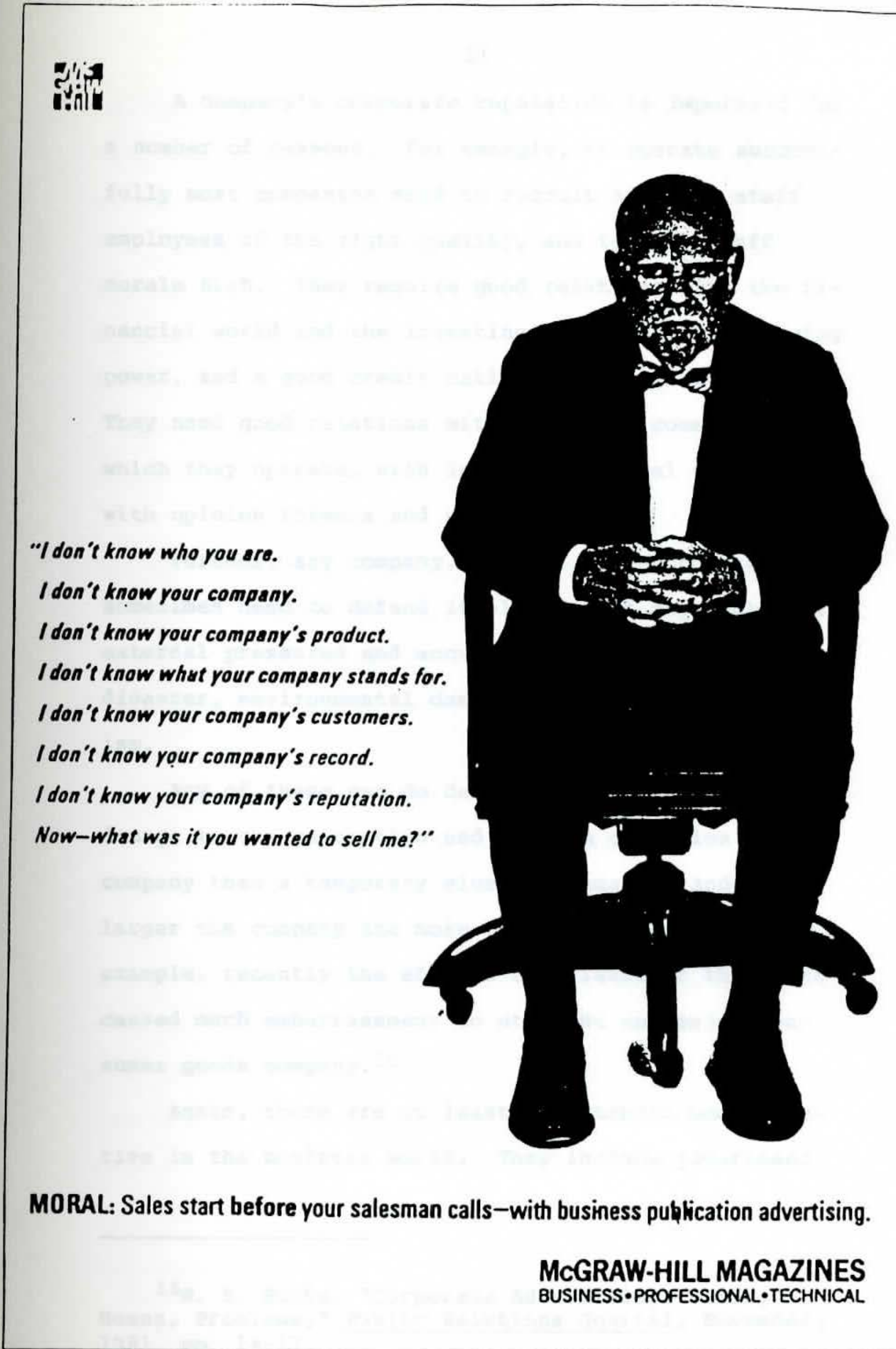
Evaluation

unique characteristics on which to build? Do we have recoginized strong points that can be used to help project other characteristics? Do we know our reputation weaknesses? Are we worrying about the wrong reputation problems? Are our communications reinforcing the kind of reputation we seek? How are our communications perceived by the public we are trying to reach? What has been the effectiveness of specific advertising programs and activities? Are changes necessary in how we conduct our business or talk about ourselves?

With information of this kind, management can target its communications efforts to shape this image or to take actions consonant with its image. To obtain this information requires a carefully developed system of inquiry. This, of course, is where survey research is a corporate communication tool.

Awareness is increasing concerning the importance of advertising as an essential aid to selling the goods and services that companies provide, as was well illustrated in a classic advertisement by McGraw-Hill magazines, a reproduction of which is attached (Exhibit 2-2.)

Yet while it is essential for the survival of a company to continue to dispose of its output at a profitable price, most companies have many other goals besides selling, and advertising can play an equally useful role in achieving these goals.


"I don't know who you are.
I don't know your company.
I don't know your company's product.
I don't know what your company stands for.
I don't know your company's customers.
I don't know your company's record.
I don't know your company's reputation.
Now—what was it you wanted to sell me?"
MORAL: Sales start before your salesman calls—with business publication advertising.
McGRAW-HILL MAGAZINES
BUSINESS•PROFESSIONAL•TECHNICAL

A company's corporate reputation is important for a number of reasons. For example, to operate successfully most companies need to recruit adequate staff employees of the right quality, and to keep staff morale high. They require good relations with the financial world and the investing public, high borrowing power, and a good credit rating with their suppliers. They need good relations with the local community in which they operate, with local and central government, with opinion formers and with the media.

Further, any company, however well-conducted, may sometimes need to defend itself against any number of external pressures and accusations such as scandal, disaster, environmental damage and militant consumerism.

Any of these can do deeper and more permanent damage to the reputation and freedom of action of a company than a temporary slump in demand. And the larger the company the more true this becomes. For example, recently the efforts of Friends of the Earth caused much embarrassment to at least one major consumer goods company.[16]

Again, there are at least 28 watchdog bodies active in the business world. They include government

---

[16] W. S. Sachs, "Corporate Advertising: Ends, Means, Problems," Public Relations Journal, November, 1981. pp. 14-17.

institutions, academics, political organizations of the left and right and quasi-political lobbying or pressure groups.

Another example occurred when Organization of Petroleum Exporting Countries (OPEC) made its first big move on oil prices, the major oil companies in the United States were criticized in the press for profiteering. Worse still, their replies through the usual channels were turned against them.[17]

It is thus possible to make a company better liked but it is important to do this before trouble starts. Corporate images take time to create from scratch and longer still to change from bad to good. The channel of communication must be opened up in order that the company is recognized so that people listen to what it says, and believe it long before it is attacked.

A good example is the case of the Houston Light and Power Company. Some time ago it realized it was looked upon as "remote" and "inhuman" and so spent much effort in respositioning itself as a good citizen. For a start it rechristened itself The Light Company. Then came the time when it intended to expand its generating capacity by building a nuclear power station in the Houston area. It realized that certain local citizens

[17]Ibid.

and pressure groups might have considered this action a threat to their environment. So the Light Company first raised the topic itself, and put its case for nuclear power frankly in local press and TV advertising before the media or the pressure groups did.[18]

As a result of this campaign the attitudes towards The Light Company further improved and in one year the percentage of Houston residents with favorable attitudes towards nuclear power rose from 30 percent to 50 percent. By the time the company announced the detailed plans for the first nuclear plant, there was virtually no opposition.

---

[18]Ibid.

CHAPTER III
OBJECTIVES OF CORPORATE ADVERTISING

It is the primary objective of corporate advertising to go beyond the direct sale of a single product or service. It is up to product or divisional advertising to promote the parts to present those single products, groups of products or divisional capabilities to limited, segmented audiences. Audiences can vary over time. It is corporate advertising's role to put all those parts together and to project the total company image to an all-important target audience.

In corporate advertising, the company, not the product is the hero. It underscores the character, reputation and purpose, the policies, capabilities and unique personality of the corporation. It presents the corporation as a strong single entity not a loose collection of perhaps autonomous divisions. And in today's marketplace, this parental reliability is a highly tangible asset.

As noted in the cases described earlier in the previous chapter, we have seen that corporate image advertising can achieve several types of results. It can appeal to consumers as in the case of Bristol-Myers. Corporate Advertising can create investor confidence as in the case of GTE. It can formulate a corporate image where there was none before as Sperry did. And it can establish a company among its peer and customer businesses as Pullman demonstrated.

In effect, corporate advertising is the voice of management, the voice from the top. Division managers are heard through divisional advertising. The chairman, president and top management speak through corporate advertising. They of course, may tell divisional or multi-divisional stories. But it is the top management alone that determines where the emphasis should be. It is the top management alone that decides how best to sell the company itself especially the company as a whole.

Corporate advertising today offers these basic advantages. It can build awareness, understanding, confidence, and ultimately preference. It establishes a clear, honest and unique position for a company. In doing all this, corporate advertising influences the financial community and potential stock purchasers. It increases the confidence level of current stockholders, employees and customers. It strengthens a company's position in acquisition and divestiture activity. And it induces prospects to want to do business with you.

In projecting a unified, responsible company image, corporate advertising enables you to attract, recruit and retain good people. It makes it easier for you to introduce new products and services. Equally important, it supports your existing products and services, including the one you never or only rarely advertise. It supports and builds confidence among distributors, dealers and contractors handling your line of products.

Corporate advertising can help to reach buying influences that sales representatives never see or don't even know exist. It reduces the cost of pre-sell and selling because your sales people get into the purchaser sooner and sell quicker. It probably also makes media more receptive to publicity releases.

Corporate advertising has never been more important than it is in today's skeptical, show-me marketplace.

David Olgivy in his book Olgivy on Advertising, discusses the limitation of corporate advertising. Before you begin, you should know what corporate advertising cannot achieve:

It cannot gloss over a poor record or a weak competitive position.

It cannot boost the price of your stock overnight (but it can create awareness of your company's performance).

It cannot turn the tide of unfavorable public opionion in the short term.[19]

What can good corporate advertising hope to achieve?

One or more of the four objectives:

1. It can build awareness of the company. Opinion Research Corporation states, "The invisibility and remoteness of most companies is the main handicap. People who feel they know a company well are five times more likely to have a highly favorable opinion of the company than those who have little familiarity."[20]

2. Corporate advertising can make a good impression on the financial community, thus enabling you to raise capital at lower cost - and to make more acquisitions.

3. It can motivate your present employees and attract better recruits. Good public relations begin at home. If you employees understand your policies and feel proud of your company, they will be your best ambassadors.

4. Corporate advertising can influence public opinion on specific issues.

Abraham Lincoln said, "With public opinion against

---

[19]P. Botwinick, "The Image of Corporate Advertising," Public Relations Journal, November, 1984. pp. 12-14.

[20]Ibid.

it nothing can succeed. With public opinion on its side, nothing can fail".[21]

DEFENDING THE CORPORATION AGAINST OUTSIDE PRESSURES

The name of Firestone was dragged through the mud by the 1978 government-ordered recall of 8.7 million radial "500" tires. Besides the $234 million the recall costs and the expense of dozens of lawsuits, the company lost an inestimable amount of public credibility that may take years to regain.

Firestone is not alone. Many companies, from auto makers to a gourmet soup company, have suffered the effects of product recalls. Other companies have lost public face for a variety of reasons. And many companies present the wrong face or none at all to the public.

Whatever the cause of the image problem, the important thing is doing something about it.

Walter P. Margulies, a leading authority on corporate image making says a lot can be done.[22] He is credited with coining the term "corporate image" and is a co-founder of Lippincott and Marguilies, Inc., a new York communications consulting firm.

---

[21] Ibid.

[22] T. Pitchers, "Building a Corporate Image," Marketing Magazine, August, 1984. pp. 52-56

Public misperception can be hazardous to corporate health, he says. It limits growth by making it difficult to raise investment capital. It lowers or retards the growth of the price earnings ratio. It can open a company to hostile tender offers or turn its stock into a wallflower. It weakens a company's competitive position, denies its employees psychological return for their services and diminishes the return on shareholder investment.

Image makers like Margulies emphasize that there is a difference between image and identity. The latter is the aggregate of ways that a company identifies itself to its publics such as customers and employees, the community in which it operates, the media, government regulators, present and potential stockholders, security analysts, investment bankers and financial advisers. Image is what all these people think of the company.

"Image cannot be bought," says Margulies, whose firm has remade the corporate image of several dozen big companies. "It flows from the public perception of a company's identity. A company's name is the link between its identity and its image."[23]

---

[23]Ibid.

SOCIAL RESPONSIBILITY AS AN INVESTMENT IN CORPORATE GROWTH

Defending itself against outside pressures is really a tactic the corporation is using after the fact. The real trick in projecting corporate image to the public is to make the corporation's social responsibility known. The trouble with the social responsibility of business is that the increase in responsible corporate activity is to society largely unknown or ignored. While good deeds in themselves are heartwarming, from a business standpoint it would be a lot better if business received some credit for them. Either business is doing the wrong things or getting little credit for the right things, or both.

There appears to be ample evidence that business efforts in the social responsibility area in the past fifteen years have substantially increased. Almost every business of size claims to have a social responsibility program, and analysis shows that in many cases the programs are well executed, well financed and frequently effective.[24] Philanthropy hit a new high in dollars in 1983. Contributions to education in money, organization and talent have exceeded previous totals.

---

[24] Charles Coyle, "Social Responsibility" New Age Journal, August, 1984. pp. 61-68.

Billions have been spent in environmental protection and not all of it was mandated. Half of the country's energy conservation has been saved in cutbacks by business. Consumer affairs departments have been established or improved, with both the individual consumer and the organized groups getting a lot more consideration. Government is getting more attention from business with an increase in the number of Public Affairs Committees and greater public affairs activity. Issues management has emerged as a hot public relations topic, indicating that this department, formerly long on telling a story, is finally beginning to listen as well. Strategic planning, fifteen years ago largely unknown, is being widely practiced now, giving needed attention to probable social and political developments. Classes in social responsibility have been added to the curriculum in most colleges of business. There appears to be no shortage of activity.

The result of all this responsible behavior aimed at society has to be evaluated as distinctly ineffective if intended to improve the business image. A respected survey in 1968 indicated 70 percent of the public thought business was "striking a fair balance between profits and the public interest." The same survey in 1979 found that only 17 percent felt the same way. A 1981 poll ranking twelve occupations on their "contributions to the general good of society" listed business leaders in ninth place, behind judges, lawyers, and funeral directors.[25]

What could account for this paradox of an increase in responsible behavior by business and the failure of society to appreciate it? One possibility is that the wrong targets are being selected. There is only sketchy information on what the public really expects from business. There are generalized polls asking what seem to be the major problems facing the country. Although these change from year to year, inefficient and expensive government, unemployment, and the environment show up with some regularity. Of these three, only the environment is regularly included in social responsibility programs. Efforts to control the government, except in their own special interest, have clearly been among the missing. For instance, in such efforts to control federal spending as the line item veto, corporate voices are rarely heard.

Why has the business sector been so outstandingly quiet regarding unemployment? Almost everybody agrees that this is the greatest sing e threat to the survival of capitalistic free enterprise. Business clearly does not want government programs to hire the unemployed. Does the public assume that talented managerial group is unaware of unemployment? Or that they don't have a

---

[25]Ibid.

single good idea as to what can be done about it?

On environmental issues business has generally had bad luck. Chemical dumps, which at their time of origin were often legal, are rising in terms of media coverage. Poisonous food additives, threatening to wipe out much of the population are discovered with monotonous regularity. Acid rain falls everywhere, Infant baby formulas, napalm, yellow rain, tanker spills, and "Three Mile Islands" trip across the headlines in close formation. But the billions of dollars spent on legitimate environmental protection appear to go unnoticed and the results are hard to see.

It would appear the public wants business to do more in the area of health hazards, the environment, honesty, consumer affairs, fair employment, and resource conservation. They have lost some confidence in government programs, but they are also dubious about corporate commitment to these ends; the result is a low index of confidence in both institutions.

Perhaps part of the problem is a communication failure. Evidence to support this consists largely of a lack of specific social responsibility information If social responsibility is supposed to improve the image of business, why doesn't anybody know about it? Less than one company out of 100 published a social responsibility report. Corporations appear timid about approaching the press, and the media appear to prefer horror stories to those dealing with good works.

American business is certainly not lacking in marketing know-how. They have compiled a remarkable record in selling products and services. Yet this marketing skill seems so unused or inept in selling ideas and performance. Is business doing the wrong things or simply hiding the light under a bushel?

Social responsibility programs are failing to convince the public that business is a responsible, trustworthy institution. Should that distrust persist, irrepearable damage could occur.

If business is to manage the problem first they must identify the opinion makers, those that help society develop its opinion of business. The media, the legislators and the academicians would be vitally important and perhaps the social activists. Business must convince these groups that they are trying to balance the interests of many groups and do a job that is socially desirable.

What appears to be an example in the plus column, was recently conducted by R. J. Reynolds from its headquarters in Winston-Salem, North Carolina.[26] An unusually damaging string of tornadoes touched down in parts of North and South Carolina on March 28, 1985.

---

[26]David Finn, "The New Philanthropy," Marketing Communications Report, February, 1983.

Along the 260-mile path of destruction were strewn fifty-nine dead, countless injured, 2,000 homeless and millions of dollars of property damage. This is the heart of the tobacco belt and also in the districts of congressmen, legislators and governors important to the company. Disaster, of course, produces headlines, as do substantial efforts to alleviate the accompanying distress. Reynolds immediately jumped into the breach. A convoy of six trucks flying the company banner was quickly on its way with 100,000 cans of Del Monte fruits and vegetables, 24,000 cartons of cigarettes, and several hundred "Winston Cup" jackets. In addition, the governor of each state was given a $100,000 check for immediate disaster relief. This corporate operation was quick, arriving long before government agencies could gear up for action. It was effective; food clothing and cash were desperately needed. It was well publicized; newspaper and television coverage of the convoys and the checks was extensive and emotionally appealing. A lot of people will remember that R. J. Reynolds was there when the sky was dark and the landscape bleak.[27]

On quite a different front about six years ago, the Allstate Insurance Company stuck its neck out where

---

[27]Ibid

corporate executives often fear to tread. A tremendous uproar had emerged from the inner cities about the purported practice of insurance companies known as "redlining". This refers to the identification of blighted areas of big cities where the insurance of property is classified as carrying an uninsurable level of risk. Allstate took the initial brunt of this attack as a large city property insurer because of its Sears connection. Countless neighborhood consumer groups held protest meetings with attendant adverse publicity to Allstate. There were marchers at the gate demanding to see the president. Legislators and others were discussing whether it was necessary for the government to enter the field and begin insuring such risks directly. All in all it was a bad day to be in the insurance business and something had to be done. The first idea was a complete flop. "We'll send some of our best executives to these meeting and they'll explain to these people what the problems are. Once these strident voices understand the company viewpoint, they'll quiet down and maybe we can work out something." The unprepared, reasonable management types suddenly dropped into a bunch of bloodthirsty, no-holds-barred consumer advocates, were, to put it mildly, singularly ineffective. They hastened back to the office bloody and bowed, vowing never again. Allstate was unprepared for the techniques of confrontation.[28]

A program of preparation for executives was undertaken. Facts to refute the allegations were assembled. Possible concessions were prepared. All participants were given at least two days training simulating the worst of confrontation tactics. Several managers were dropped as candidates, unsuited for this type of activity. The remaining were returned to the fray and were soon successful. They stood up and took it where they had to, and made concessions where they felt they must. The headlines quoted protestors as announcing victory, but it was really a victory for both parties. The two groups learned to talk to each other, to understand each other, and to reach a solution. The real victory was for the private business system.

Some common corporate programs seem to have little affect on the public's perception of business. One such program would be business' contribution to education. This often amounts to about one third of the philanthropic gifts. Three common methods of support are used. There are nonspecific grants such as those to the association of black colleges, matching gifts to the colleges of the employees, and specific programs that are supported by scholarships usually in

---

[28]J. Brouillard, "Big Business on a Soapbox", <u>Marketing & Media Decisions</u>, June, 1980. pp. 64-69.

academic areas of interest to the firm. None of these stirs up any public excitement or receives any substantial publicity, and they are appreciated only by the small group of givers and receivers. Except in very large amounts, these gifts do not make news and there are many members of society that don't even know they exist.

From the many polls and commission reports, there is no question but that education needs help. But it is not helped much by the shotgun approach used by most companies. Since the content and quality of education are subject to such widespread criticism, a company should be very careful in determining whom or what to support. Society can devote only a certain amount of time and money to education. Unlike gold, bread, and gasoline, an increase in the quantity available is not necessarily progress. Some of the glaring weaknesses in education are not hard to determine: communication, marketable skills, ethics and citizenship come immediately to mind. A corporation should choose to attack an obvious problem and devote enough talent and resources to its solution for the results to be clearly discernible.

Another area of responsibility in which business has proved to be quite inept is in government affairs. Many corporations maintain lobbyists, public affairs departments, support candidates and parties, Society is critical of government, It size, expense, inefficiency and burdensome regulations. Yet the business community is rarely seen as suppportive of the public's attempts to make government work better. Instead, the business community makes obvious mistakes of commission and omission. Its lobbying activities are largely confined to matters directly affecting its business, sometimes at the expense of the consumer. It supports candidates, sometimes on both sides of the ballot, whom it thinks will be favorable to its interests. The business community may oppose some regulation in its industry but rarely in another industry. It may even support expensive and complicated regulation if it appears to improve profitability.

Where is the support of business when the citizens are seeking spending reforms? Where are the corporations when citizens everywhere are asking for simplified tax laws and returns? In the midst of major cost overruns and outright profiteering in military procurement, the voice of business is silent. Big cities plagued by waste and corruption find business supporting the incumbents as a safe hedge against retribution. Entitlement programs skyrocket to unsupportable levels, but the efficient management group stays close to home and very quiet. One would have to conclude that the social responsibility advocates have had little impact on government affairs. Here corporations have the motive, the talent and the assets, but they use them almost entirely in narrow, special-interest crusades. Corporate efforts in these areas would certainly be recognized by potential investors and inevitable peak interest in the company as a possible investment venture.

Perhaps some principles of social responsibility development could be established, such as:

- Select problems that rank high in society's concerns.
- Concentrate efforts in a few areas where impact and visibility are high.
- Utilize effective marketing skills in communicating program results.
- Minimize single-intercorporate objectives that the public will see only as self-serving.

It is not expected that the business sector operate as philanthropists. But it is expected that it will operate in a spirit of enlightened self-interest. Free enterprise survives only by permission of society. A clear view of what is responsible conduct, accompanied by actions and communication, is in the self-interest of both business and society.

MAINTAINING CORPORATE HEALTH

In a dramatic exercise in corporate communications in the summer of 1981, W. R. Grace and Company, the nations fifth largest chemical company with interests in natural resources and consumer products and services, launched a campaign to influence con- congressional legislation on capital gains.[29] Excessive capital gains taxation, the company asserted, has had a direct and detrimental impact on virtually every major econonmics determinant. Today, company officials believe the Grace campaign was a significant factor in the legislation that reduced taxation on capital gains from 49 percent to 28 percent.

Grace launched the campaign with the mailing of a forty-nine page document of charts and explanations examining the results of excessive capital gains taxation on the nation's economy. The lengthy memorandum was accompanied by a covering letter signed by J. Peter Grace, president and chief executive officer of the company, and prepared for Al Ullman, chairman of the House Ways and Means Committee. The letter outlined Mr. Grace's view that the combination of taxes and inflation has "all but destroyed the incentive for individuals to produce and invest." The memorandum and the covering letter were sent to every senator and representative in Congress, to the editors of 665 U.S. newspapers, and to the chief executives of the Fortune 1000 companies.[30]

---

[29] J. Hathaway, Industry Feature: "Corporate Advertising," Madison Avenue Magazine, November, 1982. pp. 62-65.

[30] Ibid.

In addition, Grace advertised its point of view week after week as the debate continued in the House and later in the Senate. The company spent about $270,000 in a 12 week period on the issue advertising. The campaign's success, no doubt in large measure, was due to its timeliness. The issue and the campaign received wide media coverage. The Wall Street Journal took the covering letter and, on its editorial page, reprinted it verbatim. The Los Angeles Times simply ran the letter as a story bylined by Mr. Grace and then editorialized on the subject, as did the New York Daily News.

Issue or advocacy advertising, however, is only one element in Grace's communications effort. The company also has a corporate advertising campaign, budgeted at more than $1,000,000, directed primarily towards the individual and institutional investor. Running in such publications as Business Week, Fortune, Forbes, Institutional Investor and The Wall Street Journal. Grace is positioned as a company capable of pinpointing emerging trends and capitalizing on their implicit opportunities. Using case histories, the ads attempt to demonstrate management expertise by arguing that Grace was, for example, involved with energy exploration before there was an energy crisis. The theme line for this campaign is "one step ahead of a changing world."[31]

Antonio Navarro, the corporate vice president who directs Grace's communications activities, feels that the issues must not only be addressed in a manner that is specific, clearly conceived and well-documented but the tone must be delicately defined. "The company must have something to say for itself and the public. The issue must not be so self-serving that it repels the reader. And it must not be so slanted toward the public good that it is not believed." What you should have, Mr. Navarro feels, is a reasonable combination: An ad where a legitimate concern of the company can be recognized but, at the same time, where the concept to be sold and the action reccommended go beyond the narrow company interests to benefit a broader sector of society or better yet, the majority of its citizens.[32]

While a specific objective of the campaign was not to create an image for W. R. Grace, an image is emerging nonetheless. The image, is essentially one of statesmanship and concern. The corporate and issue campaigns then, though distinct, act synergistically. The issue campaign is one more way of showing the institutional and individual investor that the company is involved in current events, with things that are going

---

[31]Ibid.

[32]Ibid.

to affect him or her. This sort of image or corporate advertising will perhaps lead to investment in the company, although that should not be the primary goal.

CHAPTER IV
CORPORATE ADVERTISING - INFLUENCING KEY PUBLICS

Each corporation needs to reach certain publics, some of primary and others of secondary importance. A list of possible corporate publics might look like this:

Financial Community

- Professional: Institutional and Portfolio Managers
- Private: Shareholders and Potential Shareholders
- Financial Press

Government:

- Federal
- State
- Local

Business Community

- Business Peer Group
- Customer and Suppliers
- Potential Partners: Acquisitions and Mergers

Consumers

Employees

Other Thoughleaders

- Activists and Pressure Groups
- Acedemic and Professional Groups
- General Press (Columists)
- Civic Organizations

International Community

Each Corporation must analyze its communications needs individually and select the primary and secondary target publics according to its communications goals. Since continuity over the long term is essential to effective corporate communications, these target publics should be reevaluated from time to time and emphasis shifted as communications needs change.

The financial and business communities usually play a part in any corporate communications effort. The component parts of these communications vary widely in size, and careful planning must be exercised in defining precisely which segments are chosen for attention.

Employees are the target public for a corporate communications program designed to recruit new workers, to encourage productivity or to improve morale and reduce turnover. Further, employees can play an important part in implementing a communications program. It would stand to reason that those employees who are well-informed about their corporation through internal methods or through external advertising are often motivated by pride of association with the company and become convincing spokesmen for the corporation.

Corporate Advertising can help make corporate intentions and requirements clear to government officials and legislators as well as to other thought-leaders who hold influential positions in the general press, the professions, universities and civic organizations. And in the present consumerist climate, attention to activist and pressure groups has become a necessary component in many corporate ad campaigns.

Consumers of a company's brands become particularly important as a corporate target public if the company deals extensively in parity brands. Recognition of the company name, or the general reputation of the corporation (for dependability, for example) can sometimes afford a subtle marketing edge. As the consumer chooses among brands similar in quality and price, the communicated reputation of the corporation behind the brand can sometimes be the tie-breaker.

It's difficult to measure markets or market segments by the way people think but it is possible to measure markets in terms of what people do, which is almost always a reflection of what they think.

It would be important, therefore, for corporate advertisers to deal primarily with people who have a reason to be concerned, a capacity for understanding, and a tendency to act in behalf of what they believe.

It's difficult, also, to isolate such people, but four questions help determine whether an individual is a logical target for a corporate advertising message: Can he or she understand? Does he or she care? Can he or she be persuaded to care? How likely is he or she to take a position and act?

If literacy is a criterion of understanding, it is discouraging that some 19 million Americans over the age of 16 have trouble with minimal measures of literacy, for example, with language that appears on job application forms. Several years ago, the Pacific Telephone Company reported that forty percent of their job applicants had to be disqualified because they could not read or write at the eighth grade level.[33]

If minimal political activity is a criterion of caring, then it is equally discouraging that in New York State only 20 percent of those eligible to vote turned out for the 1976 Presidential primaries. In the national election itself, some 50 million Americans, 44 percent of those eligible to vote, chose not to do so.[34]

How does the corporate advertisers go about identifying and isolating logical targets for corporate advertising messages?

The Media Imperative Concept, developed by Frank Stanton of W. R. Simmons, is a means of segmenting media markets by demography and product consumption.[35] It has been widely used by packaged goods advertisers

---

[33] Current Company Practices in the Use of Corporate Advertising, Association of National Advertisers, Inc., 1981 Report.

[34] Ibid.

[35] C. Chajet, "The Media Comparative Concept," Public Relations Magazine, November, 1980.

to examine the media markets for their products. For the first time, this concept is being used by the Magazine Publishers Association to segment the market by certain life space characteristics. In other words, identifying and isolating people based on their demonstrated ability to understand and act on issues rather than on their demographic and purchasing pattern.

To begin with, its important to consider some of the specifics of the interested, involved and influential people that might be on the receiving end of a corporate ad message, if the communication of a viewpoint is to result in a more favorable climate for continued corporate growth. The primary target might be defined in real terms as any man or woman who qualifies on any one or more of the following:

- attended/graduated college
- has $20,000 or more household income
- is in a professional/managerial occupation
- owns a home worth $40,000 or more
- owns $20,000 or more corporate securities

In addition the person should have been publicly active during the past two years in the following ways:

- taken active part in local civic issue
- written to elected official
- written to editor of magazine or newspaper
- had something published
- addressed a public meeting
- actively worked for a political party

There are slightly over 149 million adults in the nation. But, only some 77 million, or 52 percent can be realistically classified as target adults for corporate advertising, having qualified on at least one of the logical criteria.[36]

The Media Imperatives Concept enables a corporation to examine the market place in terms of each individual's use of both magazines and television.

The effects and value of segmenting the marketplace in this manner becomes apparent when examining the two largest segments. The magazine imperative segment, for example, accounts for 33 percent of adults who, together, do only 17 percent of total television viewing, but also do 52 percent of all magazine reading. In other words, they absorb the effect of 52 percent of all corporate magazines ad dollars, but only 17 percent of the total effect of corporate TV ad dollars.

In other words, if a corporation were to put half of their ad dollars in magazines, even though only 33 percent of adults are magazine imperatives, you would not be out of line with corporate advertising objectives because half or more of the target audience is magazine imperative.[37]

An example of successful identification of target markets would be the Shell Oil Company.[38] Shell, as well

---

[36]Ibid.

[37]Ibid.

[38]J. Treistman, "Will Your Audience See Your Name?" Business Marketing, August, 1983. pp. 88-90.

as all other major oil companies, has operated during recent years in a generally hostile consumer environment. The Shell media strategy has centered on the distribution of eight page booklets featuring useful information in areas on consumer concern and Shell expertise. The booklets are distributed through magazines and Shell stations, while supporting broadcast commericals highlight helpful hints and refer consumers to the booklets for more complete information.

To date, more than 494 million Shell booklets have been inserted in magazines and promoted on radio and TV.

Response from the public has been overwhelming, including over a half million letters of comment and appreciation, as well as requests for additional booklets.

Federal, state and local agencies, including the U.S. Consumer Product Safety Commission, and consumer groups endorsed the program with many of them participating in preparation of the booklets.

Continuing bench mark research studies show substantial progress toward each of Shell's designated public service and communications goals. And, as if to demonstrate that advertising which is truly in the public interest is not without its commerical compensation, The New York Times reported on May 22, 1980 Shell became Americas number one gasoline at the pumps, leap-frogging such formidable competition as Texaco, Exxon and Amoco.[39]

---

[39]Ibid.

CHAPTER V
WHY COMPANIES AVOID CORPORATE ADVERTISING

The prospect of contact with the media turns many a hard-charging member of management into an ostrich. Business' fears are often related to worries about stock prices, a company's good name, product use and acceptance, or whether news will alert the regulatory armies. Too, many executive and corporate image-makers believe that control-oriented managements fear situations they can't orchestrate from start to finish.

Just as an inquiry from the media can make senior management suspicious, and warning bells go off for journalists when a company fails to respond to those questions. Professional journalists feel a strong obligation to inform the public, especially in the current climate of "investigative reporting".

Companies in this regard seem to fall into three broad categories; those that are almost always open and candid with the media, those that aren't and those that selectively open their doors in what might be called controlled public relations or image making. From a management viewpoint, all three have advantages and disadvantages.

A long record of being open and candid has paid off several times for Mc Donald's Corporation in the last few years. The fast-food chain faced charges that the paint on its glasses posed health hazards, that some hamburgers in the Atlanta area contained worms, and that its plastic spoons were favorites of cocaine users.[40]

Mc Donald's made satisfactory adjustments involving the glasses and the spoons and issued a rebuttal about the worms. The chain's position received about as much space and time in most of the news stories as did the charges. The fair treatment was in large part a result of McDonald's having maintained a positive relationship with the media. The company had a resevoir of good will and, in the eyes of the media, also acted responsibly.

But if a company has major problems, or minor ones in a highly sensitive area, even the best reservoir of good will won't prevent what irate top management is sure to see as bad press. That was the plight of Occidental Petroleum Corporation's Hooker Chemical when they were sued by the federal government and the state of California for allegedly polluting drinking water supplies.[41]

---

[40] E. Schonfeld, "The Corporate Need To Communicate," Marketing & Media Decisions, June, 1980. pp. 17-21

[41] Ibid.

Hooker may have wished it could have maintained a low profile when the controversy boiled over, but it chose to issue a statement as well as participate in a television report. A well-known advertising consultant, says, "There is no question in my mind that the readiness of all public groups and government agencies to take the negative aspect on all the Hooker Chemicals controversies is related to the mystique and suspicion arising out of the inconsistent high and then low-profile approach Occidental has taken through the years."[42]

Seeing what the media can do to a company such as Occidental which at least has a policy to be open and candid, is a major reason why a number of companies almost always refuse to talk to journalists or develop corporate advertising campaigns.

Having a loss of profit for a year or two is likely to be less damaging to executives in business than becoming controversial, which is an embarassment and cause all kinds of uneasiness within the corporation.

Possibly for some of these reasons, Caterpillar Tractor Company, Peoria, Illinois has elected to maintain a low profile, even though its name is extremely well-known to the public and its reputation untainted.[43]

---

[42]Ibid.

[43]Brian Moskal, "Companies in the Limelight," Industry Week, July 21, 1981. pp. 53-57.

Other companies consider themselves to be reasonably accessible because they communicate with several of their publics such as, stockholders, or dealers or suppliers. But they actually seem more reticent because they generally don't talk to the public through advertisment in the media.

A Chicago-area-based grocery chain also usually follows a target-audience approach, but it has occasionally adopted a high profile, such as when it announced it would adopt unit pricing and sell generic grocery products.

"It's their argument that if they keep very quiet and speak only when they have something very important to say they will have a better chance of being heard," says Louis C. Williams, a vice president with Hill and Knowlton public relations in Chicago.[44]

If a company finds itself thrust into controversy, the firm with a history of candor in dealing with the press will get the fairest treatment. If the company feels it can live without the media 90 percent of the time, the corporation better be prepared to live without it 100 percent.

Avoiding the limelight, it seems, works well when it meshes with management's objectives and as long as no major controversy arises. When trouble strikes, a

---

[44] Ibid.

history of openness might help both the company and the media. But if trouble does strike, it's too late to wish the company had been more forthcoming in it's corporate communications.

CHAPTER VI
EVALUATING CORPORATE ADVERTISING

CORPORATE ADVERTISING EFFECTIVENESS

As corporate advertising budgets continue to grow, managements are insisting on knowing what is being accomplished for the expenditure.

This means evaluation: comparing intended action with performance; and objectives with results. To determine the extent of this evaluation, a study was conducted by National Geographic magazine, to ascertain: extent of corporate advertising; what is being evaluated; how assessment is done; and who does the monitoring.

The study was carried out among the 500 largest manufacturing companies. ranked by sales, and the 175 largest service-type organizations, ranked by value of assets. The latter included banks, utilities and companies in transportation, insurance and finance. After two mailings to executives responsible for corporate

---

The following information from the National Geographic Survey is from William S. Sachs and Joseph Chasin, "How Companies Evaluate Their Corporate Advertising," Public Relations Journal, November, 1979, pp. 14-18.

advertising in these companies, 358 usable returns were received for a completion rate of 53 percent.

Among the companies responding, some 58 percent ran corporate advertising from 1972 to 1978. But there were notable differences. Primary determinants turned out to be product line and size of company.

Percent by Major Product Line

Ran Corporate Advertising 1972 - 1978	Percent of all companies	Consumer products	Industrial products	Services
Yes	58	35	66	61
No	42	65	34	39
Base	358	78	169	111

The above tabulation shows the importance of product line. Almost two thirds of companies whose mainstay was industrial products or service functions engaged in corporate advertising during the period. In contrast, two-thirds of consumer goods manufactures abstained.

The broad consumer goods category, of course, is not uniform. And neither were advertising practices.

A close analysis of survey returns strongly indicates packaged goods companies do relatively less corporate advertising than the average consumer goods producer. This is understandable. Since items are low priced, product advertising is heavily relied upon to generate sales and brands are often disassociated from companies.

On the other hand, diversified companies marketing high-ticket items seem more prone to make use of corporate advertising. Consumer purchase frequency in these fields is low and company reputation is a decided factor in a purchase decision.

The next tabulation shows the effect of size in the manufacturing sector. Firms doing an annual business of $1 billion or more had a much higher incidence of corporate advertising than smaller companies specifically a 70 percent versus 46 percent, respectively.[46]

Percent of Manufacturing Companies by Annual Sales Volume

Ran Corp. Adv. 1972 - 1978	Percent of all Companies	$1 Billion or more	Less than $1 Billion
Yes	57	70	46
No	43	30	54
Base	247	111	136

Corporate advertising was an ongoing activity for the majority of its users. It was done regularly, year after year, without abrupt stops and starts.

Manufacturing firms in the $1 billion or more category had more continuity in their corporate campaigns than smaller companies. Service industries,

---

[46] Ibid.

representing the largest firms of their kind, had advertising usage patterns similar to those of the biggest manufacturers.

On the whole, management has come to recognize that corporate advertising requires time, patience and continuity. These activities, when evaluated, are regarded as long-term efforts by executives responsible for them. Some 27 percent thought their programs capable of being assessed on a short-term basis. The vast majority, however, felt more comfortable with long-term evaluations.

Not only is corporate advertising regarded as long-term, calling for a steady, uninterrupted effort to be effective, its assessment is also tending to become an ongoing activity. Of all companies that engaged in corporate advertising during the past five years, only 17 percent made no attempt to evaluate it. The other overwhelming majority, 83 percent, preport having done some probing into the effectiveness of their programs. And almost half of all corporate advertisers, 48 percent, depict monitoring as something akin to "standard operating procedure," taking place on a fairly regular basis. Neither sales volume, product line, nor size of ad budgets has any effect on frequency of, or approach to, monitoring operations, most of which were performed yearly or semi-annually. The frequency with which corporate advertising is evaluated is shown in the following table:

Frequency of monitoring	Percent of all corporate advertisers
Regular Basis	48
Selective Basis, Individual Programs	35
Did not Monitor	17
Base	208

HOW MONITORING IS DONE[47]

Evaluations of corporate advertising rely most heavily upon market research. This approach was used by 90 percent of companies that assessed their corporate communications in mass media. But there were other important considerations.

Sources of Information Used	Percent of Companies Assessing Corporate Advertising
Market Research	90
Letters from Public	49
Officers Opinions in Own Company	48
Feedback from Sales Force	38
Comments in Media	23
Stock Prices	11
Sales, Shipments Billings	5
Other	2
Base	173

Almost half the executives interviewed said opinions of corporate officers were an important factor in overall evaluation. In part, this reflects a natural

[47]The following discussion is based on Ibid.

inclination of advertising managers and public relations people to have their managements approve of their work, which, in turn, leads to "inside selling".

But the importance of officers' opinions is far more basic than that. It is in keeping with a growing tendency to have those in charge of corporate communications report directly to the chief executive. In effect, this puts the responsibility for corporate advertising squarely on the shoulders of top management. Moreover, since letters from the public, feedback from sales personnel, and comments in media all influence the opinion of senior management, they also become significant in evaluations of corporate campaigns.

"What" is also the key to "why". If we know what is monitored, we can determine the objectives of a campaign, its purpose, its "why and wherefores".

Corporate advertisers measure several things simultaneously which implies multiple objectives. Though corporate advertising by definition does not directly promote output, the most common measurements are closely related to companies' products and services. This is seen in the following table:

Type of Measurement	Percent of Use
Awareness of company/products	80
Company "image"	76
Recall of Advertising	75
Changes in attitudes toward-company/products	71
Number of inquires, requests-for brochures	47
Changes in attitudes towards-points of view expressed	32
Sales orders	7

Corporate "image" is a vague term that encompasses a wide range of perceptions. Executives were asked to define exactly what sort of images were being measured.

Type of Image	Percent of Companies Measuring Corporate Image
Reputation	81
Innovative Company	76
Leadership	70
Superior Management	61
Diversified Company	50
Growth	44
Social Responsibility	42
Size of Company	32

Basically there were three types of images. In order of importance these were related to: products and services, operational and financial performance and environment.

The most frequently researched image was company reputation, an attribute associated with products and services. Innovation ranking second is also related to a company's output.

Leadership is somewhat ambiguous. It can refer to output, as being the first to come out with a new product or service. Or it can connote financial primacy. A company with a major share of market is often thought of as being the leader in its field.

But items such as superior management, diversification, growth and company size refer to managerial and financial performance. The objective of such images is to make a favorable impression on the business and financial communities.

Primary responsibility for monitoring rests with market research firms. Their efforts are supplemented by advertising agencies, which concentrate on copy testing and small-scale studies to explore appropriate themes. Companies themselves are also engaged in monitoring, mainly by analyzing inquiries, requests for brochures and annual reports, and the like. The dominant role of market research firms has been strengthened by the exodus of ad agencies from the research field during the recession of 1974 - 1975.

To determine how monitoring activities affected decisions, executives among corporate advertisers were asked about actions taken as a result of evaluative programs.

Action Taken	Percent of Companies Monitoring
Modified Advertising Content	75
Changed Media Schedule	55
Increased Ad Expenditure	48
Decreased Ad Expenditure	19
Terminated Campaign	20
Base	173

The most likely outcome of evaluation was a modification in the advertising program, its copy or media. A change in copy treatment can often lead to a change in media, such as a switch from TV to print or vice versa. But since agencies recommend media on the basis of cost-per-thousand audience, it is difficult to understand how monitoring could have led to changes in media vehicles only, unless the target audiences were not properly designated to begin with. Unfortunately, this line of inquiry was not pursued further in the study.

More often than not, research led to increased rather than decreased expenditures. But twenty percent of companies reported they had at some time terminated a campaign as the result of research findings.

Executives were also asked what they considered the major problems confronting corporate advertising.

Major Problem	Percent of Corporate Advertisers
Measurement of Effectiveness	26
Creativity	24
Setting Objectives	14
Budget Appropriations	8
Of Little Value to Company	7
Environmental Restrictions or Hostility	7
Media Selection	6
Internal Organization	5
No Comment	31
Base	208

Two problems were paramount. The first was that of measurement. Despite the widespread use of market research, there was general dissatisfaction with its results. The numerous speeches and articles by researchers, on how their "scientific methods" can reduce risks and lead to better decisions, are seen, for the most part, as a lot of unfulfilled promises.

The second major problem is the perennial one of creativity. In the judgement of advertisers, creative performance left much to be desired.

These problems, like corporate advertising itself, are likely to be long-term. Creative talent is in short supply and no relief is in sight. The problems of creativity and measurement appear to be the greatest impediments to the growth of corporate advertising.[48]

---

[48] Ibid.

CHAPTER VII
CORPORATE ADVERTISING EFFECTIVENESS

Many studies have been conducted over the years by advertisers, their agencies, research organizations and academicians on the topic of product advertising effectiveness but little has been done in the corporate area.

Time magazine's latest contribution to the subject, the "Corporate Advertising/Phase II" study conducted for the publication by Yankelovich, Skelly & White, Inc., demonstrates that corporate advertising is more effective than product advertising in generating support for a company and its products.[49]

The study reaches four conclusions. First, it asserts that corporate advertising works, using five key areas as measurements of effectiveness. Secondly, it makes the claim that corporate campaigns are more efficient at building a strong corporate image. "Dollar for dollar," it states, corporate advertising regis-

---

[49]The following information regarding the Time/ Yankelovich study is from Harvey Finder, "Time/ Yankelovich Study Sets Corporate Ad Goals," Madison Avenue, June, 1980. pp. 68-74.

tered a positive effect regardless of company background factors, such as product advertising level, sales volume, or price/earnings ratio.

The third conclusion is that corporate advertisers do receive a tangible return on their investments through personal behavior that supports a company. Finally, it shows that corporate advertising directed to an affluent, well educated audience, was effective in communicating a company's role in the business community, as well as its responsiveness to the needs of society at large.

The study is part of a pioneer effort to translate qualitative information into hard data that measures and compares the two types of advertising. It represents an advance over studies that are limited to demographics and cost efficiency analyses alone.

The study introduces the concept of Potential Supportive Behavior as the ultimate goal of corporate advertising, corresponding to Purchase of Product or Services for product advertising. Phase II of the survey measures the effectiveness of corporate advertising in five consecutive areas: Recall, familiarity, association with specific traits, overall impression, and potential supportive behavior.

High corporate advertisers enjoyed a 22 percent advantage among respondents who said they would take a pro-corporate stand on issues, and a 39 percent advantage when it came to buying things without comparison shopping.

An expanded study covering a wider range of respondents and corporations than the Phase I study of 1977, Phase II was based on 1,533 in-home interviews among an equal number of men and women living in households with annual incomes of $30,000 or more. The new study measures 64 corporations in nine major industries; they spent a total of $107 million on corporate and $679 million on product advertising for the first nine months of 1978.

The corporations are divided into 15 high corporate/high product, 16 low corporate/high product, 18 high corporate/low product and 15 low corporate/low product advertisers. High corporate advertisers spend in excess of $500,000, while high product advertisers spend over $2 million.

Low corporate/high product advertisers spent a total of $16 million ($0.1 million on corporate and $15.9 million on product) to achieve parity scores with high corporate/low product advertisers, who spent only $2 million ($1.6 million on corporate and $0.4 million on product) to obtain similar results.

The "Specific Traits" section of the survey is a good illustration of the study's attempt to make breakthroughs in the area of accountability. The fact that a corporation spent a lot of money on product advertising, doesn't necessarily mean that it achieves results for the specific traits described in the survey.

Although high corporate advertisers scored better for all ten specific traits listed on the Phase II questionnaires, they showed real strength in only five areas: manufactures quality products, innovative company with good research and development capabilities, good financial record, competent management, and responsive to the needs of consumers. As the chart following indicates, there is room for improvement in five other areas, including concern for better planning of natural resources and truth in advertising:

Corporate Advertising Expenditures

Association with Specific Traits	High (33) $500,000+ (Percent)	Low (31) $500,000- (Percent)	Net	Corporate Advantage (Percent)
Quality Products	39%	32%	+7	+22%
Innovative/R & D	34	26	+8	+31
Good Financial Record	28	21	+7	+33
Competent Management	24	18	+6	+33
Responsive to Consumers	23	18	+5	+28
Concerned Resources	20	14	+6	+43
Honest Company	19	16	+3	+19
Responsive to Employees	15	10	+5	+50
Truth in Advertising	13	12	+1	+8
Helps Control Inflation	6	4	+2	+50
Average all Traits	22	17	+5	+29

Corporate advertising has to deal in argument more than in techniques of persuation aimed at producing sales. The bottom line for the corporate advertisers, as this survey indicates, is supportive behavior. Just as the specific traits section attempts to categorize the factors on which a company is judged, the section on potential supportive behavior itemizes the corporate advertiser's ultimate goals. Seeking action response, the survey asked for answers to ten items, nine beginning with the phrase "I would": (1) I would write a letter to my Congressman or other government official in support of this company if it were in dispute with government; (2) I would buy stock in this company; (3) I would write a letter to an editor of a newspaper or magazine in support of this company if I thought it was being attacked unfairly; (4) I would take a position in conversation supporting this company if it were involved in a dispute with government; (5) I would recommend applying for a position in this company if a friend were to ask my advice; (6) I would take a position in support of this company if it were in a dispute with labor; (7) I would take a position in conversation in support of the management of this company if it were involved in a merger or acquisition dispute; (8) If I heard that this company was under attack from a consumer activist group, I would make a point, in conversation, that I sided with this company; (9) I would take the time to read carefully the annual report of this company; (10) I would buy a product or service from this company without seriously considering competitors because of what I know about the company.

The Phase II study is interesting because it sets up bottom line criteria for evaluation the effectiveness of a corporate ad program. But is the bottom line really potential supportive behavior, any more than the bottom line for product advertising is potential sales? The real goal of corporate advertising, as viewed by this survey, is actual supportive behavior. Phase II makes it possible for the advertiser to set up a corporate program that aims for specific results. But to measure those results for a particular ad program, the "would you" questions have to be changed to "did you" questions.[50]

What a challenge it would be for an advertiser to convince people to write to their Congressmen or otherwise take action to support a company's policies. But the challenge is also on the company to deliver, and it's not just a matter of putting the product on the shelf. As J. K. Kansas, Manager of communications programs for Exxon corporation put it, "Marketplace exper-

---

[50]The information from the Phase I and II Time/Yankelovich Study was adapted from Ibid.

ience can wipe out good will very quickly.[51] He joined other oil men in wondering how effective their ads can be against the reality of a gasoline shortage.

Kansas said that the situation could push his company's campaign back to 1973. But he insisted that this is all the more reason for maintaining a corporate program since the regular corporate advertisers is far better positioned than the non-corporate advertiser to deal with a crisis when one occurs.

CAN CORPORATE ADVERTISING BE JUSTIFIED ON ANY ECONOMIC BASIS?

That is the kind of question to expect from almost any chief executive or corporate financial officer whenever the subject of corporate advertising comes up. Then they'll usually ask, "Does a corporate advertising program really produce an economic benefit to our shareholders, or is it likely to be thought of as just another CEO ego trip?"

Bozell & Jacobs, Inc., decided to seek some specific answers to these questions because corporate advertising now accounts for more than $1 billion in annual media expenditures. That's 7 percent of all ad dollars

---

[51] William S. Sachs and Joseph Chasin, "How Companies Evaluate Their Corporate Advertising," Public Relations Journal, November, 1979, pp. 14-18.

put through ad agencies.[52]

Bozell & Jacobs conducted a three-phase research study, choosing stock price impact as an objectively measured, easily understood criterion for corporate advertising effectiveness. They chose a statistical approach rather than the type of attitudinal study common to much corporate advertising research.

This study is all the more valuable because the researchers sought to arrive at a measurement of effectiveness that could be accepted by management and one that had a real and finite definition.

Almost all studies in the field of corporate advertising are attitudinal in nature. They gather a group of people, whether they are business executives, or investors, or opinion leaders, and then, in effect, they ask, "How do you feel about these companies (and they happen to be corporate advertisers) and how do you feel about these companies over here (and they are non-advertisers)?" From differences in attitudes, the researchers are able to draw some conclusions about advertising effectiveness. In my research, I found that that kind of research had been done most often and it wasn't clear whether or not variations in attitudes

---

[52]The reference to the Bozell & Jacobs survey are from, J. Niefeld, "How Stockholders Profit from Corporate Advertising," Industrial Marketing, July, 1980. pp. 18-25

ever really were translated into anything in the way of specific financial results. So I decided to take as a criterion the impact of corporate advertising on stock prices.

It wasn't until about four years ago that a couple of professors at Northwestern University, Gene Schonfeld and John Boyd, tried to do a statistical correlation between certain variable and stock prices. They chose in their study to relate stock performance to the economic performance of a corporation; that is, to what extent was stock price influenced by such things as earnings per share, sales, debt/equity ratios, and other financial ratios.[53]

The valuable part about their study was that, as opposed to almost any previous study, they used hard data rather than attitudes to obtain their results. Their sample included several hundred companies, and, in general, the measures were broadly enough based to be statistically reliable.

Before going any farther, it is important to understand a few facts about the stock market.

There are somewhat over 1500 companies listed on the New York Stock Exchange, and on the average each one of those companies has about 18 million shares

---

[53]Schonfeld & Boyd, "The Financial Payoff," Journal of Advertising Research, February, March, 1982, pp. 45-47.

outstanding. Those shares are currently selling at an average price of about $31 a share. If you multiply that $31 times 18 million shares, what you see is that the market value, not book value, of the average New York Stock Exchange listed company was somewhat over $500 million.[54]

The Bozell & Jacobs study analyzed 460 major United States corporations. Most of them were listed on the big board, some on the American Exchange, and a few over-the counter companies. They had to have certain attributes in common, for example, sales of at least $200 million a year. They had to have fiscal years that ended December 31, so that they had them on a comparable time basis, and they had to have maintained the same SIC classification code during the three years that the corporations were studied.

In their original study, Schonfeld and Boyd, had taken three years of stock prices, but had taken the December 31 price in each of three years. Instead of taking one price per year, Bozell & Jacobs took four, that is, the prices at the end of each quarter. That gave them 12 price points instead of only three.[55]

---

[54]Ibid.

[55]J. Niefeld, "How Stockholders Profit from Corporate Advertising," Industrial Marketing, July, 1980. pp. 18-25.

The first job in the study was a monumental one, they collected every corporate ad run by these 460 corporations. In total, there were 16,000 ads. Those ads ran in these seventeen publications:

Barron's
Business Week
Dun's Review
Financial Analysts Journal
Financial World
Forbes
Fortune
Harvard Business Revies
Institutional Investor
Money
Nation's Business
Pensions & Investments
Trust & Estates
Wall Streat Journal
Time
Newsweek
U. S. News and World Report

Electronic media was not included in the study, Probably because the state of the art was simply not up to doing content analyses of television commercials in a way that was totally satisfactory and met the criteria of the survey. The survey places its confidence in doing content analyses of print ads.

They did a content analysis of every one of the 16,000 ads using over eighty varibles for each. Some of the findings are here, but Bozell & Jacobs is keeping some of the material confidential.

The first variable tested had to do with the themes of the ads, those subjects were as follows:

Growth in sales/earnings

Growth and/or consistency of dividends

Strength/reliability of company

Technology/R & D

Who we are/what we do/diversification

New product announcement/introduction

Product description/performance claim

Basic industry/we're essential

General puffery about company

Capital information/capital shortage

Social good works by company/employees

American economy system/Pro-free enterprise

Anti-government regulation/restraints

How company helps ecology/conservation

Productivity of labor

How company helps energy crisis

World hunger/food production/distribution

Need for national policy, i.e. energy

Annual report/financial brochure offered

Non-financial brochure offered

Bad new about company

New issue of common stock

New issue of bonds, debt, etc.

Merger or acquisition

Tender offer proposal

All other

The first couple of themes are the subject of much of the advertising aimed at the financial community, the growth of sales, earnings and dividends. There is some advocacy advertising, as well as new product announcements which demonstrate the ability of a corporation to meet the challenges of new product development in addition to themes that have to do with the ecology, environment, labor productivity, and other image-related topics.

One of the things that preceded this essentially statistical approach was several focus group sessions with financial analysts, with portfolio managers, and even with advertising creative directors, in order to see how thay look at corporate ads.

To one of these groups of analyst, the researchers showed a group of ads which said, in effect, "We had a great last year, but we think our stock is going to be rather fully valued in the near term." That is another way of saying, "Our stock is not likely to do too well next year."

The analysts were asked how they read that ad, and they said that it was a terrific ad. They felt that they make money whether a stock goes up or down, depending upon whether they buy or sell or even sell short. The only way they don't make money is if the corporation lies to them or that as analysts they are unable to predict how a stock is going to do. So if they are told that a stock is going to do badly, they might not buy the stock but every company goes through cycles. So they said that when things begin to turn around and the corporation tells them that things are getting better, they will probably believe them because the corporation was candid when things were going badly.

It seems then that bad news about a company is not the worst thing said. This is verified or corroborated, internally, in many ways. Candor tends to be a rather nice thing to have in your advertising no matter what.

In addition to things like themes, Bozell & Jacobs also checked some of the mechanical aspects of ads. What kind of layout has greatest impact? A standard layout with a headline, illustration body copy and a signature or whatever?

And also they researched the illustration effect. Essentially a main illustration, with no subordinate illustrations, or several subordinate illustrations, or no illustration at all?

Usually in analysis of corporate advertising, there are many graphs and charts. Essentially this is because corporations are rather proud of their performance. According to this survey, however, it seems that this graphic technique is totally ineffective as a device for impacting on stock price.

The analysts say that they don't look to advertising for information on the performance of a company. They have a lot of other, more objective sources for that sort of financial information.

When an advertiser runs an ad in four-colors showing past performance, the time that has elapsed during preparing and placing it could be two or three months. The news is stale and totally ineffective in terms of impact on stock price. This was one of the major findings from the study and one that's probably violated most often.

The survey also researched variables like the use of photography, art work, the kind of people you show in illustrations, if any. It covered the headline, where it should be positioned, how many words it should contain. It also looked at the kinds of key words that generally work best in the headline, and whether the name of the corporation be mentioned in the headline.

The researchers also looked at copy as a variable. How much copy should be used? Should a spokesperson be in the ad? And if so, who should that spokesperson be? An officer of the corporation, a customer, an employee, or a celebrity?

And finally, in terms of the variables, should the corporation try to make the ad a two-way communication? Should you want to continue to communicate with potential customers?

All of these variables were included in a sophisticated statistical matrix which was developed for Bozell & Jacobs. However, as oppossed to Schonfeld and Boyds earlier study, this matrix was carried out further to determine to what extent these advertising variables contributed to stock price.

Bozell & Jacobs used all the financial and economic performance variables of the 460 corporations and came up with a stock price response that would be typical if all that was important were the economic fundamentals of that corporation. Next they plotted to see to what extent actual stock prices varied from projected stock prices. When a variance was noticed, they were plotted and determined which of the variable accounted for the variance.

For example, a simplified representation in Figure 7-1 below shows the relationship between earnings per share (EPS) and price, shows a variance, or error, between one company's actual price, and the "perfect" price one would expect, given the company's earnings per share.

This would imply that the variance must be due to other factors besides the EPS.

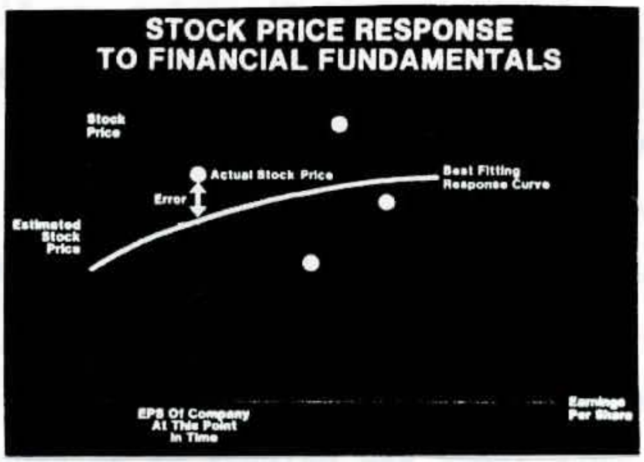


Figure 7-1

It is important that we understand some of the results of this survey. First of all, they determined that about 55 percent of the price of a corporation's stock is due to such things as its economic performance, earnings per share, dividends, net sales, debt/-equity ratio, returns on assets.

About an additional 40 percent is determined by what is called the "romance of the market." This is determined by the configuration of the total market, the configuration of the market in the category of stock that one is studying. Then, there are the effects of public relations activities, editorial treatment, "push" by institutions and brokers, and so on

After looking at economic performance and the romance of the market, we discover that only about four percent of the price of a stock, on the average, is determined by corporate advertising.

At first it seems like a humbling conclusion. However, if you relate it back to what was discussed earlier, that is, the number of shares and the price per share of listed companies, what you find out is that four percent amounts to, on an average, about \$1.25 a share. It creates, in effect, an incremental value per average company, of over \$23 million dollars. Since the average investment in corporate advertising of the companies we studied was about \$700,000 those figures could be interpreted as a 33 to one return on investment. There are not many investments that a corporation makes that have that kind of a return. Therefore, one of the benefits of corporate advertising, is its impact on the price of a company's stock and on the market equity held by its shareholders.

Labor productivity and new product announcements are the most effective themes. There were more than 20 different advertising themes tested. Ranked in order of impact on stock prices, here are the most effective themes to be used by corporate advertisers. An index score of 100 would be average for all corporate advertising:

THEMES

Productivity of Labor	116.3
New Product Announcement	114.8
General Puffery	113.1
Product Description/Claim	111.0
All Other	109.6
Basic Industry/We're Essential	108.5
Need for National Policy	106.8
Annual Report	106.4
How Company Helps Ecology/ Consequences	104.4
Sales/Earnings Growth	102.2
How Company Helps Energy Cri.	101.5
Bad News About Company	101.1
Amer. Economic System	99.8
Who We are/Diversification	99.3
Company Strength/Reliability	99.2
Earnings Consistency	98.9
World Hunger/Food Production	98.7
Good Works by Company/Employees	98.2
Anti-Government Restraints	97.6
Non-Financial Brochures	97.6
Technology/R & D	96.6
Capital Formation/Shortage	93.8
No. of Different Themes	93.0

Apparently, labor problems and potential production interruption are problems that concern investors. As a result, a campaign that shows a company's management has solved those barriers to profitability seems to justify a higher price for that company's stock.

One important conclusion from the focus groups, is that portfolio managers and analysts do not look to advertising for financial information about a company. They feel that services such as Standard & Poors offer more complete and objective data than any advertisiment is likely to do. What they want from advertising is information about the future of the company. So announcements of exciting new products are important ways of demonstratin enhanced prospects for a corporation.

The third most effective theme is disheartening to any advertising professional. Apparently, if a company puts enough money behind sheer puffery, people will be influenced sufficiently to bid up the price of that company's stock.

The next five themes in order of stock price impact, show that a theme used so often in corporate advertising namely sales and earnings growth, is just marginally above average. That finding corroborates the conclusion that investors just don't look to advertising for information about the financial performance of a company. They have other sources for that kind of data.

The sales and earnings growth theme, in fact, is not much better than bad news about a company. Apparently bad news revelations in advertising have a slightly favorable effect because market professionals respond to candor. As was mentioned earlier, a company which does the opposite, putting a healthy face on a bad situation, loses credibility.

The next group of themes shows the marginal impact of many advocacy subjects, such as the superiority of the American economic system.

There is a subject that seems obsessive to most corporate officers, "the people out there don't really know who we are, and particularly how diversified we are." The focus groups, in this survey, with the people who count in terms of a market for a stock, found that those people know who the companies are. They may not care, but they know. Therefore, an important function of corporate advertising is to make them care, to be exciting enough to encourage them to invest.

The next group of themes are those that scored the lowest. But remember, we're only discussing impact on stock price, which may be far down the list of a company's corporate communication goals.

For example, as a theme, good works by a company and its employees, does not have much impact on stock price. It might, however, be the right approach to use if a company's main objective is to solve an employee morale problem, a community relations problem or a labor union problem.

Technology and research and development, appear among the low-rated themes, and there is a difference between it and the high-rate "new product announcement." An ad that explains the strength and resources of a corporation's R & D department usually depicts a multi million dollar laboratory, maybe including a group of pensive and obviously dedicated scientists. The headline is a paraphrase of the thought, "We have just built this space age facility to create exciting new products for you." The real translation of that headline is, "We've invested a pile of money into this

"Taj Mahal" and still haven't got a hot new product."

Contrast that statement with a legitimate new product announcement which says, "Here is our great new product, which will increase sales and profits by at least 25 percent." That really is a total difference in orientation.

Given a fixed media budget, should one schedule large-space ads from time to time, or smaller-space ads more frequently? The studies show some information on this question and opts in favor of impact over frequency. According to the survey, a multi-unit ad, more than a page, is more effective per dollar of investment, than single or fractional pages. Four-color is better than two-color, and two-color is better than black-and-white. Again, that is in terms of impact on stock price.

An important media question, besides that of which media to use, is which positions to request and pay for.

Although the data on the seventeen media in the study was not released, there is some positioning data which is helpful. Back cover positions are a slightly better value for the investment than inside-the-book positions, the latter being average. The inside-front-cover and the page-opposite positions are surprisingly below average. That piece of information, however, makes more sense when you know that a <u>Newsweek</u>

readership studies show that about half of their readers start reading the magazine at some place other than the front of the book.[56]

Should you use a spokesperson in your corporate ads? As long as it is someone people know, it could be effective. Eastern Airlines has it made, it would seem, because Frank Borman is both a celebrity and the company CEO.

But according to the survey, if your choice is an unknown, don't bother. A celebrity spokesperson is no more effective in terms of stock price, other things being equal, than no spokesperson. Company executives, employees or customer are less effective than no spokesperson, as far as stock price is concerned, although they may be important to other communication objectives.

This survey created an evaluation model, used by Bozell & Jacobs, which enables one to take all of the variables--budget media, themes, the format of the campaign, use of color, use of spreads--all of this material, (eighty variables plus), and, based on the research, develop a model. They are able to plug in the varibles, or characteristics, of any campaign into the model and determine to what extent it will be more or

---

[56]Ibid.

less effective than the average corporate campaign in impacting on stock price.

The Bozell & Jacobs study at last, provides us with a lot of hard information, as opposed to attitudinal data, on a large sample that is statistically reliable.

CHAPTER VIII
THE FINANCIAL PAYOFF IN CORPORATE ADVERTISING

Traditionally, marketing research has concentrated on product marketing. Assumed managerial objectives have included short and long run profits, internal rates of return, present value, sales and market share, as well as psychological variables. These objectives do not explicitly recognize the shareholders as the ultimate owners of the firm. Modern finance theory, in contrast, holds that the normative goal of the firm is the maximization of shareholders' wealth. In general, maximization of shareholders' wealth is achieved by maximizing stock prices - that is, the market value of the firm itself. However, stock prices are not necessarily maximized by optimizing any of the traditional marketing objectives listed above, including a short-and long-run profit.

Corporate marketing is done by thousands of firms and takes many forms such as personal selling at analysts' meetings, packaging through corporate design programs, and promotion using corporate advertising. Investment in corporate marketing is significant. U. S. corporations spend over $6 billion annually on corporate advertising, corporate publicity, and other corporate image-building tactics.

It is assumed here that the objective of the corporation is to maximize the wealth of its owners, and that this will be achieved by maximizing the current market price per share of is common stock. Like other securities, common stocks are held only for the returns they are expected to generate and are never consumed or used up. Therefore, the price that investors are willing to pay for a particular share is determined entirely by expectations regarding the rate of return it will provide. It follows that if marketing efforts are to influence stock price, they must somehow influence investors' expectations.

Common stocks are risky investments, and their rate of return cannot be forecast with certainty; rather, investors may be characterized as formulating expectations regarding a distribution of possible future returns. Moreover, security markets are dominated by investors who are risk averse. In general terms, this means that they prefer greater as opposed to lesser certainty concerning their future wealth positions. It seems for that reason that many investors hold diversified portfolios and they dislike the risk associated with "putting all their eggs in one basket."

There is not universal agreement as to how investors should or do evaluate the risk of a particular stock. However, we do know that they value growth in earnings that is stable and predictable over time, not sensitive to general economic conditions or the business cycle. It follows that a corporation's marketing activities may influence the price of its shares by altering investor perceptions of future profits, risk, or both.

CONCLUSION

As noted in Chapter I, today's trends in corporate advertising show in 1985 an increase of 20 percent in dollar volume over the previous year. The nation's top 500 corporate advertisers boosted their corporate advertising dollar volume in six major media by 67 percent in 1984. Corporate advertising data shows signi- ficient 1984 gains in all six media studied; magazines, newspaper supplements, network and spot television, network radio and outdoor. Moreover, expenditures in spot TV and outdoor more than tripled.

Outdoor's corporate advertising gain last year was due in part to community relations campaigns in corporate plant cities and major efforts by Joseph E. Seagram & Sons and Anheuser-Busch Company to promote moderation in the use of alcoholic beverages.

The growth in spot TV reflects a growing interest in that medium among advertisers with more modest corporate advertising budgets, who control costs by limiting the number of markets covered. To some extent, the data also relect spot television's greater willingness to accept issue advertising, compared with network television.

Nonetheless, the 91 corporate advertisers that used network television last year spent 86 percent more to make it the number one medium in corporate advertising dollar expenditures for the first time.[57]

Magazines continued to be the most popular medium, however, employed by 417 out of the top 500 advertisers. Starting from a larger base, their growth was a still hefty 33 percent.

Notoriously sensitive to business cycles, corporate advertising's surge in 1984 must, in good part, be attributed to the improvement in the economic picture. Many companies who had cut or dropped corporate advertising during the recession came back in mid-1983 or 1984, some of them, like Beatrice Company, did so in a big way.[58]

As a group, U. S. companies are spending more on corporate advertising today than ever before. And with that surge has come a profound, though sometimes subtle, change in strategy.

---

[57]Thomas Garbett, "Today's Trends in Corporate Advertising," Business Marketing, August, 1985, pp. 64-67.

[58] Ibid.

Instead of promoting only their quality, reliability, good will or any other facet of the corporation that their chief executive deems noteworthy, many companies today also use their corporate communications to attain quantifiable goals. In sum, the campaigns are more reflective of corporate strategy.

Often such campaigns feature "hybrid" or "umbrella" ads, promoting a company's products and services and simultaneously communicating a message about the corporation as a whole.

Either way, hybrid or not, companies find they get maximum benefit from product and corporate messages by making the business's real objectives paramount in their corporate campaigns.

Any company that embarks on a corporate image campaign certainly has an objective in mind. Whether it meets that objective is not so certain.

Today, however, more and more companies are using focus groups, consumer interviews, syndicated studies and other guns in the research armament to pinpoint corporate image problems beforehand. Then, drawing on that information they can more intelligently formulate and fine tune advertising messages to address the problems or misperceptions of their target audiences.

With many corporate campaigns the goal is to broaden the corporation's presence in the market, to recruit stock buyers, and to draw the attention of financial analysts. This can and is being successfully done today, through corporate advertising.

As advertising works to build increasing preference for a product, the corporation benefits in one of two important ways. They can get a premium or higher price for their product over less preferred brands. Or your market share goes up as a result of increased sales of your product.

Both premmium price and increased market share lead to the result that everyone in business management is seeking, increased profitability.

This study examined in detail the effect of corporate advertising as it affected financial returns, specifically the stock price response. It was determined that it did indeed increase stock prices.

Although this is but one aspect of corporate advertising, many other objectives are possible. Depending on the objectives, some financial and some non-financial, corporate advertising does seem financially justifiable. In any event, there should be objectives stated in such a way that evaluation of corporate advertising can be quantifiably measured and evaluated.

SELECTED BIBLIOGRAPHY

Association of National Advertisers Survey on Corporate Advertising, reprinted in Madison Avenue, March, 1981.

Birch, Roy. "Coorporate Advertising: How, Why and When?" Advertising, Autumn, 1975.

Botwinick, P. "The Image of Corporate Advertising," Public Relations Journal, November, 1984.

Bowen, Stephen. "A Case For Corporate Advertising," Public Relations Journal, November, 1979.

Brouillard, J. "Big Business on a Soapbox," Marketing & Media Decisions, June, 1980.

Chajet, C. "The Media Comparative Concept," Public Relations Magazine, November, 1980.

Coyle, Charles. "Social Responsibility," New Age Journal, August, 1984.

Cronin, Francis. "Efficient Corporate Persuasion," Industrial Marketing, February, 1980.

Current Company Practices in the Use of Corporate Advertising, Association of National Advertisers, Inc., 1981 Report.

Finder, Harvey. "Time/Yankelovich Study Sets Corporate Ad Goals," Madison Avenue, June, 1980.

Finn, David. "The New Philanthropy," Marketing Communications Report, February, 1983.

Garbett, Thomas. "Today's Trends in Corporate Advertising," Business Marketing, August, 1985.

Hathaway, J. Industry Feature: "Corporate Advertising," Madison Avenue Magazine, November, 1982.

Heath, R. L. "Image and Issue Advertising," Journal of Marketing, Spring, 1985.

Moskal, Brian. "Companies in the Limelight," Industry Week, July 21, 1981.

SELECTED BIBLIOGRAPHY

Niefeld, J. "How Stockholders Profit from Corporate Advertising," Industrial Marketing, July, 1980

Niefeld, J. "How Stockholders Profit from Corporate Advertising," Industrial Marketing, July, 1980.

Patti, C. H. "Corporate Advertising's Process and Practices," Journal of Advertising, November, 1985.

Pitchers, T. "Building a Corporate Image," Marketing Magazine, August, 1984.

Sachs, W. S. "Corporate Advertising: Ends, Means, Problems," Public Relations Journal, November, 1981

Sachs, William S., and Chasin, Joseph. National Geographic Survey, "How Companies Evaluate Their Corporate Advertising," Public Relations Journal, November, 1979.

Sachs, William S., and Chasin, Joseph. "How Companies Evaluate Their Corporate Advertising," Public Relations Journal, November, 1979.

Schonfeld & Boyd, "The Financial Payoff," Journal of Advertising Research, February, March, 1982.

Schonfeld, E. "The Corporate Need To Communicate," Marketing & Media Decisions, June, 1980.

Treistman, J. "Will Your Audience See Your Name?" Business Marketing, August, 1983.

Williamson, Jeff. "Corporately Speaking," Madison Avenue, February, 1980.