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Evaluating the Social, Ethical, and Economic Aspects of Advertising and Promotion

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Advertising and Ethics Two Viewpoints

Proponents

Advertising...

- Provides information
- Encourages a standard of living improvement
- Produces jobs
- Promotes competition

Critics

Advertising...

- Creates needs and faults
- More propaganda than information
- Promotes materialism



Ethics in Advertising

Ethics: Moral principles and values that govern the actions of and individual or group.

- Not all issues can be regulated
- A marketing or promotion action may be legal but not considered ethical
- Marketers must make decisions regarding the appropriateness of their actions
- Companies are scrutinized for their ethics



Social and Ethical Criticisms of Advertising

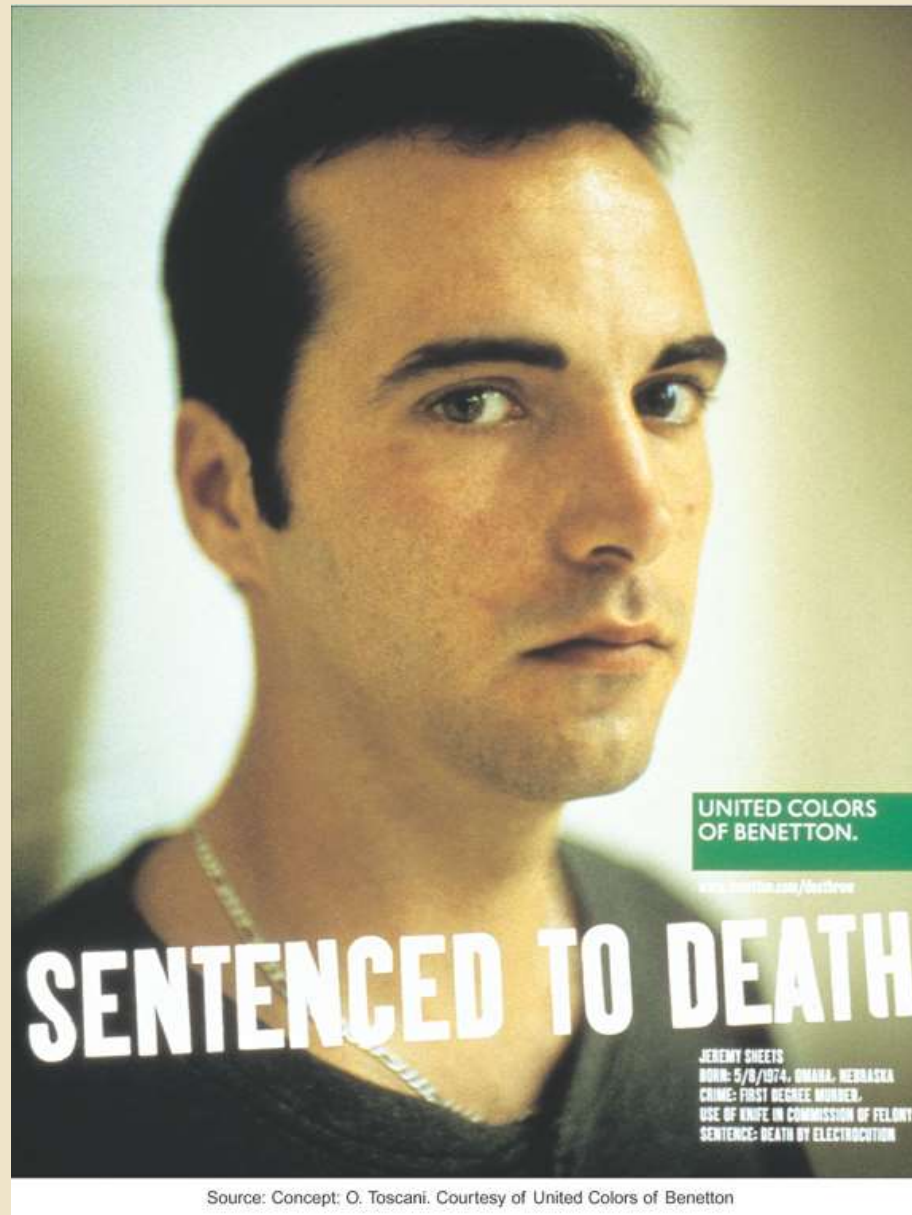
- Advertising as untruthful or deceptive
- Advertising as offensive or in bad taste
 - Advertising of personal products
 - Sexual appeals
- Advertising and Children
- Social and Cultural Consequences
 - Making people buy things they don't need
 - Encouraging materialism
 - Stereotyping
 - Advertisings' influence on the media



Social and Ethical Criticisms of Advertising

- Advertising as untruthful or deceptive
 - General mistrust of ads
 - Deliberately untruthful or misleading vs. puffery
 - Problems often more at local level rather than national
- Advertising as offensive, in bad taste, or irritating
 - Advertising of personal products
 - Sexual appeals
 - Suggestive, demeaning, raunchy
 - Shock advertising

Many people found Benetton's "Death Row" ad campaign offensive



Source: Concept: O. Toscani. Courtesy of United Colors of Benetton



American Advertising Federation

Advertising Principles

1. Truth

Advertising shall reveal the truth, and shall reveal significant facts, the omission of which would mislead the public.

2. Substantiation

Advertising claims shall be substantiated by evidence in possession of the advertiser and the advertising agency prior to making such claims.

3. Comparisons

Advertising shall refrain from making false, misleading, or unsubstantiated statements or claims about a competitor or his products or service.

4. Bait advertising

Advertising shall not offer products or services for sale unless such offer constitutes a bona fide effort to sell the advertised products or services and is not a device to switch consumers to other goods or services, usually higher priced.



American Advertising Federation

Advertising Principles

5. Guarantees and warranties

Advertising of guarantees and warranties shall be explicit, with sufficient information to apprise consumers of their principal terms and limitations or, when space or time restrictions preclude such disclosures, the advertisement shall clearly reveal where the full text of the guarantee or warranty can be examined before purchase.

6. Price claims

Advertising shall avoid price claims that are false or misleading, or savings claims that do not offer provable savings.

7. Testimonials

Advertising containing testimonials shall be limited to those of competent witnesses who are reflecting a real and honest opinion or experience.

8. Taste and decency

Advertising shall be free of statements, illustrations, or implications that are offensive to good taste or public decency.

Children's TV Watching Behavior

- Children between ages 2-11 watch on average 21.5 hours of TV per week and may see 22,000 commercials per year
- Television is an important source of information for children about products



Advertising and Children

Some studies have shown...

- Children lack experience and knowledge to evaluate advertising critically
- They can not differentiate between commercials and program (fantasy vs. reality)
- Children are vulnerable to advertising

...while other studies argue

- Children must learn through the **consumer socialization process**; need to acquire skills to function in the marketplace
- Acquired skills have helped teens evaluate ads and recognize persuasion techniques

Social and Cultural Consequences of Advertising

*Does advertising **encourage consumption**, or merely **reflect** our society's need for it?*

“Advertising and its related arts thus help develop the kind of man the goals of the industrial system require—one that reliably spends his income and works reliably because he is always in need of more...”

John Kenneth Galbraith

“To blame advertising now for those most basic tendencies in American history is to miss the point...The people who have created modern advertising are not hidden persuaders pushing our buttons...they are just producing an especially visible manifestation, good and bad, of the American way of life.”

Stephen Fox

The Mirror Makers: A History of American Advertising and Its Creators



Social and Cultural Consequences of Advertising

- Advertising makes people buy things they don't need
 - Advertising may encourage materialism
 - Information versus persuasion dichotomy
 - Does advertising really have that much power?
 - Freedom of choice



Advertising and Stereotyping

- Portrayal of women
 - Gender stereotyping
 - Portrayal of women as sex objects
 - Role portrayal of women to reflect changing role in society
- Blacks and Hispanics
- Gays
- Elderly



Advertising and the Media

Arguments supporting advertiser control of the media

- *Advertising pays the bills therefore they exert influence on the character, content, and coverage of certain issues.*

Arguments against advertiser control of the media

- *To retain public confidence the media must report the news fairly and accurately.*
- *Advertisers need the media more than the media needs any particular advertiser.*



Economic Effects of Advertising

- Effects on ***consumer choice***
 - Differentiation
 - Brand loyalty
- Effects on ***competition***
 - Barriers to entry
 - Economies of scale
- Effects on ***product costs and prices***
 - Advertising as an expense
 - Increased differentiation

What is Advertising's Role in the Economy?

Advertising

Advertising = Market Power

Advertising affects consumer preferences and tastes, changes product attributes, and differentiates the product from competitive offerings.

Advertising = Information

Advertising informs consumers about product attributes but does not change the way they value those attributes.

What is Advertising's Role in the Economy?

Consumer Buying Behavior

Advertising = Market Power

Consumers become brand loyal and less price sensitive and perceive fewer substitutes for advertised brands.

Advertising = Information

Consumers become more price sensitive and buy best "value." Only the relationship between price and quality affects elasticity for a given product.

What is Advertising's Role in the Economy?

Barriers to entry

Advertising = Market Power

Potential entrants must overcome established brand loyalty and spend relatively more on advertising.

Advertising = Information

Advertising makes entry possible for new brands because it can communicate product attributes to consumers.

Advertising helps new companies such as Daewoo enter the market



Romancing the steel.

Its Italian styling is like a love letter to your eyes, and its German engineering is fuel to your soul. The feel of leather on the steering wheel and the gear knob echoes refinement. The music from the CD changer with graphic equalizer soothes your mind. The refreshing breeze from the automatic climate control soothes your body. The traction control system keeps you on your path. A haven, you say? Yes, it's all about comfort, even the price. Get to know the Leganza. It'll be love at first sight.

www.daewooUS.com • 1-877-GO-DAEWOO



What is Advertising's Role in the Economy?

Industry structure and market power

Advertising = Market Power

Firms are insulated from market competition and potential rivals; concentration increases, leaving firms with more discretionary power.

Advertising = Information

Consumers can compare competitive offerings easily and competitive rivalry increases. Efficient firms remain, and as the inefficient leave, new entrants appear; the effect on concentration is ambiguous.

What is Advertising's Role in the Economy?

Market conduct

Advertising = Market Power

Firms can charge higher prices and are not as likely to compete on quality or price dimensions. Innovation may be reduced.

Advertising = Information

More informed consumers pressure firms to lower prices and improve quality; new entrants facilitate innovation.

What is Advertising's Role in the Economy?

Market performance

Advertising=Market Power

High prices and excessive profits accrue to advertisers and give them even more incentive to advertise their products. Output is restricted compared with conditions of perfect competition.

Advertising=Information

Industry prices decrease. The effect on profits due to increased competition and increased efficiency is ambiguous.



Do You Agree With Leo Burnett?

"It must be said that without advertising we would have a far different nation, and one that would be much the poorer-not merely in material commodities, but in the life of the spirit."

These excerpts are from a speech given by Leo Burnett on the American Association of Advertising Agencies' 50th anniversary, April 20, 1967