CHAPTER II

REVIEW OF THE LITTERATURE AND HYPOTHESES

2.1 Introduction

This chapter discusses prior academic literatures in relation with the study and the development of hypotheses. These theories then will be uses as basic reference for the result of the research and also as basis of theory for the reader. The structure of this chapter is as follows: A complete review of theory of marketing communication and its strategic goals, followed by the details about promotion mix and finally about some facts about advertising

2.2 Marketing communications

Communication is one of the most human of activities. The exchange of thoughts that characterizes communication is carried out by conversation (still the most popular form of entertainment in the world), by the written word (letters, books, magazines and newspapers) and by pictures (cartoons, television and film). Communication has been defined as a transactional process between two or more parties whereby meaning is exchanged through the intentional use of symbols. The key elements here are that the communication is intentional (a deliberate effort is made to bring about a response), it is a transaction (the participants are all involved in the process), and it is symbolic (words, pictures, music and other sensory stimulants are used to convey thoughts).

This means that the individual or firm issuing the communication must first reduce the concepts to a set of symbols, which can be passed on to the recipient of the message; the

recipient must decode the symbols to get the original message. Thus the participants in the process must share a common view of what the symbols involved actually mean. In fact, the parties must share a common field of experience. The sender's field of experience and the receiver's field of experience must overlap, at least to the extent of having a common language. In fact the overlap is likely to be much more complex and subtle in most marketing communications; **advertisements** typically use references from popular culture such as TV shows, from proverbs and common sayings, and will often make puns or use half-statements, which the audience is able to complete because it is aware of the cultural referents involved. This is why foreign TV adverts often seem unintentionally humorous, or even incomprehensible.

Noise is the surrounding distraction present during the communications process, and varies from children playing during the commercial break, through to arresting headlines in a magazine.

Interference is deliberate attempts to distract the audience's attention with intelligent communications.

The above model is essentially a one-step model of communication. This is rather over-simplified; communications do not necessarily occur in a single step in this way. Katz and Lazarsfield postulated a two-step model in which the messages are filtered through opinion leaders, and in most cases the message reaches the receiver via several routes. Sending the same message by more than one route is called **redundancy**, and is a good way of ensuring that the message gets through. The sender sends almost identical messages via different routes. The effect of noise and interference is to distort the message, and the

opinion leader will moderate the message, but by using three different routes the meaning of the message is more likely to get through. This is the rationale behind the integration of marketing communications.

An alternative view of communication is that it is concerned with the cocreation of meaning. In this view, communication is not something which one person does to another; the communication is subject to interpretation by the recipient, and may even be ignored. Communication might be better thought of as involving an initiator, an apprehender, and appreciation: acceptance of a common meaning arises from the apprehender's choice, not from the initiator's intention.

The most obvious symbols are, of course, words. Words have meanings only as they are interpreted by people – and over long periods of time, even words change their meanings. For example, 'nice' has come to mean polite, pleasant or enjoyable, yet 150 years ago it meant 'precise'. Meanings of words can be *denotative*, i.e. having the same meaning for everybody, or *connotative*, i.e. having a meaning which is unique to the individual. Because connotative meanings vary among individuals, marketers need to develop empathy with their target audiences. This is easiest when the marketer and the audience are as similar as possible in terms of background and outlook. Semiotics, syntactic and semantics are fields of study that enable us to ensure that the correct meanings are attributed to symbols.

Semiotics - Semiotics is really more of a theoretical approach than an academic discipline, and uses spoken language as the prime example of a sign system (although it is not limited to language). Semiotics pays attention to the reader (or observer) since meaning can only be derived socially; it is an interaction between the reader and the text.

In the first instance, texts are created by reworking signs, codes and symbols within the particular sign system in order to generate myths, connotations and meanings. The social process involved generates pleasure as well as cognitive (or rational) activities.

Syntactic – Syntactic is about the structure of communications. Symbols and signs change their meanings according to the syntax, or contexts, in which they appear. The same word can have different meanings in different sentences, or the whole advertisement can acquire a different meaning when seen in different locations.

Semantics - Semantics is concerned with the way words relate to the external reality to which they refer. It is not actually about the study of meaning (although this is a common misconception), but is really concerned only with the appropriateness of the words themselves.

In fact, communication is carried out in many other ways than the verbal or written word. Only 30% of communication uses words; people (and companies) communicate by pictures, non-verbal sounds, smell, touch, numbers, artifacts, time and kinetics.

2.2.1 Strategic goals of marketing communications:

Peter & Donnelly (2009) lists several strategic goals of marketing communications:

- Create awareness: especially important for new products and brands in order to stimulate trial purchase
- Build positive image: keeping distinct images in the mind of customers allow them to a better understanding of the value that is being offered by the company.

- Identify prospects: Marketers can maintain records of consumers who have expressed an interest in a product, then more efficiently direct future communications.

- Built channel relationships: An important goal of marketing communications is to build a relationship with the organization's channel members. When producers use marketing communications to generate awareness, they are also helping the retailers who carry the product.

- Retain customers: Loyal customers are a major asset of every business. It costs far more to attract a new customer than retain an existing customer. Marketing communications can support efforts to create value for existing customers.

2.2.2 The promotion mix

A specific combination of promotional methods used for one product or a family of products. Integration of all the elements of promotion mix is necessary to meet the information requirements of all target customers. This simply means that the promotion mix is not designed to satisfy only the prospective buyer or only the regular buyer. Some elements of the mix may be aimed at the target customer who is unaware of the product, while others may be aimed at potential customers who are fully aware of the product and are likely to purchase it.

1. Advertising - Any paid form of non-personal communication through mass media about a service or product or an idea by a sponsor is called advertising. It is done through non personal channels or media.

Print advertisements, advertisements in Television, Radio, Billboard, Brochures and Catalogues, Direct mails, banner ads, web pages are some of the examples of advertising.

2. Personal Selling - This is a process by which a person persuades the buyer to accept a product or a point of view or convince the buyer to take specific course of action through face to face contact. It is an act of helping and persuading through the use of oral presentation of products or services. Target audience may vary from product to product and situation to situation. In other words personal selling is a person to person process by which the seller learns about the prospective buyer's wants and seeks to satisfy them by making a sale. Examples: Sales Meetings, sales presentations, sales training and incentive programs for intermediary sales people, samples and telemarketing etc. It can be of face-to-face or through telephone contact.

3. Publicity: Non-personal stimulation of demand for a product, service or business unit by generating commercially significant news about it in published media or obtaining favorable presentation of it on radio, television or stage. Unlike advertising, this form of promotion is not paid for by the sponsor. Thus, publicity is news carried in the mass media about an organization, its products, policies, actions, personnel etc. It can originate with the media or the marketer, and is published or broadcast at no charge for media space and time. Examples: Magazine and Newspaper articles/reports, radio and television presentations, charitable contributions, speeches, issue advertising, and seminars. Publicity can be favorable (positive) or unfavorable (Negative). The message is in the hands of media and not controlled by the organization/firm.

4. Sales promotion - is any activity that offers an incentive for a limited period to obtain a desired response from the target audience or intermediaries which includes wholesalers and retailers. It stimulates consumer demand, market demand and improves product availability. Examples: Contests, product samples, Coupons, sweepstakes, rebates, tie-ins, self-liquidating premiums, trade shows, trade-ins, and exhibitions.

5. Corporate image - It is important to create a good image in the sight of general public as the Image of an organization is a crucial point in marketing. If the reputation of a company is bad, consumers are less willing to buy a product from this company.

6 Exhibitions: Exhibitions provide a chance to try the product by the customers. It is an avenue for the producers to get an instant response from the potential consumers.

7 Direct Marketing is reaching the customer without using the traditional channels of advertising such as radio, newspaper, television etc.

This type of marketing reaches the targeted consumers with techniques such as promotional letters, street advertising, catalogue distribution, fliers and so forth.

Sometimes a mixture of personal/direct and non personal/indirect promotion is used as we use in the sales promotion. Industrial buyer will not decide to purchase equipments on the basis of advertisements or direct mail. Personal selling is preferred in this case. On the other hand a customer buying toothpaste or hair oil will have less contact with the company sales person and will be influenced more by advertisements

2.2.3   Advertising in marketing communications

The American Marketing Association (2010) defines advertising as the description and promotion of the idea, products or services of confirmed advertisers who pay without personal participation.

For an advertisement to be successful, Kotler (1991) asserts that information appeal has two parts: the first is the *rational appeal,* which informs consumers of the core values of the product such as practicability, function, and quality. The second emotional appeal, which is aimed at stimulating a purchase based on an emotional response to context and image.

Advertising aims to attract as many consumers as possible; however, it is different to identify the tastes and interests of a large group of consumers. In order to accelerate buyers 'purchasing decisions and maximizes their satisfaction, successful advertisements must include valuable information about products or services as well as attractive endorsers (Engel, Blackwell, & Miniard, 1993). In general, advertising is the most high profile of the various communications activities. Although it is the most powerful aid to positioning a product or service in a market, it is also the most expensive. It differs from other forms of promotion in that it is paid for; it involves non-personal presentation; and it uses media.

2.2.4 The concept of advertising

As one of the most popular form of communication used by companies, four elements of advertising must be considered when planning to advertise. These are:

- Strategy

- Creativity of idea

- Advertising execution style

- Media choice or media planning.

Wells (2006) argued that all of these elements must be worked together to make an ad really effective.

2.2.5 Advertising differences between countries

Advertising differs from one country to another in various ways:

- Usage: Variations relate to the extent of advertising, the expectations of local buyers as to what advertising will achieve and the degree to which advertising is politically acceptable.

- Form: The relative weight given to press, radio, TV and other media will vary from country to country as will the availability of different media for promotional purposes.

- Content: What can be said or included, and what cannot be included, is a matter of both taste and government ruling.

- Presentation: This should conform to local expectations. Humour in advertisements that are situation-specific rarely cross national boundaries. In the presentation of the message, either goes for a neutral background or one that most viewers can identify regardless of their background.

2.2.6 The Television media in advertising

The key promotional factors with television are its ability to incorporate attention-getting devices, conveying the message with drama, suspense or humour, and the ability to make a claim to prove it. These advantages are facilitated by its having a continuous story line from introduction to close; using mix of voices, sounds and music; and being able to capture the way the products appears and performs by showing "in use" situations. Although regulations on television commercials vary from country to country, new forms such as satellite TV and some forms of cable TV may reduce the ability of nations to control what their citizens view when the signal is beamed in from outside its borders. Because different countries gained TV at different times, the quality of transmission can vary, as does the audience reach. These factors need to be taken into account when evaluating the cost per reach of this medium in overseas markets.

The Advantages include the ability to involve the additional sensory effects of sound and motion and an ability to show change and demonstrate outcomes. In addition, it delivers a captive audience because viewers must take a deliberate effort to avoid seeing the commercial. Furthermore, TV can deliver a national or a major regional audience and it can impart credibility to the advertiser's message because it tends to be regarded as a source of informed opinion.

The main disadvantages are:

The cost and this excludes many advertisers. Cost includes rate per seconds, minutes, expenses of producing TV commercials.

The audience receiving the message tends to be non-selective.

The availability of advertising time in association with programs that deliver large audiences is limited, costly and often subject to government regulation.

The life of the message is short; this means that this medium cannot be used by the customer as a vehicle for search and product selection.

Finally, advertising intensity on TV often causes noise due to conflicting claims by other advertisers of similar products.

TV commercial is often regarded as the most effective mass market advertising format. Advertisements during popular events such cultural show or sports events broadcasting is generally believed by marketing managers to be the most interesting, and it is reflected by the prices charged by TV networks during these kinds of programs.

2.3 Informational and Transformational advertising

Puto and Wells (1984) define transformational styles and informational styles as follows:

2.3.1 Informational Advertising

Presumably every advertisement includes some element of information, be it nothing more than the identity of the advertised brand. We define an informational advertisement, however, as one which provides consumers with factual (i.e., presumably verifiable), relevant brand data in a clear and logical manner such that they have greater confidence in their ability to assess the merits of buying the brand after having seen the advertisement. An

important aspect of this definition is that an advertisement can be designed with the intention of providing information, but it does not become an informational ad unless it is perceived as such by consumers. Rather than residing wholly within the advertisement, this definition resides in the consumers' perceptions of the ad's contents.

For an advertisement to be judged informational in accordance with the preceding definition, it must reflect the following characteristics:

1. Present factual, relevant information about the brand.

2. Present information which is immediately and obviously important to the potential consumer.

3. Present data which the consumer accepts as being verifiable.

2.3.2 Transformational Advertising

A transformational advertisement is one which associates the experience of using (consuming) the advertised brand with a unique set of psychological characteristics which would not typically be associated with the brand experience to the same degree without exposure to the advertisement. Thus, advertisements in this category "transform" the experience of using the brand by endowing this use with a particular experience that is different from that of using any similar brand. It is the advertisement itself which links the brand with the capacity to provide the consumer with an experience that is different from the consumption experience that would normally be expected to occur without exposure to the advertisement.

For an advertisement to be judged transformational, it must contain the following characteristics:

1. It must make the experience of using the product richer, warmer, more exciting, and/or more enjoyable, than that obtained solely from an objective description of the advertised brand.

2. It must connect the experience of the advertisement so tightly with the experience of using the brand that consumers cannot remember the brand without recalling the experience generated by the advertisement.

Transformational advertising is comparable to other psychological descriptors often applied to advertisements (e.g., mood, emotional, feeling, and image advertisements) in that it is essentially affect-based rather cognitive-based. However, these descriptors represent necessary but not sufficient conditions for a transformational advertisement. The transformation occurs when these descriptors are explicitly related by consumers to the experience of owning or consuming the advertised brand.

It is worth noting at this point that information and transformation are not mutually exclusive categories of advertisements. They are, however, exhaustive. Thus, any given advertisement can be classified as belonging to one of four basic categories: (I) High Transformation/ Low Information, (2) Low Transformation/High Information, (3) High Transformation/High Information, and (4) Low Transformation/Low Information. Each of these categories is hypothesized to produce varying effects on the traditional measures of advertising effectiveness, and these effects are the basis for a series of theoretical propositions which are given and discussed below.

2.4 Standardization and Adaptation

Promotion and advertising need to be tailored accordingly to the culture and tastes of each country to get an optimal effect. Yet there is a move toward globalization; this implies that promotion and advertising approaches should be standardized in the interests of economies of scale and because customers all around the world are being driven by the same needs.

In deciding whether to try for a global approach in advertising overseas, it is necessary to establish the extent to which the product or service on offer appeals to global customers. Although creating a global advertisement (standard) is expensive, it can be amortized over a large number of markets.

2.4.1 Standardization

For companies, standardization of advertising brings a number of benefits. First, a standardized campaign instead of various local campaigns is likely to result in economies of scale.

Second, standardization provides companies more control over their activities across borders and gives them the full opportunity to exploit good creative ideas in different countries. Third, standardization enables businesses to create a global corporate brand image that has a similar positioning in international markets. Instruments that may create such global image are, among others, the brand name, logo, slogan, and headline.

Advocates of the standardized approach argue that people all over the world share the same basic needs and motivations and, therefore, advertising campaigns can be constructed using a universal approach. Levitt (1988) argued that standardization of marketing is a necessity for the success of a global corporation. He argued that different societies and cultures around the world are becoming integrated as individuals are becoming remarkably alike regarding their behavioral characteristics and lives. The global brands exert a standardizing influence that has an impact on other areas of consumer behaviour in an iterative process. As consumers become more familiar with global brands, it is easy for them to accept the brand. Winram (1984) made proposal with an argument that a successful marketer is one who treats market segments as global entities as opposed to local ones. He suggested that cultural convergence will be accelerated by the development of satellite and cable television penetration which will provide international perspective to the viewers around the world.

However other research on advertising standardization has found that for many MNCs, building a uniform brand image across markets is the single most important reason to standardize and that saving money is less important (Duncan and Ramaprasad 1995). A widely cited benefit of standardization is improved coordination in the implementation of a global strategy. Therefore, firms that desire a higher level of centralized control should be more likely to consider improved coordination of strategy a key advantage of standardization (Taylor and Okazaki 2006).

2.4.2 Adaptation in International Advertising

However promising the benefits of standardized international advertising may appear, standardization has received criticism. Cultural studies have demonstrated that cultures

differ in their value hierarchies, that is, their rankings of which values are relatively important or relatively unimportant. If adaptation is an effective strategy, ads that appeal to important cultural values should be more persuasive than ads that appeal to relatively unimportant cultural values. A number of empirical studies have investigated this comparison between culturally adapted and culturally unadapted ad appeals, the findings of such studies in a meta-analysis and showed that, in general, ads with culturally adapted value appeals are more persuasive and better liked than ads with culturally unadapted value appeals (Hornikx, Meurs and de Boer,2010). This finding may be interpreted as evidence in favor of the adaptation strategy, although it does not include a cost-effectiveness analysis. That is to say, adaptation may be more effective than standardization, but it is not known at what price such effects are obtained.

2.4.3 International Advertising: Standardization versus Adaptation

Practitioners have alternated between adaptation and standardization approaches over the last four decades - with a trend toward standardisation - while academics have mostly advocated the adaptation approach (Agrawal 1995). It is certainly unwise to accept the sweeping generalisation of the standardised approach in a world with no one single language and currency. Given cultural, economic, and media-based differences, some countries are more likely to be successfully reached with standardised approaches than others. For a US company, attempts to develop a uniform theme will probably be more successful in the UK, Canada, Australia, and countries of similar culture (Sriram and Pradeep 1991). However, even with the cultural similarities between the US and the UK, British commercials tend to contain less information, employ a soft sell rather than a hard

sell approach, and attempt to entertain the viewer (Nevett 1992). One group of researches has focused on investigating whether multinational firms prefer to standardise or localise their advertising campaigns. Most firms have been found to employ the localised approach . Multinational marketers have realised that even when an advertisement can be standardised because of similar expectations about products, cultural differences will make the process difficult (Banerjee 1994).

In contrast, the localised approach allows the use of many frames of reference, through varied message content, layout, symbols, and themes. Overall, the findings suggest that human wants and needs might be universal, but they must be addressed in specific ways (Kanso 1992).

The literature fully recognises that the standardisation of advertising is not a discrete decision, and that firms may pursue limited standardization (Jain 1989). A continuum of decision-making frameworks has been suggested by Quelch and Hoff (1986): that is, a global approach can fall anywhere on the spectrum from tight agreement on advertising concept to a loose agreement on advertising details. This continuum translates into the two basic decision-making frameworks central to all advertising programs: those of strategy and execution. Execution can be carried out with three levels of adaptation. Advertisements can be run the same everywhere, which usually demands a non-verbal presentation and an emphasis on visuals and music. Alternatively, advertisements can be translated from one language to another. Finally, execution differences can be designed to reflect the culture of the local community: that is, the theme remains constant, but the execution is different from one country to another (Eger 1987).

As a result, the regional approach - a compromise between standardization and adaptation - has been suggested as an alternative to the standardization of international advertising. Tai (1997) has found that the four Chinese markets (Hong Kong, Taiwan, Singapore and China) have all adopted similar levels of advertising standardization, and neither a fully standardised nor fully differentiated strategy is common. There is an increasing trend for the advertising executives of multinational firms, and their advertising agencies, to adopt regional approaches in Asian markets. However, contrary to the assumptions underlying regional advertising, Zandpour (1996) have suggested that countries which are not part of a common geographic region may exhibit similar preferences with respect to strategic approaches, despite cultural differences and the lack of regional proximity.

More indirect evidence of international advertising strategies has been gathered through a focus on consumer characteristics. Banerjee (1994) has argued that multinational advertising development is an evolutionary process which depends on many factors, and that it must be approached in a more inclusive manner. The focus should be on consumers, their socio-cultural context, and their response to advertising stimuli. If consumers in different countries are found to be homogeneous, then it would no longer be necessary to question the use of standardisation. However, a review of similar studies has indicated that consumer demographics and behavioral responses vary greatly across countries (Onkvisit, Sak and Shaw 1999).

2.5 Formulation of Hypotheses

To advertise in Indonesia can present particular challenges due to the fragmented nature of the market, with multiple ethnic groups across literally thousands of islands. Nevertheless, there must be a common value shared by the nation that may differ from other countries. As

a developing country, consumers usually tend to see foreign-sourced advertisements as a representation of the lifestyle of consumers from developed nation. Since these ads seems representing a more developed way of living and everyone aspire to develop, consumers have more favorable attitude toward foreign brands, they also have more favorable attitudes toward foreign-sourced commercials. Therefore our first hypothesis would be:

H1: Consumers in Indonesia exhibit more favorable attitudes toward foreign-sourced, standardized commercials than local, customized commercial.

In addition, brand origin also can influence attitudes toward foreign-sourced advertisements (Tai & Pae, 2002). Thakor and Kohli (1996) define brand origin as the place, region or country of which the brand is perceived to belong by its target consumers". Brand origin represents and describes the country of origin of brand identity, although some products manufactured in other countries that are not a country of origin of brands (for example Apple is from America although most of its products are assembled in China and carrying the stamp "made in China"). Brand origin and the brand itself both have an incremental impact on brand consideration beyond that of mere evaluation (Hulland 1999). Brand origin can lead to the association in the minds and influencing consumer perceptions because they contain a particular symbol. Even when commercials are presented in a standardized format, brand origin is imbedded in them (Samiee and Jeong 1994). Therefore, advertisements that are extended overseas reflect the national origin of the Brand (Douglas and Craig 1992). Past findings have indicated that advertising standardization opportunities are most likely to occur in less affluent, developing markets (James and Hill 1991). Indonesia is a developing market therefore has consumers, who wish more developed

lifestyles, using products from developed countries thus becomes a positive image. Based on these, here is our second hypothesis:

H2: Standardized advertisements of foreign Asian brands and Western brands (US and Europe) are perceived more favorably by consumers than customized advertisements of these foreign brands.

Guelch and Holf (1986) said that Product type is an influence on the extent of advertising standardization adopted in foreign markets. Durable products offer greater opportunity for standardization than non durable products because they need fewer changes to appeal to local cultures,values,tastes, and traditions (Douglas and Urban 1977: Sandler and Shani 1992). Whereas non durable products such as foods involve a high degree of local preference, and are less likely to be suitable for advertising standardization (Tai and Pae 2002). Hence the third hypothesis:

H3: Consumers in Indonesia exhibit more favorable attitudes toward local, customized commercials for non-durable products than those for durable products.

Communication effectiveness may depend on prior familiarity of the advertised brand (Campbell & Keller 2003). The findings of two experiments using television ads and computer Internet ads revealed that brand familiarity influenced repetition effectiveness. In particular, repetition of advertising attributed to an unfamiliar brand showed decreased effectiveness; when the same advertising was attributed to a known, familiar brand, repetition wearout was postponed. Negative thoughts about tactic inappropriateness were

seen to arise with repetition, particularly for an ad for an unfamiliar brand, driving, in part, the decreases in repetition effectiveness.

In general, brand familiarity is essential for local acceptance, and for implementing the highest level of advertising standardization (Tai & Pae 2002). Well established brands have important advantages in advertising, as consumers pay more attention to, and better remember product information for, familiar brands than unfamiliar brands (Kent and Allen 1994). On other hands, a localized approach is more suitable to advertise less familiar brands. Following these lines of reasoning, here is our fourth hypothesis:

H4: Consumers show more favorable attitudes toward the familiar brands than those of less familiar brands.

Execution styles reflect the communication mode of cultures, which vary in the use of verbal and visual cues**.** Informational messages focus on practical and functional consumer needs by emphasizing product features or benefits. Transformational advertising uses a selling premise on the pull of associations; the messages associate the experience of using the advertised brand with a unique set of psychological characteristics (Tai and Pae 2002). Heath (2011) said that the continued success of TV advertising in building strong brands most likely do not depend on its ability to persuade but on how well it is able to influence on emotions at low levels of attention. This last research let us to assume thus that transformational style which include higher degree of emotion involvement would be seen by consumers in more favorable way than the informational style. Hence the last hypothesis:

H5: consumers show more favorable attitudes toward transformational advertising styles than informational advertising styles.