

# **THE IMPACT OF DECEPTIVE ADVERTISING ON CORPORATE SALES**

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**THE IMPACT OF DECEPTIVE ADVERTISING ON CORPORATE SALES****ABSTRACT**

Deceptive advertising occurs frequently within the entertainment industry. It has been questioned whether it is in a firm's best interest to deceive the public through false, misleading ads. This study seeks to examine whether companies generate greater sales from deceptive advertisements as opposed to not deceiving the public. A ratio analysis focusing on asset management, liquidity, debt management, and profitability was conducted as a measurement tool. Additionally, stock prices and sales trends were also examined. The results from the reviewed sales trends and the financial ratio analyses support that companies do benefit from corporate deception. In other words, benefits derived from deceptive advertising may outweigh the costs imposed on a corporation.

## INTRODUCTION

U.S. corporations are increasingly allocating a greater share of their funds to their marketing departments (O'Connell, 1998). As an example, Blockbuster spent an average of \$249.2 million on marketing efforts in 2002. In 2004, advertising expenditures increased to \$257.4 million. (Blockbuster Annual Reports). Sega set aside one hundred million dollars for the launch of its new Internet-ready gaming platform known as Sega Dreamcast. Companies realize advertising is the number one entry towards consumer awareness, greater market share, large sales volumes, and higher profits. While greater contributions towards marketing have led to increases in corporate success; more companies are prone to increases in litigation. Legal considerations, rather than ethical considerations, serve as the primary influence for the vast majority of marketing managers in their advertising strategy development and decision making (Davis, 1994). According to a report by Med Ad News, states are taking action against pharmaceutical companies because they have been profiting by helping pharmacies line their pockets with Medicaid money (Ladley, 2005). Apparently, these drug companies have increasingly had to deal with the court of law because they have been gouging the public on basic life necessities (Ladley, 2005). Corporations across numerous industries have found marketing as a resource towards increased profit potential and have grown "hungry" for higher profits, thus motivating increased use of unscrupulous marketing tactics (Ladley, 2005).

Deceptive advertising has been of great concern for many consumers and policy makers. When consumers believe an advertisement to be true when it is actually false, consumers may be "harmed" (Attas, 1999). Individuals prefer their beliefs to be true, and if a consumer is misled by an advertisement, then the consumer may be tempted to buy the advertised product (Attas, 1999). Conceivably more consumers will buy the product as a result of the deceptive ad claims because they believe it to be of greater value: i.e., they pay more than what they should for the

product (Attas, 1999). Furthermore, the advertiser sells more products at the going price (Attas, 1999). This rationale seems to suggest that corporations are purposefully designing and posting unclear, misleading ads; and consumers are buying products believing such corporate deception; thus, companies are realizing inflated revenues at the cost of a deceived public. That is, some in corporate America may have implemented a strategy aimed at misleading consumers into believing a product or service is much more desirable than what it really is - simply for the result of increased sales.

This research study will investigate the potential link between the use of deceptive advertisements as a purposeful and deliberate corporate strategy and policy. This study primarily focuses on testing whether companies profit from deceiving the public through false, misleading ads (taking on the risk of getting caught and fined), or companies are more profitable by not deceiving the public. Such a study is important because it seeks to identify undisclosed key business strategies and the impact deceptive material can have on the value of the company.

## **BACKGROUND, REVIEW OF LITERATURE, AND HYPOTHESIS**

### ***Defining Deceptive Advertising***

A number of definitions of deceptive advertising have been offered by various regulatory agencies, associations, and legal bodies. According to the Federal Trade Commission's (FTC) Deceptive Policy Statement, an ad is judged as "deceptive," if there is a representation, omission, act, or practice conducted by a corporation that will or is likely to mislead a consumer (Bernacchi, 1977). If any of these conditions have occurred, the FTC will then examine the practice from the perspective of a consumer acting reasonably under the particular circumstances. If such practice directly affects or is directed towards a particular group, the FTC will examine reasonableness from the perspective of that group. The representation, omission, act or practice must also be material. What is meant by "material" is whether the act is likely to

affect the consumer's behavior or decision with regard to the product or service provided by the business performing such practice. If the result tends to be that the consumer's conduct is affected, then the act is considered material. If it is material, then a consumer can be hurt by such a practice because the consumer may make a decision based on the unknown deception that they would have not made otherwise or their decision could have been different from the one taken.

The FTC also reviews advertisements for their specific content including the words, phrases and pictures that "explicitly" or "implicitly" depict misleading or false claims. The FTC will scrutinize both implicit and explicit claims. An explicit claim is a claim that is directly made in the ad. For example, "books provide knowledge." An implicit claim is indirectly made. The statement, "books provide information which leads to knowledge" implies rather than directly attributes the book to the knowledge. Materiality is very important in determining deceptive advertising. Any statement made in an ad must have sufficient proof to support the claims and must be linked to relevance.

The American Marketing Association (AMA) defines deceptive advertising as advertising intended to mislead consumers (1) by falsely making claims, (2) by failure to make full disclosure, or (3) by a combination of both. The AMA as well as the FTC includes an omission of particular information to be deceptive since excluding material information can lead a customer to reach false or inaccurate beliefs about a product or service.

For example, if Starbucks was to distribute coupons for one free cup of coffee with a purchase of one, but fails to make clear that the previous purchase must be at least five dollars for the coupon to be redeemed; this is clearly an example of a deceptive practice. A prior purchase of at least five dollars to get a free cup of coffee is a material condition. This omission from the coupon is clearly deceptive and explicitly prohibited by the FTC. A customer wanting to use the coupon has been duped for the betterment of the company. The customer is

purposefully misled into believing any purchase would suffice and has been brought into the store under false pretenses. This example identifies a material omission such as that defined by the FTC and AMA and is considered deceptive and punishable by law.

### ***Prior Research***

There is limited empirical evidence demonstrating the financial and non-monetary benefits associated with deceptive advertising. However, I attempt to outline potential reasons as to why deception is so heavily practiced by corporations as provided by prior research studies.

In a study conducted by Burke, DeSarbo, Oliver, and Robertson (1988) a computer-based measurement method was constructed in order to evaluate the misleading effects of advertising claims. Deceptive advertising was reviewed by comparing consumer responses to the questionable claims against responses to the presentation of no attribute information and true information. The authors found that expanded claims and inconspicuous claims lead to significantly higher levels of false beliefs (e.g., lack of side effects, low price, and speed of relief) than did the truth or no information claims. [Expanded claims represent a literal statement that implies an untrue “widening or increasing of the value it expresses” (Preston, 1977).] Additionally, expanded claims lead to significantly higher levels of purchase intent compared to the no information condition, and expanded claims were more effective than inconspicuous qualifications in intensifying beliefs. The findings are consistent with a body of research showing that consumers constantly misconstrue some types of advertising claims and that the implications drawn from questionable claims are treated as factual assertions (Preston, 1967). In addition, false beliefs often persist even following the presentation of corrective information (Anderson, 1983).

In an experimental study, Dover and Olson (1978) empirically demonstrate their definition of deceptive advertising in order to measure the effects of the deception on cognitive elements such

as brand beliefs, attitude, and purchase intention. “Belief strength” (product beliefs about the claim) was the most sensitive measure: e.g., while beliefs between the control group and the experimental group varied extensively prior to tasting the product, the differences diminished greatly after product trial. The data suggest that deceptive advertising does affect consumer purchase inclinations and that false beliefs were created by exposure to deceptive advertisements: i.e., deceptive claims influence consumers, often with adverse consequences.

Davis (1994) reviewed the relative influence of four factors on the decision-making process of advertising experts in regard to advertising content and policy. The four factors analyzed were: (1) ethics, (2) legal considerations, (3) business considerations, and (4) anticipated approval of management/peers. The author found that the legal considerations factor (i.e., laws and regulations), not ethics, was the most influential factor for most advertising managers. Apparently, advertisers weigh ethical decisions (what is considered to be in good interest for the public and the absolute “rightness” of decisions) as less important than legal considerations when it comes to advertising content and policy. Davis argues that if ethics were to be the number one consideration when creating an ad, the incidence of deceptive advertising practices would be reduced. The author identified elements for increasing ethical considerations in professional decision-making in order to reduce the high incidence of deception in advertising. As a remedy for increasing deceptive practices, Davis (1994) also recommends that the FTC issue detailed, formal standards for identifying deception in advertising. The underlying rationale for these actions reflects the belief that increasing the influence of ethics in the decision-making process is one means for increasing the likelihood of an individual selecting a socially responsible course of action such as rejecting deceptive advertising claims.

The costs of deceptive advertising have shown to yield negative results. Dillion (1973) offers a conceptual explanation for why deceptive ads are not economically advantageous to national

advertisers, along with a discussion of the importance of determining deception through consumer analysis. He stresses that the cost of advertising for national advertisers must be amortizable over first and repeat purchases; therefore, deceptive advertising is only economically beneficial for businesses that have intentions to conduct a one-time sale.

Holbrook (1978) defined evaluative claims as “emotional, subjective, impressions of intangible aspects of the product” and factual content as “logical, objectively verifiable, descriptions of tangible product features” (p. 547). A conceptual analysis detailing that advertisers utilize “evaluative” advertising techniques (i.e., ad claims that describe the intangible product attributes and benefits) suggested that evaluative advertising techniques may aid in convincing consumers that a brand is unique to its competition and that the FTC is less likely to challenge evaluative advertising claims. Shimp and Preston (1981) add that while factual claims may lack the ability to sell, evaluative claims possess a certain ability to persuade. In their study, it is noted that non-deceptive claims often fail to differentiate the advertiser’s brand from competition. In addition, factual claims that differentiate the advertiser’s brand are often construed as deceptive and subject to FTC review (Shimp and Preston, 1981). The authors recommend an effective (persuasive), but not deceptive model of evaluative advertising that provides safe harbor from regulation.

Adkinson and Mazis (1976) describe corrective advertising as a remedial action: when an advertisement is declared deceptive, the Federal Trade Commission may order that the sponsoring firm not only withdraw the ad but also remedy erroneous impressions that the allegedly false advertising may have created. This study examined whether corrective efforts restored customers’ perceptions of the advertised product. The experiment consisted of 83 college students who were tested on non-corrective germ-killing appeal advertisements and corrective germ-killing appeal advertisements. Analyses indicated that corrective ads did result

in differential perceptions of the particular product advertised; thereby, suggesting that the corrective ads tested did appear to achieve desired results from the FTC's perspective (Adkinson and Mazis, 1976). In contrast, past research has also shown that limited exposure to a company-source or an FTC-source corrective message may not be effective in achieving its intended objective of removing falsely based beliefs about a particular product (Dyer and Kuehl, 1974). In addition, Dyer and Kuehl (1974) also tested the impact of message source and strength effects on the effectiveness of corrective advertisements. For example, they reported that certain types of advertising messages may harm the image of the advertiser: corrective advertising reduced positive attitudes toward the advertiser. The authors concluded that the behavioral and cognitive aspects of consumer attitude are affected by certain types of corrective advertising messages resulting in a reduction in the perceived reliability of the advertiser.

Past research indicates that consumer beliefs and attitudes are impacted by deceptive ads (Dover and Olsen, 1978). Dover and Olsen (1978) concluded that consumers are more prone to have either a positive belief or greater purchase intent toward the product or service advertised when the ad is deceptive. The authors describe how the deception leads the consumer to believe the item is more valuable or unique than what it really is. This form of attraction may bring a greater market share to the business and assist in increasing sales (Ladley, 2005).

### *Summary*

In spite of some mixed results, the studies reported above offer some explanation as to why companies may deceive the public. Davis (1994) found deceptive advertising to be a common practice and current regulation is unable to prevent many forms of deceptive advertising practices. Davis's study concluded that individuals primarily focus on legal and business considerations rather than ethical considerations when developing ads. The Burke, DeSarbo, Oliver, and Robertson study (1988) concluded that expanded claims which imply a stretched,

untrue expression of value had the most impact on consumer beliefs. Shimp and Preston (1981) contend that if a consumer believes an attribute to be truly the property of the object as described by an evaluative claim, then the product will have a greater perceived value than would otherwise be the case: the dynamic that promotes advertisers to utilize evaluative claims. Advertisers realize that factual claims often lack the ability to sell, whereas evaluative claims have a greater ability to sell the advertised product (Shimp and Preston 1981), thus implying that advertisers know factual information will not produce the greatest purchase potential; therefore, advertisers switch to alternative advertising methods which will benefit the company (Shimp and Preston, 1981).

In contrast, Dillion (1973) stresses that the cost of deceiving the public through advertisements is not financially beneficial for businesses. The author adds that company's who want to retain their customers should not display deceptive advertisements. Dillion (1973) explains that if the company is primarily focused on one-time sales, then only in this manner will deceptive advertisements provide value for a business.

In summary, former empirical studies offer conflicting evidence about the impact of deceptive advertising on company value and consumer behaviors. Some research infers that companies may be aware that deceptive advertisements do bring in more business: i.e., yield increased profits. Therefore, we question whether businesses deceive the public intentionally, as part of their marketing strategy, in order to entice customers to buy the product advertised. Although companies are risking getting caught and punished for such deception, do they disregard the consequences and continue deception as a part of their corporate policy?

***Hypothesis:***

Based on the above information, it is expected that:

H1: Companies generate greater sales from deceiving the public, specifically from using deceptive advertising as a strategy and policy.

**METHODOLOGY*****Overview of Samples Cases***

Three sufficiently large entertainment companies known to utilize deceptive promotional efforts were chosen for this study: Blockbuster Video, Netflix, and Rockstar Games. Blockbuster Video was founded in 1985 in Dallas, Texas, and is one of the world's leading providers of videos, DVDs, and video games. Netflix has been the largest online DVD movie rental service since 1999, offering more than 55,000 video titles to its customers. Netflix has a fine reputation for its low prices, wide variety of movies, and rapid delivery. Rockstar Games was founded in 1998 and is a wholly owned subsidiary of Take-Two Interactive Software. Rockstar is well known for its production of top selling video games including its popular title-Grand Theft Auto.

***Company Case Summaries***

***Blockbuster Case.*** Blockbuster Video was accused of deceptive advertising in reference to its “No More Late Fees” program in 2005. The accusing claim states that the “No More Late Fees” program was misleading in much of its media and point-of-sale advertising. Customers kept videos for long periods of time, believing that there were truly no late fees. Blockbuster failed to clearly reveal that if a customer did not return the product within seven days after the initial due date of the third day before noon, the customer would be charged the purchase price of the product. The rental was then turned into a sale by charging the customer’s credit card only after being notified of the sale via postcards and, or email. If the customer were to return the video after the sale transaction had occurred and prior to 30 days after the first day of the rental,

the customer would be reimbursed for the sale and charged a \$1.25 restocking fee. Some stores were found to charge up to \$4.50 in restocking fees. Blockbuster also failed to disclose that not all franchise stores were participating in the program, yet the non-participant stores did advertise the NLF program. The NLF program was first advertised on December 15, 2004 and effective January 1, 2005. (See Figure 1.)

[Insert Figure 1 about here.]

Blockbuster settled on March 29, 2005, agreeing to pay \$630,000 for attorney fees and investigative costs, consumer education, litigation or local consumer aid funds, public protection, and consumer protection purposes. Blockbuster also agreed to refund or credit customers who paid the purchase price for a rental if the rental was eventually returned. Only certain customers were eligible for a refund. Customers had to rent a video between January 1, 2005 and March 25, 2005, and the customers must have made a written request for a refund within 30 days upon discovering that a charge had occurred. In addition, the items must be returned in good condition in order to be eligible for the refund. Blockbuster also agreed to refund the restocking fees ranging from \$1.25 to \$4.50. The restocking fee refunds were only provided if the customer made a written request stating that they had failed to understand the NLF program. Blockbuster also provided coupons entitling one free rental for customers of franchise stores that did not participate in the NLF program and were not notified, through signage or otherwise, that the franchise was not participating in the NLF program. The number of rentals from customers from December 31, 2004 to March 25, 2005 was compensated with one coupon per rental. Again, there must have also been a written request in order to be eligible for these coupons and the customer must have stated that they lacked understanding of the NLF program. (See Figure 1).

Blockbuster was also required to place corrective advertising for their NLF program. Blockbuster was obligated to include terms and conditions of the program in FAQ brochures,

post 8.5” by 11” inch notices in multiple locations of their stores, explain the terms of the program in a minimum of 26 point font, and include a hyperlink on Blockbuster’s website, including clear NLF Program information. In addition, personnel must have been able to inform customers on how to obtain restitution and had any franchise store not participating in the program remove contrary advertising.

*Netflix Case.* In September 2004, Netflix had a class action lawsuit filed against the company under the premise that Netflix had engaged in false advertising. Netflix advertised heavily its “1 day delivery,” and “unlimited DVD rentals,” both turned out to be false statements. Customers who rented heavily and returned their rentals quickly, in 1 or 2 days, in return for another selection were considered heavy renters and were stopped from receiving their rentals within one day. Many customers complained about receiving their rentals within 4 to 6 business days. This led customers to acquire less DVDs than expected under their monthly plan. Netflix lost money from the cost of postage frequent renters would incur and therefore would limit the number of rentals their customers would receive. It was found that new subscribers were given priority to DVDs and were guaranteed new and popular flicks. Netflix’s marketing tactic was to attract new and trial customers by providing them with a rapid one day delivery and reliable service.

The class action lawsuit also included allegations regarding non-disclosure of material facts to the public. Netflix failed to disclose that it did not process DVDs on weekends or holidays, thus delaying deliveries. Netflix was also found to blame the U.S. Post Office for delivery delays in which Netflix had complete control over. Furthermore, Netflix defaulted on revealing how they manipulate which titles in customers’ queues were sent to give priority to new and light users and how they often tended to avoid replacing unplayable discs.

In October 2005, Netflix settled the class action suit. Netflix was required to change the wording of its “terms of use” agreement to include and describe how Netflix gives priority in

selection and delivery time to members who receive the fewest DVDs. Under the settlement, Netflix agreed to offer current and former customers a free service upgrade for one month. Customers who enrolled in paid membership before January 15, 2005 and were members on October 19, 2005, were eligible to receive a one month upgrade in service level. To receive the benefits, customers had to complete an online registration no later than March 24, 2006. Customers who did receive an upgrade in service level would continue on the upgraded service level until the customer requested to be put back on its normal monthly plan. If customers did not call by phone or change their upgraded service online, they would automatically be charged for the upgraded service after the free one month.

In January 2005, the National Public Interest Law firm Trial Lawyers for Public Justice urged the California Superior Court to strike down the proposed class action settlement. In April 2006, Netflix settled the case. The same agreement terms as the previous attempted settlement were imposed including an \$8.95 million total settlement cost. (See Figure 2).

[Insert Figure 2 about here.]

***Rockstar Case.*** Take-Two Interactive Software, Inc. received three class action complaints in July 2005, accusing Rockstar Games of false, misleading and deceptive practices. The company made misleading statements in marketing one of their famous games and engaged in unfair competition. Rockstar's famous video games title, Grand Theft Auto, San Andreas was rated "M" for mature for players 17 years of age and older; the game, which was released in October 2004, is one of a series in which the player assumes the role of a criminal who commits murder, deals drugs, and pimps prostitutes in the city of Los Angeles. The game should have been rated AO for "Adults Only" instead of M for "Mature" because the game was found to have an embedded mini-game known as "Hot Coffee" which contained explicit sex scenes. Apparently the mini-game was installed into the San Andreas video game by the company's programmers.

All San Andreas games carried the mini game but were locked. A player could unlock the mini-game by downloading specific software off the internet. Only then would the game enable a player to conduct sex acts by using a joystick or a keyboard. Rockstar did not reveal to the public that there was an embedded mini-game in order to receive an improper “M” rating.

Rockstar was forced to stop production and in June 2005, re-released those versions that did not contain hidden sexual content online. Rockstar changed the games’ rating from “M” to “AO” indicating “Adults Only” a rating specifying for those 18 and over. The subsidiary also had to ensure full disclosure to consumers about the content of their video games. In addition, Rockstar created a new website called Cold Coffee which contained a patch that would disable the hot-coffee scenes in GTA San Andreas. Those who wanted to disable or uninstall the hot coffee scenes could apply this patch through [nomorehotcoffee.com](http://nomorehotcoffee.com).

Rockstar also incurred international penalties: e.g., Grand Theft Auto, San Andreas was banned from all areas of Australia. Besides re-ratings and international considerations, Senator Hillary Rodham Clinton widely publicized the scandal. In July 2005, Senator Clinton asked the FTC to fully investigate Rockstar. As a result of the corporate deception, Audit Committee Chairwoman Kaczynski resigned from the board of directors. Kaczynski was concerned about “Take Two’s discovery of illicit images depicted in its “Grand Theft Auto” and quoted that she “viewed an unhealthy relationship between senior management and the board of directors.”

Many giant retailers such as Wal-Mart, Best Buy, and Circuit City took the game off their shelves hurting Take-Two’s Sales. San Andreas was Playstation 2’s game of the year and was the top selling video game in 2005. In the first half of 2005, this game brought Take-Two more than half of its overall profits. Before the game was re-rated 12 million units were sold, generating approximately \$600 million in retail sales. The “clean” version was not released in stores until August of 2005. (See Figure 3).

[Insert Figure 3 about here.]

### ***Summary of Data Collection***

Utilizing information retrieved online, I constructed individual timelines for Blockbuster, Netflix, and Take-Two Interactive Software, Inc. The timelines contain information regarding each company's deceptive advertisements including the date each particular advertising campaign was announced, the date the campaign was implemented, dates of particular lawsuits, dates of settlements, dates of corrective advertising implementation, and other pertinent information in regards to the impact of the deceptive advertisement. These timelines assisted in showing the trend in sales within certain time periods. The time periods used include (1) the first day the deceptive advertising campaign was displayed to the public until the day the company got caught for the deception, (2) the day the company got caught to settlement date, and (3) the settlement date to the present day.

To determine how much, in terms of sales, Blockbuster, Netflix, and Take-Two Interactive Software, Inc. benefited from their deceptive advertising practices, financial ratio analyses was conducted for each company. Using Blockbuster's, Netflix's, and Take-Two's Balance Sheet, Income Statement, Statement of Cash Flows for years 2001, 2002, 2003, 2004, and 2005, I calculated financial ratios for each company. The company's financial positions were reviewed in terms of liquidity, asset management, debt management and profitability. The ratios that were calculated for Blockbuster consisted of (1) return on equity, (2) current ratio, (3) days sales outstanding, (4) times-interest-earned, and (5) profit margin on sales. For Netflix, ratios were the (1) current ratio, (2) total asset turnover ratio, (3) times-interest-earned, and (4) profit margin on sales. The (1) current ratio, (2) total assets turnover ratio, and (3) return on equity ratio were calculated for Take-Two.

In order to determine whether there was an increase in sales due to the deceptive ads aired by each of these three companies, past trends were reviewed via income statements found in each companies annual reports. Blockbuster income statements were obtained from Blockbuster.com and sales for 2001 through 2005 were analyzed. Netflix income statements were obtained from Netflix.com, and sales from 1998 through 2005 were analyzed as well as all quarterly sales in 2004. Take-Two income statements were obtained from take2games.com, and primarily sales from 2004 and 2005 were analyzed.

### **RESULTS: FINANCIAL RATIO ANALYSIS**

#### ***BBI (Blockbuster)***

In order to test whether Blockbuster benefited from their deceptive practices in regards to their “No More Late Fees” campaign, an overview of financial analysis was conducted as follows. To begin, Blockbuster has been in a rough financial position for many years. The company’s return on equity has been negative since year end 2003 at -26.41 percent, down to -169.36 percent in 2005. Stockholders view a negative return on equity poorly because this indicates that for the money stockholders invested in the company, they are receiving no rate of return. Whether or not Blockbuster has been improving their position since the deceptive advertising initiated at the end of 2004 and the beginning of 2005 is the question that will be examined. [See Table 1 for summary of sales and financial performance data, before and after promotions.]

[Insert Table 1 about here.]

Blockbuster’s liquidity position is poor. Current assets rose faster than their current liabilities from year ending 2004 to year ending 2005. A current ratio of 0.84 times to 1.08 times indicate that there are more current assets to cover current liabilities ( $t(1)=2.19$ ;  $p=.136$ ). This shows that Blockbuster is in a better position in 2005 in regards to short-term solvency. When inventories

are taken out of the current ratio, Blockbuster shows a decrease in their quick ratio from 0.35 in 2004 to 0.31 in 2005. Although Blockbuster shows signs of improvement in their abilities to cover liabilities with their assets, when inventories are taken out of the equation, the ratio drops back down.

Blockbuster's asset management position is at a moderate position. The company's Days Sales Outstanding ratio indicates a decline since 2002 in the average length of time that the firm must wait after making a sale before receiving cash. The company went from a little over 10 days in 2002 from receiving cash to 11 days in 2003. There was a slight improvement from 2004 to 2005 down from 11 days to nine and a half days. Blockbuster customers are on average paying their bills on time and most likely, Blockbuster has a good credit policy established. Although Blockbuster did improve its Days Sales Outstanding ratio, results indicated that the improvement was significant in regards to when the deceptive ads were displayed versus when the deceptive ads were not displayed ( $t(2)=3.01$ ;  $p=.047$ ).

Blockbuster's debt management position categorizes the company as a risky business. Blockbuster has a low times-interest-earned ratio of -4.30 in 2005, indicating that there is a low margin of safety or a small span of operating income that can decline before the firm is unable to meet its annual interest costs. If the company fails to meet this obligation, Blockbuster creditors can bring legal action which could possibly lead to bankruptcy. The TIE ratio is low, but it has increased from -32.76 in 2004 to -4.30 in 2005. This increase was not significant, determined from the time when the deceptive ads were aired versus when the deceptive ads were not aired ( $t=0.43$ ; *ns*).

Blockbuster's profitability position indicates a weak corporate standing. Blockbuster has a negative profit margin on sales, -10.03 percent, implying that there is no income generated per dollar of sales. This is a sign that the company is in trouble, due to high costs or their heavy use

of debt; thus Blockbuster has an operating problem as well as issues associated with their financing strategies. Again, although the company has been performing poorly, it has considerably increased its profit margin on sales from -20.63 percent in 2004 to -10.63 percent in 2005. Blockbuster has increased its profit margin, but only “marginally” from when the deceptive ads were aired as opposed to when they were not aired ( $t(5)=1.81$ ;  $p=.065$ ).

In conclusion, as indicated from the financial ratio analysis, Blockbuster has been performing poorly for many years. Although the company’s status has been poor, it does indicate signs of improvement from 2004 to 2005. This improvement was not significantly attributed to the deceptive NLF program. Blockbuster’s “No More Late Fees” program which was advertising in December 2004 and initiated in January 2005 did not have a positive impact on the value of the company. This does not support the notion that Blockbuster knowingly tried to enhance the financial position of the company through deceptive advertising: i.e., does not demonstrate a meaningful impact or benefit for the company from the deceptive ads and promotions.

### ***NFLX (Netflix)***

In order to examine how Netflix benefited from their deceptive practices in regards to their “One day Delivery” and “Unlimited Rentals” campaign, an overview of financial analysis was conducted. Netflix seems to be in a stable financial position and has been improving since its inception in 1998. Its stock price has risen four-fold since 2002, from \$5.51 per share to \$ 27.06 per share in 2005. Although Netflix has experienced growth and an increase in earnings throughout the years, the primary focus of this analysis is to determine whether Netflix experienced these positive results due to their deceptive marketing efforts. Since the deception occurred prior to September 2004, the task is to determine what impact the ads had on the company before and after 2004.

Netflix's liquidity position has been relatively weak. Their current, quick, and cash ratios have been decreasing each year since 2002. Netflix's current ratio went from 2.65 times in 2002 to 1.77 in 2005. Netflix may be experiencing high accounts payable or even high debt. The company seems to be having financial difficulty based on their liquidity position which may limit their ability to secure loans in the future. Although Netflix's current ratio has decreased, it has not been a statistically significant decline ( $t=0.71$ ;  $ns$ ).

Netflix's asset management position has been relatively moderate. The company increased their total asset turnover ratio from 1.31 times in 2002, to 1.78 in 2003, and 2.37 in 2004. The ratio significantly decreased to 2.31 in 2005, indicating that the company did not generate as much volume of business in 2005 as its previous year, given its total assets investment ( $t(4)=4.98$ ;  $p=.004$ ). Netflix seemed to increase its assets to a level that was inefficient and should decrease its assets.

Netflix's debt management places the company as a low risk business. Netflix is in good standing as provided by their times-interest-earned ratio for the past three years. Compared to a TIE ratio of 0.83 in 2002, Netflix has been able to meet their interest costs with an increasing TIE ratio of 230.54 in 2005. The company has been increasing their ability to meet its annual interest payments after 2002. Although Netflix has increased their times-interest-earned ratio, it has only marginally increased from the time when the deceptive ads were not aired to when the ads were aired ( $t(1)=3.34$ ;  $p=.093$ ).

Netflix's profitability position is in good standing. Over the past four years, Netflix has proved to have an increasing profit margin on sales. The company had a negative 14.36 percent in 2002 profit margin, increasing to 2.39 percent in 2003, 4.27 percent in 2004, to 6.09 percent in 2005. This steady increase indicates that Netflix has been generating higher income each year for

every dollar of sales. This increase was only marginal in regards to when the deceptive ads were not displayed to when the deceptive ads were displayed ( $t(5)=1.89$ ;  $p=.059$ ).

In conclusion, as indicated from the financial ratio analysis, Netflix has some operating issues, but overall has faced an increase in profitability. The company's positive growth after 2002 as shown by its increasing TIE ratio and high profit margin indicates that the company has been improving its position after its deceptive advertisement of its "one day delivery" which occurred prior to September 2004. Although the company seems to be in better condition after 2004, Netflix's "One Day Delivery" and "Unlimited Rentals" ads did not have a significant impact on the value of the company: i.e., company's financial improvement may have not occurred as a result of the deceptive advertising.

#### ***TTWO (Take-Two Interactive/Rockstar Games)***

A financial analysis for Take-Two Interactive was performed to determine whether the company and subsidiary, Rockstar Games, benefited from their deceptive practices associated with their Grand Theft Auto, San Andreas Hot Coffee mini-game. Take-Two has experienced a declining market value over the past couple of years. In addition, the company's return on equity has dropped and its price per share has dropped from \$26.47 in 2003 to \$20.65 in 2005. Whether Take-Two has been improving their position since the deceptive advertising and release of their game, San Andreas, in October 2004 is a primary goal of this study.

Take-Two's liquidity position was in good standing in 2005 compared to that of 2004. The company's current ratio increased (marginally) from 2.28 in 2004 to 2.62 in 2005 ( $t(6)=1.62$ ;  $p=.078$ ). This indicates that Take-Two had greater capabilities to cover current liabilities with their current assets in 2005 than in 2004.

Take-Two's asset management position has been declining. The total assets turnover ratio has greatly declined for the past couple of years. In 2005 the ratio was 1.29, a drop from 2004

which was 1.37 times. This drop indicates that the company has been generating less business and perhaps not generating a sufficient volume of business given its total assets investment. Although there has been a drop in the total assets turnover ratio for the period before and after the airing of the ads, this drop has not been significant ( $t=1.40$ ;  $ns$ ).

Take-Two's profitability position has been poor. The company's return on equity has decreased from 11.49 percent in 2004 to 5.63 percent in 2005. This indicates that the company has been earning a lower rate of return from stockholder investments. Although the return on equity ratio has decreased, it has decreased only marginally ( $t(1)= 4.84$ ;  $p=.065$ ).

Overall, Take-Two Interactive's performance has been declining. The company does not indicate many signs of improvement during or after the deceptive San Andreas Hot Coffee mini-game. There seems to be no relationship between corporate deception and a positive impact on the value of this company. Whether or not the company had a willful intent to deceive the public in the interest of higher profits, there is no indication of a financial gain for the company from the deception.

### **RESULTS: SALES TRENDS**

A primary goal of a marketing department is to increase sales volume. Because marketing is supposed to have an impact on sales, sales trends have been reviewed. This approach will determine if corporate deception, in regards to deceptive advertisements, has an impact on company sales.

***Blockbuster***

Blockbuster experienced a rising trend in sales from 2001 to 2004. This trend disappeared in 2005, the same year Blockbuster initiated its “No More Late Fees” program. In 2005 Blockbuster sales fell slightly, from \$6.05 billion in 2004 to \$5.86 billion in 2005. The percentage change year over year in sales for Blockbuster was as follows: 3.96 percent from 2000 to 2001, 7.94 percent from 2001 to 2002, 6.21 percent from 2002 to 2003, 2.39 percent from 2003 to 2004, and down to -3.21 percent from 2004 to 2005. (See Figure 4).

[Insert Figure 4 about here.]

Blockbuster’s “No Late Fees” program began January 1, 2005. Blockbuster was caught for their deceptive ads in regards to their NLF program in March 2005. On a quarterly basis, Blockbuster continued to experience a downward trend in sales from year ending 2004 to the first quarter in 2005. Blockbuster’s last quarter (ending December 31, 2004) closed with sales revenue of \$1.72 billion and dropped to \$1.50 billion in the first quarter of 2005 (ending March 31, 2005).

This decrease in sales can be explained by a decline in the in-store movie rental industry in 2005. Blockbuster describes this decline due to (1) a weak slate of titles released to home video during most of 2005; (2) an increase in competition from retail mass merchant sales of low-priced DVD’s online rentals and other sources of in-home entertainment, such as digital video recorders and other devices that are capable of downloading content for in-home viewing; and (3) competition from other forms of leisure entertainment (Blockbuster Annual Report 2005).

The decrease in sales from 2004 to 2005 can be partially explained by the natural disaster that occurred in August 2005, i.e., Hurricane Katrina. The hurricane caused Blockbuster to close down 128 stores. By March 1, 2006, all but 18 of these stores were reopened and operating. Sales lost in 2005 due to this incident are estimated to be approximately \$21.2 million.

Therefore, if the hurricane had not occurred, sales for 2005 would have been approximately \$5.88 billion versus \$5.86 billion. Blockbuster sales would still have dropped from those earned in 2004 even if the hurricane did not occur.

In conclusion, the program had minimal impact on sales: i.e., sales attributed to the program did not increase. Since Hurricane Katrina hit in August 2005, Blockbuster was not affected by the hurricane during their first quarter of 2005 (January through March); thus, sales revenue for this quarter remains as mentioned above. In regards to the ratio analysis performed for the company, Blockbuster's performance was better in 2005 than its previous year. The value of the company improved, but sales did not. Blockbuster's "No Late Fees" program did not result in a positive sales impact for the company but did enhance its financial performance in terms of asset management, debt management, liquidity, and its profitability position.

Two data sets were gathered for Blockbuster concerning the percentage change in sales from quarter to quarter. One data set included the percentage change in sales from quarter to quarter when there was no deceptive advertising conducted in reference to the NLF program ( $M=.030$ ). The second data set includes the percentage change in sales from quarter to quarter when the deceptive ads were displayed ( $M=.048$ ). There was only a marginally significant percentage change in sales when deceptive ads were displayed versus when the deceptive ads were not displayed ( $t(17)=1.558$ ;  $p=.069$ ).

### ***Netflix***

In July 2004, Netflix was criticized for their deceptive ads which claimed to "Deliver within One Business Day." In order to determine whether Netflix's deceptive practices had an impact on company sales, sales trends before July 2004 would have to differ from sales figures after July 2004. Netflix experienced an increasing trend in sales since its inception in 1998. Sales continued to increase steadily even after Netflix was accused of deception in 2004. Sales

increased from \$506.23 million in 2004 to \$682.21 million in 2005. Every quarter throughout 2004 and 2005, sales have increased consistently about \$10 to \$20 million per quarter. There has been a significant change in sales trends each quarter when deceptive ads were displayed versus when the deceptive ads were not displayed ( $t(6)=2.118$ ;  $p=.039$ ). (See Figures 5 and 6).

[Insert Figures 5 and 6 about here.]

Netflix has continued to experience an increase in revenues each year, but has also lost a large section of its market share within the past few years. In 2003, Netflix had 97 percent of the online video rental market share. Netflix dominated the market and was faced with little competition. In 2004, Netflix experienced new players in the online rental business including Blockbuster and Wal-Mart who took 12 percent of Netflix's market share within one year. In 2005, Blockbuster continued to cut into Netflix's market share, gaining 31 percent of the total market and leaving Netflix with 66 percent. Blockbuster has continued to do exceptionally well with its online business and has persisted in slashing Netflix's online profits. If Netflix were to have retained its integrity and loyalty toward its customers, Netflix might not have experienced such a large and rapid decline within its business. Netflix's deceptive advertisements have led some customers to lose trust in the company and have gravitated towards competitive alternatives.

Netflix's false advertising with its "One Day Delivery" slogan may have helped Blockbuster and Wal-Mart with their new start-up online rentals business by having customers lose faith in Netflix and chose different rental paths. Although Netflix has not had a diminishing sales trend, it has had a negative impact in the sense that it lost customers. The largest customer loss occurred after 2004, when Netflix was caught for deception. At least in part due to the deceptive campaign, the company lost a great share of its business.

The deception not only damaged customers' perception of the company, but legal costs were also incurred. Netflix settled in April 2006, and has offered to pay current and former subscribers \$5.5 million in coupons and free one month rentals and will pay more than \$1.3 million in legal fees. Two data sets were gathered for Netflix concerning the percentage change in sales from quarter to quarter. One data set included the percentage change in sales from quarter to quarter when there was no deceptive advertising conducted in reference to their "One Day Delivery" ad ( $M=.610$ ). The second data set includes the percentage change in sales from quarter to quarter when the deceptive ads were displayed ( $M=.796$ ). Although Netflix faced some costs, the value of the company (in terms of a positive profitability position, better debt management, and a higher stock price) did improve and did see a significant increase in sales every quarter after being charged for false advertising ( $t(6)=2.118$ ;  $p=.039$ ). In conclusion, the benefits derived from the deceptive ads were greater than the monetary costs incurred.

### ***Rockstar***

In October 2004, Take-Two released GTA: San Andreas Playstation game (with the "HotCoffee" minigame embedded) for the first time. It was not until July 2005 that Rockstar was accused of false advertising. The false advertising conducted by Take-Two related to their San Andreas game did have a significant impact on sales. Two data sets were gathered for Take-Two concerning the percentage change in sales from quarter to quarter. One data set included the percentage change in sales from quarter to quarter when there was no deceptive advertising conducted in reference to their Grand Theft Auto: San Andreas game ( $M=.480$ ). The second data set includes the percentage change in sales from quarter to quarter when the deceptive ads were displayed ( $M=.086$ ). There was a significant percentage change in sales when deceptive ads were displayed versus when the deceptive ads were not displayed ( $t(21)=2.629$ ;  $p=.007$ ). Sales each year rose from \$451 million, to \$793 million, to \$1.03 billion, to \$1.13 billion, to \$1.20 billion,

in 2001, 2002, 2003, 2004, 2005, respectively. San Andreas was named the top selling game for all consoles in 2005. It also generated \$307.8 million in revenues in 2005. The previous year San Andreas generated 235.6 million in two to three months of its first release which was in October of 2004. All Grand Theft Auto versions accounted for 34.3 percent of all Take-Two revenues in 2004. GTA: San Andreas generated 20.9 percent of all Take-Two revenues. In 2005, all Grand Theft Auto versions accounted for 38.1 percent of revenues, whereas GTA: San Andreas accounted for 25.6 percent of all revenues. Taking into consideration that Take-Two has 4 versions of GTA, San Andreas consisted of a large portion of Take-Two's 2004 and 2005 revenues. Although sales increased for GTA: San Andreas from 2004 to 2005, the game was released for approximately three months in 2004; whereas, in 2005 the game was released the entire year. Nonetheless, San Andreas generated a large amount of sales both years compared to all other Grand Theft Auto versions. The high volume of sales may be due to the deceptive advertising for this game. GTA: San Andreas was granted free advertising when Senator Hillary Clinton publicly announced the scandal and ordered the FTC to further investigate the deception. The media widely spread the news about the deception, adding to consumer awareness. Where some consumers were not aware of the game or details about the game, these announcements could have possibly added to the sales increase.

Take-Two has not settled the claims filed associated with their deceptive advertising for San Andreas; however, the company has already incurred costs because of these practices. During fiscal 2005, Take-Two was negatively impacted by product returns and related costs as a result of the re-rating of Grand Theft Auto: San Andreas from "M" to "AO." In July 2005, Take-Two recorded a provision of \$32,637 for the product returns and related costs as a result of the re-rating. The provision was subsequently reduced by \$8,154 in the fourth quarter of fiscal 2005 due to better than expected sell-through of the product and lower processing costs related to

product returns. The resulting impact on Take-Two's consolidated results of operations in fiscal 2005 was a reduction of \$24.5 million, \$5.9 million, 18.6 million, and \$18.6 million for net revenues, cost of goods sold, gross profit and income from operations, respectively. At October 31, 2005, accounts receivable balance was net of reserves of approximately \$7,714 for remaining product returns primarily related to the North American retail inventory of Grand Theft Auto: San Andreas. While Take-Two took a reduction of \$24.5 million in revenues in 2005, the company did incur 307.8 million in sales for this game in 2005. Take-Two has a gain of \$283.3 million for this video game.

In conclusion, Take-Two's sales did increase from 2004 (when the game was released) to 2005 (when Take-Two was caught for the embedded mini-game). GTA: San Andreas also had the greatest sales in 2004 and 2005 in comparison to all other GTA versions. In addition, Take-Two's costs for deceiving the public was minimal compared to the sales the company generated from the game. Sales were twelve times greater than the costs incurred from the deception. In regards to the ratio analysis performed, Take-Two's performance declined from 2004 to 2005. The value of the company did not improve from the deception, but sales did. As a result, it is apparent that Take-Two did benefit, only in terms of greater sales, from deceiving the public through their false advertisements and misrepresentations. (See Figures 7 and 8).

[Insert Figures 7 and 8 about here.]

## **DISCUSSION**

Data indicate that Blockbuster's deceptive advertising in reference to its "No More Late Fees" program did not derive large benefits for the company. Blockbuster's sales decreased after the company was caught for its deceptive advertising. In addition to lower sales, Blockbuster also incurred settlement costs of \$630,000, refunds costs, and corrective advertising costs. Although these costs were minimal to Blockbuster, the costs were a loss to the company. In

summary, the data for Blockbuster do not support the hypothesis (H1) that companies generate greater sales from deceptive advertising. A reason as to why Blockbuster did not benefit from its deceptive practices may have been because of the company's declining performance.

Blockbuster had been performing poorly before the NLF program was announced, and continued to perform poorly after the deceptive ads were displayed to the public. Adkinson (1976) states that companies who are caught for false advertising must correct their practices using corrective advertising. Since companies must practice correction efforts, businesses will incur great costs associated with the corrective materials (e.g., ads, etc.) that must be placed: i.e., the costs related to deceptive advertising included more than settlement fees. For example, Blockbuster had to purchase new FAQ brochures for more than 8,500 corporate and franchise stores. The company also had to re-train all personnel in order to make sure the "No Late Fees" program was thoroughly known by every employee. Advertisement reprinting and coupons distributed also added to costs incurred.

According to Dyer and Kuehl (1974), a company's reliability diminishes when a company displays corrective advertisements. Customers are typically aware that corrective ads are imposed due to a deceptive practice. Another reason Blockbuster or any other entertainment company weakens in performance due to deceptive advertising is because of lower consumer confidence. When a company is caught for deceiving the public, consumers become more cautious of the products they buy from that business (Dyer and Kuehl, 1974). If a customer does not trust a company, it is conceivable that the same consumer will not purchase any more products from that same seller. Consumers may seek alternative supply chains if they find a particular business to be deceiving.

In contrast, the data suggest that Netflix derived (short run) benefits from their deceptive "Unlimited Rentals" and "One Day Delivery" promotions (H1). The company's sales continued

to increase. Even though Netflix is in a good position, it has lost a great deal of market share: e.g., Blockbuster is continuing to acquire a majority of Netflix's customers. This may be due to loss of trust and reliability from customers because of the company's false ads. Customers who decided to switch from Netflix to Blockbuster at this time may have not realized that Blockbuster was deceptive as well. Both companies ran their deceptive ads within the same time frame. Customers who left Netflix's service may have not been aware of the Blockbuster deception and once they enrolled in Blockbuster, they were not affected by Blockbuster's ads; whereas a Netflix customer may have felt as if they were deceived directly. Customers may have realized how deceitful Netflix has been and have turned to alternative online rental companies. In spite of short-term benefits, the deceptive ads may hurt the company in the long run. Time will tell if Netflix is left with a too small market share, unable to generate enough business to remain in operation. (See figures 9, 10, and 11).

[Insert Figures 9, 10, and 11 about here.]

Take-Two's findings also supported H1: i.e., sales continued to increase after the San Andreas game deception was discovered. The increase in sales may be due at least in part to the free advertising that the company received. The media as well as Senator Hillary Clinton highly publicized the game after the company was caught for the embedded mini-game. Taking into consideration that many young adults play video games, all the hype from the explicit sex scenes may also have encouraged more of these individuals to buy the game. Additionally, more consumers became familiar with the game because of the publicity from the scandal – and scandal often sells. As a result, the deceptive ads from Rockstar increased the company's sales.

Take-Two and Netflix experienced positive results after placing their deceptive ads. As Dover and Olson (1978) suggest, companies such as these may have experienced positive results due to enhanced consumer purchase inclinations. The authors state that false beliefs are created

by exposure to deceptive advertisements. These false beliefs often include greater perceived value of the advertised product (Dover and Olsen, 1978). Such increased perceived value should lead to increased sales and market share, as supported by the data examined here. All in all, companies potentially benefit from deceiving the public with a deceptive campaign. Businesses realize the value a deceptive ad can give to the company in terms of a deceptive ad serving as an attraction towards the product advertised. For this reason, companies may be more prone to deceive. Since companies may act in this manner, company practices must be changed.

Corporations seem to deceive the public in the interest of higher profits, and unfortunately, ethics may be undermined when it comes to making advertising decisions (Davis, 1994). According to Davis, if ethics were to play a larger role in company decisions, the number of deceptive practices would diminish. Businesses, such as these entertainment companies, would not be as tempted to mislead consumers and subsequently benefit (illegally) from their misperceptions.

Providing potential advertising professionals with ethics instruction is only the first step toward eliminating the perceived acceptability of deceptive advertising practices. In a review of the effects of academic ethics instruction, it is noted that changes in perceptions and attitudes appear to be short-lived (Davis, 1994). It is believed that ethical orientation diminishes as one enters the workplace. For this reason, once individuals enter an advertising agency they must be explicitly shown that incorporation of ethics into their advertising-related decisions is a valued behavior (Davis, 1994). This might be accomplished through the inclusion of ethical criteria in performance appraisals; periodic agency meetings to discuss the moral and ethical dimensions of business; and hiring ethically oriented individuals as determined through references, responses to interview questions, etc. The reinforcement of ethical behaviors and the discouragement of unethical behaviors, by industry groups such as the Association of National Advertisers, would

also contribute to the development of an ethical working climate (Davis, 1994). According to Davis (1994), deceptive advertising may be prevented or reduced in the long run by changing agency management or academic training. Management and training can be changed by increasing the effect of ethics on advertising decision making among all advertising professionals. In addition to showing the value of ethics to new employees and changing training, continuing protection or advertising regulation from false advertising should be mandatory (Davis, 1994).

As a final note, it has been argued that business and professional schools have taught decision making on the basis that the social responsibility of a business is to increase profits (Davis, 1994). Because deceptive advertising has become an issue of concern, an increase in ethical teachings has occurred (Davis, 1994). If the influence of ethics is increased, future advertising managers' decision-making processes are more likely to reject deceptive advertising claims (Davis, 1994).

### ***Limitations and Future Research***

This study was based on three entertainment companies. Focusing solely on one industry and only three companies may have biased the results, and may have not been representative of the entertainment industry as a whole. Future researchers should explore other industries, including companies with multiple deceptive advertising offenses.

To my knowledge, there have not been previous empirical studies focusing on the impact of deceptive advertising on corporate sales. There was difficulty in obtaining literature related to the current study; thus, the process used to calculate sales generated solely from deceptive advertising was not based on prior research. I acknowledge that some sales estimates calculated here may be inaccurate.

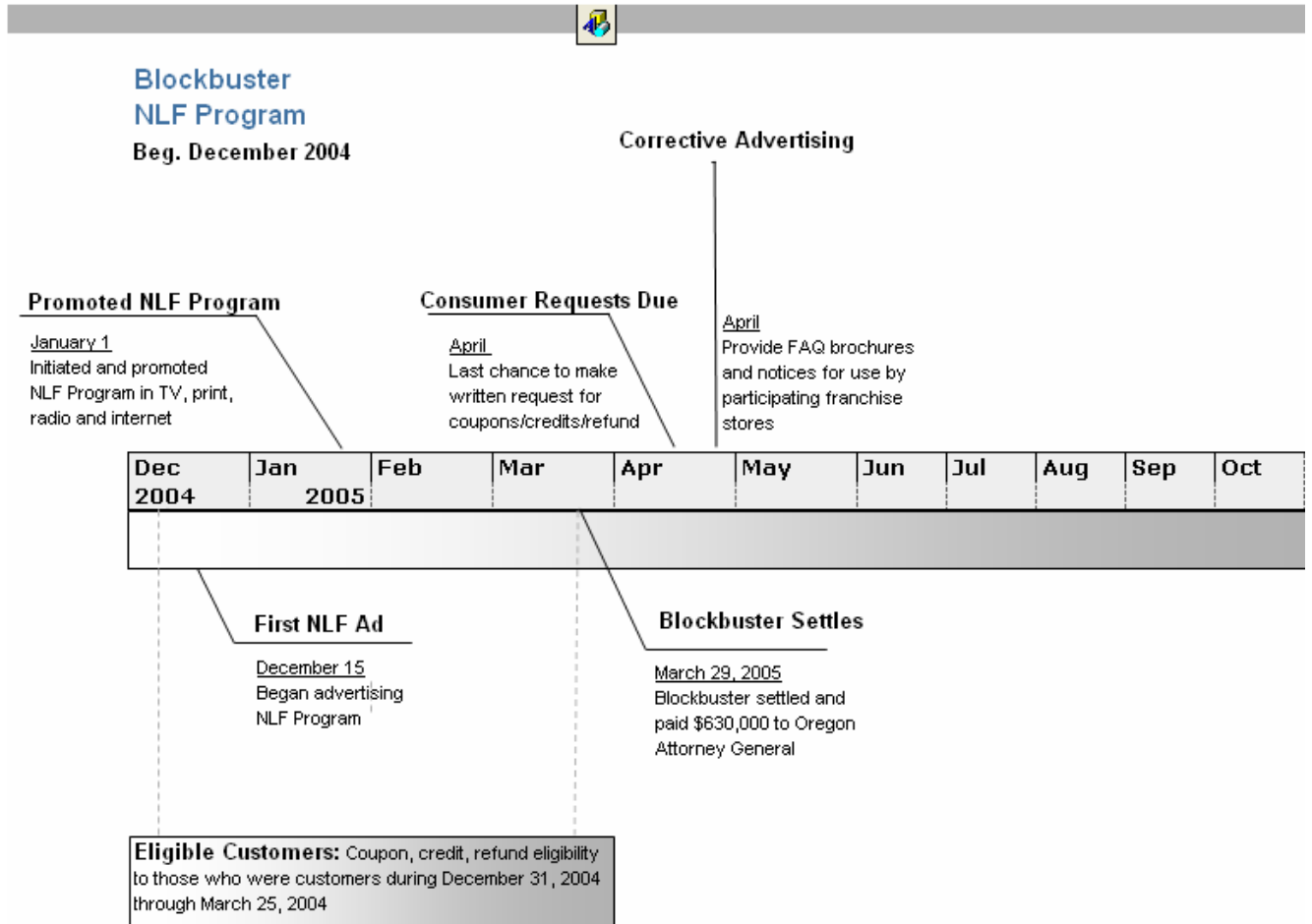
This study focuses strictly on the impact of sales from deceptive ads. It was assumed that deceptive campaigns led to an increase or decrease in sales. This study did not research other factors that may have caused an increase or decrease in sales other than deceptive ads: e.g., economic conditions such as consumer demands, availability of goods, competition, unemployment rates, and fluctuations in interest rates. Furthermore, seasonality plays a large role on the effect of sales in the entertainment industry. During the winter time sales tend to reach high numbers. Seasonality was not considered when determining whether sales increased or decreased during a deceptive campaign. Other factors that were not considered were prices and discounts offered during certain periods of time.

Future researchers may also wish to examine the same time periods when the deceptive advertising occurred for all companies studied. Thus, the same regulations and consequences are likely to apply to all companies who are caught for their deceptive practices. Lastly, I suggest investigating the impact of deceptive practices on profits versus the sales measures used here.

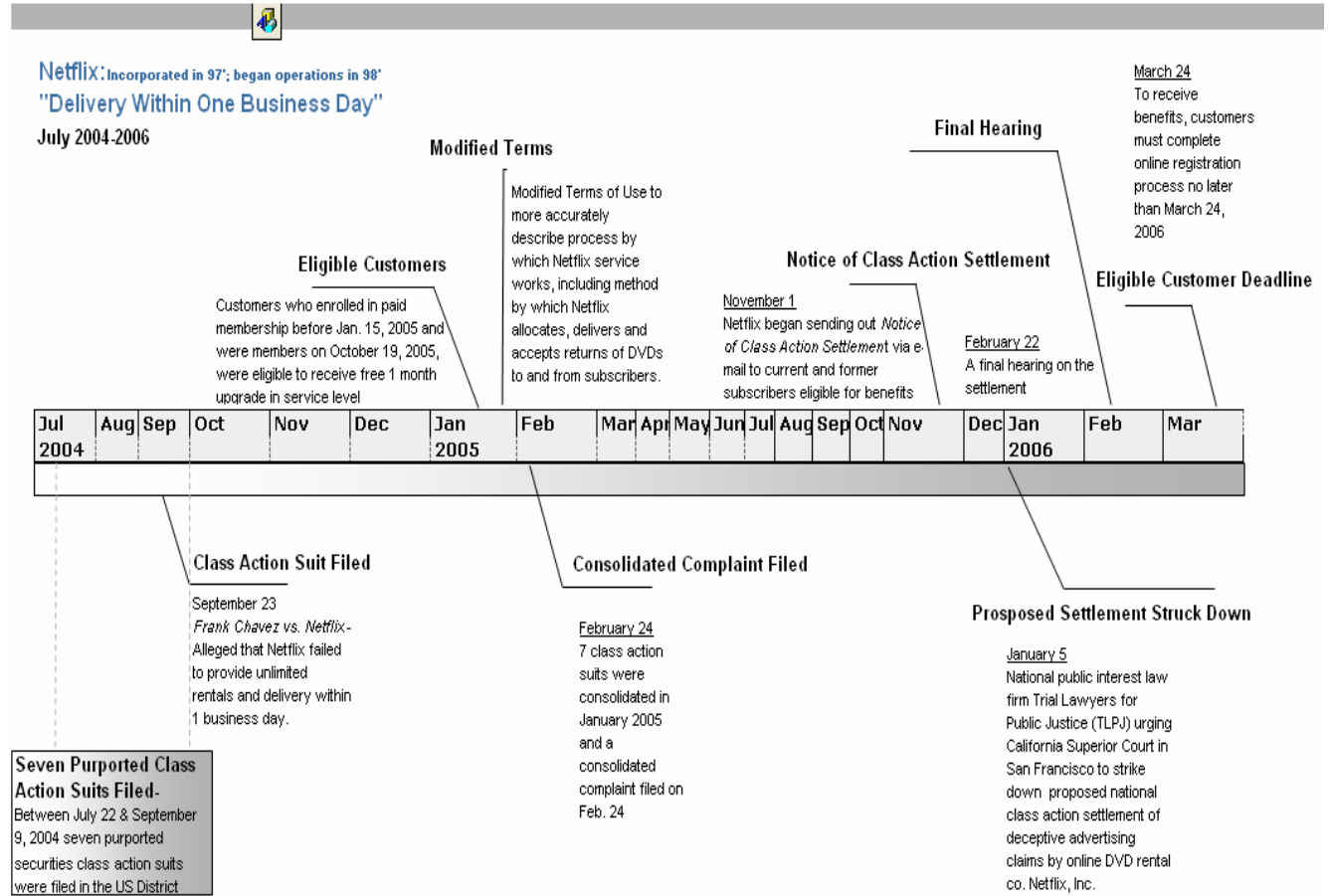
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**FIGURE 1**  
**BLOCKBUSTER TIMELINE 2001-2005**

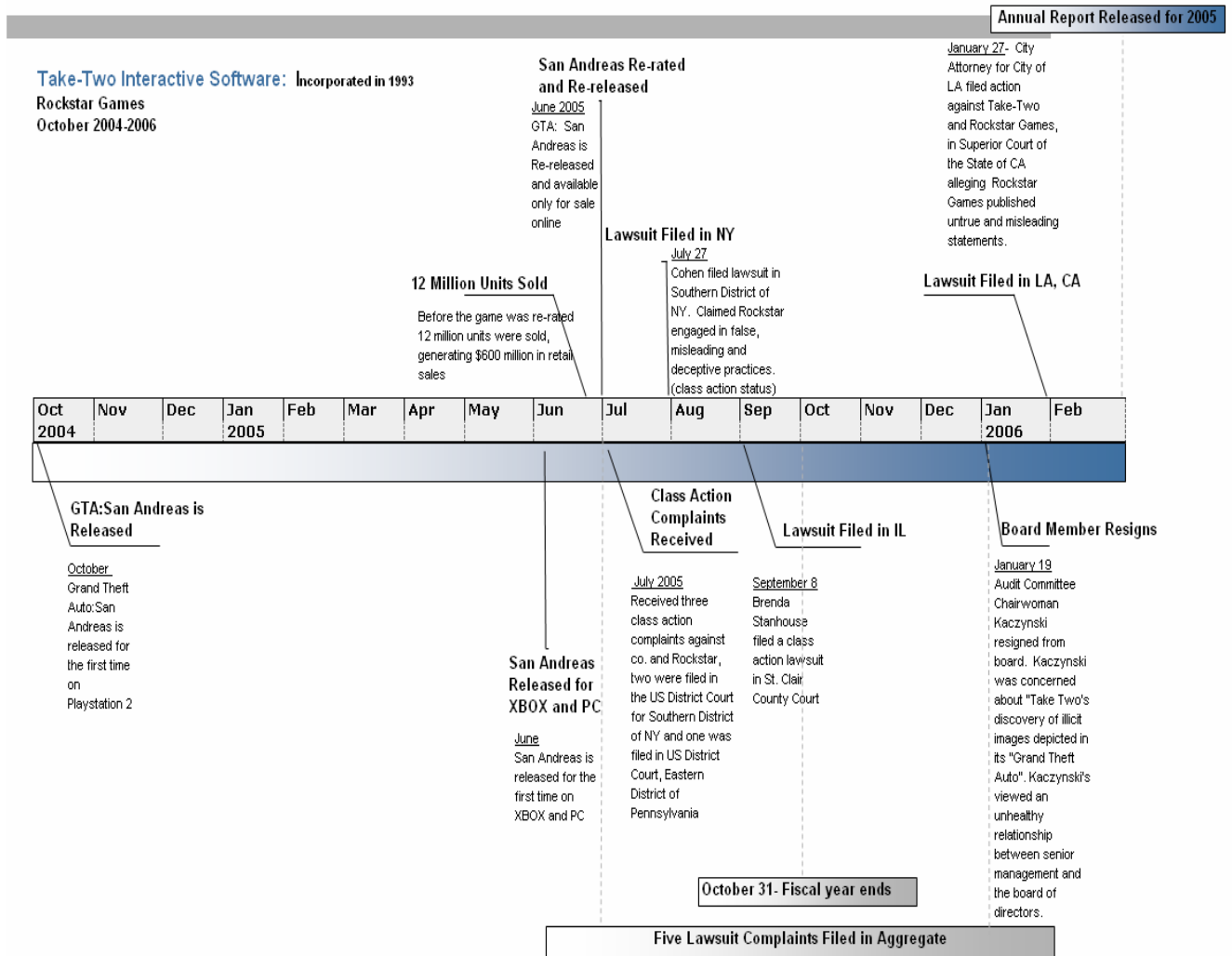


**FIGURE 2**  
**NETFLIX 2004-2006 TIMELINE**

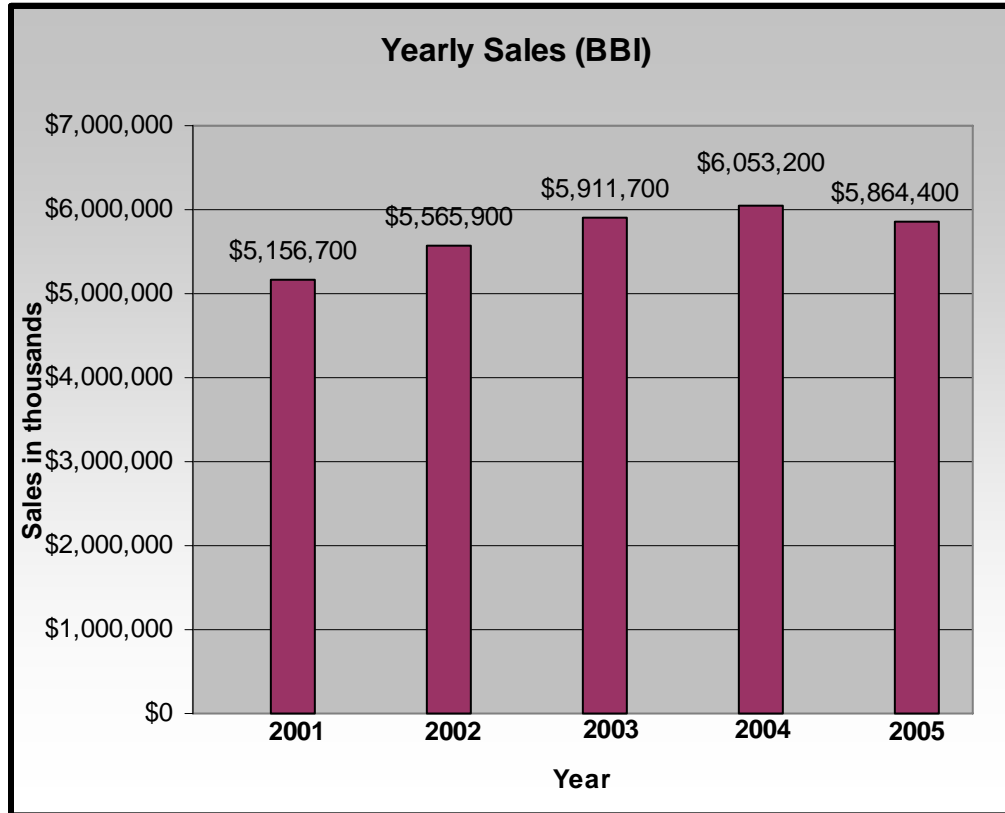


**FIGURE 3**

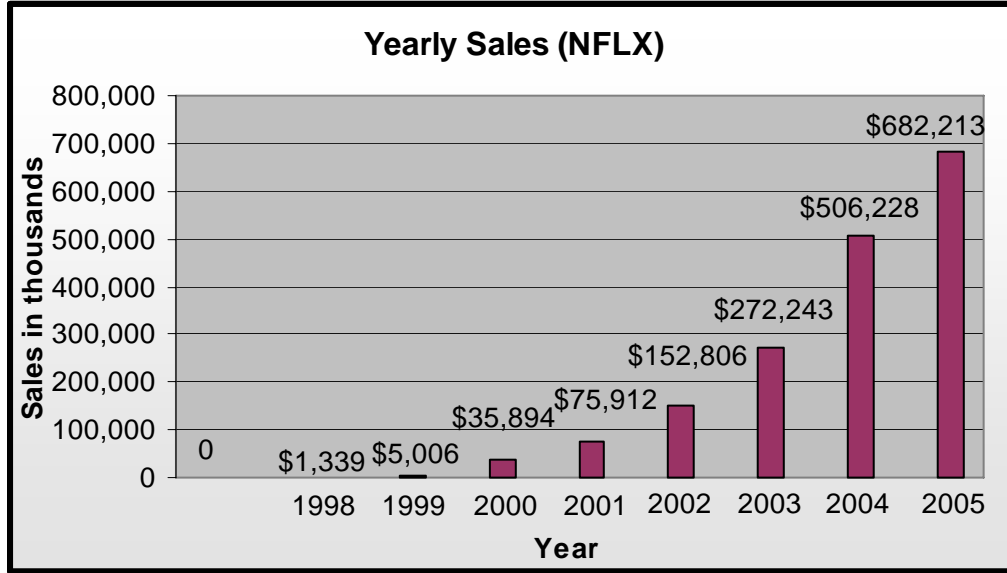
**TAKE-TWO 2004-2006 TIMELINE**



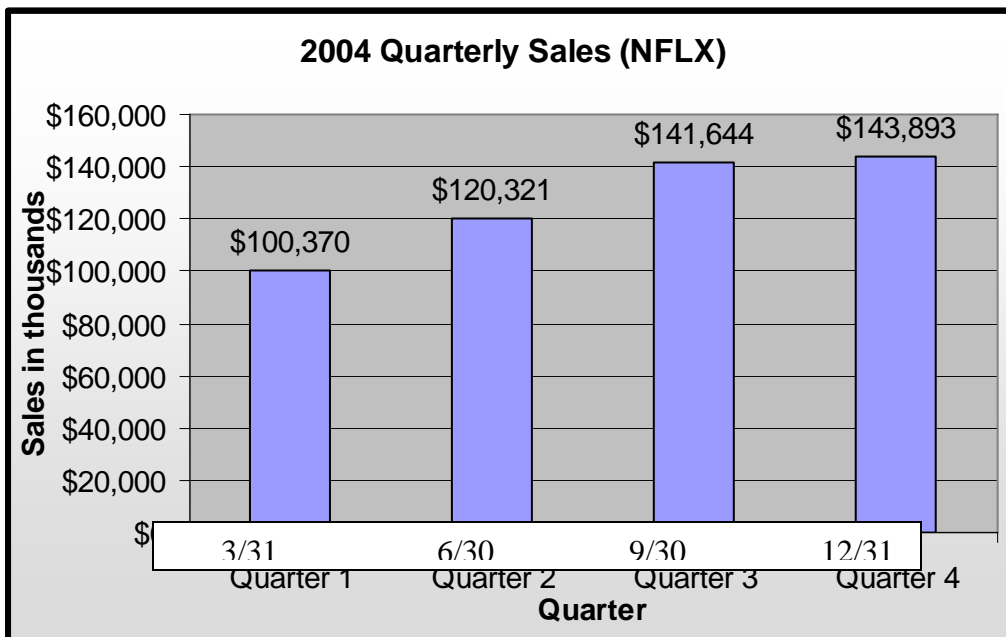
**FIGURE 4**  
**BLOCKBUSTER 2001-2005 YEARLY SALES**



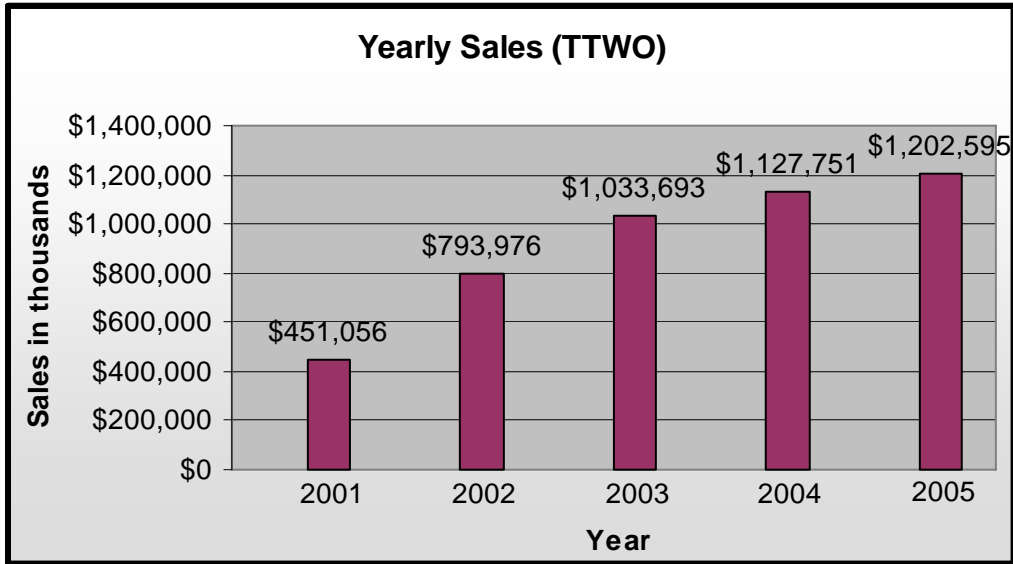
**FIGURE 5**  
**NETFLIX 1998-2005 YEARLY SALES**



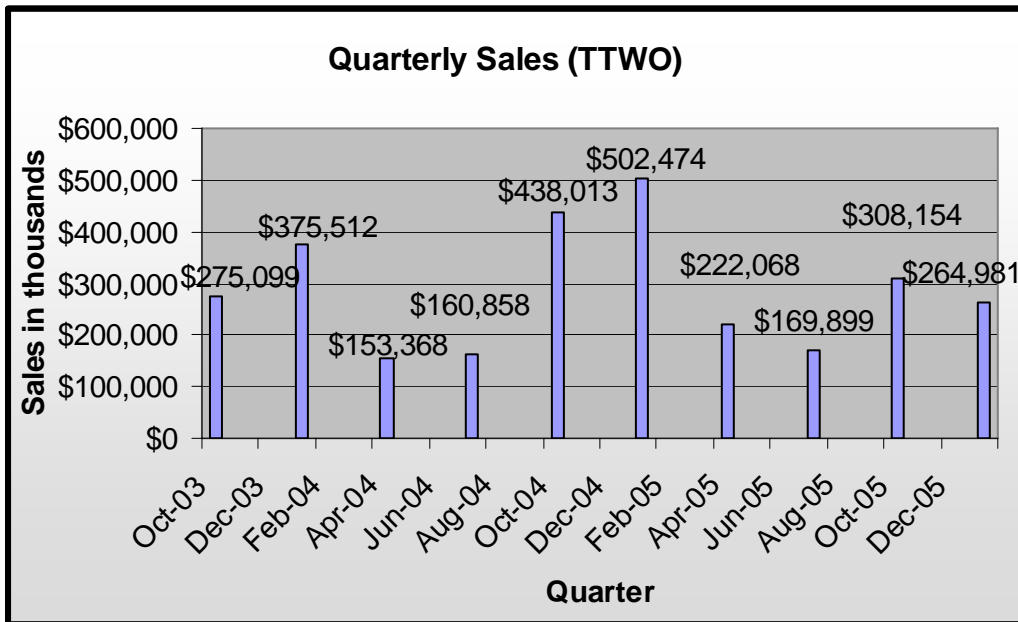
**FIGURE 6**  
**NETFLIX 2004 QUARTERLY SALES**



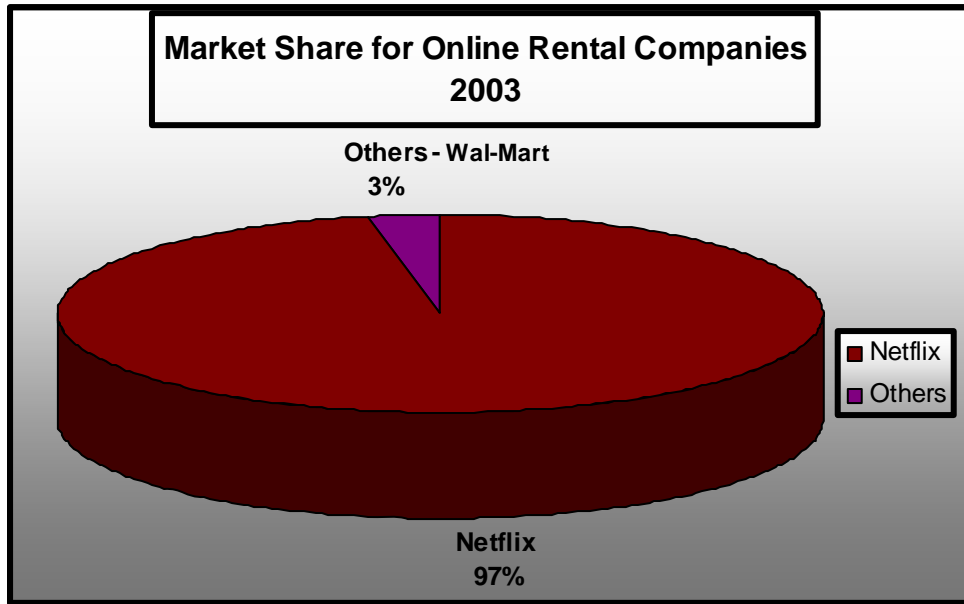
**FIGURE 7  
TAKE-TWO 2001-2005 YEARLY SALES**



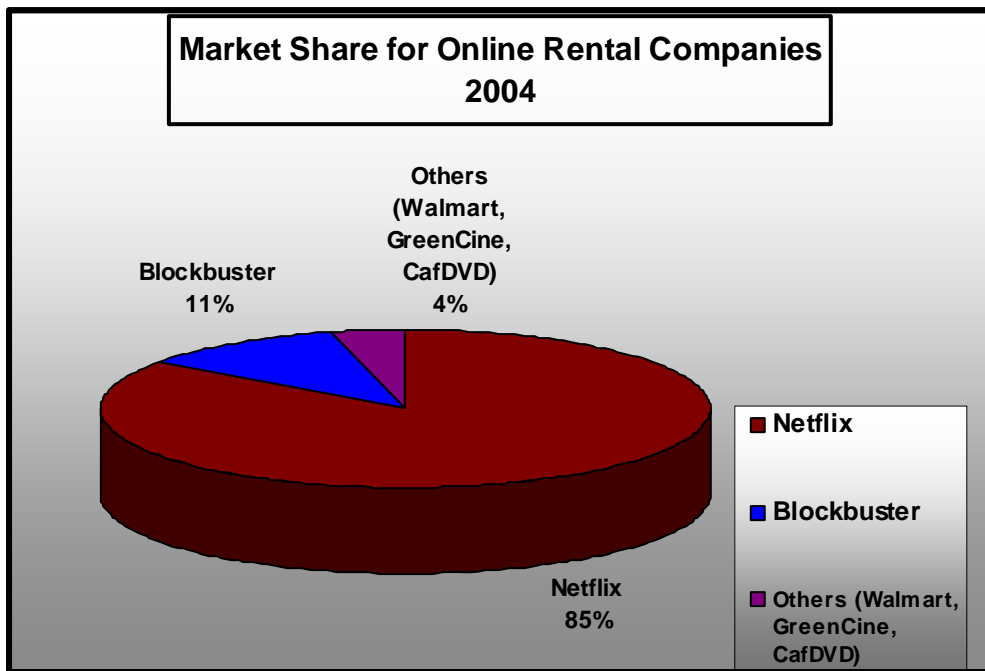
**FIGURE 8  
TAKE-TWO 2004-2005 QUARTERLY SALES**



**FIGURE 9**  
**2003 ONLINE RENTAL MARKET SHARE**

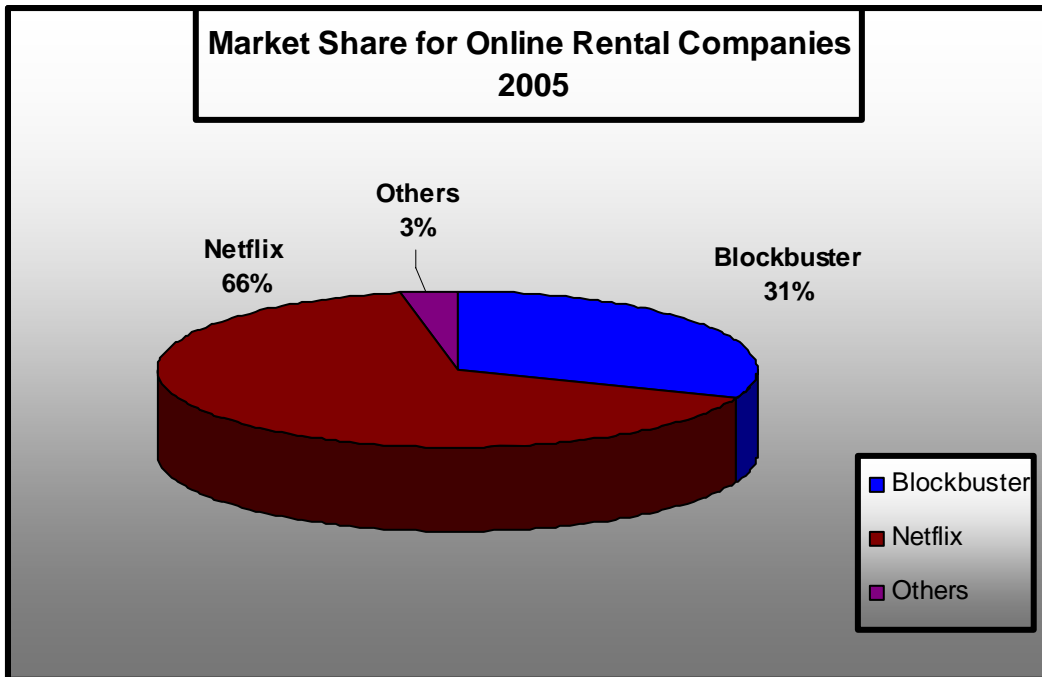


**FIGURE 10**  
**2004 ONLINE RENTAL MARKET SHARE**



**FIGURE 11**

**2005 ONLINE RENTAL MARKET SHARE**



<b>TABLE 1</b>		
<b>SUMMARY OF SALES AND FINANCIAL PERFORMANCE DATA</b>		
	<b>Before Promotion</b>	<b>After Promotion</b>
<b>Blockbuster</b>		
Sales	6053.2	5864.40
Return on Equity	-57.92	-169.36
Current Ratio	.84	1.08
Days Sales Outstanding	11.00	9.50
Times Interest Earned	-32.76	-4.30
Profit Margin on Sales	-20.63	-10.63
<b>Netflix</b>		
Sales	506.23	687.99
Stock Price Per Share	12.33	27.06
Current Ratio	2.20	1.97
Total Asset Turnover	2.37	2.31
Times Interest Earned	129.09	230.54
Profit Margin on Sales	4.34	13.64
<b>Take Two</b>		
Sales	1033.69	1202.3
Return on Equity	22.05	5.63
Current Ratio	3.11	2.62
Total Asset Turnover	1.73	1.29