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Hip-Hop: The New Answer?

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Candidate for B.S. Degree in Finance with Honors

April/2006

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ABSTRACT

Hip-Hop: The New Answer? analyzes a total of nine companies from different industries that have used Hip-Hop, whether via advertisements with artists or symbols of the music's culture, as a part of company marketing. Through marketing, firms are able to obtain new consumers of different demographics or more from its core customer base and thus raise sales. More and more corporations that are well established in their industries are incorporating some influence from Hip-Hop. This seems to say mature companies have found a way to increase market share and sales. Therefore, this paper looks at the changes in annual sales data from before and after Hip-Hop was used in company marketing. In addition to sales data, company stock prices were also analyzed. Stock prices are another major element to examine because they reflect how well a company is able to sell products and manage operations.

Companies were discussed from different industries to show that this new form of marketing does not just apply to one type of consumer product. In order to look at annual sales, information was taken from company annual reports. Stock price data in the paper was retrieved from historical company market prices. So evidence used are financial statistics reported by the firms to the Securities Exchange Commission, and as an end result the public, as well as the per share value of the firm. In this paper it has been determined that not all companies which use Hip-Hop artists or other characteristics associated with this genre of music will experience an increase in sales results and/ or stock returns.

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And thank you, Tamika Laldee, for your words of encouragement and all your help.

Introduction

In many ways, doing a research thesis on financial issues can be very difficult. Two primary elements of interest, when it comes to finance and firms are sales and stock valuation. Therefore, this paper will examine corporate America's use of Hip-Hop in marketing as a way to reach consumers and thus raise product sales. Although it may seem this way, Hip-Hop is not a new trend that has just exploded into American spot light. Hip-Hop has been around for about 30 years initially providing an outlet to African Americans to express their ideals on politics, feelings and frustrations about the social and economic status of the Black community, and the reality of their every day lives. Now with the evolvement of the genre there are very commercial aspects to Hip-Hop. Just listen to some of the songs on rotation on radio stations and video channels. One common element in Hip-Hop tracks is the mention of items that represent status, that can be identified as premium brands, or general products artists may like.

People who listen to Hip-Hop make up an important demographic for most consumer products. Not only are Hip-Hop listeners in a key age range of 12-34 years of age but they also span across both genders and all ethnicities. One would think the idea of using this large-scale, powerful instrument to a particular audience would have been used before now. While the consumers may not look like the typical targeted group, these people offer potential for market domination. Nevertheless it was not until the youth of White America began to indulge more

in Hip-Hop that big businesses began to take notice.¹ It served as a signal to try something new. Its possible even with these campaigns companies unintentionally received other consumers. With its crossover to White America it has been able to establish a strong hold in the corporate world.

From its birth in New York, Hip-Hop has been a major force in the black community. Artists tell the tale of “the rose that grew from concrete” and give Black youth an opportunity to see leave from the ghettos of the inner city and become successful doing something they enjoy. Not surprisingly, youth want to imitate what they see and thus go and buy the jewels, the clothes, the cars, etc. that they see their favorite rappers purchase. So consumers have the latest in fashion and status and firms are reaping the benefits through sales.

Whether the interest of white youth in Hip-Hop stem from the entrance of Eminem into rap professionally may be up for debate, it is no secret they are interested in the culture. While there have been other White rappers before him, he has been able to maintain longevity and popularity within the Hip-Hop community. Companies trying desperately to reach the urban market or just looking for a fresh avenue to boost sales have found their way through Hip-Hop. The first marriage between Hip-Hop and commercial products came in 1986. The legendary group Run DMC wrote the song “My Adidas” and simultaneously created a strong buzz for the Adidas Shell Toe sneaker. Russell Simmons brother to Reverend Run, a member of the group, was able to broker a deal between Adidas AG Solomon and the rap group to market the sneaker for \$1.5 million

¹ “Hip-Hop Culture” BrandChannel.com

dollars.² Sales for the Shell Toe Sneaker as well the company's stock price went up almost immediately. As a result Adidas extended their deal with Run DMC for a four year period earning the group almost \$4 million dollars and new customers and revenue for Adidas.³ Now 20 years later it's nearly impossible to see or hear of a product without Hip-Hop association. But is this having a profound affect on company sales and stock prices? Or are their competitors still out performing them in these areas?

One of the easiest products to see connected to Hip-Hop is athletic footwear. The major athletic footwear and apparel companies Reebok and its parent company Adidas have signed lucrative deals with Hip-Hop stars to increase the market share in the urban youth market. Nike, another athletic powerhouse has taken a back seat to these two companies in the using rap artists to promote their products. Is this a mistake? One may think the company may feel this way. With superstar athletes becoming a secondary influence in the urban market one has to ask. While Nike has not signed deals to promote with these artists for regular endorsements to reach the urban market, recently, the company has added a dance video featuring the dance moves from the Rihanna video "S.O.S" as well as sponsored events.

Other major products that have allowed Hip-Hop to become a major face of their products are cell phones, clothing lines, automobiles and various types of beverages. While it may seem corporate America can be all about the money, businesses are not the only ones seeking out these major deals. Rap artists know

² "Hip-Hop Goes Commercial" The Village Voice

³ "CBC Marketplace: Rhyme pays" CBC

the power and influence they hold over their communities and audience as a whole. Over the years they have seen how crowds heed their lyrics and style. So they too seek to make these deals.⁴ There are two different ways that Hip-Hop artist and corporate America link up. First, many Hip-Hop artist rap about their experiences and what they like such as cars, clothes, alcohol, and vacation spots. So whether it is intentional or not they are endorsers of some of the biggest brands. Second, companies and artists that negotiate contract deals to associate the artist or their music to product or services. Thus, this paper will look at companies that use Hip-Hop artists or have received the benefit of lyrical commercials and compare them to companies that have yet to acquiesce to this genre of music. By doing so, it is possible to expect to see a noticeable difference between the stock prices and sales results of the two types of companies.

Method

To test the data gathered, a comparative analysis will be done of stock market valuations and sales changes. These are two important elements when examining the financial state of firms. Data have been collected on nine firms which have been linked to Hip-Hop via official marketing or artists' lyrics. Stock data were analyzed to look for trends to link the rise or fall of price with marketing and sales. Moreover, sales data were examined to see if there was a rise in units sold. The firms chosen represent top commercial brands both in the United States and in foreign countries. These data sets show the annual sales in

⁴ "Hip Hop Gets Down" BusinessWeek online

units or revenues and stock prices from the last day the market opened for the year.

Theories

From most of the evidence gathered one can say that adopting Hip-Hop into a firm's marketing is a sure way to increase sales for a particular product. Firms are able to reach out to communities they otherwise would alienate, thus losing out on major revenue. Still it is important to take it one step further to say using the element of commercial Hip-Hop is what drives consumer interest in a firm's product and thus sales and stock prices. By commercial Hip-Hop the paper refers to the rappers or disc jockeys that are popular via radio stations or video channels, not just avid listeners of the genre. This guarantees an even wider audience.

Another idea companies may want to consider is guerilla urban marketing and sponsorships versus mainstream advertising: television, radio or print effects on sales volume and ultimately stock differentials. Consumers are probably easily lead to purchase products repeatedly based on seeing advertisements or commercials etc. Endorsements or sponsorships must seem genuine. Otherwise consumers will reject the campaign before it begins (if there is prior knowledge) or have no interest in the product.

1 Carbonated Beverages

Coca-Cola has been a leader in the beverage industry since its establishment. However, even the most identifiable brands can be surpassed by the competition or may need to revamp their image. Coca-Cola has been successful in the past with various advertisements to market its number one soda brand which included commercials using polar bears to rhythm and blues singer Tyrese. Nevertheless, Coke has kept abreast of times with marketing by including Hip-Hop to reach urban audiences. The “Real” campaign in 2003 teamed up rapper Common and singer Mya for one commercial and another commercial used Questlove from the group The Roots. Sponsorship of events includes the Essence Festival and a local Hip-Hop dance contest. Most recently the company has done a Hip-Hop spin on its classic campaign “Hilltop” known as “Chilltop”.

Unfortunately, for Coca-Cola its efforts to reach out to consumers through the Hip-Hop urban image have not been quite as successful. Sales for Coca-Cola brand did not increase significantly. In addition, some marketing campaigns were not successful at reaching the consumers. While “Chilltop” puts a modern spin on the company and advertisement’s image, it left some viewers feeling as if the campaign was inauthentic.⁵ In order to have a successful advertisement incorporating Hip-Hop the company needs to commit to the image it is trying to portray and make the raps coherent and authentic and not just a commercial with words to music. Moreover, look at the popularity status of the artists. Common is

⁵ “Cokes Hilltop Remake” Business Week Online

a rapper whose lyrics have a message, has true talent and is a well respected artist. But it is the commercial artists who are always on television, heard on the radio, or are in the news due to real or celebrity gossip. The artists that are featured have to be visible to even the neo- Hip-Hop listeners.

While Coca-Cola is the front product for Coca-Cola, another brand, Sprite, is the other signature soda. Surprisingly, the company has found winning campaigns with this beverage. Most notable is the “Obey your thirst” commercials with character Miles Thirst. To some the Miles Thirst character may not get their attention or they simply can not connect to the character. However, for others the little stories surrounding this guy’s attempts to get the Sprite have helped them stay true to their thirst and pick the Sprite. Another successful example for the company has been the Sprite remix campaign. After adding new fruity flavor to the old lemon lime drink the company decided to market the product with a Hip-Hop image .⁶ Sprite has managed to modernize its image without alienating buyers.

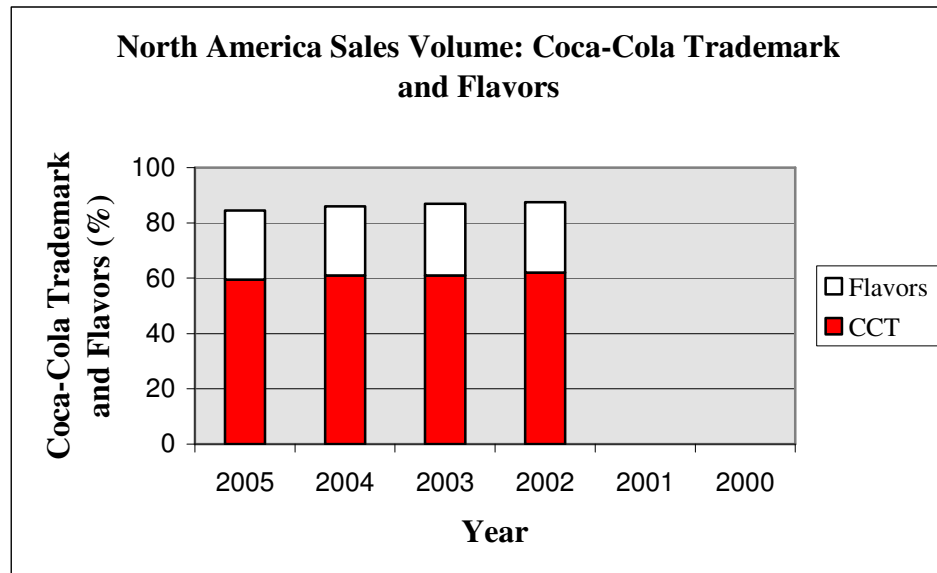
Advertising costs for the company have progressively gone up since 2003 as a reflection of the changes in advertising methods. In effort to increase sales Coca-Cola chose to change or add to the image of some of its products. Over the years advertising expenses have gone from \$2.0 billion in 2001 to \$2.2 billion in 2005. It is important to note that in 2002 advertising expenses went down to \$1.8 billion and subsequently increased in 2003 and 2004 to over \$2 billion now.⁷ Around this time the newer Hip-Hop influenced campaigns emerged. It has been

⁶ “The Spin on Sprite Remix” Food Processing

⁷ Coca-Cola Form 10-K 2005, Advertising Costs

interesting how this has affected Coca-Cola sales. There has not been a reflective rise in sales as one may expect.

Graph 1.1



As one can see from 2002 sales volume actually went down for Coca-Cola Trademark beverages. However, in 2003 there was an increase in sales volume for 2003 for Flavor beverages. After this year sales for flavor beverages have gone down and remained steady at 25% of total sales volume. Despite increases in spending for advertising expenses the company has been unable to turn these into significant changes in sales for carbonated drinks. At this time it is difficult to tell empirically how Sprite or Coca-Cola has done in comparison to other beverages in their respective categories.

Table 1.1

Coca-Cola Co.						
Year	2005	2004	2003	2002	2001	2000
Stock Price End of December	40.31	41.64	50.75	43.84	47.15	60.94
Year End Rate of Return	-3.19%	-17.95%	15.76%	-7.02%	-22.63%	

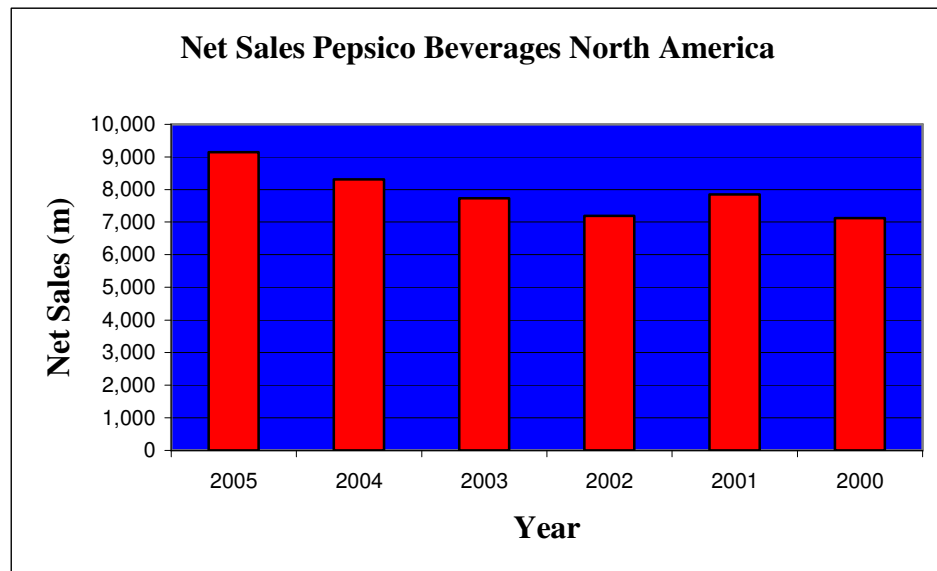
The stock prices from the year 2000 until 2005 in Table 2 paint an interesting picture. One can see the year 2000 has the highest stock price regardless of the campaigns using this influential genre of music. The year 2003 is an exception to the general decline in prices. It is during this time the Coca-Cola Company introduced Miles Thirst as well as Sprite the remix. Coca-Cola's inability to make a lasting connection with beverage consumers through its campaigns as well as other factors that may influence potential and current shareholders and analysts is reflected in its stock prices over the past five years. If a company is selling its products better or at the same level of its competitors, then it is seen as meeting some of its obligations to those with a financial stake in the company. This will result in a favorable influence on stock prices. In comparison to the Standard and Poor's 500 Index from Appendix 2 the company actually outperformed the index 2003 but has since done significantly worse.

Pepsi, another leader in the beverage industry has had a different outcome than its competitor Coca-Cola when looking at the two companies. Pepsi has used this opportunity to show authenticity in its campaigns by staying true to the drink and the personalities of the artists while reaching a new audience. One of the company's successful endorsers has been Sean "Diddy" Combs. He has been used

in a couple of campaigns. He is a flamboyant, trendsetting Hip-Hop mogul. After the abrupt end of the contract with rapper Christopher “Ludacris” Bridges, Mr. Combs’ first commercial debuted as a hit during the MTV music awards.

The commercial shows him arriving to the awards in a Pepsi delivery truck. While this is an outrageous concept the commercial shows that he accepts a ride from the Pepsi delivery man because his vehicle broke down. However, Diddy is one to do new things and do them big, thus setting trends as shown at the end of the television advertisement with Carson Daly driving a Pepsi truck. Since then Pepsi has added a commercial including a customized delivery truck typical of cars or trucks owned by Hip-Hop artists and their listeners to show how its brand of vanilla cola is better than Vanilla Coke and has recently used Kanye West in a television commercial and a Super Bowl commercial in which Diddy tries to do a remix with Diet Pepsi. In comparison to Coca-Cola, Pepsi is the clear winner. Consumers react favorably to the advertisements the company has used. Therefore, Pepsi keeps using Hip-Hop in its marketing but varies its campaigns. Pepsi has found a way to connect to cola drinkers. Sales data shows the past three years of sales for carbonated beverages has been on the rise.

Graph 2.1



After fluctuations in sales from 2000 to 2002, sales have been consistently on the rise for PepsiCo beverages. The advertising costs for Pepsi carbonated drinks have resulted in higher sales for the company over the past three years. What would be interesting to see is the net sales outcome for PepsiCo beverages if a boycott against company products actually had been accomplished, as a result of ending the contract with Ludacris in exchange for a contract with the Osbornes. Examining the sales from this period to sales before the boycott would have showed the influence or lack of influence of Hip-Hop on the company's product sales.

The stock market data for this company can also show the effects of these marketing campaigns as well other influences on the company's ability to perform successfully. Moreover, looking at the sales data one can expect the stock's performance to increase overtime as well. The increase in sales is an obvious

indication the company is bringing in higher revenues that can be used for other business aspects. Pepsico's market results are in line with the idea that using Hip-Hop to market a company's product will produce positive sales results.

Table 2.1

Pepsico					
Year	2005	2004	2003	2002	2000
Stok Price End of December	59.08	52.2	46.62	42.22	49.56
Year End Rate of Return	13.18%	11.97%	10.42%	-13.29%	

The end results for years 2002 and 2003 are lower than stock market prices for the previous and following years. During this time, Pepsi's popularity within the Hip-Hop, urban and black community was not as strong as expected it would be. In August of 2002, the company cancelled its endorsement contract with rapper Ludacris. As a result, much conversation was placed on boycotting Pepsi products until February 2003 when an agreement was reached between Pepsi and Ludacris with the aid of Russell Simmons. So not only was Pepsi dealing with outside influences that affect the company's position, the firm also had to develop a solution to save the company's image to a powerful group of consumers. Considering the chain of events Pepsi has emerged strong and still continues to connect with the Hip-Hop community. The stock price from shows the company is rebounding from any issues that may affect the brand and company operations. Except for the year 2004, Pepsico's rate of return on its stock exceeded the rate of return for the S&P 500 index in Appendix 2. The

increase in the value of stock from 2003 to 2004 was not as strong as the gain on the S&P Index.

2 Footwear & Apparel

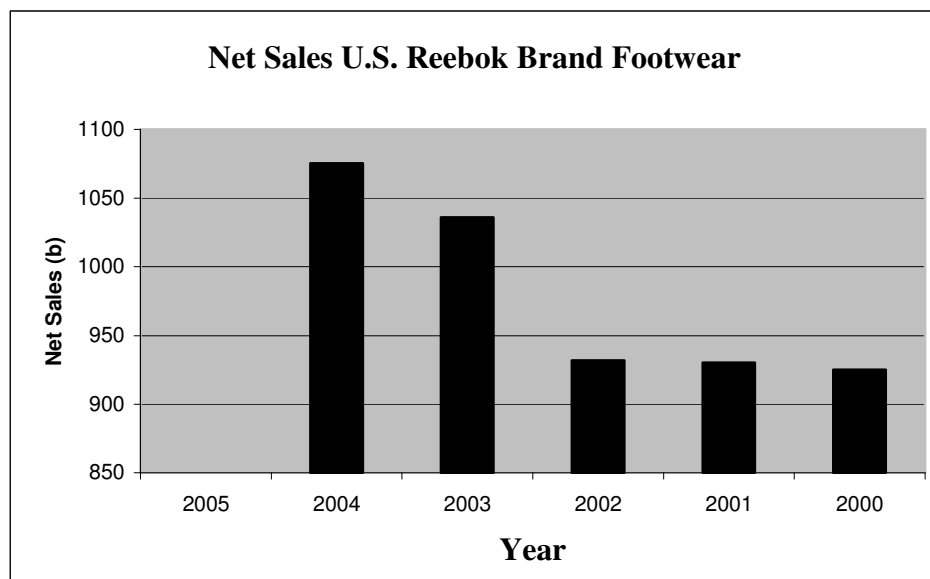
After success with top athlete endorsers, Reebok, like many other companies, moved to the culture of Hip-Hop to sell sneakers within the Reebok Brand. In order to reach urban and younger consumers, Reebok revamped its lifestyle brand with the G-Unit and S. Carter collections featuring 50 Cent and Jay-Z respectively. Since the start of Rbk in 2002 sales have increased greatly for the firm do to greater emphasis on these lifestyle brands. By the end of the fourth quarter 2004 sales had grew upwards of 16% and shares were up 12% from 2003, ahead of market expectations.⁸ This being said, one can tell that the \$250,000 spent on a launch party for the G-Unit sneaker the G6 as well as additional money for other advertising expenses was worth it.

This increase in sales along with a comprehensible management team has moved the companies market share up as well. By augmenting street credibility through the use of rap artists as endorsers, Reebok has found means to connect to the urban audience beyond athletics, the popular choice for competitors like Nike, New Balance and Puma. So far company sales have been on a steady rise.

⁸ "Sweet Sole Music" Barron's

However, the acquisition by Adidas has caused a slump in sales for the third quarter of year 2005.⁹

Graph 3.1



The sales data for the Reebok Brand Footwear does not reflect 2005 sales because of the acquisition by Adidas Solomon AG. The company is not required to report the same information as other public companies because it now belongs to a foreign parent corporation. Furthermore, the drop in sales is not uncommon when companies enter into mergers and acquisitions. The ultimate outcome can be exceptional. Still customers, shareholders, and other financial analysts may have initial reservations. Both Adidas and Reebok are powerhouses in the athletic footwear and apparel industries. Having acknowledged this fact one can understand the reservations concerning how the two companies will interact without cannibalizing sales. Nevertheless, the jump in net sales from 2002 to 2003

⁹ "Adidas Faces Challenge Over Reebok" FT.com

is obvious. The increase in 2004 from 2003 is not significant; but it still shows the impact of such marketing on the sales of footwear. By then consumers had adjusted to the improved urban image of Reebok and but still purchasing its products.

The Rbk Line has seen some aggressive growth since its inception. By the fourth quarter of 2002 sales had more than doubled the amount from 2003 for the same period. From the various athletic footwear companies: Puma, Nike, New Balance, Adidas etc. Reebok International Limited was the only one to grow in 2003 after the emergence of the revamped lifestyle line.¹⁰ Analysts projected the 2005 sales would to double to \$326 million for 2005.¹¹ The Rbk line with two of the most popular artist in Hip-Hop allowed Reebok to reach its coveted market and remain one of the biggest athletic footwear competitors. Reeboks increased its status as a successful athletic footwear and apparel company showed through its stock prices as well. Consumer interests in Reebok brands and product lines shows the company has kept its customers content as well as been able to obtain more customers. The additional revenue plus the company's operations methods have increased the financial world's confidence in the company.

Table 3.1

Reebok International LTD (pre-acquisition)						
Market Value of Stock	2005	2004	2003	2002	2001	2000
Stock Price End of December	58.23	43.74	38.76	28.85	26	26.83
Year End Rate of Return	33.13%	12.85%	34.35%	10.96%	-3.09%	

¹⁰ "When Bad Rap Is Good Brand" Brandweek

¹¹ "Sweet Sole Music"

Not including the stock price close at the end of 2000, prices have increased every year from 2001. The results from year 2002 may reflect the announcement that the company would enter into an agreement with Jay-Z and 50 Cent similar to results from 2001 reflecting the state of the country and economy after September 11th. Getting more customers from the urban sector allows the company to make more in sale revenues. Maintaining and growing the customer base shows the company is putting its resources and expenses with other elements to good use and is reflected in stock price. The rate of return on this stock increased overtime as did the rate of return for the S&P Index in Appendix 2. In most cases the return for Reebok was higher than the index but this was not the case in 2004. It rose in comparison to 2003; it was just not as significant as for the index.

An important factor one must keep in mind when making deals with endorsers such as music artists is that it has to be seen as realistic. If the consumer does not believe that the artists have genuine interest in the product, then the campaigns will be a flop. Reebok has circumvented this outcome by marketing the product around the artist. Endorsers are able to show their authenticity instead of just pushing a corporate product. To capitalize on this opportunity, Reebok International has signed a deal with Reggaeton sensation Daddy Yankee and rapper Nelly.¹² Reggaeton is a mixture of Hip-Hop, Reggae and Latino music. Currently it is very popular. Signing renowned artist Daddy Yankee gives the company prime opportunity to reach the Latino, Spanish and other ethnic consumers While the other lines and brands contribute to the jump in Reeboks

¹² Press Releases, reebok.com

sales one can not omit the impact of the lifestyle line. The “Office linebacker, Terry Tate” was a catchy campaign for Reebok. However, the company has found it generated more buzz for its products than actually pushing sales.¹³ Capitalizing on the hype surround the G-Unit and S. Carter collections Reebok garnered a distribution deal with retail Footlocker, LTD. Having a main venue to sell one’s products allows the company to more easily meet the demand of its customers.

Athletic footwear is not the only sector of apparel that has reached out for the influence of Hip-Hop. The Gap, Inc. is one retail corporation that has embarked down this new marketing avenue. While the high end brand of GAP, Banana Republic, is staying true to its roots, corporate management has allowed the GAP and Old Navy stores to use Hip-Hop artists in their advertising. GAP has used renowned Hip-Hop DJs and Missy Elliot in previous campaigns amongst other artists to help entice consumers to buy their brands. During the Christmas season of 2003 Old Navy took use of celebrities in commercials to a new level when the company decided to use rapper Lil’ Kim.

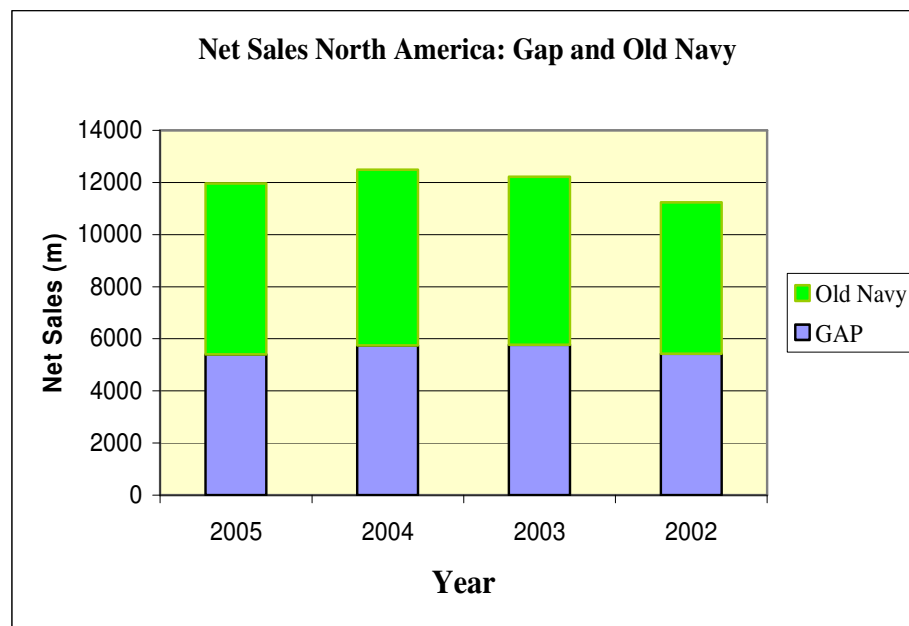
With the company’s more recent use of endorsers from the Hip-Hop genre of music, it seems to have fallen behind other corporate giants who have long since jumped on the Hip-Hop bandwagon.¹⁴ Is this a reason the company is still experiencing difficulty bring its sales back to their high peaks? In order to answer this question one also has to consider the style of clothing and does it fit into the trends of Hip-Hop. A more clean and neat appearance has been seen recently within Hip-Hop fashion. Male artists have been seen wearing tailored suits,

¹³ “Terry Tate Builds Buzz” Advertising Age

¹⁴ “From Sweatshop to Hip-Hop” Colorlines

button down shirts, and blazers amongst other crisp items of clothing. Females are also seen wearing elegant and trendy attire. However, this does not necessarily coincide with the preppy casual image GAP stores can not escape. Old Navy clothing has more of fun, hip and trendy appearance in comparison to the GAP which is more preppy casual look. As seen below the sales data implies one can not easily change its image.

Graph 4.1



With the increase in Gap sales in 2003 one would expect the trend to continue. The total sales numbers for 2003 increased from the previous year. However, sales actually declined in both 2004 and 2005. Over the years, Gap has used more than the Hip-Hop genre of music to try to attract customers. Finding a core image and staying focused will help Gap in securing a customer base. The result of using different types of marketing campaigns could have affected how

various potential consumers view the Gap brand. By not using advertising with the same characteristics, or offering more than one campaign with Hip-Hop (or any particular example) may seem less genuine. Gap could take a cue from Pepsi with its diet Pepsi commercials. Not only did the company use Diddy, but it also incorporated another symbol associated with Hip-Hop, the customized delivery truck.

Old Navy sales, however, have taken off over the past few years.

Although the sales results for the 2005 period do not show an increase in net sales, they are still higher than the sales from the Gap brand. For Old Navy, 2003 turned a new leaf in the brands sales. The differences in the net sales for these two GAP Inc brands can also be a result of price scale differences and personal preference for today's consumers. Stock market price data shows that the GAP Inc., has had difficulty in previous years. Nevertheless, prices have been going up every year. It seemed the company stock was off to moderate yearly increases and then the price soared in 2005.

Table 4.1

GAP, Inc.						
Year	2005	2004	2003	2002	2001	2000
Stock Price End of December	31.78	10.25	8.4	8.06	23.78	7
Year End Rate of Return	210.05%	22.02%	4.22%	-66.11%	239.71%	

It was as early as 1997 when GAP Inc. used rapper LL Cool J in its commercials for the GAP brand. However, the company did not use Hip-Hop

artist again until 2001 and again in 2003 for the GAP and Old Navy brands.¹⁵

Looking at the stock data for 2001 one can see it was a good year for GAP Inc.

The company's year end stock value was high in comparison to the years that the company used more traditional advertising. Unfortunately, in 2003 the stock value was extremely low showing the company still had yet to re-find its groove for success. Because GAP, Inc. stock has fluctuated in price over the past years the increases or decreases in stock returns is more extravagant. During most years GAP stock performed worse than the composite of stocks from the S&P 500 Index. This reflects the company's inability to connect with the consumers to get them to purchase GAP, Inc merchandise and the lack of confidence of analysts in the company's capability to increase sales revenue.

Liz Claiborne is another company that has looked to Hip-Hop to increase its sales. However, not through the traditional way of endorsements, commercials or sponsorships, instead the company bought Enyce. Enyce is a Hip-Hop clothing line created to serve the urban market. In 2003, Liz Claiborne acquired this company adding more diversity to its portfolio of companies. Through this acquisition the company is able to reach the urban consumers who look to Hip-Hop and its artists for fashion trends. So not only has the company increased its market share in the apparel industry through a different product line, it has also added a new demographic of consumers the company is able to reach. Buying Enyce offered many opportunities for Liz Claiborne. Stock market data implies this purchase could have positive effects on the firm's financial outlook. Stock prices increased at the close for both 2004 and 2003.

¹⁵ "From Sweatshop"

Table 5.1

Liz Claiborne Inc.						
Year	2005	2004	2003	2002	2001	2000
Stock Price End of December	35.82	42.21	35.46	29.65	49.75	41.62
Year End Rate of Return	-15.14%	19.04%	19.60%	-40.40%	19.53%	

The stock price before the purchase of Enyce was at a new low in comparison to previous years. Since the purchase, the stock values have gone up as well as decreased (in 2005). This data shows that the purchase of Enyce may not have been the only element to impact the stock pattern. One other important measurement has been the rate of return of stocks for Liz Claiborne versus those of the S & P 500 Index. 2001 was ahead of the index but every subsequent year the company's rate of returns slips further behind the composite stocks of the index. Every rate of return for the years following 2001 was lower (even when positive), than the index of firms. Fortunately, sales paint a different picture than the stock market data.

Graph 5.1

The sales data show an increase in the number of domestic sales. This is the optimal outcome one would want to see. The first three years from 2000 until 2001 in Graph 5 show rising sales; however, after a noticeable rise from 2000 to 2001 the change is not so significant from 2001 to 2002. After the purchase of Enyce sales are on the rise. The pattern for the last three years is similar to that of the first three years. Still the increase in sales from 2004 to 2005 is higher than the increase from 2002 to 2003. Note, this sales data also reflects the data from other brands within Liz Claiborne.

3 Automobiles

Another arena of companies that have been influenced by Hip-Hop are those in the automobile industry. Like most businesses, car companies were hit fairly hard after September 11th but many still to have trouble recovering despite adjustments. DaimlerChrysler is one of the companies that have received free endorsements for various makes of the Mercedes Benz. This occurs when artists mention products in their lyrics without a deal from companies. For example, in 2005 Mercedes was the brand most mentioned in the lyrics of rap artist.¹⁶ This is not the first year the brand was recognized so highly in Hip-Hop lyrics. The company has also paid artists to be in commercials or has lent cars for artist video shoots thus gaining publicity for different car models. The company understands that exposure with popular artists can mean big sales.¹⁷ The most popular the marketing campaign geared at increasing sales included rapper Snoop Doggg and retired CEO Lee Iacocca. DaimlerChrysler is capitalizing on the artists' like for the cars and their influence on different demographics. This and other forms of business savvy is reflected in firm stock prices.

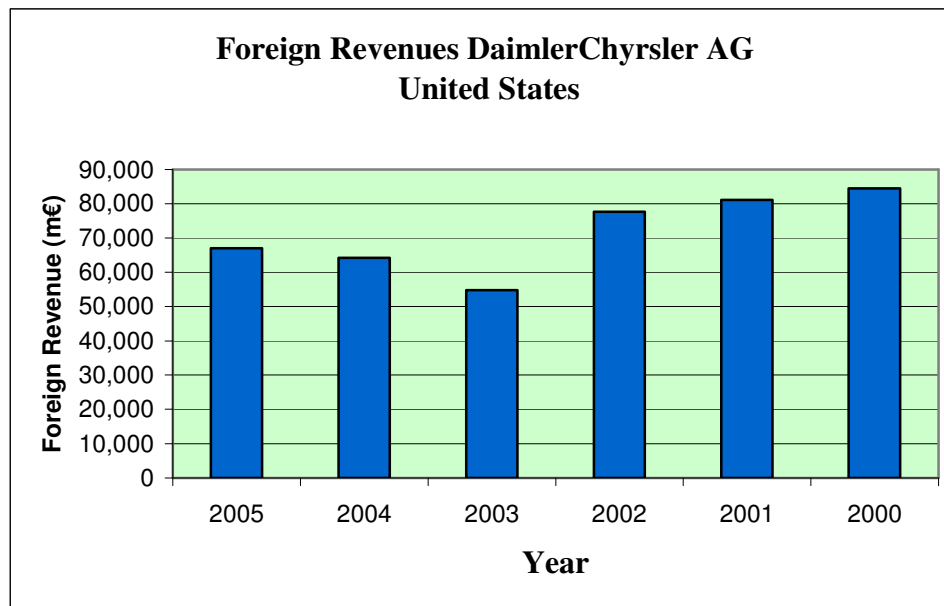
¹⁶ "Mercedes Most Rapped About" CNNMoney.com

¹⁷ "Chrysler Puts Some Muscle" BusinessWeek

Table 6.1

DaimlerChrysler AG						
Year	2005	2004	2003	2002	2001	2000
Stock Price End of December	50.85	48.05	46.22	30.65	41.67	41.2
Year End Rate of Return	5.83%	3.96%	50.80%	-26.45%	1.14%	

While the stock price for the company has not made outrageous increases, over the last six years the stock has been on an incline. The company has even managed to surpass stock values previous to the terrorist attacks of September 11th. Besides sales of automobiles DaimlerChrysler, is able to benefit from being a foreign corporation. So while sales declined in the U.S. market affecting company operations DaimlerChrysler had its home market to curtail some of the impact. In general, the stock price for this company has gone up over the past six years, although the increase stock prices have not been more than \$2.80. In most years the company has been able to beat out the S&P 500 Index. However, in 2004 this company's return was significantly lower than that of the index. Previously mentioned firms in different industries show this same trend. Sales data show a different story for the company. Sales were actually already declining as one can see from the years 2000 and 2001.

Graph 6.1

Revenues from the period 2000-2005 are consistent with the overall decrease in sales in comparison to previous years in the United States automobile market. While revenues are not as high as they once were there is still an upward trend starting from year 2003. This is a clear indication that sales are going in the right direction. These revenues are from all segments of DaimlerChrysler in the United States; therefore one can not draw conclusions for sales of Mercedes or Chrysler Groups separately for the United States region.

Another automobile brand that has seen an increase in sales as a result of Hip-Hop has been General Motors Corp. Since the launch of the Cadillac Escalade in 1999 the company has seen a large amount of revenue in the form of sales it might have missed out on. The love of the General Motors model Cadillac in the Hip-Hop community, however, is not new. For many in the Black

community Cadillac's, are the epitome of cars when you want to show your status. In many ways the company is still struggling to find its previous level of dominance in the industry. It still maintains its title as the industry leader in the U.S. automobile market; but market share is declining annually to other competitors both foreign and domestic. Trying to get the company back into shape financially has required different tactics such as selling cars at a discount, laying off employees as well as making advertisement changes to maintain old constituents and reach new ones. All of these elements are displayed through the positive and negative changes in stock prices.

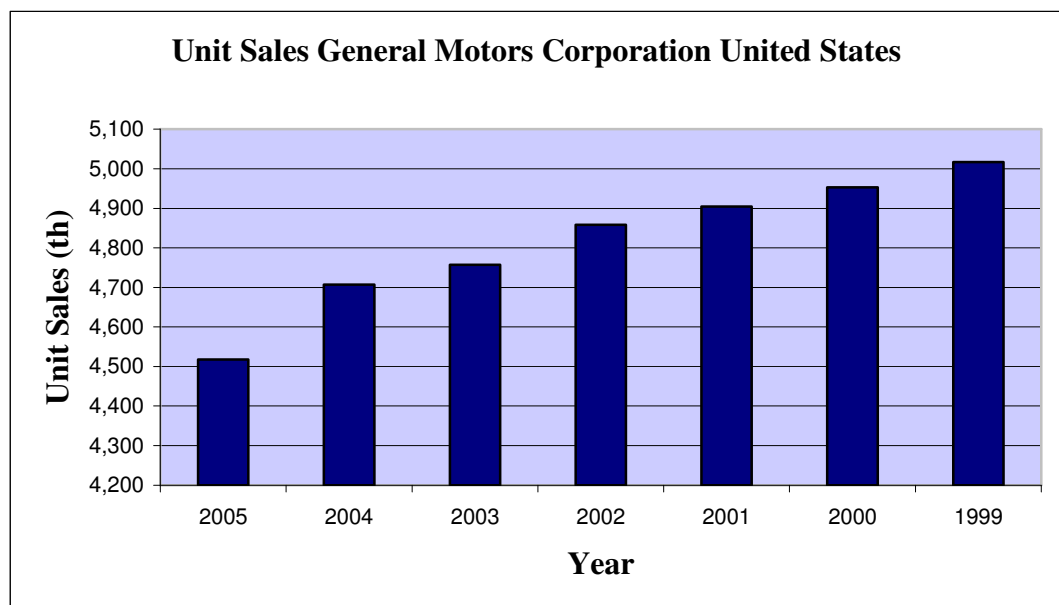
Table 7.1

General Motors Corporation							
Year	2005	2004	2003	2002	2001	2000	1999
Stock Price end of December	19.42	40.06	53.4	36.86	48.6	50.94	72.69
Year End Rate of Return	-51.52%	-24.98%	44.87%	-24.16%	-4.59%	-29.92%	

It is evident that General Motors is still affected heavily by outside factors besides publicity. Since the production of the Escalade the stock values have gone up as well down for the company. The year 2005 closed with the lowest stock price of the past eight years. The stock returns for General Motors are consistently lower than the S&P 500 except for the year 2003 when it surpassed it. Since results for stock returns are lower than the index rate of returns, one can see General Motors is not only behind its old financial status, but it is also not in line with market changes.

Unlike stock prices, total sales have been on the decline. However, sales for this particular sports utility vehicle model that is mentioned quite often in artists' lyrics have increased. To take advantage of the success of the Escalade model the company will offer increased customization options to mimic those requests and alterations done by Hip-Hop artists for 2007 models. Other ways the company has used Hip-Hop to keep its brand popular for the demographic that comes with Hip-Hop has been to have such events as the "King of Bling" contest. This allows artists as well as others to showcase their personalized vehicles. Therefore, potential and repeat customers can see how they can style their General Motors vehicles after some of the most famous people today. Without directly putting some of the funds allocated for advertising on particular campaigns with Hip-Hop notables or influence, the company has still been able to use it as an outlet to affect sales.

Graph 7.1



The sales data here is reflective of total General Motors products in the US. While the total units have gone down every year since 1999 the units of different models has not. As mentioned before the Escalade is one of the most popular models for those who listen to the Hip-Hop genre. While there is not a comprehensive break down of sales for all models over this period of time, truck sales, in particular the Escalade model, have been increasing almost every year.¹⁸ In the year 2005 GM saw a small decrease in total sales of trucks.

Toyota, although it is a foreign company, is another leading car corporation that has in some way associated itself with the Hip-Hop community. Taking a cue from the success of the Cadillac Escalade, Toyota has produced its own car to associate with Hip-Hop. This is a key difference for Toyota in comparison to General Motors. Toyota specifically set out to create a model with the intentions of using Hip-Hop and attracting its consumers.¹⁹ In many aspects the creation of the Toyota Scion has been successful for the company. The company has also established an endorsement deal with rapper Ceelo for the Corolla S series. Toyota is a company that for many years has enjoyed success in its industry. One way to do that is to keep abreast of the times with marketing and advertising to keep the flow of sales positive. Other elements that are associated with Toyota vehicles are durability and technology. When consumers believe they will get an exceptional product they will purchase it. Toyota has been able to produce this concept of exceptional automobiles for all of its models, not just the luxury line Lexus. With all of these factors amongst others things like sound

¹⁸ General Motors 10-K, Annual Report

¹⁹ "Will the Kids Buy It?" CNNMoney.com

corporate management it is not a surprise Toyota's stocks are consistently increasing.

Table 8.1

Toyota Corporation						
Year	2005	2004	2003	2002	2001	2000
Stock Price End of December	104.62	81.87	68.75	53	50.96	62.95
Year End Rate of Return	27.79%	19.08%	29.72%	4.00%	-19.05%	

Looking at the stock price data, Toyota has managed to keep the company operating successfully and sales figures up and increasing. There is no one right formula to incorporate Hip-Hop into the company's advertising campaign.

Overall, the stock returns for Toyota have been greater than S&P 500 Index.

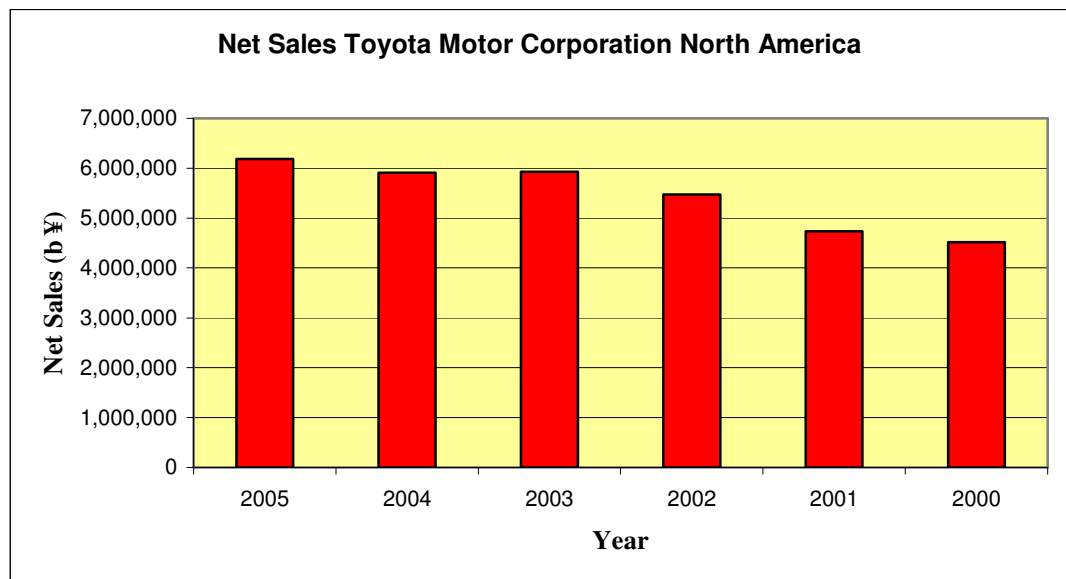
However, two years, 2001 and 2004, have had lower stock returns than the index.

The lower stock returns show even a powerhouse in an industry can fall below market norms.

One thing companies need to be conscious of is authenticity when trying to reach a new customer base. While the Scion is excellent example of a product geared toward a particular audience and see success in sales, the company also received backlash for a sponsorship event involving this model. While hosting an open mic contest, Toyota wanted to invoke censorship on artists' lyrics. This is not uncommon because companies want to keep wholesome images. However, firms have to know how to accommodate its desires with those of its consumers as well as the freedom of speech. This is important because Hip-Hop is about

using your voice to be heard. As mentioned before, discontent from the group of consumers a firm is trying to obtain can result in an unfavorably outcome for the company. Nevertheless, Toyota managed to move beyond this situation and see success with the Scion model. Sales for the company continue to rise.

Graph 8.1



Over the years total net sales for North America have been on the rise. It would be better to see the US sales performance separate from Canada and Mexico. While this genre of music is global there is no doubt companies use different tactics to attract customers depending on the customs and culture of a particular area. And not all advertisements are the same for the total North American market.

4 Wireless Communication & Consumer Electronics

There are very few industries today in which some form of interaction with the Hip-Hop community is non-existent especially not communications. Nokia, a cell phone manufacturer, is one company that used rappers to endorse a particular model of phone. Jay-Z and Snoop Dogg both rappers have endorsed the Black phone for the company between 2003 and 2004. Before and after this period the handset maker did not have any form of advertising with this media genre. The sales of this and other handset models along with the company's methods to attempt to stay abreast of industry norms but above competitors impact the stock price data for this company. Popular influences are expected to positively affect stock price. For Nokia this appears to not be the case.

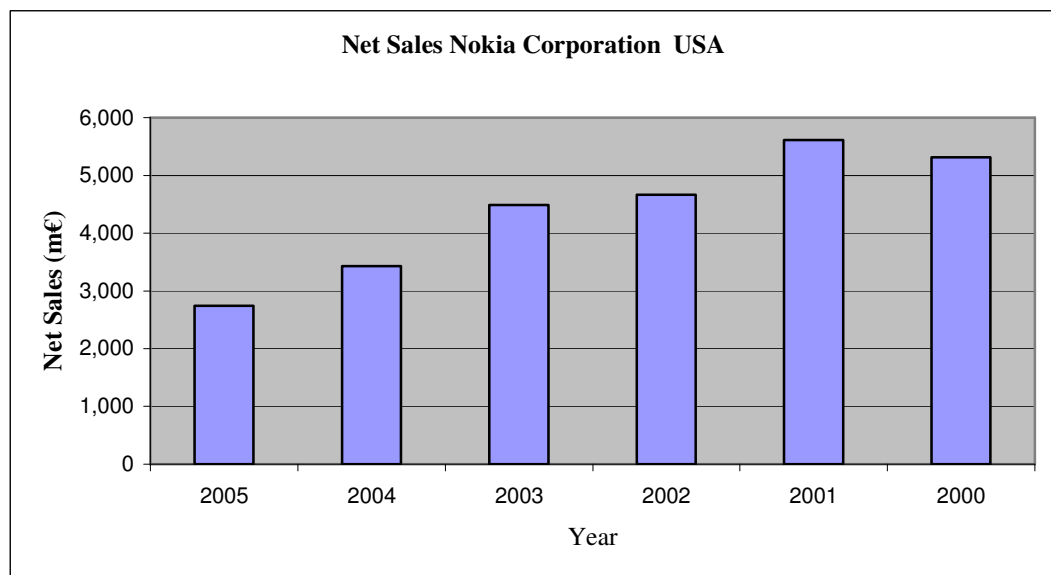
Table 9.1

Nokia Corporation						
Year	2005	2004	2003	2002	2001	2000
Stok Price End of December	18.3	15.67	17	15.5	24.53	43.5
Year End Rate of Return	16.78%	-7.82%	9.68%	-36.81%	-43.61%	

During this period between 2000 and 2005 the stocks for Nokia have declined as well as risen. At the end of 2003, when the announcement for the endorsement deal was made the stock ended higher. The higher ending price indicates consumers viewed this as a positive idea. While the stock price for the

firm ended higher in 2003 it subsequently dipped in 2004 and rebounded to a higher price in 2005. While rappers may have been positive for the sales of the Nokia handset other factors also affected stock movements. Its stock returns do not show steady increases or decreases over the six year period and in most years the returns are worse in comparison to the S & P 500 Index. Sales of Nokia handsets seem to follow an up and down pattern like the company stock prices.

Graph 9.1



While net sales have gone up and down, they still have not rebounded to the level of 2001 sales. The overall trend of sales has been declining for the handset manufacturer even during the marketing promotions for the Black phone. Consumers who follow trends of artists are likely to switch products as many times as a rapper mentions a different song. Beyond these factors that affect the Black phone there are also other models that have to be sold. Looking at the

decline in total sales it appears other models of phones were not selling as well. Therefore, competitors were beating out Nokia in selling handsets.

Verizon Wireless is one cellular phone service provider that has used Hip-Hop in its advertising on various occasions. For this company, linking up with this genre has been beneficial for different phone models that the company has to offer. So not only is the company able to sell more handsets but gain more customers as well through new subscriptions. Since the “Call Me” campaign with Pop singer Tweet the company has moved on to Hip-Hop and used the Black Eyed Peas, Wyclef Jean and the Fugees as well as created a Hip-Hoptionary for its website.²⁰ Verizon has also been the industry leader by number of subscribers until the merger between Cingular Wireless and AT&T Wireless. What is surprising about the stock price data is that there are fluctuations in the prices even though Verizon is an industry leader.

Table 10.1

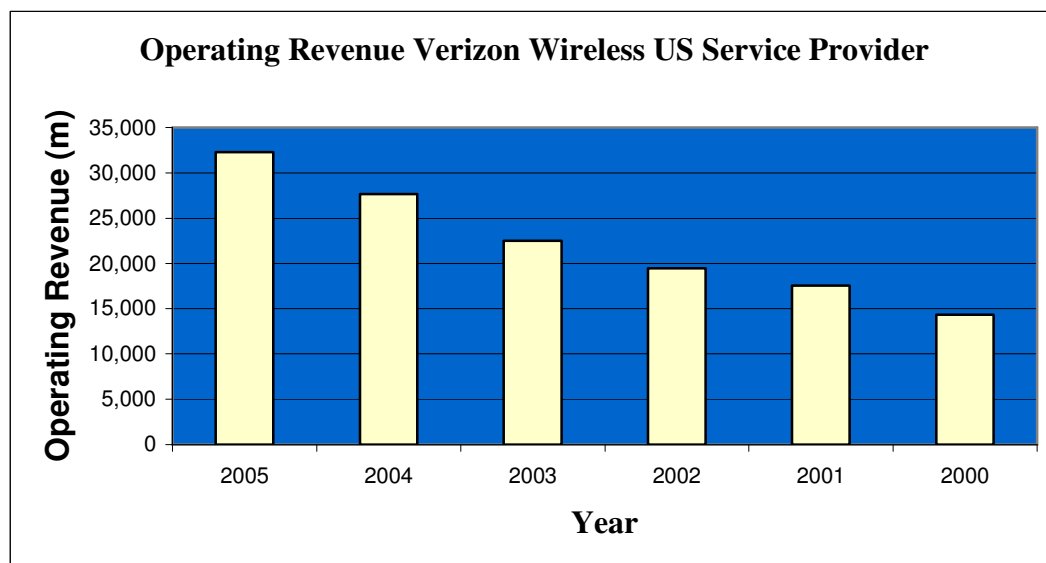
Verizon Communications						
Year	2005	2004	2003	2002	2001	2000
Stock Price End of December	30.12	40.51	35.08	38.75	47.46	50.13
Year End Rate of Return	-25.65%	15.48%	-9.47%	-18.35%	-5.33%	

Although Verizon has used Hip-Hop as well as its resources and abilities as an industry leader to reach new consumers, there is no consistent rise in the company’s stock prices. The year 2000 was the best year the company has seen

²⁰ Get It Now, Verizon Wireless Going Applications

recently. Following that year stock prices had been on a steady decline until 2004. Even though price rose in that year it declined again in 2005. Returns for the stock reflect this decline with each year ending negatively except for 2004. These negative returns place the company's returns behind those of the index every year, even when the returns were positive. However, Verizon is a special case. While the stock prices and thus returns have declined, sales for equipment and service subscriptions have increased.

Graph 10.1



From 2000 revenues from equipment and wireless service has been increasing. This shows the company is able to attract and maintain a large portion of its customers. So the campaigns are having a positive effect on company sales. When looking at the revenue numbers versus the stock performance and returns it is apparent the correlation between marketing and sales and company stock is not

a simple direct correlation. It is important to note that Verizon Wireless is but a segment of Verizon Communications. Therefore, stock price data represents the total impact of all segments not just the wireless business.

T Mobile USA, the American branch of the Deutsche Telekom company, has used rapper Snoop Dogg to entice consumers to come in and sign subscriber contracts as well as sell products like the T Mobile Sidekick. Moreover, the company has been lucky like General Motors because the product is endorsed by the Hip-Hop artist community when they mention the Sidekick in their lyrics and thus young buyers are influenced to by the product. This product has seen major success in the American market. Since acquiring Voice Stream and Powertel to make the US subsidiary of T-Mobile company stock prices have actually declined from there 2000 levels. While T-Mobile USA is only a segment of the firm one would expect an acquisition that would bring them new consumers in a new market would have a bigger impact on the stock prices.

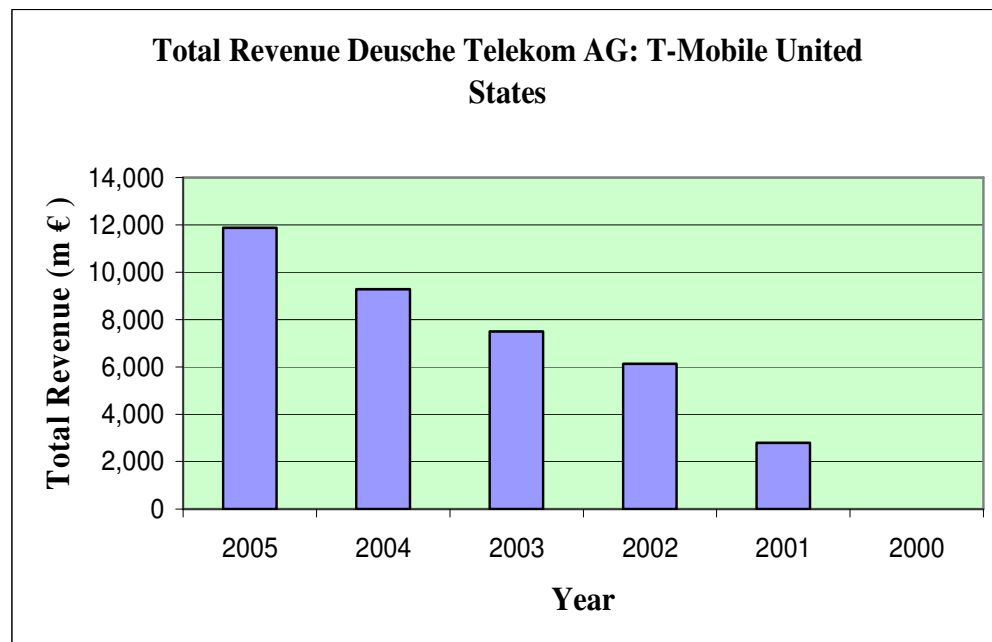
Table 11.1

Deutsche Telekom AG - T Mobile						
Year	2005	2004	2003	2002	2001	2000
Price End of December	16.63	22.68	18.13	12.7	16.9	29.25
Year End Rate of Return	-26.68%	25.10%	42.76%	-24.85%	-42.22%	

Because stock prices are low and fluctuate, the rate of return on the stock is also up or down depending when calculated. The percentages on these returns are high in the double digits whether positive or negative. So when the company

is either performing well or poorly. The volatility is not what people with a financial stake in the company (or may potentially have an interest in the company) want. It implies the company is not a solid business. Overall stock performance in comparison to the S&P 500 Index is worse than the index. It is not a good mix for a company to have dismal returns and under-perform in the market. However, similar to Verizon Wireless revenue from equipment and subscription services has increase over time since the two companies were acquired.

Graph 11.1



Using a marketing technique that is out of the norm and reaches a different audience has allowed the company to increase its client base and sell more units of handset models. Looking at the general trends between artists and their

audience one can assume the sales of products like the Side Kick have been a result of unofficial ties with company's products and artists through their lyrics.

Cell phones are not the only trendy products benefiting from Hip-Hop exposure. The popular product Apple Ipod can be included as well. While Apple did not initially link with a particular artist to sell its product, its first commercials used the popular song by Eminem "Lose Yourself" as background music for dancing silhouettes. The style of dance used in the commercial was also influenced by Hip-Hop dance. Since its debut sales of Ipod models have increased. It is important to note that the Ipod is not the only item of Apple's that has a trendy image. The company has been changing the image of its core products computers and laptops also. Therefore, some of these changes will affect stock results as well because consumers are buying these products increasing Apple's market share in the computer industry.

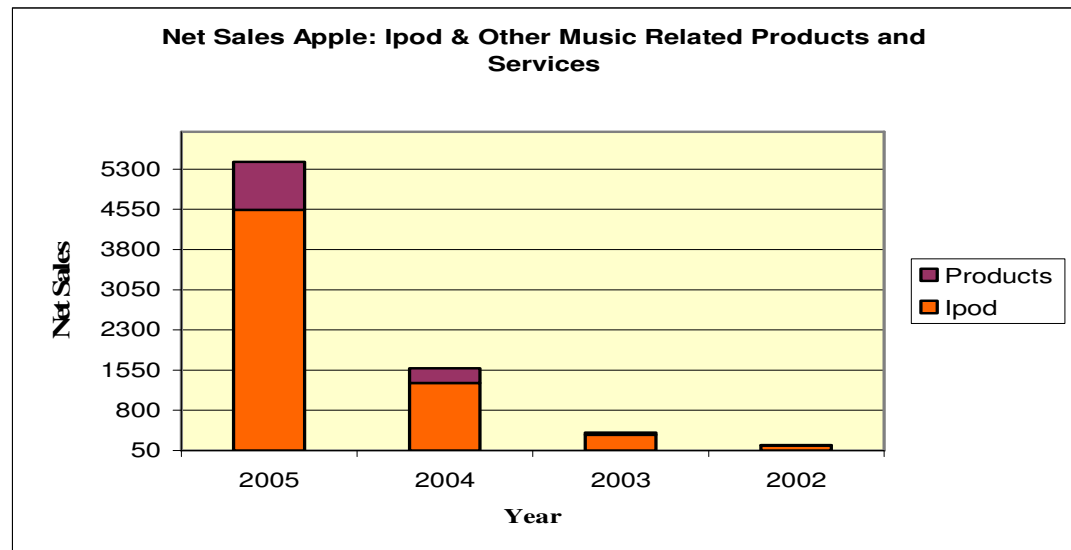
Table 12.1

Apple						
Year	2005	2004	2003	2002	2001	2000
Stock Price End of December	71.89	64.4	21.37	14.33	21.9	14.88
Year End Rate of Return	11.63%	201.36%	49.13%	-34.57%	47.18%	

As one can see, stock prices have been on the rise for most of the period of 2000 to 2005. Consumers have found a new interest in the Apple Computers company. In addition, the company has been able to transform its image and status in the electronics industry. The effects of a revamped Apple are seen in the

stock price changes. With the exception of 2002, the company is one of the only companies examined in this paper to outperform the S&P 500 Index. Looking at the sales results for the Ipod and related products one can see the company is has turned a new leaf, at least in one product area.

Graph 12.1



Initially the Ipod was off to a slow start which can be typical for new products. However, sales have been increasing every year. Many of the commercials still have the same Hip-Hop image even with the brand and product recognition strong. But the Ipod itself is not the only product to take off in the sales area. Accessories for the various Ipods have also been selling well. Therefore, both components are adding to the increase in sales.

Conclusion

Hip-Hop is not a new genre of music. It has been popular for a variety of reasons since it was first developed in the 1970's. Most people who initially listened to this music came from urban and or black communities. However, in the last decade the brand of music has become increasing more popular across different communities in the United States.

True to capitalism, many companies have observed Hip-Hops influence across cultures in the United States and have since incorporated it in their efforts to increase sales of products. By relying on the fact that artists have the ability to influence their listeners, companies have used them to gain additional markets share and drive sales.

Some companies, across industries, have been more successful at this tactic than others. There are various elements that affect sales outcome of these companies. While it is a trend for companies to link up with artists, consumers only buy into certain products and how long they continue to purchase the product is only until a new item is the next "hot" item.

However, outside influences can also impact product sales. During this time the environment in America has changed to a more conservative and moral atmosphere. In many ways this contradicts the image and realities of Hip-Hop. Its important for companies to examine what the effects of the association of their product with Hip-Hop endorsers. Bill O'Reilly caused quite a ruckus in for the Ludacris-Pepsi and Reebok-50 Cent campaigns. While Reebok decided to ignore

his negative comments Pepsi opted to pull the advertisements. This reaction brought to light the phobias entangled in Hip-Hop and race relations in America. At the time Pepsi had a deal with the foul mouth Osbornes. The end result Pepsi made a large contribution to Ludacris' foundation.

Because artists have the ability to influence consumers it is not a surprise that they actually look for deals as well. Sales of the Cadillac Escalade and T-Mobile Side Kick are examples of how artists can influence consumers. Both with and without official contracts with artists to promote these products they have still been able to obtain sales for these companies by simply mentioning them in their lyrics.

There is also sales data that shows these artists may not be able to influence sales the way companies hope. For example, the Missy Elliot campaign with Madonna did not produce high sales for Gap stores. When companies' campaigns do not obtain the desired results some factors as to why are the artists they are using, how known are they to the commercial Hip-Hop audience, does it fit the known brand image, is the campaign strong enough to make new consumers believe the authenticity of the advertisements if the company is going for a new brand image, what type of marketing are they using etc.

Companies can not assume their sales will increase just because they use Hip-Hop in marketing. There are many elements that affect consumer interest in one's product. Hip-Hop should just be seen as a possible growth opportunity. Not a fool proof plan to increase sales.

Appendices

I.

Companies That Have Incorporated Hip-Hop in Marketing	
Reebok International, LTD	2003 - Present
Pepsico	2002 - Present
Coca-Cola Company	2000 - 2005
GAP, Inc	1998, 2001, 2003
General Motors Co	2003 - Present
Toyota	2003 - Present
Daimler Chrysler	2004 - Present
Liz Claiborne	2003 - Present
Verizon	2002, 2005 - Present
Nokia	2003 - 2004
Deutsche Telekom	2004
Apple Computers	2001 - Present

II.

Standard & Poor's 500 Index Rate of Return							
Year	2006	2005	2004	2003	2002	2001	2000
Index Points	1280.08	1181.27	1131.13	855.7	1130.2	1366.01	1394.46
Rate of Return	8.36%	4.43%	32.19%	-24.29%	-17.26%	-2.04%	

III.**Table 1.2 North America Sales Volume (percent of total): Coca-Cola Trademark and Flavors**

Year	CCT	Flavors
2005	59.5	25
2004	61	25
2003	61	26
2002	62	25.5
2001		
2000		

IV.**Table 2.2 Net Sales Pepsi-Cola North America**

Year	Net Sales (M)
2005	9,146
2004	8,313
2003	7,733
2002	7,200
2001	7,858
2000	7,130

V.**Table 3.2 Net Sales U.S. Reebok Brand Footwear**

Year	Net Sales
2005	
2004	1,075.30
2003	1,036
2002	931.7
2001	930.1
2000	925.1

VI.**Table 4.2 Net Sales North America: GAP & Old Navy**

Year	GAP	Old Navy
2005	5409	6556
2004	5746	6747
2003	5777	6456
2002	5436	5804
2001		
2000		

VII.**Table 5.2 Net Sales Liz Claiborne Inc. Domestic Apparel & Accessories**

Year	Net Sales
2005	3,586
2004	3,503
2003	3,305
2002	3,037
2001	3,031
2000	2,985

VIII.**Table 6.2 Foreign Revenues DaimlerChrysler AG United States**

Year	Revenue (m€)
2005	67,015
2004	64,232
2003	54,757
2002	77,686
2001	81,132
2000	84,503

IX.**Table 7.2 Unit Sales General Motors Corporation North America**

Year	Units (th)
2005	4,518
2004	4,707
2003	4,757
2002	4,859
2001	4,905
2000	4,953
1999	5,017

X.**Table 8.2 Net Sales Toyota Motor Corporation North America**

Year	Net Sales (b¥)
2005	6,187,624
2004	5,910,422
2003	5,929,803
2002	5,475,405
2001	4,741,810
2000	4,517,648

XI.**Table 10.2 Operating Revenue Verizon Communications US Service Provider**

Year	Revenue (\$m)
2005	32,301
2004	27,662
2003	22,489
2002	19,473
2001	17,560
2000	14,357

XII.**11.2 Total Revenue Deutsche Communications: T-Mobile United States**

Year	Revenue (m€)
2005	11,887
2004	9,278
2003	7,492
2002	6,124
2001	2,796
2000	

XIII.**Table 12.2 Net Sales Apple: Ipod & Other Music Related Product and Services**

Year	Ipod (m)	Related (m)
2005	4,540	899
2004	1,306	278
2003	345	36
2002	143	4

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