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LO¹ The Effects of Advertising

Advertising is defined in Chapter 14 as any form of impersonal, paid communication in which the sponsor or company is identified. It is a popular form of promotion, especially for consumer packaged goods and services. Advertising expenditures increase annually and were almost \$300 billion in 2006. In 2005, 32 companies spent over \$1 billion each; together they accounted for about 22 percent of total ad spending. Among the top brands advertised by these companies were Verizon Communications, Olay, Crest, and Tylenol.¹

Although the total advertising expenditures seem large, the industry itself is fairly small. Only about 150,000 individuals are employed by the 12,000 or so advertising agencies. Another 240,000 people work in related services such as media buying, display advertising, and direct-mail advertising.²

The amount of money budgeted for advertising by some firms is staggering. General Motors, Procter & Gamble, and Time Warner each spend almost \$10 million a day on national advertising in the United States alone. If local advertising, sales promotion, and public relations are included, this figure rises much higher. Over 100 companies spend more than \$300 million each on advertising every year.³ Spending on advertising varies by industry.

Advertising and Market Share

Today's most successful brands of consumer goods, like Ivory soap and Coca-Cola, were built by heavy advertising and marketing investments long ago. Today's advertising dollars are spent on maintaining brand awareness and market share.

New brands with a small market share tend to spend proportionately more for advertising and sales promotion than those with a large market share, typically for two reasons. First, beyond a certain level of spending for advertising and sales promotion, diminishing returns set in. That is, sales or market share begins to decrease no matter how much is spent on advertising and sales promotion. This phenomenon is called the advertising response function. Understanding the advertising response function helps marketers

advertising response function a phenomenon in which spending for advertising and sales promotion increases sales or market share up to a certain level but then produces diminishing returns

What do you think?

When I'm watching TV, I leave the room during the commercials.

Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree

institutional advertising
a form of advertising designed to enhance a company's image rather than promote a particular product

product advertising
a form of advertising that touts the benefits of a specific good or service

advocacy advertising
a form of advertising in which an organization expresses its views on controversial issues or responds to media attacks

use budgets wisely. A market leader like Johnson & Johnson's Neutrogena typically spends proportionately less on advertising than a newcomer like Jergens' Natural Glow Daily Moisturizer brand. Neutrogena has already captured the attention of the majority of its target market. It only needs to remind customers of its product.

The second reason that new brands tend to require higher spending for advertising and sales promotion is that a certain minimum level of exposure is needed to measurably affect purchase habits. If Jergens advertised Natural Glow Daily Moisturizer in only

one or two publications and bought only one or two television spots, it would not achieve the exposure needed to penetrate consumers' perceptual defenses, and affect purchase intentions.

The Effects of Advertising on Consumers

Advertising affects consumers' daily lives, informing them about products and services and influencing their attitudes, beliefs, and ultimately their purchases. Advertising affects the TV programs people watch, the content of the newspapers they read, the politicians they elect, the medicines they take, and the toys their children play with. Consequently, the influence of advertising on the U.S. socioeconomic system has been the subject of extensive debate in nearly all corners of society.

>> To maintain corporate identity during the 2005 remodeling of its flagship store on the Champs Elysées, Louis Vuitton transformed building facade into a huge trunk bearing the brand's iconic logo.



Though advertising cannot change consumers' deeply rooted values and attitudes, advertising may succeed in transforming a person's negative attitude toward a product into a positive one. For instance, serious or dramatic advertisements are more effective at changing consumers' negative attitudes. Humorous ads, on the other hand, have been shown to be more effective at shaping attitudes when consumers already have a positive image of the advertised brand.⁴

Advertising also reinforces positive attitudes toward brands. When consumers have a neutral or favorable frame of reference toward a product or brand, advertising often positively influences them. When consumers are already highly loyal to a brand, they may buy more of it when advertising and promotion for that brand increase.⁵ This is why market leaders spend billions of dollars annually to reinforce and remind their loyal customers about the benefits of their products.

Advertising can also affect the way consumers rank a brand's attributes. For example, in years past car ads emphasized such brand attributes as roominess, speed, and low maintenance. Today, however, car marketers have added safety, versatility, and customization to the list.

LO² Major Types of Advertising

The firm's promotional objectives determine the type of advertising it uses. If the goal of the promotion plan is to build up the image of the company or the industry, institutional advertising may be used. In contrast, if the advertiser wants to enhance the sales of a specific good or service, product advertising is used.

Institutional Advertising

Historically, advertising in the United States has been product oriented. Today, however, companies market multiple products and need a different type of advertising. Institutional advertising, or corporate advertising, promotes the corporation as a whole and is designed to establish, change, or maintain the corporation's identity. It usually does not ask the audience to do anything but maintain a favorable attitude toward the advertiser and its goods and services.

A form of institutional advertising called **advocacy advertising** is typically used to safeguard against negative consumer attitudes and to enhance the company's credibility among consumers who already favor its position. Often corporations use advocacy advertising to express their views on controversial issues. At other times, firms' advocacy campaigns react to criticism or blame, some in direct response to criticism by the media. Other advocacy campaigns may try to ward off increased regulation, damaging legislation, or an unfavorable outcome in a lawsuit.