ECONOMIC IMPACT OF ADVERTISING

- Advertising is a form of communication used to persuade an audience (viewers, readers or listeners) to take some action with respect to products, ideas, or services. Most commonly, the desired result is to drive consumer behaviour with respect to a commercial offering, although political and ideological advertising is also common. Advertising messages are usually paid for by sponsors and viewed via various traditional media; including mass media such as newspaper, magazines, television commercial, radio advertisement, outdoor advertising or direct mail; or new media such as websites and text messages.
- Definition
- The non-personal communication of information usually paid for & usually persuasive in nature, about products (goods & services) or ideas by identified sponsor through various media. (Arenes 1996) 2. Any paid form of non-personal communication about an organization, product, service, or idea from an identified sponsor. (Blech & Blech 1998) 3. Paid non-personal communication from an identified sponsor using mass media to persuade or influence an audience. (Wells, Burnett, & Moriaty 1998) 4. The element of the marketing communication mix that is non personal paid for an identified sponsor, & disseminated through channels of mass communication to promote the adoption of goods, services, person or ideas. (Bearden, Ingram, & Laforge 1998) 5. An informative or persuasive message carried by a non personal medium & paid for by an identified sponsor whose organization or product is identified in some way. (Zikmund&Damico 1999) 6. Impersonal; one way communication about a product or organization that is paid by a marketer. (Lamb, Hair & Mc.Daniel 2000) 7. Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor. (Kotler et al., 2006)Economic effects of advertising after studying this chapter students should be able to: Recognize the key role advertising plays in our economy. Discuss the economic rationale for creating, accepting, and using advertising. Advertising occupies a special place in American society. Linked to the bedrock principles that shaped our nation—free speech, competition and democracy—it has served the public since colonial times as a source of vital information about our open, market-based economy. Nobel Laureates in economics, Dr. Kenneth Arrow and the late Dr. George Stigler, praise the value of advertising: "Advertising is a powerful tool of competition. It provides valuable information about products and services in an efficient and cost-effective manner. In this way, advertising helps the economy to function smoothly - it keeps prices low and facilitates the entry of new products and new firms into the market." U.S. advertising accounts for about 2.5% of the$14 trillion Gross National Product. American consumers rely heavily on advertising to influence how they spend some $9 trillion annually on various goods and services. A 1999 study by the WEFA Group, one of the country's premiere econometric modeling firms and the Nobel Laureate in economics Dr. Lawrence R. Klein, further underscored this economic impact. The study found that advertising played a key role in generating 18.2 million of the 126.7 million jobs in the United States in that year. The report further concluded that advertising expenditures contributed between 12 to 16 percent of private sector revenues throughout the country, in rural as well as urban areas. A later study, conducted in 2005 by Global Insight, demonstrated that advertising helps to generate more than $5.2 trillion in sales and economic activity throughout the U.S. economy annually. That represents 20% of the nation's $25.5 trillion in total economic activity. This economic stimulus provided support throughout the economy for more than 21million jobs, or 15.2% of the U.S. work force. The purpose of the study was to quantify the economic and employment impacts of advertising. The study removed intervening effects (like consumers simply buying a product to replace an old one or a depleted one) to measure the role of advertising itself. Advertising plays such a strong role in the economy because it: Provides useful information to consumers that tells them about product and service choices as well as comparing features, benefits and prices. With more complete information, consumers and businesses often choose to purchase additional products and services. "Causes an economic chain reaction that (a) generates a net gain in direct sales and jobs due to the promotion of the industries products and services, (b) generates indirect sales and jobs among the first level suppliers to the industries that incur the advertising expenditures, and (c) generates indirect sales and jobs among all other levels of economic activity as the sales ripple throughout the economy."Global Insight. "The Comprehensive Economic Impact of Advertising Expenditures in the United States" http://www.naa.org/.../Public-Policy-The-Comprehensive-Economic-Impact-of-Advertising-Expenditures-in-the-US.aspx, accessed November 1, 2007. Advertising also plays a significant role in the business cycle. As the broader economy shifts between periods of growth and recession, advertising shifts its focus. During downturns, ads may focus on the price of a product or service. If one company curtails advertising in order to cut costs during a down turn, another company might boost ad spending to grab customers and grow its market share. Advertising helps stimulate economic growth. In a country in which consumer spending determines the future of the economy, advertising motivates people to spend more. By encouraging more buying, advertising promotes both job growth and productivity growth both to help meet increase demand and to enable each consumer to have more to spend. Companies spend money on advertising because it increases sales of existing products, helps grow adoption of new products, builds brand loyalty, and takes sales a way from competitors.
- Although the exact return on investment (ROI) varies tremendously across industries, companies, campaigns and media channels, studies have found that a dollar spent on advertising returns $3 to $20 dollars in additional sales. To compete and grow in today's diverse, ever-changing marketplace, businesses must reach their target customers efficiently, quickly alerting them to new product introductions, improved product designs and competitive price points. Advertising is by far the most efficient way to communicate such information. The economics of advertising extend to the media channels that depend on advertising revenues. Many forms of advertising support the creation of content and make that content available at a much lower price (or free). For example, roughly 75% of the cost of a newspaper is supported by advertising. If newspapers contained no advertising, they would cost four times as much to buy on the newsstand. Broadcast radio and TV rely exclusively on ads—people get news, music, and entertainment for free while advertisers get an audience. Forms of media that the public takes for granted would be extremely expensive to the reader or viewer or would simply be out of business without the revenues advertising produces. The demand created by advertising helps the economy to expand. Pattis, S. William. Careers in Advertising. Black lick, OH, USA: McGraw-Hill Professional, 2004. p. 9. Advertising supports the arts: musical artists visit ad agencies to meet with directors of music and pitch songs to them they can use in TV ads. Advertisers need music that calls attention to the brand. Artists come to agencies because they know that companies spend tens of millions of dollars on media buys. "The major record labels don't have that kind of money," says Josh Rabinowitz, senior vice president and director of music at Grey Worldwide. What's more, "TV ads give you the kind of heavy rotation you cant get on MTV anymore . In the very near future, some of the

- best bands will produce jingles." For example, Jonny Dubowsky, lead singer and guitarist for Jonny Lives! uses corporate sponsorships to get exposure for his Indie band. The band debuted a single on an EA video game and launched a video at 900 American Eagle stores. Fast Company, July/August 2007. For those with (slightly)different musical tastes, it's worth noting that "rock star" Barry Manilow wrote advertising jingles before he crossed over to recording songs. His credits include the Band-Aid song ("I am stuck on Band-Aids, and a Band-Aid's stuck on me") and the theme for State Farm insurance("Like a good neighbour, State Farm is there). http://en.allexperts.com/q/Manilow-Barry-511/Manilow-TV-jingles.htm, accessed July 17, 2008.The perspective called the economics of information shows how consumers benefit from viewing advertising. By providing information, advertising reduces consumers' search costs (time spent looking for products) and reduces disutility (unhappiness or lost value) from picking the wrong products. Advertising provides information such as: Describing new products and what they do Alerting consumers to product availability and purchase locations; Showing consumers what to look for on store shelves Helping them differentiate among competitive choices; Advising them of pricing information and promotional opportunities Ultimately, advertising also saves consumers money by encouraging competition that exerts downward pricing pressures. Advertising is a major industry. It contributes to the economy directly (via the jobs it creates to produce ad messages) but also indirectly as it stimulates demand and provides information about other products and services. dog whistle advertising economics of information Advertising is "the glue that holds our culture together". Evaluate this statement and decide whether you are in agreement with it or not. State and defend your position. Describe the economic rationale for creating, accepting, and using advertising. List and describe the six information subjects relevant to consumers that are addressed by advertising. The Effects of Advertising on Economics Advertising confronts consumers on a daily basis. At any given time, individuals and households encounter print, broadcast and Internet advertising touting everything from beverages and fast food chains to prescription drugs and automobiles. Businesses spend billions each year to promote their goods and services to consumers. Advertising has a variety of economic effects, with economists citing positive and negative effects from the practice. Consumer Information, one of advertisings primary economic effects lies in the way business uses it to convey information to consumers. The Economics Web Institute points out that advertising relies on information and persuasion techniques to influence the consumer behaviour. Through print, broadcast and online advertising, firms introduce new products and services, connect them to consumer needs, and tell consumers where to buy these goods. Advertisers often describe the benefits and advantages of their goods over those of their competitors. Competition In competitive sectors of the economy, such as soft drinks and other consumer goods, firms often wage aggressive advertising campaigns that tout the quality of their products over those of their competitors. Economist George Bittlingmayer of the University of Kansas, a former Federal Trade Commission official, writes that early critics of advertising attacked the practice as wasteful and monopolistic. However, later defenders agreed that advertising promotes competition among firms. Coca-Cola and Pepsi provide an example of two companies that waged advertising wars to promote their respective goods.

- Economists such as Greg Mankiw of Harvard University point out that advertising fosters competition by making it possible for new competitors to enter the market and attract consumers who purchase other firms goods. Consumer Manipulation? Critics of advertising, such as the late economist John Kenneth Galbraith, contend the practice, rather than informing consumers, actually manipulates their preferences, moulding customer bases to serve businesses sales needs. In his writings, Galbraith, a former economic adviser to President John F. Kennedy, argued that firms use advertising to manipulate consumers into believing they need certain products that they do not actually need. This has the potential to foster excessive consumer spending and reduced levels of saving. References Economics Web Institute: Advertising Principles of Economics (3rd ed.), N. Gregory Mankiw, 2004New Ideas From Dead Economists, Todd G. Buchholz, 1990Effects of advertising on Economics Buying and selling serves as the lifeblood of a free, market-driven economy, and competition is a big part of commerce. To stand out among the morass of competition and induce people to buy a product or service, a merchant or entrepreneur will advertise to put the word out. But while advertisings main purpose is to market a product, its effects sometimes run much deeper than just dollars and cents. Creating a Market Tobacco companies know the value of good advertising, as few people can say they actually enjoyed the taste of the first cigarette they ever smoked. But with advertising characters such as the Marlboro Man and Joe Camel becoming cultural icons, advertising does indeed drive the product. Advertising builds public perception, and can often make a product new and fashionable rather than frumpy or merely utilitarian. It’s About Brand While product reliability still counts for something, advertising does help build a brand name. Particularly successful ad campaigns and brand names can even find their way onto clothing or other endorsed products, where the wearer pays the company for the privilege of advertising a product. Pop Culture Whether you’re talking of the Pepsi Generation or Ronald McDonald, smart, catchy advertisement can transcend sales and become a part of popular culture. Some of an ads wording can find its way into the national vocabulary. In the 1980s, "Where’s the beef?" became a national catch phrase, and then-presidential candidate Walter Mondale used it in a 1984 debate to poke fun at rival Gary Hart. Tying in with this, a song written for advertising can also enter thenational consciousness, and commercial jingles tend to stick in a persons head. In fact, the song--or phrase--may continue to stick long after the product is forgotten. Influence on Children Toy makers, breakfast cereal manufacturers, and fast food companies make extensive use of advertising aimed at children. From there the child will drill the commercial message into his parents heads.