

Assignment on “Advertisement and Economics”

Poonam Pawar

1429329

Economics (ECO 5033)

Trine University

May 04, 2018

Introduction

Advertising is a method of marketing for communicating ideas and information about goods, products, services, and company to an identified group. The advertisement is one of the most important aspects of a successful business, and most of the companies invest in the advertisement to lure more customers towards their product. The advertisements exist from centuries in different forms such as people's word of mouth, newspaper, radio, magazines, and internet. The influence of advertisement is not limited to the consumer, but it has the direct effect on the sales and economy of a company.

We are surrounded by advertisement, and often we do not realize how much advertisement derives the customer's choice and the global economy. The internet has transformed the advertisement industry completely, and today, any company can reach out to millions of people with just one social media post. Advertisements are informative, funny, eye-catcher, and market influencer.

Why is Advertisement important?

The advertisement is an integral part of a successful business. Companies invest in the advertisement to lure more and more customer to their products. Few of the main reasons why companies opt to advertise are below:

- **Awareness:** Advertisement supports in spreading awareness about the product and educate the end consumers.
- **Improved sales:** Advertisement brings more sales and revenues to the company.
- **Market competitions:** Advertisement helps the customers to compare the competitors to make better choices.

- **Scalability:** Advertisement makes any business reachable to millions of people with one release. Not only limited to that, advertisement influences companies to analyze how and which people are reacting to the product. This analysis helps in taking the next steps in the business.
- **Investment:** The advertisement is a kind of investment, and many companies invest millions of dollars in it.
- **Brand-value:** Exciting and positive advertisement helps the company gain customer trust, and increase brand value.
- **Customer retention:** Continuous and improved advertisement strategies help the company to retain their customer base for long period of time.
- **New companies:** In the current world, advertisement plays the most prominent role for a new product, brand, or company's success. Movies are the perfect example, where the success of the movie is mostly derived from the advertisement done before the release.

Advertising methods

There are traditional methods of advertisements like word of mouth, billboards, newspapers, television, and radio which are very relevant in current society. Along with this, social media, internet, emails, Facebook, e-commerce site have a major influence on the advertising market (Castro, 2016).



Advertisement and Economics

There are many companies whose job is to provide better and efficient methods of advertisement. A single method is not enough to accommodate all the types of customer. All the companies need to understand the nature and demand of the consumers. For example, a busy IP professional may not get time to check the daily newspaper to search for certain products, rather he/she will always go to the internet and search for it. So it will make more sense to advertise the product over the internet to reach to those kinds of audiences. Below is an analysis of factors to consider in determining the proper method/ methods of advertisement (Paula, n.d.).

	Print Ads (Magazines)	Trade Shows	Direct Mail	Website / SEO-SEM	Social Media	Broadcast EMail
Results are measurable?	More difficult	Moderate	Moderate	Easy	Easiest	Easy
Targets active shoppers	Not really	Possibly	Possibly	Yes	Sometimes	No
"Virally" spread	No	No	No	No	Yes	Not usually
Lasts until it's removed	Temporary	Temporary	Can be more permanent	Permanent	Diminishing	No
Quick Results	Months	Months	Weeks	Days	Days	Yes
Expense	High	Highest	Medium	Medium	Lowest	Low
Credibility	Highest	High	Medium	Lower	Lower	Lowest

How much companies invest in advertisement?

Most of the companies are willing to pay few percentages of their investment in the advertisement. The methods of the advertisement may vary, but the impact of advertisement is unparalleled. Companies like Nike, Adidas often indulge famous athletes to endorse their products, whereas famous models or actors are used to endorse beauty products.

Companies use social media, movies, TV commercials, radio, banners, billboards, and magazine to advertise the product. If we notice around us, advertisements are everywhere, from morning cereal breakfast to the Netflix shows. Advertisement is an essential part for a successful business today, even at an adverse situation companies do not back off from advertisement. For instance,

Advertisement and Economics

in 2014, when Comcast was facing market criticism for unsatisfactory customer service, Comcast was still keeping more than US\$2 million for advertisement (O'Reilly, 2015).

Below are few of the advertisement highlights for few of the companies (O'Reilly, 2015):





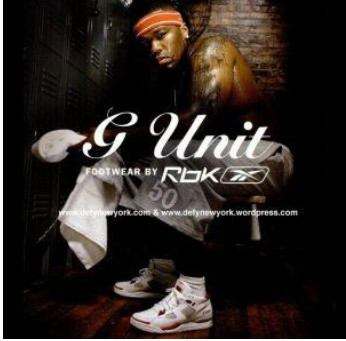

Company Name	Total Investment on Advertisement
WALT DISNEY COMPANY	7.4% to \$2.1 billion
L'ORÉAL	2% to \$2.2 billion
FIAT CHRYSLER AUTOMOBILES	14% to \$2.2 billion
AMERICAN EXPRESS	7.9% to \$2.4 billion
FORD MOTOR COMPANY	3.6% to \$2.5 billion
VERIZON COMMUNICATIONS	3.6% to \$2.5 billion
COMCAST CORPORATION	1.7% to \$3 billion
GENERAL MOTORS COMPANY	0.7% to \$3.1 billion
AT&T	0.1% to \$3.3 billion
PROCTER & GAMBLE	4.2% to \$4.6 billion

Endorsement

Endorsement of a product is the most prominent way to advertise any product. Associating a product with someone who is valuable and influential to the society helps in reaching out to the majority of the population. Also, with the inception of the internet, the effect of celebrity endorsement is even more effective. Once a public figure endorses a product, consumers tend to react more. The endorsement is not limited to just celebrities but sometimes fictional characters also influence the market. For example, if Mickey Mouse endorses Disneyland will be more influential than an astronaut as Mickey Mouse in spite of being a fictional character is more relatable to the kids.

Endorsements by the celebrity are very powerful, and companies are ready to pay a fortune to get a famous name associated with their product. Below are a few big endorsement deals in the recent history (Jon, 2017):

Advertisement and Economics

 <p>Brad Pitt for Chanel No.5 was paid US\$7 million his appearance in their commercials.</p>	 <p>The luxury brand for handbags paid US\$10 million to actress Angelina Jolie for her appearance with of their designer bags.</p>
 <p>David Beckham was paid US\$160 million to represent Adidas sport brand. This is the highest paid endorsement till date.</p>	 <p>Tiger Woods received US\$100 million for associating his name and face-value to Nike products.</p>
 <p>Reebok hiered rapper 50 Cent to be the name of their stylish G Unit sneaker, and paid 50 Cent an astonishing amount of US\$80 million for it.</p>	 <p>Beyonce was paid US\$50 million for endorsing Pepsi products.</p>

Companies ask celebrities to endorse their product as a part of a one-time deal, or few year-long deals, or sometimes a lifetime. But, celebrity endorsement does not guarantee the success of the product. For instance, Pepsi paid US\$50 million to Beyoncé to endorse their product, but Pepsi saw a 4-7% sales decline after the pop star's face became their brand image (Jon, 2017).

Common Advertising Strategies

Any successful advertisement has to do three fundamental things:

- It has to attract the consumer's attention. If the advertisement is not entertaining or attractive enough, no one is going to react to the advertisement.
- An advertisement should be able to imprint the brand name and product details on the viewer's mind. The viewer should remember the advertisement and the product while talking to others, or while shopping.
- The impact of advertisement should always be positive. Consumers may remember a bad advertisement, but for better sales, viewers must have a positive view towards the product.

There are many techniques to persuade the consumer and lure them towards the product. Few of the techniques that can influence the customers are as below:

- **Fear:** Every human is afraid of many things, including aging, death, diseases, rejections, and health. Advertisement can convince the customers to opt for certain products to aid against those fears. For instance, bad breath became a huge thing in the 1920s, 'According to the Listerine website, sales went from \$115,000 a year in 1921 to \$4 million a year by 1927. By the late 1920s, Listerine was the country's third-largest print advertiser'(Lippert, 2017).
- **Needs:** Contrary to fear, many companies work on the needs of the consumers to lure more sales. New technologies or trends are often becoming needs. For example, a fidget spinner became a sensation in few months after the release, and it became a need for many youngsters as they want to follow the trends. Many companies pitched in and released many kinds of new spinners to lure more customers.

- **Sex Appeal:** Sex drive is one of the most basic human instincts. Promoters take benefit of this reality, using erotic images to sell everything from soaps, cars to clothes. For instance, the pink color is often associated with the feminine and blue with males.
- **Values:** Advertisers may use values to influence many customers. Values like made in the US, local-grown, authentic food, patriotism, or family can influence many customers. For example, a happy family photo on the top of 1948 7up advertisement (Delstein, 2014).



- **Celebrity Endorsements:** Many advertisements feature famous celebrities and sports figures. Once the consumers start correlating any product with some real-life figure, the intention to buy the product increases. For example, a famous athlete endorsing an energy drink is more believable than a random librarian endorsing the drink.

Influence of Advertisement on People

The advertisement is the most influential aspect of the modern-day economy. Advertisement helps fuel the economy by influencing and motivating the customers to buy and supporting the sellers. The advertisement is typically used in association with other promotional tools, like personal selling, sales promotion, and public relations. Advertisement influence people in below ways (Handlin, 2017)-

- **Education:** Advertisement is the most effective way to educate the potential consumers and others about the brand, product, and its features and usage. Since all the information comes directly from the seller of the product instead of other mediums; the authenticity of the information is more reliable for the customers. For example, an advertisement for a college will cover all the details about the college including locations, features, tutors, placements, establishment, and other details.
- **Persuasion:** Using creative techniques like comparing the product with other competitors, advertising coupons, giving more value for money and celebrity endorsements can persuade the customers to take immediate action.
- **Reassurance:** Before a buyer makes any purchase, advertisement helps in assuring that the product is worth the price. Reassurance by advertisement becomes very prominent when purchasing an expensive commodity like a car, or house.
- **Simplifying Shopping:** Advertisement helps the consumer to spend less time in searching for a particular product. Advertisements should be informative enough so that the consumer can easily identify it, and hence simplifying the purchase. For instance, a grocery brand can ease the shopping if they can advertise and label their products as vegan, organic, or both.
- **Moderating Prices:** Advertisement has a direct impact on the sales. Often advertisement lures the customer towards a product resulting in the loss of all the other competitors. To avoid this scenario, all the competitors advertise more sales, offers, and coupons to the customer which results in a moderate price of the commodity.
- **Avoid forced monopoly:** Advertisement gives more options and motivates the customer to shift from one product to other. Advertisement helps in avoiding monopoly in the market, and the consumers get more options to choose from.

Influence of Advertisement on sales

Advertisement influences customers, hence directly impact the sales. All major brands invest in the advertisement to lure more and more customers to the shops. The advertisement also assists in generating demands and long-lasting brand value. Few of the effect of advertisement on sales are below-

- **Increase Demand:** Advertisement helps in increasing demands by educative the viewer. With the inception of the internet and social media, the advertisement has become very prominent in spreading the good word about the product globally. The other aspect is that advertisement can increase demands based on factors like special occasions, geographical locations, or gender specific.
- **Temporarily Increase Sales:** For a new product launch in the market, the advertisement is must to create product awareness in the society. The awareness creates a temporary increase in the sales, which has to be backed up by customer satisfaction.
- **Brand value:** In a long-term economy, advertisement helps in creating sales by making a positive brand value. The short-term sales are not very important for the giants in the market, but a good brand value and the trust of the consumer will help the company to be profitable throughout decades. Coca-Cola is such a brand, which has improved and grown as a better company by evolving in advertisement and market with time.
- **Decrease Sales:** There is the flip side of the advertisement if the advertisement is not perceived by the consumer in a positive manner, it can result in the loss of customer base and hence sales. There can be many reasons for the decrease in customer base, like an improper advertisement, racial advertisement, adult content and religious sentiment hurting advertisements.

Bad advertisement and its consequences:

The consumer can be very sensitive, and the advertisement should be made keeping the balance between humor, content, entertainment, and the sentiment values of the viewers. A company's sales are derived from the relationship it has with the customer, any deviation in the trust and loyalty of the customer can end up causing a lot of money for the company. Everyone enjoys good advertisement, but certain contents can change the perceptions.

For instance, Starbucks advertisement on 2002 influenced by the 9/11 disaster. The ad was offensive and inappropriate for the customer, and it created an outrage. The advertisement was criticized for its content and resemblance with the 9/11 incident, and it was immediately removed from the market (Piedfort, n.d.).



Cost of Advertisement

Based on the types of advertisement methods, traditional methods of advertisement are more expensive as compared to the current world's technological approach. Most of the companies are moving towards digital methods like Google ads, Facebook, and other social media. The cost associated with social media approach is far less than the traditional methods (Facebook, 2016):



The cost of an advertisement over internet depends on many factors like the content, target audience, and the business tariffs. There are pricing models associated with the advertisement; the main pricing models for advertisement are as follows (Blugile, 2015):

- **CPC or cost per click:** This model charges the advertisers per click on the advertisement. Clicks are priced from as low as \$0.01 to more than \$10 per click.
- **CPM or cost per 1000 impressions:** Advertisers are charged based on the number of times advertisement is shown, it is suitable for small to medium-sized companies, and its calculated based on 1000 impressions.
- **CPA or cost per action/acquisition:** Advertisers are charged for the user's action on the advertisement broadcasted. Actions like registering; surfing through the web links, or downloads.

There are other pricing models available like (Blugile, 2015):

- CPF or cost per follower.
- CPV or cost per view.
- CPI or cost per install.

Advertisement and Economics

- CPD or cost per download.

For instance, the cost of Facebook advertisement cost ranges from US\$0.31 to US\$0.61+ per click. Below is an analysis of Facebook advertisement based on the business industry (Daciuk, 2017):

U.S. Facebook Ads Pricing by Industry

Industry	CPM ¹	CTR ²	CPC ³
Consumer Packaged Goods	\$5.40	1.72%	\$0.31
E-Commerce	\$6.27	1.56%	\$0.40
Gaming	\$3.09	0.51%	\$0.61
Retail	\$6.33	1.71%	\$0.37
Travel	\$7.94	2.52%	\$0.32

Data from Salesforce Advertising Index Q1 2016

- *Cost Per Mille (CPM) – the cost for 1,000 impressions, or views of your ad*
- *Click Through Rate (CTR) – percentage of impressions that result in a click*
- *Cost Per Click (CPC) – the cost for 1 click to your website*

Conclusion

Advertisement can be brilliant, funny, and interesting enough to lure a potential consumer towards the product. There is no doubt that advertisement plays an important role in pulling more customers to buy the products. Advertisement in itself is a form of art, and it has a direct impact on the economy of a company. Not limited to just sales and impact on the consumer base, many old advertisements have social and psychological values to many consumers. The advertisement is a powerful medium to reach out to millions of people and can be scaled to unlimited proportions. But, advertisers are also responsible to create and share appropriate advertisement so that it does not harm anyone's sentiments and decrease the brand value. Overall, advertisement drives a large portion of sales in the current economy, and it should be cherished.

References

1. Livingston, A. (2018). Money Casher. How Does Advertising Affect Your Purchases? – 6 Tricks to Watch For. Retrieved May 4 2018, from <https://www.moneycrashers.com/how-does-advertising-influence-peoples-purchases/>
2. Lippert, B. (2017). AdAge. Classic and Review: Listerine and THE Halitosis Hallelujah. Retrieved May 1 2018, from <http://adage.com/article/classic-ad-review/listerine-halitosis-hallel/310647/>
3. Delstein, S. (2014). Vintage 7 Up ad 1948. Retrieved May 1 2018, from <https://envisioningtheamericandream.com/2014/05/22/selling-the-nuclear-family/beverages-7-up-48-2-swscan00294/>
4. Handlin, A. (2017). Bizfluent. How Does Advertising Influence People? Retrieved May 2 2018, from <https://bizfluent.com/about-7414742-advertising-influence-people-.html>
5. Piedfort, M. (n.d.). 12 Bad Ads and Marketing Failures To Learn What Not To Do. Retrieved May 4 2018, from <https://www.workzone.com/blog/bad-ads/>
6. Castro, R. (2016). Best Advertisement Method for Business Expansion. Retrieved May 2 2018, from <https://www.umaindustrieschem.com/2016/09/23/best-advertisement-method-for-business-expansion/>
7. Paula. (n.d.). ABCI. Finding the Right Advertising Methods. Retrieved May 2 2018, from <https://aviationbusinessconsultants.com/2015/01/finding-the-right-advertising-methods/>
8. O'Reilly, L. (2015). Business Insider. These are the 10 companies that spend the most on advertising. Retrieved May 3 2018, from <http://www.businessinsider.com/10-biggest-advertising-spenders-in-the-us-2015-7>
9. Jon. (2017). Popoptiq. Top 10 Highest Paid Celebrity Commercials And Endorsements. Retrieved May 2 2018, from <https://www.popoptiq.com/highest-paid-celebrity-commercials/>
10. Facebook. (2016). Facebook Advertising vs. Print Ads | Which One is Better? Retrieved May 2 2018, from <https://yourdigitalresource.com/facebook-advertising-vs-print-ads/>
11. Bluagile. (2015). The Different Pricing Models in Online Advertising. Retrieved May 4 2018, from <http://bluagile.com/the-different-pricing-models-in-online-advertising/>
12. Daciuk, E. (2017). Facebook Advertising Costs by Industry 2018. Retrieved May 4 2018, from <https://fitsmallbusiness.com/how-much-does-facebook-advertising-cost/>