



Advertising Decisions

M

Advertising



It can be effective in presenting information to potential buyers.

It is supposed to increase company sales and profits

- it rarely can create sales by itself
- whether the customer buys also depends on the product, price, packaging, personal selling, services, etc.

It influence customers preferences for product and enhance a company s image



Sales

M

Advertising Interacts with Other Mix Elements



Personal selling - When it is an important element on the marketing mix the role of ad is diminished.

Branding - When a company uses a family name to its products it can advertise the entire line, giving attention to a special brand from time to time. When a firm carries different brand names the company can advertise each brand separately and make separate advertising budget.

Price - The message of the advertising must be consistent with the brand's price position. A premium-priced brand should emphasize differentiating qualities, whereas a low-priced brand should stress its low price.

Distribution - The length of the distribution channel and the overall marketing strategy dictate different targets for advertising messages. To influence retailers a firm can use a push strategy, directing the marketing efforts at salespeople (pushing the product through the channel of distribution). To influence consumer demand the firm can use a pull strategy, that is to pull the product through distribution channel.

M

What Do We Know About Advertising Response?



1. Sales respond dynamically upward and downward, respectively, to increases and decreases of advertising and frequently do so at different rates.
2. Steady-state response can be concave or S-shaped and will often have positive sales at zero advertising.
3. Competitive advertising affects sales.
4. The dollar effectiveness of advertising can change over time as the result of changes in media, copy, and other factors.
5. Products sometimes respond to increased advertising with a sales increase that falls off even as advertising is held constant.

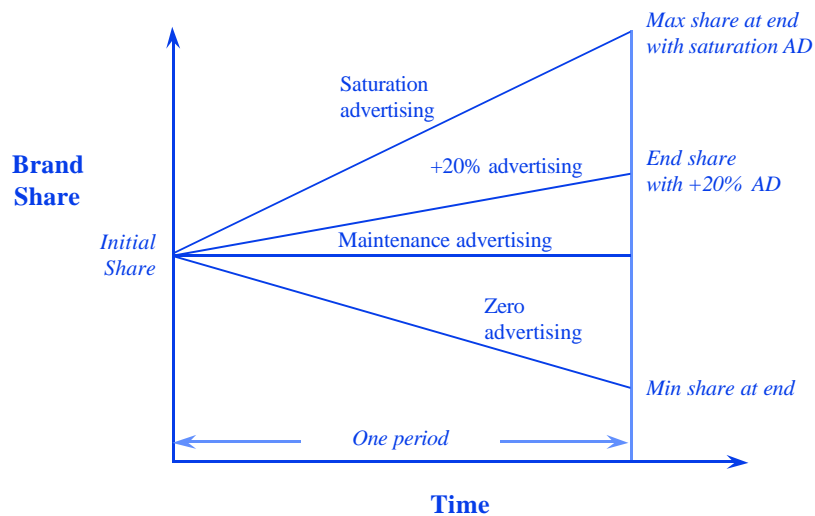
M

ADBUDG Model Assumptions

- ◇ If advertising is cut to zero, brand share will decrease, but there is a floor (min), on how much share will fall from its initial value by the end of the period.
- ◇ If advertising is increased, say to something that could be called saturation, brand share will increase but there is a ceiling (max), on how much can be achieved by the end of one period.
- ◇ There is some advertising rate that will maintain initial share.
- ◇ An estimate can be made by data analysis or managerial judgement of the effect on share by the end of one period of a 20% increase in advertising over the maintenance rate.

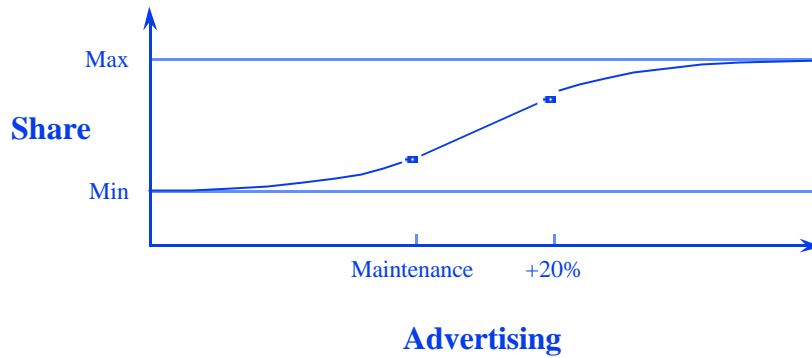
M

Assumptions about the one-period response for ADBUDG model



ME

Share Response vs. Advertising in one Period



$$\text{Share Response} = \text{min} + (\text{max} - \text{min})(\text{adv})^c / [d + (\text{adv})^c]$$

ME

The Dynamic Model

$$\text{Share}_t = \text{Long Run Min} + \text{Persistence} \times (\text{Share}_{t-1} - \text{Long Run Min}) + (\text{max} - \text{min})(\text{adv}_t)^c / [d + (\text{adv}_t)^c]$$

where:

Long run min= lowest share possible in the long run.

Persistence = (min - long-run min)/(initial share - long-run min).

ME

Effective Advertising



$\text{adv}(t) = [\text{media efficiency } (t)]$

X [copy effectiveness (t)]

X [adv dollars (t)]

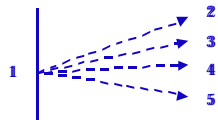
ME

ADBUDG s Program Structure



There are three sections to the program: (a) the response model, (b) the forecast analysis area, (c) the multicriteria goalseek.

A. The Response Model builds the response function by inputting judgements about the responses to advertising changes.



B. The Forecast Analysis Area shows the expected share and profitability given expenditure inputs (quarterly) and response model.

C. The MultiCriteria GoalSeek uses the optimization program in Excel to maximize a given cell with certain constraints.

- You can trade off the goals of profit vs. market share and short term vs. long term emphases

- You can compose yearly budget constraints for optimizing within reality.

ME