

How advertising works: Competition in a 'Mature' market

"There is little evidence that advertising results in additional smoking. As with many products, (cigarette) advertising mainly shifts consumers among brands."

President's Council of
Economic Advisors

Introduction

The contention that tobacco advertising influences people to smoke overlooks the function of advertising in a 'mature' product market such as the market for cigarettes.

In a mature product market, where the product category is long-established and awareness of the product category is universal, advertising generally does not operate to increase overall demand. Advertising instead operates to maintain or expand market share within the product category - to maintain the loyalty of consumers who already use the brand being advertised and to switch consumers who use other brands.

It should come as no surprise that cigarette manufacturers are prepared to spend large sums to maintain their market. In the US, a single market-share point may be worth as much as \$400 million in sales, and **one out of every four customers** may switch among brands in any given year. In Germany, one market-share point is estimated to be approximately DM 312 million for 1991 - over \$550 million at June 1991 exchange rates. In Japan, one market-share point was worth Y35.71 billion or \$243 million in 1990 (\$1 = Y147).

To be successful, brand advertising must overcome two hurdles: it must attract the viewer's attention and it must distinguish the advertised brand from the multitude of others on the market. To break through the 'clutter' that exists in the advertising marketplace, advertisers must frequently employ vivid settings and employ bold graphic designs and memorable brand slogans. To separate the advertised brand from its competitors, an advertiser must create a distinct 'personality' for the brand. Manufacturers typically commit significant resources to sustain brand identification and loyalty to the brand personality. Enforced foreclosure of imagery, themes and slogans in cigarette advertising, as some proposed legislation would do, would be tantamount to no advertising at all. Such advertisements would not attract the attention of smokers or distinguish one brand from another.

REFERENCES

Economic Report of the President, 1991, p. 97

500859117

a. The distinction between 'New' and 'Mature' product markets

Certainly all companies, cigarette companies included, use advertising to promote their products. Proposals to ban cigarette advertising, however, reflect a basic misunderstanding of how advertising works. Much advertising, including cigarette advertising, neither is intended to, nor has the effect of increasing the number of people who use the 'product category'. Instead, advertising is used to serve a variety of disparate objectives depending on whether the product category is 'new' or 'mature,' and depending on whether the product category is in competition with other product categories.²

In the case of a 'new' product category like compact disc players or cellular telephones, advertising attempts to inform people about general product attributes and benefits. Because the product category is new, advertising functions as a means by which consumers learn that the product category exists and how it might be useful to them. At this stage, advertising promotes demand for the product category; in the course of promoting demand for particular brands - although all advertisers ultimately are interested in promoting their brands against competing brands.

As awareness of the product category spreads, advertising matters less and less in stimulating aggregate demand. In fact, demand flattens because there are fewer people who have not either tried the product (and become settled users or non-users) or decided that they have no interest in the product category. Consumers no longer need advertising to appreciate the existence of television, soft drinks, laundry detergent or toothpaste. These products have become a part of everyday life for those consumers who are likely to want them. The aim and effect of advertising for such 'mature' product categories is to promote particular brands of the product, not to promote the product category itself. Many studies have found that advertising in such markets - including the cigarette market - is not significantly related to aggregate product demand.³

There is an exception to this rule. Even after a product category has 'matured' and advertising is no longer necessary to create awareness of the product, the product category may be in direct competition with other product categories. Electricity competes in some countries with natural gas. Milk competes with soft-drinks and other beverages. In such cases, it is not uncommon to see advertisements that promote a product category rather than a particular product brand. But cigarettes, like soap, are not in competition with other product categories, and one never sees an advertisement promoting cigarettes or soap as such. Instead, one sees only advertisements promoting particular brands of cigarettes or soap.

REFERENCES

For discussion of the concept of product life cycles, and the role of promotion for mature product categories, see
 MASSON, Dynamic Competitive Strategy and Product Life Cycles. 1979. A GOLI & CO. Validity of the Product Life Cycle. *Journal of Business*, Oct. 1969: 8. SUZZUKI, Competitive Behavior and Product Life Cycles. A New Idea for Successful Marketing. J. Wright & J. Gundacker eds. *Marketing Management: A Systems Approach to Competitive Industries*, Harcourt Business Review, September 1979. SWEENEY & BOND, Fitting Marketing Strategy to Various Product Life Cycles. *Business Horizons*, Jan-Feb 1982. and WIND, Product Policy: Concepts, Methods, and Strategy. 1982.
 For example, in 175 surveys of ten product categories identified, four categories in which advertising and primary demand were

related. But those four markets each were in the late stages of the product's life cycle. Cigarettes were one of the remaining six product categories in which primary demand was found to be unrelated to advertising. JARAMA, Advertising, Competition, and Market Concentration in Oligopoly Over Time. 1979. See also K. SALL & R. AGARWALA, An Econometric Analysis of the Effects of Generic Advertising on the Demand for Tea in the UK. *British Journal of Marketing*, vol. 4, 1969; & PALDA, The Measurement of Cumulative Advertising Effects, 1940-4. *Tel Aviv University and Cigarettes*. *Journal of Political Economy*, vol. 70, 1962. An excellent review of these and other studies may be found in D. AAKER & J. GARFINK, Are you Over advertising? A Review of Advertising Effect Studies. *Journal of Advertising Research*, vol. 22, no. 4. Fall 1982.

500859118

Those who claim that cigarettes are not a 'mature' market so far as young people are concerned misunderstand what it means for a product category to be 'mature.' Even a 'mature' market will have first-time buyers. Consumers who never before purchased a home, a car, a television, a washing machine, laundry detergent or a cigarette will decide to do so. This does not mean, however, that the product category is not 'mature.' Young people are aware of laundry detergent and cigarettes long before they reach maturity because older people around them use those products. Awareness of cigarettes is in fact so widespread that they are the very model of a 'mature' product category.

b. The primary objectives of advertising in 'Mature' product markets

Even though advertising will not influence the absolute size of the market, the incentive to advertise particular brands of a mature product is substantial. The US cigarette market has annual sales of about \$40 billion, the market in Germany has sales of \$55 billion (at June 1991 exchange rates), and the market in Japan had sales of \$24.5 billion in 1990. Gaining a single market-share point means garnering \$400 million in US sales, \$550 million in German sales, and \$245 million in Japanese sales. Equally important, preserving a single market-share point means keeping nearly \$400 million, \$550 million or \$245 million in sales. Moreover, as many as one out of every four smokers - 25 per cent - may switch among brands in any given year.¹ Even if relatively few smokers permanently switch brands each year, the amount spent per smoker to prevent brand switching - that is, to encourage brand loyalty - is relatively low.²

Successful brand promotion in a mature product market, however, must overcome two hurdles. First, the advertising must attract the viewer's attention. Second, and no less important, the advertising must distinguish the advertised brand from the multitude of other brands on the market. The long-term success of a brand depends on 'building the * * * most sharply defined Personality for (the) brand.'³ In short, both the advertisement itself and the advertised brand must stand out from the crowd.

Cigarette manufacturers face a unique set of limitations in this regard in their brand advertising. First, in the United States there are more than 350 cigarette brands and brand styles on the market.⁴ There are 305 brands on the market in Germany and 265 brands in Japan. Second, the media to which cigarette advertising is restricted in many countries - the print media - are relatively inefficient vehicles for advertising. Third, advertisements for cigarettes in the print media draw even less attention than print media advertisements for other product categories. As Young & Moschis have observed:

REFERENCES

¹Recent US surveys indicate that more than 25 per cent of all smokers may switch brands in the course of a year. A 1990 survey by the NCIER ORGANIZATION indicates that 27 per cent of consumers who regularly buy cigarettes usually purchase the same brand. Report Report #J2, question 10, page 11. This indicates that 25 per cent switch brands each year. Interview with 54 per cent of the surveyed stated that they would switch to another brand if they were able to buy their own brand. Id. question 10, page 10. A 1989 survey of 2,000 consumers by NCIER & WART RESEARCH ASSOCIATES, cited in the Wall Street Journal in an article dated October 19, 1989, reported that 21

per cent of smokers are loyal to one brand. This indicates that 20 per cent switch brands each year.

²Those who consider cigarette advertising to be pervasive should bear in mind that the amount spent on cigarette advertising in the US, for example, accounts for less than 2 per cent of all advertising expenditures. In 1989, the cigarette industry raised 17th in total spending for advertising and promotion in the US - behind food, insurance, automobiles, drugs, land/water/air/transportation, to name a few. Advertising Age, Nov. 26, 1990, p. 3. ³WALSH, "Can Community Thinking Kill Established Brands?", *Success*, Dec. 1989, emphasis in original. ⁴New York Times, Jan. 21, 1990, at D1.

500859119

"It is generally acknowledged that in a typical magazine environment an 'average' advertisement receives approximately three seconds of viewing time * * *. Cigarette advertisements receive the least amount of viewing time of any major print advertising category. This is because the typical cigarette advertisement is a quintessential 'reminder' advertisement - it grabs your attention, you see the picture and you go on to the next page. It is extremely rare for a cigarette advertisement to hold a viewer's attention for more than a couple of seconds."

c. Attracting Viewer Attention

Advertisers typically use attractive models in attractive settings to promote their products. Attractive men and women are used to sell brands of everything from floor polish to mouthwash. In using attractive models in attractive settings, advertisers are not attempting to persuade consumers that scrubbing floors or gargling is attractive. The goal is to catch the viewer's attention for the advertised brand.

Consumers are exposed to countless advertisements each day in a variety of media. On television, as many as 20 minutes of each broadcast hour may be consumed by commercials, and advertisements account for more pages than text in most newspapers and magazines. The result is 'commercial clutter.' As one advertising executive has stated:

"Hardly anyone in the advertising business would disagree that clutter is a problem. As consumers are bombarded by more and more advertising messages, it becomes more and more difficult for advertising messages to get through."

US research shows that 'about 13 per cent of magazine ads are totally missed by the reader, largely because of ad clutter,' and that 'readers are totally ignoring 40 per cent of advertised names.'¹ It also has been reported that 'some 85 per cent of magazine readers do not remember seeing the average advertisement.'² According to George Gallup, two advertised products in the same commodity group, using the same size space, can differ by as much as 12 to one in their ability to command attention and register the product's brand name.³

Numerous studies demonstrate that various measures of advertising effectiveness - such as recall and positive attitudes - decrease as the amount of 'clutter' increases in the media environment. Viewer attention is a limited resource, and advertisers compete intensely for it. The ability to gain consumer attention, other things being equal, often is weakest in 'mature' product markets because consumers are so familiar with the advertised product. Thus, advertising expenditures often must be higher in mature markets than in 'new' or

REFERENCES

- ¹ TONG & MCGHEE, "Review of Eye Tracking and Recall Study of Advertisements Viewing Tobacco Advertisements," pp. 9-10, Jan. 1987, unpub. internal memorandum.
- ² MULLA, "No Smoking Act - Response to Clutter: More Clutter," *Advertising Age*, Dec. 11, 1989, p. 34. See also SCHULZION, "Advertising: The Linear Persuasion: Its Dubious Impact on American Society," *Journal of Advertising Research*, Vol. 1, No. 4, p. 1988.
- ³ Experimental Research on the Effects of Television Clutter: Dealing with a Difficult Media Environment," in *Marketing Science Institute Research Report # 76-102*, 1976, p. 1988.
- ⁴ *Journal of Advertising Research*, Vol. 1, No. 4, 1979, p. 1988 & 1989.
- ⁵ "Eye-Tracking Research: Clutter in Advertising Research," *Journal of Advertising Research*, Vol. 1, No. 4, 1979, p. 1988.
- ⁶ Advertising Effectiveness, *The American Marketing Association Proceedings*, 1985.
- ⁷ See "Eye-Tracking Research Boosts Claims of Bu Shutter Advertising Effectiveness," *Marketing News*, Oct. 29, 1983, p. 4; Alter, "Research on Eye Movement Shows Editorial Environment Does Affect Ad Readership," *Magazine Age*, Oct. 1982, p. 42.
- ⁸ GILBY & RAMMELSON, "Research Advertising Techniques that Work - and Don't Work," *Harvard Business Review*, Jan-Aug 1982, p. 14.
- ⁹ GALLUP, "How Advertising Works," *Advertising Age*, 7/18/1981, see, eg. *Newspaper*, Dec. 11, 1989, p. 4. The manufacturer of new household cleaner must have a national advertising program simply to convince the consumer his product is best.

500859120

All advertising seek to portray the brand being advertised in a 'positive' manner, and cigarette advertising is no different in this regard. Not surprisingly, people in cigarette advertisements often appear to be enjoying themselves and taking pleasure in smoking. This cannot be considered inherently misleading. Similarly, many cigarette advertisements depict attractive people, but that is about people portrayed are confirmed individualists; sometimes they are emphatically sociable creatures. The various cigarette manufacturers, like advertisers of soaps and colognes, attempt to attract the attention of each of these audiences. But it is not the advertisement that 'shapes' the consumer. It is the consumer (those in the audience who already use the product category) that 'shapes' the advertisement.

In addressing their advertising to particular audiences, and in seeking to gain their attention and preference, cigarette manufacturers are doing exactly what other advertisers do - and must do - to engage in brand competition.

e. Consumer Response to Advertising

Proponents of a ban on cigarette advertising overestimate the power of advertising - in part by under-estimating the intelligence and free will of the 'target' audiences. Although this view of consumers is one that prevailed in advertising theory earlier in this century, it has since been discredited. Consumers, young and old alike, are far more sophisticated and discriminating in their responses to advertising than was once believed.

Once it was thought that advertising had a direct and powerful effect on consumers. Advertisers would say, 'Buy Brand X because it is superior to Brand Y,' and if the advertisement was clever enough, the consumer would buy the advertised brand. In reality, the world does not and never did operate in the way described by this 'one-way flow' model. Advertisers soon realised that simply disseminating a commercial message did not ensure it would be noticed. They also learned that, even when noticed, commercial messages were not necessarily retained, and that even when viewers found a particular advertisement memorable, they did not always remember what brand was being advertised.* Moreover, even when consumers did remember an advertisement, as well as the name of the advertised brand, there was no guarantee that they would have any interest in buying the brand or even a product within the product category. The failure of consumers to provide a Pavlovian response stems from the fact that people are not hapless recipients of advertising. Rather, when they do notice advertising, they are active participants who ignore, selectively attend to, laugh, counter-argue, forget or say 'no' to it.¹⁷ Individual audience members are the sum of myriad experiences and beliefs who evaluate commercial messages not in a vacuum but in the context of their lives.¹⁸

REFERENCES

* These points are discussed in PRATT, *Advertising and Communication Management*, 452. Other discussions of early models of advertising and their effects include SCHWAMM, "Channels and Audiences," in *Handbook of Communication Theory* (ed. by 1973) and LAWELL, "The Structure and Function of Communication in Society," in *Communication of Ideas*, L. Bryson ed. (1963). BAUER & BAUER, "America, Mass Society and Mass Media," *Journal of Social Issues*, vol. 19 (1963). R. BEATTY, "The Intensity of the Audience," *Journal of Advertising Research*, vol. 1, no. 1, (1965), and T. ROBERTSON, *Journal of Marketing Research*, 1966.

¹⁷ BAUER, "The Intensity of the Audience," *Journal of Advertising Research*, vol. 1, no. 1, (1965).

¹⁸ Contemporary models of marketing communication are found in advertising text and trade books, such as those cited above. See also PRATT, "Marketing Communication and the Hierarchy of Effects," in *NEW MODELS FOR MASS COMMUNICATION RESEARCH* (ed. 1973) and W. HOGUE, "An Information Processing Model of Advertising Effectiveness," in *Behavioural and Management Sciences in Marketing* (ed. DAVIS & SALES, eds. 1973).

500859122

Counter-arguments are a pervasive part of the exchange between advertiser and consumer. One may resist the most appealing advertisement for a fast-food chain because one is on a diet or does not like 'junk' food. One may resist a clever advertisement for a foreign automobile because one believes that domestic-made cars are more reliable or because one is pleased with the performance of one's own car. One may decide against chewing gum - despite the attractive, happy people who inhabit gum advertisements - because one thinks that chewing gum is annoying. This kind of counter-argument goes on all the time, most often in the form of an internalised debate.

What is distinctive about the counter-argumentation that occurs in the case of cigarettes is that no viewer can possibly avoid the counter-argument. The anti tobacco point of view is one of the most widely disseminated consumer messages in the world. Indeed, cigarette advertising in most countries carries health warnings. Every cigarette advertisement is a reminder of the smoking and health controversy, containing its own counter-argument. Despite the pervasiveness of advertising, it lacks the persuasive impact on the consuming public that some would ascribe to it. Indeed, advertising is so pervasive precisely because the persuasive impact is so limited. Advertisers must advertise if they are to retain the brand loyalty of their own consumers and, perhaps, attract consumers away from competing brands. And, particularly in the case of mature products, advertisers must compete aggressively to be heard through the commercial clutter. Even if the advertiser manages to catch the momentary attention of a consumer, he always risks rejection of his message by the consumer's own internal counter-argument.

Proposals to ban or restrict advertising therefore both overestimate the power of advertising and underestimate the sophistication of consumers. Because such proposals are based on flawed assumptions, advertising bans and content controls will not have the effect proponents claim.

500859123