How advertising works
"It's the quantity, my Dear Watson"

Chuck Chakrapani

Do we know how advertising works?
Does advertising work? If it does, how does it *really* work? Every so often one comes across articles in magazines and journals which purport to identify the relationship between advertising and sales. But are we any closer to understanding the relationship now than we were a century ago when John Wanamaker quipped that "half the money I spend on advertising is wasted, and the trouble is I don't know which half".

Many theories, few facts
The fact is that no one has so far convincingly demonstrated a consistent relationship between advertising and buyer behaviour. All we know is that advertising works, sometimes well, sometimes poorly.

We have theories as to why this is so, but we lack solid facts or empirical and statistical evidence that will support such theories consistently.

Success has many parents Failure is an orphan
When an ad campaign is successful many people take credit-market researchers, creative directors, strategic planners and even the president of the company. But no one appears to be clearly responsibe when the campaign fails. If we know how advertising works, why can no one really be held responsible when it fails to deliver? The fact is, there isn't any way to predict the degree of success of an ad. Nobody knows for sure which elements of an ad make a consumer buy. Direct mail advertising provides some clues. But such clues can hardly be generalized to other types of ads.

Given that many direct mail ads themselves fail, one wonders whether we even know enough about direct response ads. Hence the quest for the Holy Grail continues.

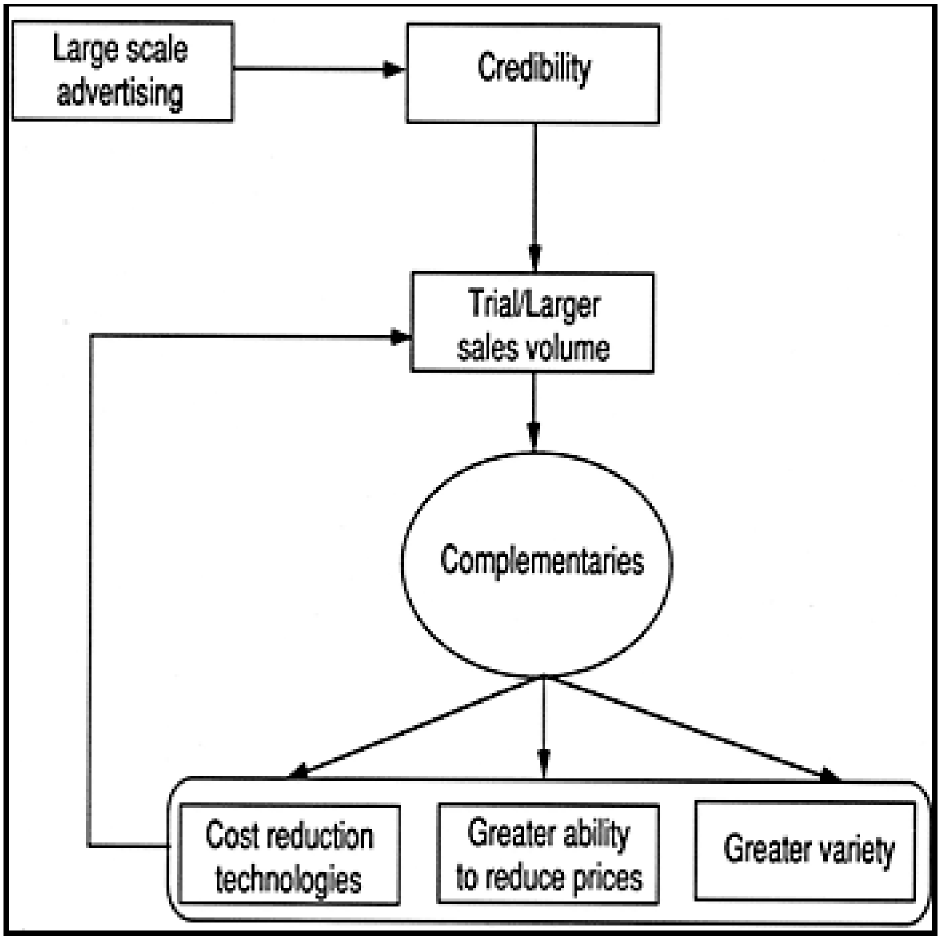
Advertising as a 'no-brainer'
In an environment that is so bereft of facts and so full of half-baked theories we can do with some new thinking. So here is the latest: *Advertising works through volume of exposure (i.e., the size and frequency of the ad) even when no specific information is conveyed.* I don't expect creative directors, copywriters and market researchers will readily subscribe to this new thesis. But it might be worthwhile just to follow this new theory through .

This theory is put forward by two economists: Dr Kyle Bagwell of Northwestern University and Dr Garey Ramey of University of California at San Diego. Based on microeconomics and game theory, Bagwell and Ramey built a structural model to understand the relationship between advertisers and buyers.

The model appears to confirm the no-brainer theory of advertising. Advertising has to provide no hard information. The sheer size and volume of ads indicates to the consumer that he or she is dealing with a large company. If it's large it has to be good. This alone is enough to attract customers to an advertiser.

The vicious cycle
That is only the beginning. When consumers believe a heavy advertiser is good, then they are attracted to the product. Suppose the advertiser is a retail establishment. When consumers are attracted to the establishment because of the ads, then volume increases. This has two effects. First, the establishment can advertise even more. This increases the credibility of the establishment, thus attracting even more customers. Second, larger numbers of customers result in larger sales volume. This gives the establishment the clout it needs to negotiate lower prices with its suppliers. When these savings are passed on to customers, the establishment becomes even more attractive. Moreover, the establishment can now offer more variety. *This result is even more customers, even lower prices, even greater variety* - the cycle continues.

How adverting works



According to Professor Bagwell and Ramey, advertising does not have to have specific information to work. The sheer volume (as measured by frequency and size) creates credibility. This in turn leads to customers using the advertising product.

Leveraging the advantage
Some establishments take advantage of the increased profits by investing in technologies that reduce operating costs. Such technologies could include modern warehouses, better stock control, satellite and computerized communications and inventory control. This is known as the theory of complementaries. It explains how the market leaders such as Wal-Mart came to be the way they are.

Not all companies effectively use the *complementaries* . Those that do attract more businesses. Those that don't throw away the advantage provided by their advertising.

When a firm advertises heavily and uses the *complementaries* to the fullest, the price of the product comes down. Moreover consumers get better choices.

Advertising as a cost reducing dimension
This leads us to an interesting conclusion. When an organization advertises heavily and utilizes the complementaries effectively, the cost of advertising is not an added cost that is passed on to the customer. Effective advertising is, in fact, a cost-reducing factor in the marketing mix. On the negative side, advertising could favour larger companies (which can afford to advertise heavily) a lot more.

Quantity vs. quality
In effect, the Bagwell and Ramey model postulates that it is the volume, not the content, of the ad that is the driving force behind ad effectiveness. This is potentially disturbing to those who strongly believe that it is the quality of an ad that makes it effective.

Ogilvy's views
David Ogilvy once wrote "When I write an advertisement, I don't want you to tell me that you find it 'creative'. I want you to find it so interesting that you *buy the product*. When Aeschines spoke, they said 'How well he

speaks'. But when Demosthenes spoke they said 'Let us march against Philip'.

While Ogilvy's words graphically describe the purpose of an ad, they also implicitly assume that the purpose of the content of an ad is to influence the consumer will do.

Bagwell and Ramey views

The Bagwell and Ramey model does not contradict this, but simply states that an ad that does not say very much has the power to induce customers to buy, thereby raising the profitability of an organization and reducing the cost of the product itself in the long run - a possibility that most advertising professional might consider too outrageous to contemplate.

Contradicting views of advertising effectiveness

Obviously the Bagwell and Ramey model contradicts what we were taught as marketing and advertising researchers. It should be even more disturbing to those in the advertising business to be told that advertising can work very well and content may not matter as long as we expose the customers to our ads as often as possible. This may sound rather preposterous. But how much do we really know about how advertising works? Can we predict with any degree of accuracy whether an ad will be successful or not? When we consider how little we know about how ads work, it is difficult to dismiss any serious theory of advertising, no matter how far fetched it may sound. We may not want to accept any new theory, but neither we can dismiss it offhand.

"But here is something to think about. What if Bagwell and Ramey are right?"

A scary thought?

I suspect that the Bagwell-Ramey model will not gain enthusiastic acceptance among those who spend their time creating 'effective' ads or those who provide input to them (such as advertising researchers). But here is something to think about.

What if Bagwell and Ramey are right?

Dr Chuck Chakrapani of Standard Research Systems is a Toronto-based international consultant, author, and lecturer.