



Advertising: Dollars and Decisions

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GLOSSARY

Advertising: Communication used by businesses to persuade consumers to buy a good or service.

Choice: A decision made between two or more possibilities or alternatives.

Consumers: People who buy goods and services to satisfy their wants.

Decisionmaking: Deciding among choices (alternatives or options).

Demand: The quantity of a good or service that buyers are willing and able to buy at all possible prices during a certain time period.

Market (marketplace): Buyers and sellers coming together to exchange goods, services, and/or resources.

Price: The amount of money, determined by the interaction of buyers and sellers, that a buyer must pay to acquire a good, service, or resource.

Profit: The amount of revenue that remains after a business pays the costs of producing a good or service.

Spending: Using some or all of your income to buy things you want now.

“Mass demand has been created almost entirely through the development of advertising.”

—Calvin Coolidge, October 27, 1926¹

Introduction

Having dollars in your pocket is one thing; keeping them there is another. With so many businesses selling goods and services, there’s a lot of competition in the **marketplace** for the money in your pocket. In fact, **consumers** are bombarded with as many as 4,000 to 10,000 advertisements each day!² This **advertising** is designed to increase or create **demand** for products by influencing consumers’ **choices** about **spending**. Through persuasion, some dollars in your pocket are spent because of advertising.

Advertising Benefits

Advertising benefits both buyers and sellers. It provides information to consumers about new products available and the advantages of buying and using the advertised goods or services. It’s also a low-cost way for consumers to get information; they simply have to view the information when it is placed in front of them. Consumers often become aware of a product through advertising, and the introduction of a new product might lead to lower prices of like products—so consumers benefit. For example, consumers might learn about Pizza Express through advertisements—and Pizza Express might offer a great **price**. Other pizza providers might feel they need to offer lower prices to compete with Pizza Express. Consumers benefit through lower prices for pizzas. Additionally, the price of newspapers, magazines, television, radio, the Internet, and other media is lower to consumers because advertising finances much of the cost of these services. And finally, advertising benefits businesses as well by increasing the demand for goods and services, thus increasing sales.

The Purpose of Advertising

Advertisements, or ads, can serve different purposes. They may be designed to nurture established brand loyalty or to introduce new brands. Using

slogans, logos, jingles, unique packaging, and designs in advertising helps create the “brand personality” and familiarity with products and influence consumer choices. For example, even before they can read, most children recognize the McDonald’s golden arches, influencing their taste and preference for McDonald’s and possibly increasing demand for McDonald’s products. Advertising can strengthen the loyalty of current users and tries to send a persuasive message to other consumers to switch brands.

Types of Advertising

Ads are used to deliver a message to consumers. Some advertisements are only in print format with or without illustrations. Others are commercials, originally called commercial messages, and may include audio only or audio and visuals. These are usually between 10 and 60 seconds in length.³ Very lengthy advertisements are called infomercials. An infomercial may be 30 minutes long and demonstrate a product. Such demonstrations usually show how the product can benefit consumers and offer a special “buy now” deal to entice consumers to purchase the product right away.

Advertising as a Business

Advertising is a fast-paced, growing, and ever-changing business. Given the massive number of advertisements, it is an industry itself. The American Advertising Federation (AAF), established in 1905, recognizes outstanding advertising work and offers guidance in building and advancing careers in advertising. The AAF even offers job opportunities to assist in developing a career in advertising.⁴

People design and create ads that will influence consumer spending. Paying attention to details, color, words, design, and appearance, as well as the media type(s) to be used, advertising agencies go to great lengths to present products most favorably. Advertising researchers collect responses from consumer test groups to pretest advertisements and fine-tune them down to the smallest details before they are released.

Advertising Timeline

In the United States, Benjamin Franklin is honored for advancing advertising in the mid-1700s. At a time when advertising was almost nonexistent, Franklin was the

publisher of the *Pennsylvania Gazette*. Working to become more profitable, he devised a way to lower the paper’s cost by selling newspaper ads. The idea was not successful at first because Franklin could not convince other businesses to buy ads. Trying a different approach, he began to advertise one of his own inventions, the Franklin stove. When sales of the stove boomed, other businesses took notice and began to buy ads in the *Pennsylvania Gazette*. Franklin was able to produce his paper at a lower cost and sell his newspaper at a lower price. Advertising was a win-win situation for Franklin and his advertisers. Advertising appealed to people’s tastes and preferences and increased the demand for his newspaper. He soon moved ahead of his competition and earned more **profit**.⁵ With a place in the Advertising Hall of Fame, Franklin is referred to as “the original voice of America, selling products and services, community programs, democracy and America itself through written and spoken word.”⁶

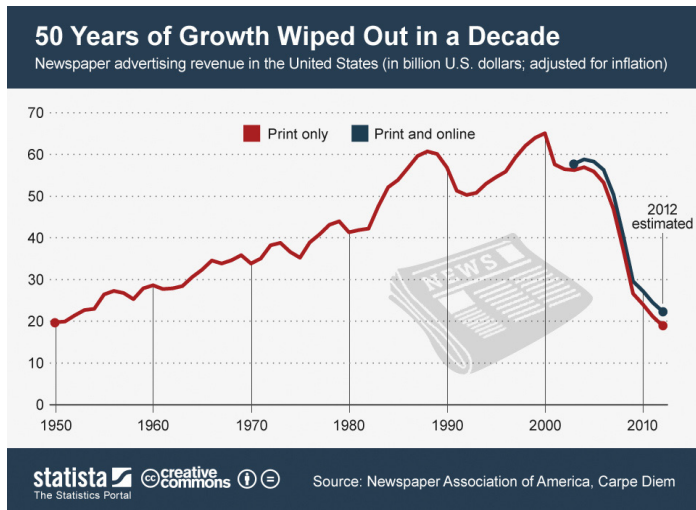
By the late 1800s, long and wordy advertisements began to fade as advertisements advanced to include catchy phrases or slogans.⁷ The idea was to use a single phrase to make the product memorable—for example, Ivory soap was marketed by Proctor and Gamble as the “soap that floats.”⁸

Radio broadcasting began on a large scale in the 1920s. The Golden Age of Radio began around 1925, and in 1926 the National Broadcasting Company (NBC) made plans for radios to be in 26 million American homes.⁹ This Golden Age of Radio enhanced advertising and moved it from the written word to other methods of communication: music, jingles, and the spoken word.

Television opened a whole new world of advertising, and its growth affected the print venue (Figure 1). In 1936, there were only 200 television sets in use,¹⁰ but by 1992 there were 201 million televisions in the United States.¹¹ In 2004, more than 98 percent of American households had a television and the average home had more than two.¹² In 2016, on average, American adults watched about 5 hours of television per day.¹³

Television offers exposure to a large number of consumers at the same time—and predictably, the networks are filled with commercials. In 2015, the Fox News Channel had the most commercials of all networks overall with almost 17 minutes of each hour devoted to commercials. The CBS television network had almost 14½ minutes, while ABC and NBC had almost 14 minutes per hour.¹⁴

Figure 1



SOURCE: Richter, Felix. "50 Years of Growth Wiped Out in a Decade." statista.com, September 17, 2012; <https://www.statista.com/chart/612/newspaper-advertising-revenue-from-1950-to-2012/>, accessed March 21, 2017. Used by permission.

On average, there are 38 ads airing every minute over national television networks. For these ads, advertisers use research and data to target the "right people" in the most effective way. Some considerations include when to run an ad and the length of the ad. For example, data from 2013 reveal that 125 million people use television on Sunday, which is more than on any other day of the week. In this same year, the number of 15-second ads increased to 44 percent of all ads and were equally effective as longer ads.¹⁵ Changes in the demographics of the population are essential data as well.

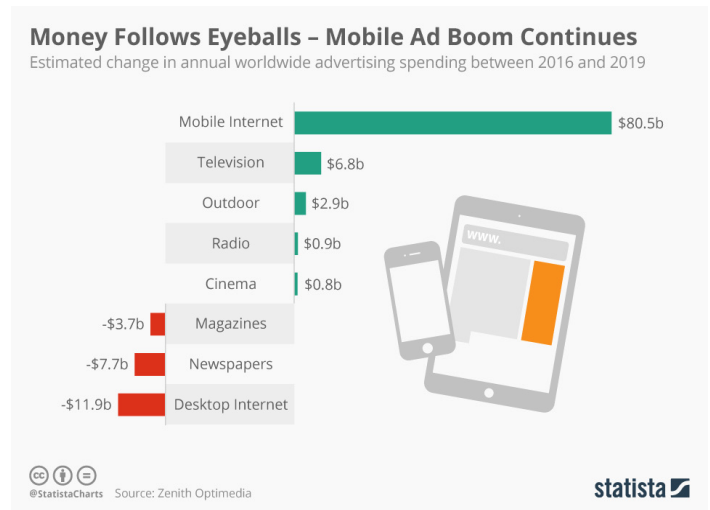
Beginning in the 1990s, the Internet and the computer age of global communication began a new era of advertising. In fact, the world's largest advertiser, Procter & Gamble, has begun shifting more to digital advertising because the company believes online ads are progressively a better investment than TV or print ads.¹⁶

Today, smartphones and mobile devices are getting their share of the advertising spotlight and the trend is expected to continue. Forecasters predict that by 2019 advertising on mobile devices will reach \$160 billion and become the second-largest advertising medium, while television will retain the number one spot.¹⁷ (See Figure 2 for estimated changes in ad spending.)

Advertising Targets

Determining the target audience of an ad and tapping into the interest of a specific group is an important mar-

Figure 2



SOURCE: Richter, Felix. "Money Follows Eyeballs – Mobile Ad Boom Continues." Statistics Portal, December 6, 2016; <https://www.statista.com/chart/5096/worldwide-ad-spending-growth-by-medium/>. Used by permission.

| Common Advertising Venues | |
|---------------------------|----------------|
| Television | Telephone |
| Radio | Mail |
| Billboards | Newspapers |
| Magazines | Internet |
| Email | Mobile devices |

keting strategy. Targeted audiences change and vary with cultures and time. Some identified groups are children, families, budget-conscious consumers, health-conscious consumers, sports-minded consumers, older or retired consumers, and working consumers. In each case, ads are designed and tailored to address the characteristics of the particular consumer group and influence their choices. The delivery medium is also important in targeting the identified group. For example, ads for beauty products are more effective in a women's magazine rather than on the radio (see the "Common Advertising Venues" boxed insert).

Advertising Techniques

Some ads are purely informational and provide basic information such as price, size, and quantity. Products have professionally designed and recognizable labels. Sometimes brand labels and the packaging itself can

Common Advertising Techniques

- Gimmick—Uses clever ideas or devices
- Glittering generalities—Presents luxury, wealth, and glamour
- Bandwagon—Gives the impression that everybody is buying and using the product
- Testimonial—Well-known or famous person shares information about the product
- Just plain folks—Presents product as traditional, old-fashioned, and “homey”
- Humor—Aims to be funny or amusing
- Statistical approach—Uses numbers and facts to convince
- Expert approach—Uses a person who is or acts like a professional in the area

SOURCE: Dale, Larry R. “Economics for the Elementary Grades.” Curriculum guide, Arkansas State University, 1992, p. 139.

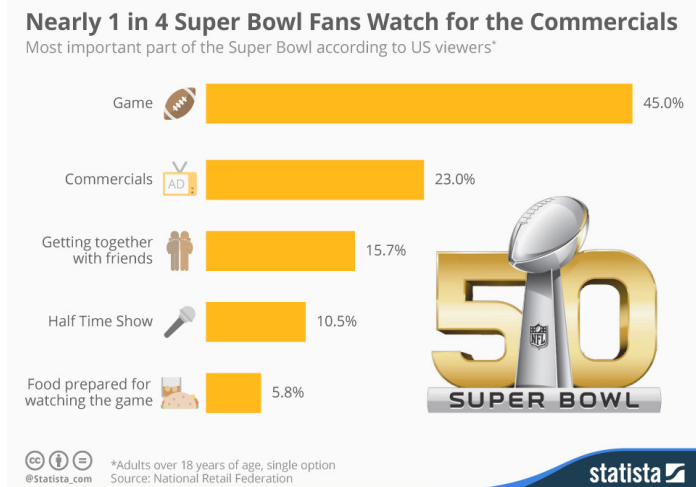
serve as an ad. For example, a tube of toothpaste is not labeled simply “toothpaste” but includes the brand name and some descriptive characteristics such as “New and Improved,” “Fresh Tasting,” “Great Tasting,” “Helps Prevent Cavities,” or “Whitening.” Adding cartoon characters and bright cheerful colors on cereal boxes can influence children’s tastes and preferences, creating greater demand for cereal by children. Depending on the product and targeted audience, most ads use one or a combination of techniques to influence consumer spending and persuade consumers of the value of the product (see the “Common Advertising Techniques” boxed insert). But in all cases, the tastes and preferences of consumers are considered in an effort to affect **decisionmaking**.

Advertising Pricing

The first official paid television ad in the United States was broadcast in 1941 as a short and simple ad for a Bulova watch. Broadcast before a baseball game in New York, the total cost for the ad was less than \$10. This was the beginning of an advertising industry that now generates tens of billions of dollars per year.

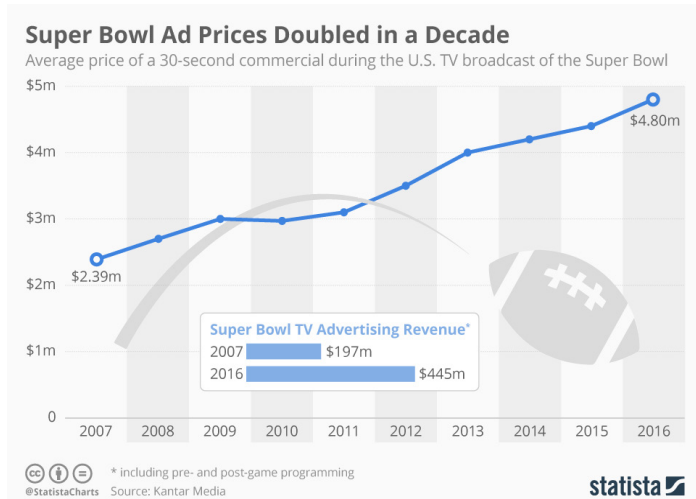
Since that time, the cost of advertising has increased dramatically. In 2016, national TV commercials cost, on average, around \$8,000 for a 30-second spot.¹⁸ Pricing of advertising depends on factors such as the size of the print ad or length of time for the radio or TV ad. Costs can vary widely by publication or program, depending on the size of the potential audience.

Figure 3



SOURCE: Loesche, Dyfe. “Nearly 1 in 4 Super Bowl Fans Watch for TV Commercials.” statista.com, February 5, 2016; <https://www.statista.com/chart/4325/reasons-to-watch-super-bowl/>, accessed March 21, 2017. Used by permission.

Figure 4



SOURCE: Richter, Felix. “Super Bowl Ad Prices Doubled in a Decade.” statista.com, January 16, 2017; <https://www.statista.com/chart/826/super-bowl-tv-advertising-in-the-united-states/>, accessed March 21, 2017. Used by permission.

The Super Bowl is an example of incredibly expensive advertising. Since 2010, the Super Bowl has been the most-watched TV broadcast of each year—114 million viewers watched the 2015 Super Bowl. Advertising during this game is a great opportunity to influence the spending of millions of consumers. Interestingly, many people watch the game just to see the commercials (Figure 3). And with the massive number of viewers, the price of advertising continues to increase radically (Figure 4). A

30-second commercial for the first Super Bowl in 1967 cost \$42,000, and the price increased to over \$1 million in 1995. By 2015, the price had risen to \$4.5 million and moved higher to \$5 million in 2016, which amounted to \$166,666 per second.¹⁹ For the 2017 Super Bowl, advertisers paid as much as \$5.02 million for a 30-second commercial.²⁰

Conclusion

The purpose of advertising has remained constant over time: to create demand for products by influencing consumer tastes and preferences. However, advertising techniques and strategies have changed and will continue to do so. Ben Franklin would surely be amazed with the innovative approaches used today to communicate promotional messages that affect consumer choices and the dramatic growth of the advertising industry.

Mark Twain said, “Many a small thing has been made large by the right kind of advertising.” Finding the “right kind” of advertising presents challenges to both advertisers and consumers. Changing technology and demographics force advertisers to change strategies, venues, and messages as they showcase their products. Consequently, the challenge continues for consumers to use the “right kind” of decisionmaking. As a consumer, it is your responsibility to carefully analyze and evaluate ads. That is, if you want to keep more dollars in your pocket. ■

Notes

¹ Coolidge, Calvin. Address Before the American Association of Advertising Agencies. Washington, DC., October 27, 1926; <http://www.presidency.ucsb.edu/ws/?pid=412>.

² Marshall, Ron. “How Many Ads Do You See in One Day?” Red Crow Marketing. September 10, 2015; <http://www.redcrowmarketing.com/2015/09/10/many-ads-see-one-day/>.

³ Martin, Amie. “What Are the Differences Between Advertisements and Commercials?” *Houston Chronicle*, 2017; <http://smallbusiness.chron.com/differences-between-advertisements-commercials-10353.html>.

⁴ American Advertising Federation. <http://www.aaf.org/>.

⁵ Bennett, Jeannette. “Ben Franklin: Highlighting the Printer.” Lesson plan, Federal Reserve Bank of St. Louis, 2012, pp.14-15; <https://www.stlouisfed.org/~media/Education/Lessons/pdf/Ben-Franklin-Highlighting-the-Printer.pdf>.

⁶ Advertising Hall of Fame. “Benjamin Franklin: Founder, Publisher & Copyrighter, Magazine General.” 2017; http://advertisinghall.org/members/member_bio.php?memid=632&uflag=f&uyear=

⁷ O’Barr, William M. “A Brief History of Advertising in America.” *Advertising & Society Review*, 2005, 6(3); <https://muse.jhu.edu/article/193868>.

⁸ “Ivory Soap.” Ohio History Central; http://www.ohiohistorycentral.org/w/Ivory_Soap, accessed February 12, 2017.

⁹ Federal Reserve Bank of St. Louis. “Turn Your Radio On.” Lesson 5 in *The Great Depression* curriculum; <https://www.stlouisfed.org/~media/Files/PDFs/Great-Depression/the-great-depression-lesson-5.pdf>.

¹⁰ SoftSchools.com. “Television Timeline.” http://www.softschools.com/timelines/television_timeline/31/, accessed February 24, 2017.

¹¹ datesandevents.org. “Television Invention Timeline.” <http://www.datesandevents.org/events-timelines/08-television-invention-timeline.htm>, accessed February 24, 2017.

¹² University of Texas at Austin. “Television History—A Timeline, 1878-2005.” https://tarltonapps.law.utexas.edu/exhibits/mason_&_associates/documents/timeline.pdf, accessed February 24, 2017.

¹³ Koblin, John. “How Much Do We Love TV? Let Us Count the Ways.” *New York Times*, June 30, 2016; https://www.nytimes.com/2016/07/01/business/media/nielsen-survey-media-viewing.html?_r=0.

¹⁴ Friedman, Wayne. “Fox Television Network, Fox News Highest In Commercial Clutter.” May 20, 2016; <http://www.mediapost.com/publications/article/276342/fox-television-network-fox-news-highest-in-commer.html>.

¹⁵ “Advertising & Audiences, State of the Media.” Nielsen Company, May 2014; http://www.nielsen.com/content/dam/niensenglobal/jp/docs/report/2014/Nielsen_Advertising_and_%20Audiences%20Report-FINAL.pdf.

¹⁶ O’Reilly, Lara. “These Are the 10 Companies That Spend the Most on Advertising.” *Business Insider*, July 6, 2015; <http://www.businessinsider.com/10-biggest-advertising-spenders-in-the-us-2015-7/#1-procter-and-gamble-ad-spend-down-42-to-46-billion-the-cpg-giant-is-also-the-worlds-largest-advertiser-although-this-spring-the-companys-cfo-revealed-a-plan-to-cut-spend-on-ad-agencies-by-up-to-500-million-the-company-is-also-shifting-huge-amounts-of-its-budget-to-digital-advertising-because-it-believes-online-ads-deliver-a-higher-return-on-investment-than-tv-or-print-one-of-its-most-popular-campaigns-of-last-year-was-its-always-likeagirl-spot-which-has-been-viewed-on-youtube-more-than-58-million-times-10>.

¹⁷ Richter, Felix. “Money Follows Eyeballs—Mobile Ad Boom Continues.” December 6, 2016; <https://www.statista.com/chart/5096/worldwide-ad-spending-growth-by-medium/>.

¹⁸ Rodriguez, Ashley. “Watch: The First TV Commercial, Which Aired 75 Years Ago Today.” Quartz, July 1, 2016; <https://qz.com/721431/watch-the-first-tv-commercial-which-aired-75-years-ago-today/>.

¹⁹ Schwartz, Nick. “Stunning Infographic Charts the Skyrocketing Cost of a Super Bowl Ad.” *USA Today Sports*, February 6, 2016; <http://ftw.usatoday.com/2016/02/how-much-does-super-bowl-ad-cost>.

²⁰ Duffy, Thomas. “Super Bowl Ads 2017: Latest Info on Cost of 2017 Super Bowl Commercials.” *Bleacher Report*, February 5, 2017; <http://bleacherreport.com/articles/2691154-super-bowl-ads-2017-latest-info-on-cost-of-2017-super-bowl-commercials>.

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Name _____ Period _____

Federal Reserve Bank of St. Louis *Page One Economics*®:

“Advertising: Dollars and Decisions”

After reading the article, complete the following:

1. Explain how the title—“Advertising: Dollars and Decisions”—summarizes the contents of the article.

2. On average, approximately what percentage of one hour of programming is devoted to actual news on the Fox News Channel? Who is the likely primary target audience for the majority of the commercials on this channel?

3. A television guide lists programs and times, but in fact, a substantial part of each time slot is devoted to commercials.
 - a. What are some intended consequences of commercials?

 - b. How are commercials beneficial to consumers?

 - c. Do viewers sometimes actually enjoy commercials? Cite evidence from the article to support your answer.

4. The first affordable automobile, the Ford Model T, was produced and marketed from 1908 to 1927. It was advertised heavily in newspapers. Give reasons why it was not advertised on radio or television as automobiles are today.

5. As the automobile changed the culture of America, so did the Federal-Aid Highway Act of 1956. The act created our interstate highway system, which dramatically increased travel and transportation across the country. Name two venues that likely gained popularity with advertisers as a result of these changes in history and culture. Cite any information in the article to support your answer.

6. Beginning with Super Bowl 2007 and ending with Super Bowl 2016, how much has the revenue from Super Bowl television advertising increased?

7. Beginning with Super Bowl 2007 and ending with Super Bowl 2016, about how much has the average price of a 30-second Super Bowl ad increased? Show your calculations and circle the correct answer. Why are advertisers willing to spend so much money on Super Bowl commercials?

Doubled Tripled Quadrupled More than Quadrupled

8. Assume that you have a good or service to sell that is popularly used by high school students. What advertising venue(s) would you choose to most effectively market your product? Explain your answer.

9. Ads often influence consumer perception by using clever ideas in pricing. For example, \$1.99 sounds less expensive than \$2.00. Quantity pricing, such as three cans of vegetables for \$3.00, sells more because consumers are more likely to buy three cans. What advertising technique is used in these examples?

10. It is a consumer's responsibility to think about and analyze ads. Give three reasons why this is important.