Views on advertising

Price/non-price strategies in Monopoly

Price–Advertising decisions

Advertising affects demand

Welfare

Competition

Informative Advertising

Persuasive Advertising

Lecture 4: Advertising

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Motivation

- Advertising is prevalent
- In 2006, approximately $285.1 billion advertising expenditure in the United States(2.2% of US GDP) a spending of $952 per capita.
- The 100 top US marketers account for 37% of the total advertising spending.
- Procter and Gamble(P&G) alone was responsible for $4.9 billion of US ad spending.

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Questions

- To understand what cause firms to spend resources on advertising
- How advertising affects consumers?
- The combination of 2P's - Promotiona and Price

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Views on advertising

- Advertising is *persuasive*: alter consumers' tastes
- Advertising is *informative*: provides consumers with information about the existence, price and characteristics.
- Advertising is *complementary* to the advertiseed product: advertising does not modify consumers' preferences and it does not matter whether it conveys information or not; what is central is that advertising enters as one argument into the consumers' utility function and it does so in a complementary fashion with the advertised product.

Implications

- The persuasive view suggests that advertising makes demand less elastic (as consumers become more loyal) and, therefore, results in higher prices and may make entry more difficult.
- The informative view suggests that advertising allows consumers to make better informed decisions. If consumers become informed about the existence of a product this tends to make demand more elastic, which then increases competition.
- So, advertising is often seen as welfare-reducing under the persuasive view, but as welfare-increasing under the informative view.

The Dorfman-Steiner model I

Model Overview

- Monopoly firm, firm decide on price, and a secondary non-price variable
  - e.g. how much to invest to improve quality
  - how many added features to add to the basic product(bundling decision)
  - how much to spend on advertising the product.

The Dorfman-Steiner model II

- Strategic price p, have non-price strategic variable A
  - advertising frequency.
  - consider $(p, A) \geq 0$.
- demand is a function of price and advertisement $Q(p, A)$, decreases with price and increases in advertising expenditure.
- Denote $Q_p = \partial Q/\partial p < 0$ and $Q_A = \partial Q/\partial A > 0$.
- The variable cost of production is $C(Q(p, A))$ with $C' > 0$
- Firm maximize the profit function $\Pi(p, A) = pQ(p, A) - C(Q(p, A)) - A$.

The Dorfman-Steiner model III

$$\frac{\partial \Pi}{\partial p} = \left(p - C'\right) Q_p + Q = 0 \Leftrightarrow \frac{p - C'}{p} = -\frac{Q}{pQ_p} = \frac{1}{\eta_{Q,p}}. \tag{6.1}$$

In addition, the firm has to determine its profit-maximizing advertising expenditure:

$$\frac{\partial \Pi}{\partial A} = \left(p - C'\right) Q_A - 1 = 0$$

$$\Leftrightarrow \frac{p - C'}{p} = \frac{1}{Q_A}\frac{1}{p} = \frac{Q}{AQ_A}\frac{A}{pQ} = \frac{1}{\eta_{Q,A}}\frac{A}{pQ}, \tag{6.2}$$

where $\eta_{Q,A} = AQ_A/Q$ is the advertising elasticity of demand. Expressions (6.1) and (6.2) give two different values to the markup $(p - C')/p$. Equating these two values, we obtain

$$\frac{1}{\eta_{Q,p}} = \frac{1}{\eta_{Q,A}}\frac{A}{pQ} \Leftrightarrow \frac{A}{pQ} = \frac{\eta_{Q,A}}{\eta_{Q,p}}. \tag{6.3}$$

Thus Equation (6.3) determines the profit-maximizing advertising expenditure as a percentage of revenue by an elasticity rule:

$$\underbrace{\frac{\text{advertising expenditure}}{\text{revenue}}}_{\textit{advertising intensity}} = \frac{\text{advertising elasticity of demand}}{\text{price elasticity of demand}}.$$

Conclusion: Intensity

Advertising intensity

Table 6.2. *Advertising intensities for the top 10 US marketers*

Marketer	A	pQ	Intensity
Procter & Gamble Co.	4898	68 222	7.18%
AT&T	3345	63 055	5.30%
General Motors Corp.	3296	207 349	1.59%
Time Warner	3089	44 224	6.98%
Verizon Communications	2822	88 144	3.20%
Ford Motor Co.	2577	160 100	1.61%
GlaxoSmithKline	2444	42 534	5.75%
Walt Disney Co.	2320	34 285	6.77%
Johnson & Johnson	2291	53 324	4.30%
Unilever	2098	49 548	4.23%

A: US ad spending in 2006 ($ millions)
pQ: worldwide sales in 2006 ($ millions)

Persuasive Advertising I

- Take a continuum of consumers of mass equal to one.
- Each consumer buys at most one unit of the monopolist's product.
- θ is uniformly distributed over $[0,1]$.
- The consumer's willingness to pay is $g(A)\theta$ where $g(0) = 1$ and $g'(A) > 0$.
- At price p, the consumer is willing to purchse is $g(A)\theta \geq p$ or $\theta \geq p/g(A)$.
- The demand function is then

$$Q(p, A) = 1 - p/g(A).$$

Persuasive Advertising II

- The price elasticity $\eta_{Q,p} = p/(g(A) - p)$ which decreases with A.

Persuasive Advertising

It follows that a larger advertising expenditure translates into a less elastic demand, which corresponds to the prediction of the persuasive view (which, however, is indistinguishable from the complementary view or the informative view when consumers better learn the fit between product characteristics and tastes).

Informative Advertising I

- Advertising provides better information of the consumers about the existence of the product sold by the monopolist.
- Suppose there are N consumers in the market, individual decreasing demand function $d(p)$, for the monopolist product.
- All consumers are unaware of the product untill receiving an ad.
- The monopolist chooses to send a number A of advertising messages, not targeted to any specific consumers.

Informative Advertising II

- The consumer who do not purchase are those who have not received an add, which occurs with probability $(1 - \frac{1}{N})^A$, which can be approximated by $e^{-A/N}$ when N sufficiently large.
- Total demand is given by

$$Q(p, A) = N(1 - e^{-A/N})d(p) \equiv G(A)d(p).$$

- Note that $G'(A) = e^{-A/N} > 0$, $G''(A) = -(e^{-A/N})/N > 0$

Informative Advertising III

Informative Advertising

The proponents of the informative view expect advertising to make demand more elastic. In this simple monopoly model, however, $\eta_{Q,p} = pd'(p)/d(p)$ is insensitive to the number of advertising messages sent.

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Is advertising socially desirable? I

Very polarized positions have characterized this long-standing debate. To shed some light on this difficult question, we develop here a formal treatment of the welfare effects of advertising in a monopoly setting, ignoring effects that arise due to imperfect competition. Our starting point is the general model we used in the previous section. Recall that the monopolist chooses the price of its product, p, and its advertising expenditure, A, so as to maximize its profit.

$$\Pi(p, A) = pQ(p, A) - C(Q(p, A)) - A,$$

Is advertising socially desirable? II

- where $Q(p, A)$ is the demand function, which decreases in price and incerases in advertising expenditure, $Q_p < 0$ and $Q_A > 0$.
- We can define the social welfare as $W(p, A) = \Pi(p, A) + \int_p^{r(A)} Q(p, A)dp$, where $r(A)$ is the maximum price consumers are willing to pay. $Q(r(A), A) = 0$, A may vary with A.

Is advertising socially desirable? III

Translated in mathematical terms, we want to evaluate

$$\left.\frac{dW(p_m(A),A)}{dA}\right|_{A=A_m} = \left\{\frac{d\Pi(p_m(A),A)}{dA} + Q\left(r\left(A\right),A\right)r'\left(A\right) - Q\left(p_m\left(A\right),A\right)p_m'\left(A\right) + \int_{p_m(A)}^{r(A)} Q_A\left(p,A\right)dp\right\}\Big|_{A=A_m}.$$

$$\left.\frac{dW\left(p_m\left(A\right),A\right)}{dA}\right|_{A=A_m} = -Q\left(p_m,A_m\right)p_m'\left(A_m\right) + \int_{p_m}^{r(A_m)} Q_A\left(p,A_m\right)dp. \qquad (6.4)$$

The first term is highlighted by [Dixit and Norman, 1978]: whether welfare is calculated on the basis of the pre- or the post-advertising demand curve, the change in welfare due to a slight increase in advertising, starting from the monopoly solution, is equal to the monopoly quantity multiplied by the opposite of the variation in

Is advertising socially desirable? IV

the monopoly price resulting from the increase in advertising.

$$\frac{\partial \Pi}{\partial p} = \left(p - C'\right) Q_p + Q = 0 \Leftrightarrow \frac{p - C'}{p} = -\frac{Q}{pQ_p} = \frac{1}{\eta_{Q,p}}. \tag{6.1}$$

Is advertising socially desirable? V

By definition, $p_m(A)$ is the solution to the first-order condition $\partial \Pi / \partial p = 0$. Totally differentiating the latter equation, we have

$$\frac{\partial^2 \Pi}{\partial p^2} dp + \frac{\partial^2 \Pi}{\partial p \partial A} dA = 0 \Leftrightarrow \frac{dp}{dA} = \frac{\partial^2 \Pi / \partial p \partial A}{-\partial^2 \Pi / \partial p^2}.$$

As the second-order condition for profit maximization imposes that $\partial^2 \Pi / \partial p^2 < 0$, it follows that sign $\left\{ p'_m(A) \right\} = \text{sign} \left\{ \partial^2 \Pi / \partial p \partial A \right\}$. Now, to find $\partial^2 \Pi / \partial p \partial A$, we differentiate (6.1) with respect to A:

$$\frac{\partial^2 \Pi}{\partial p \partial A} = Q_A + \left(p - C' \right) Q_{pA} - C'' Q_A Q_P. \tag{6.5}$$

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Is advertising socially desirable? VI

Welfare Impact of Advertising

If additional advertising would not cause the monopolist to raise its price, then the monopolist supplies too little advertising, as an increase in advertising above the monopoly level would be welfare-improving. On the other hand, when advertising increases price, it induces two conflicting effects on welfare and the net effect is ambiguous.

Persuasive v.s. Informative advertising I

- **Informative advertising**
  Demand function is
  $Q(p, A) = N(1 - e^{-A/N})d(p) \equiv G(A)d(p)$.
  $Q_p = G(A)d'(p) < 0$ and $Q_A = G'(A)d(p) > 0$.

$$\frac{\partial^2 \Pi}{\partial p \partial A} = G'(A)\left[d(p) + \left(p - C'\right)d'(p)\right] - C''Q_A Q_P = -C''Q_A Q_P.$$

$signp'_m(A) = sign(C'')$: advertising does not increase the monopoly price if $C'' \leq 0$, when advertising is informative, monopoly advertising is socially insufficient if marginal cost is constant or decreasing.

Persuasive v.s. Informative advertising II

- **Persuasive advertising**
  Demand function is $Q(p, A) = 1 - p/g(A)$ where $g'(A) > 0$. To simplify the expression, we write $g(A) = \alpha(A)$.
  Then $\frac{\partial \Pi}{\partial p} = \frac{\alpha A - 2p + c}{\alpha A} = 0 \Leftrightarrow p_m(A) = \frac{\alpha A + c}{2}$.
  $p_m'(A) > 0$: persuasive advertising raises the monopoly price. Even if persuasive advertising increases the monopoly price, the monopolist may provide too little advertising from a social point of view.

Overview

- Advertising plays a **constructive role** when it informs consumers about the existence, characteristics and prices of products, or when it increases the perceived differences between brands.
- Then, advertising increases total demand and/or product differentiation and is therefore likely to soften price competition.
- In contrast, advertising plays a **combative role** when it mainly helps firms steal each other's business.
- Then, advertising is likely to toughen price competition.

Informative Advertising I

Recap Hotelling Model

- Hotelling model with linear transportation costs where two firms are located at the extreme points. Indirect utility $u_i = r - \tau|l_i - x| - p_i$.
- Unit mass of consumers who are uniformly distributed over the interval.
- The indifference consumer is characterized $r - \tau\hat{x} - p_1 = r - \tau(1 - \hat{x}) - p_2$.
- Demand function $Q_1(p) = \hat{x}(p_1, p_2)$ and $Q_2(p) = 1 - \hat{x}(p_1, p_2)$.

Informative Advertising II

With advertisement

- Only λ_i of consumers knows about the existence of product i.
- Independent advertising.
- $\lambda_i\lambda_j$ knows both.(Fully informed group.)
- To inform λ_i share of consumers, the advertising expenditure is $A(\lambda_i)$ with $A' > 0$ and $A'' > 0$. We assume $A(\lambda_i) = \frac{\lambda_i^2}{2}a$.
- Demand for firm 1 is $Q_1(p_1, p_2, \lambda_1, \lambda_2) = \lambda_1[(1-\lambda_2) + \lambda_2\hat{x}(p_1, p_2)] = \lambda_1[(1-\lambda_2) + \lambda_2\frac{1}{2\tau}(\tau - p_1 + p_2)]$.

Informative Advertising III

- Consider a symmetric situation: $p_1 = p_2 \equiv p, \lambda_1 = \lambda_2 \equiv \lambda$. The price elasticity of the demand is $\eta_{p_1,Q_1} = \left(\frac{-\lambda_1\lambda_2}{2\tau}\right)\frac{p_1}{Q_1(p_1,p_2,\lambda_1,\lambda_2)}$.
- When evaluated at the symmetric price,

$$\eta_{p_1,Q}\big|_{p_1=p_2=p} = -\frac{1}{2\tau}\frac{\lambda_2 p}{(1-\lambda_2)+\frac{\lambda_2}{2}} = -\frac{1}{2\tau}\frac{\lambda_2 p}{1-\frac{\lambda_2}{2}} = -\frac{\lambda_2 p}{(2-\lambda_2)\tau}.$$

Informative Advertising IV

We now turn to the equilibrium analysis. Firm 1's profit maximization problem is

$$\max_{p_1,\lambda_1} (p_1 - c)\, Q_1(p_1, p_2, \lambda_1, \lambda_2) - A(\lambda_1).$$

Correspondingly for firm 2. We characterize the Nash-equilibrium in pure strategies. Recall that a Nash equilibrium $(p_1^*, p_2^*, \lambda_1^*, \lambda_2^*)$ satisfies

$$(p_1^*, \lambda_1^*) = \arg\max_{p_1,\lambda_1} \pi_1(p_1, p_2^*, \lambda_1, \lambda_2^*) \text{ and}$$

$$(p_2^*, \lambda_2^*) = \arg\max_{p_2,\lambda_2} \pi_2(p_1^*, p_2, \lambda_1^*, \lambda_2)$$

The first-order conditions of profit maximization can be written as

$$\frac{\partial \pi_1}{\partial p_1} = \lambda_1 \left[(1-\lambda_2) + \lambda_2 \tfrac{1}{2\tau}(\tau - 2p_1 + p_2 + c)\right] = 0$$

$$\Leftrightarrow p_1 = \frac{p_2 + c + \tau}{2} + \frac{(1-\lambda_2)}{\lambda_2}\tau \tag{6.6}$$

and

$$\frac{\partial \pi_1}{\partial \lambda_1} = (p_1 - c)\left[(1-\lambda_2) + \lambda_2 \tfrac{1}{2\tau}(\tau - p_1 + p_2)\right] - a\lambda_1 = 0$$

$$\Leftrightarrow \lambda_1 = \frac{1}{a}(p_1 - c)\left[1 - \lambda_2 + \lambda_2 \tfrac{1}{2\tau}(p_2 - p_1 + \tau)\right]. \tag{6.7}$$

To characterize the symmetric equilibrium:

Conclusion

- The prediction of the model may be tested in a market which experiences an industry shock in the form of lower advertising costs.
  - For instance, the rise of Internet search engines may have lowered advertising costs. The prediction of the model then would be that with the presence of Internet search engines, firms' profits are actually lower than before.
- Another application would be restrictions of advertising and industry lobbying in favour of these restrictions. The idea here is that a high a serves as a collusive device. In particular, industry representatives may lobby for restrictions on the type and frequency of advertising that are allowed.
- In the extreme case, if consumers have some local information, firms may lobby to prohibit advertising.
  - advertising restrictions that are self-imposed by certain professions (such as lawyers or accountants)

Persuasive Advertising I

Advertising entails a business-stealing effect, which raises the possibility that advertising may be excessive.

- Consider a hotelling model: We now allow the following factors to be affected by the advertisement
  - reservation value (r), an increase in consumer willingness to pay
  - the distribution of consumers, a change in the distribution of consumer tastes
  - the transport cost parameter (τ) to be influenced by advertising, an increase in perceived product differences.
- Advertising intensity is denoted by λ_i
- assume for simplicity that the cost of advertising intensity $A(\lambda_i) = a\frac{\lambda_i^2}{2}$.

Advertising on WTP I

Advertising may affect consumers' preferences by enhancing the value of the product in the eyes of the consumer (this is what we assumed in the monopoly model of Section 6.2). Here, a simple way to model this effect is to assume that the reservation values may differ across goods, with

$$r_i(\lambda_i) = r + \beta\lambda_i,$$

where β is a positive parameter. That is, by spending λ_i in advertising, firm i raises the consumers' willingness to pay for its product. Then, given advertising intensities (λ_1, λ_2) and prices (p_1, p_2), the indifferent consumer is such that $r + \beta\lambda_1 - \tau\hat{x} - p_1 = r + \beta\lambda_2 - \tau(1 - \hat{x}) - p_2$, or

$$\hat{x}(p_1, p_2; \lambda_1, \lambda_2) = \frac{1}{2} + \frac{p_2 - p_1}{2\tau} + \beta\frac{\lambda_1 - \lambda_2}{2\tau}.$$

Given λ_1, λ_2, firm 1 maximizes $\pi_1 = (p_1 - c)\hat{x}(p_1, p_2, \lambda_1, \lambda_2)$. From the first order condition, we derive firm 1's reaction function $p_1 = \frac{1}{2}(c + \tau + p_2 + \beta\lambda_1 - \beta\lambda_2)$.

Advertising on WTP II

$$p_i\left(\lambda_i, \lambda_j\right) = c + \tau + \tfrac{1}{3}\beta\left(\lambda_i - \lambda_j\right),$$
$$\pi_i\left(\lambda_i, \lambda_j\right) = \tfrac{1}{18\tau}\left(3\tau + \beta\left(\lambda_i - \lambda_j\right)\right)^2.$$

Solving for Nash equilibrium, we find

$$\lambda_1^* = \lambda_2^* = \beta/(3a), \quad p_1^* = p_2^* = c + \tau.$$

$$\pi_1^* = \pi_2^* = \frac{\tau}{2} - \frac{\beta^2}{18a} < \frac{\tau}{2}.$$

Firms are made worse off by their ability to make persuasive advertising. As in the model with informative advertising, firms would welcome an increase in advertising costs (larger a) or a reduction in the 'persuasive power' of advertising (lower β).

Advertising on WTP III

When firms act cooperatively, they would face the following maximization programme:

$$\max_{\lambda_1,\lambda_2}(\pi_1+\pi_2)=\frac{(3\tau+\beta\lambda_1-\beta\lambda_2)^2}{18\tau}+\frac{(3\tau+\beta\lambda_2-\beta\lambda_1)^2}{18\tau}-\frac{1}{2}a\left(\lambda_1^2+\lambda_2^2\right).$$

Evaluating the first-order condition at symmetric advertising intensities gives

$$\left.\frac{\partial(\pi_1+\pi_2)}{\partial\lambda_i}\right|_{\lambda_1=\lambda_2=\lambda}=-\lambda a<0,$$

the optimal choice is $\lambda_1=\lambda_2=0$.

Forbid Advertising

The result a second explanation as to why some professional associations are in favour of legislation that forbid advertising for their profession.

Distribution of consumer tastes I

Take the following symmetric distribution function:

$$F(x;\lambda_1,\lambda_2) = (1+\lambda_1-\lambda_2)x - (\lambda_1-\lambda_2)x^2,$$
$$f(x;\lambda_1,\lambda_2) = (1+\lambda_1-\lambda_2) - 2(\lambda_1-\lambda_2)x.$$

Distribution of consumer tastes II

If $\lambda_1 = \lambda_2$, distribution is uniform.

The demand for firm 1 is given by $F(\hat{x}; \lambda_1, \lambda_2)$ and the demand for firm 2 by $1 - F(\hat{x}; \lambda_1, \lambda_2)$, where $\hat{x} = \frac{1}{2} + \frac{p_2 - p_1}{2\tau}$ identifies the indifferent consumer. Using expression (6.10), we have

$$Q_1(p_1, p_2; \lambda_1, \lambda_2) = (1 + \lambda_1 - \lambda_2)\left(\tfrac{1}{2} + \tfrac{p_2 - p_1}{2\tau}\right) - (\lambda_1 - \lambda_2)\left(\tfrac{1}{2} + \tfrac{p_2 - p_1}{2\tau}\right)^2.$$

Because of the relative complexity of the latter demand function, we consider here that firms choose advertising intensities and prices simultaneously and we invoke symmetry to considerably simplify the problem. Firm 1 solves the following programme:

$$\max_{\lambda_1, p_1} \pi_1(p_1, p_2; \lambda_1, \lambda_2) = (p_1 - c) Q_1(p_1, p_2; \lambda_1, \lambda_2) - \tfrac{a}{2}\lambda_1^2.$$

The first-order condition with respect to p_1 is

$$\frac{\partial \pi_1}{\partial p_1} = Q_1 + \frac{\partial Q_1}{\partial p_1}(p_1 - c) = 0.$$

Distribution of consumer tastes III

$$\frac{\partial \pi_1}{\partial \lambda_1} = \frac{\partial Q_1}{\partial \lambda_1}(p_1 - c) - a\lambda_1 = \left(\frac{1}{4} - \left(\frac{p_2 - p_1}{2\tau}\right)^2\right)(p_1 - c) - a\lambda_1 = 0.$$

The equilibrium solution

$$p_1^* = p_2^* = c + \tau, \quad \lambda_1^* = \lambda_2^* = \tau/(4a), \quad \pi_1^* = \pi_2^* = \frac{1}{2}\tau - \frac{\tau^2}{32a} < \frac{1}{\tau}.$$

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Summary

Conclusion on Advertising change WTP and Consumer Preference

When firms invest in persuasive advertising that increases the willingness to pay for their product or that changes the distribution of consumer tastes in their favour, advertising expenditures are simply a form of wasteful competition: if firms could cooperate, they would agree not to advertise.

Perceived product differences I

Advertising may finally lead consumers to attach more importance to those differences that already exist between the two products. I
A simple way to capture the idea that persuasive advertising increases perceived product difference is to

Perceived product differences II

have

$$\tau(\lambda_1, \lambda_2) = \tau + \beta\lambda_1 + \beta\lambda_2.$$

As for the second-stage pricing game, we can simply replicate the analysis of the Hotelling model by changing the transport cost:

$$p_1(\lambda_1, \lambda_2) = p_2(\lambda_1, \lambda_2) = c + \tau + \beta\lambda_1 + \beta\lambda_2,$$

$$\pi_1(\lambda_1, \lambda_2) = \pi_2(\lambda_1, \lambda_2) = \tfrac{1}{2}(\tau + \beta\lambda_1 + \beta\lambda_2).$$

At the first stage, firm i chooses λ_i to maximize $\frac{1}{2}(\tau + \beta\lambda_i + \beta\lambda_j) - \frac{a}{2}\lambda_i^2$. The first-order condition is simply $\beta/2 - a\lambda_i = 0$, which gives $\lambda_1^* = \lambda_2^* = \beta/(2a)$. It follows that prices and profits at the subgame perfect equilibrium are respectively given by[k]

$$p_1^* = p_2^* = c + \tau + \frac{\beta^2}{a} \quad \text{and} \quad \pi_1^* = \pi_2^* = \frac{\tau}{2} + \frac{3\beta^2}{8a}.$$

Perceived product differences III

- persuasive advertising increases product differentiation, it allows firms to relax price competition and to make higher profits.
- Note that advertising has a public good nature, which leads each firm to free-ride on the other firm's effort.
- If firms were choosing advertising intensities cooperatively in the first stage, they would advertise more (it is easily checked that they would choose $\lambda = \beta/a$ and achieve even higher profits.

Perceived product differences IV

Conclusion on Advertising change Perceived product differences

Firms invest in persuasive advertising that increases perceived product differences to relax price competition and, thereby, achieve higher profits. Because advertising is a public good in that case, firms would even be better off by coordinating their advertising decisions.

Case I

Joint advertising campaign to promote private healthcare

The following announcement was posted on *www.privatehealth.co.uk* in December 2005 (emphasis added). For the first time ever, a group of insurers and independent hospitals have combined to launch a major television and newspaper advertising campaign *to promote the benefits of private healthcare*.

Six of Britain's leading private hospitals and health insurance companies have joined forces to champion the benefits of private healthcare. AXA PPP healthcare, BMI Healthcare, BUPA Hospitals, BUPA Health Insurance, Norwich Union Healthcare and Standard Life Healthcare are backing a one million pound, one month national

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Case II

press campaign with strong positive messages about the industry and its contribution to the health of the nation.

Case III

One simple explanation for such announcements is that advertising is used to increase industry demand. A different explanation, advanced by the previous model, is that advertising increases the visibility of different insurers, which raises the perceived differences between them. This suggests that either the persuasive view or the direct informative view is relevant. According to the latter, consumers learn about true differences between insurers; according to the former, consumers are made to believe that such differences exist.

References I


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