Econ 243 Advertising 10.31 notes

opening puzzle: car dealerships advertising, but so do car companies. why??

- conceptual puzzle: do ads move the demand curve out (market expanding) or merely make the demand curve less elastic = rotate clockwise / become more vertical around the existing (p,q).

persuasive advertising

- beer: aimed at existing customer base
  - » images of lifestyle long associated with Budweiser, Clydsdale horses, parties around a TV
  - » while the images used by Coors are different (and also go back decades), mountain streams
  - » car companies also do these image-focused commercials but they do generally introduce a small subset of product features [so ***not*** a negative externality, doesn't hurt rivals. surely though there are examples of ads that function to steal business from rivals, not reinforce own sales]
  - » of course firms understand (or think they understand) who is their target demographic. for beer, it's 20-30 something men. in Japan, beer companies develop alternate beverages aimed at women (chu-hai 酎ハイ short for shochu highball)
- depreciates: have to keep advertising
- Prisoner's Dilemma: have to keep advertising, or else! rapid depreciation accentuates, rather than active "poaching" of customers by rivals, if Budweiser stopped advertising, they could coast for a while but soon consumers would wonder what that stuff is in the beer section, because all they know is Miller and Coors

informative advertising

- hey, we're here!
- prices and sales
  - » bundling! once you're in the store, your demand for non-sale items is comparatively inelastic
  - » can build loyalty / reinforce regular customers by making them feel good about shopping there
    - • Krogers actually sends out coupons for free goods! $5 off of fresh vegetables, a free lb of bacon – those are expensive promotions!
    - • cf a similar component to persuasive advertising

externalities

- dealership adds bring some customers to them
  - » but they also increase brand awareness so rival dealerships also see sales increase
  - » hence the benefit spills over, and as a positive externality dealerships don't advertise enough
    - • otherwise a dealer could "free ride" on the ads neighboring dealerships, especially if they're in a small community where their existence is well known but their products not.
- car companies thus
  - » do some advertising themselves, but not "informative" adds that point to specific dealerships or regional selections
  - » madate that dealerships pay into a regional advertising fund which then allocates ad moneys via a dealership council. that means no dealer can skimp – they get the money back, but in effect this forces them to engage in some base level of advertising