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THEORETICAL APPROACHES TO ASSESS THE IMPACT OF ADVERTISING ON CONSUMERS AND MARKET COMPETITION

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Abstract:
In the article we examine theoretical perspectives on the impact of advertising on consumer behavior, entry barriers in the industry, the structure of the industry, the competitive behavior of firms and market power; systemize structure of the research of advertising impact on consumer behavior; analyze the main results of empirical studies of the effects of advertising on the competitive relationship in the market.

Key words: advertising, market structure, competition, monopolization, entry barriers, consumer behavior.

JEL classification: L10, L12

1. INTRODUCTION

In a globalized modern world increases impact of advertising on economic relations. Advertising products allows consumers to obtain important information on product diversity and market prices for specific goods and services, and manufacturers and retailers to expand product distribution channels; influence consumer preferences and hence on market demand; more effectively implement competitive strategies. Advertising as an effective method of influence on consumer preferences, aims to increase demand for products corresponding brand, improving the company's reputation, growth of image, respectively, and attract new customers for their products, create barriers to entry into the industry and the formation of market power.

2. ANALYSIS OF RECENT RESEARCHES AND PUBLICATIONS

For a long period, the impact of advertising on the economy was discussed by many scientists, there are many conflicting opinions, statements and models. Most studies of advertising were carried out in the areas of marketing, psychology, sociology and management, and theoretical aspects of this activity paid insufficient attention. Leading marketers P. Kotler and G. Armstrong define advertising as “business activities designed to promote products” or as “marketing communications” [5]. And in the works of leading economists still has not developed a common opinion about the nature of advertising, its definition and the means and methods of the study of its impact on different aspects of the market environment, competition and welfare.

For example, British economist P. Doyle identifies the following reasons for disagreements of opinion other economists advertising: first, the high cost of advertising may partly be the cause of inflation; second, advertising is often deemed to misinforming consumers and negatively affect their preferences; thirdly, some economists believe that the media is too dependent on advertising; fourth, advertising can influence the market concentration and lead to reduced competition [2, p. 572].

Empirical studies of the impact of advertising can be grouped using D. Vakratsas work according to major themes and results (Table 1).

Of course, these researches have some important points, such as the fact that according to the first, advertising is perhaps the only cause of the consumers’ brand loyalty and insensitivity to price. However, there are other marketing tools to influence consumers as quality, personal selling, promotion.

Table 1. The results of empirical studies of the impact of advertising on consumer

Topic	Conclusion	Studies
Dynamic advertising elasticities	Advertising elasticities are dynamic and decrease during the product life cycle. Advertising elasticities are therefore higher for new than for established goods.	Lodish et al. (1995) Parker and Gatington (1996)
Advertising response functions, reach, frequency	Returns to advertising are usually diminishing; the first exposure is the most influential for short-term sales or share gains. For frequently purchased package goods, share returns to advertising diminish fast, typically after the third exposure. After the third exposure, advertisers should focus on reach rather than frequency.	Deighton, Henderson and Neslin (1994); Jones (1995); McDonald (1971);
Advertising as a signal of product quality	Increased advertising signals high quality when costs of producing quality are low and consumers are less responsive to advertising.	Tellis and Fornell (1988).
Advertising effects on consumer price sensitivity	Price advertising increases price sensitivity, whereas nonprice advertising decreases price sensitivity. Furthermore, price sensitivity leads to lower prices. When consumers rely on memory to retrieve product information, advertising increases price sensitivity; when consumers rely on point-of- purchase information, advertising decreases price sensitivity	Kaul and Wittink (1995); Mitra and Lynch (1995).
Advertising and affective responses	Advertising need not be informative to be effective, nor need be verbal only; emotional and visual elements enhance preference.	Krugman (1977); Resnik and Stern (1977);
Brand attitude formation	Brand attitudes are not formed exclusively on the basis of beliefs about the product/brand attributes. They also can be based on emotions. For example, attitude toward the ad is a significant moderator in the formation of brand attitudes.	Aaker, Stayman, and Hagerty (1986); Batra and Ray (1986);
Advertising for search, experience, and ambiguous goods	Advertising is more effective for experience than search (ambiguous) goods. Furthermore, advertisements for search goods contain more product-oriented information than do experience goods advertisements.	Hoch and Ha (1986); Nelson (1974).
Effects of message repetition on awareness, recall, and attitude formation	In low-involvement situations, repetition of different versions of an advertisement prevents early decay of advertising effects. Recall and attitudes can be maintained at a high level if an advertising campaign consists of a series of advertisements.	Calder and Strenthal (1980); Rao and Burnkrant (1991); Zielske and Henry (1980).
Advertising-experience interaction	Product usage experience dominates advertising influence on beliefs, attitudes, and behavior.	Hoch and Ha (1986); Marks and Kamins (1988);

Source: compiled by the author based on [7, p. 31].

In evaluating advertising costs and their impact on the market we must also distinguish between different types of markets. The first group of markets, as determined Comanor W. and T. Wilson, there are markets where advertisements are traded. In such markets news media play a decisive role and advertisers can present demand. Equally important are advertised goods markets, where advertisers are sellers. In both cases, the final consumers are representative of market demand. The difference between these types of markets is important, and it would be wrong to neglect it [4, p.2].

Advertising can strengthen the position of the company in competition, helping consumers to make choices based on better information, but advertising can make competition less perfect, assuring customers the best qualities of a particular brand of product. In this regard it is important to be able to divide advertising into informative and persuasive. As rightly noted by A. Vitrenko "... advertising in modern society has its problems, but it is only a tool for market development and social communication. And just reassessment false as the underestimation of its role and place in society. Advertising only serves new needs and does so or bad or good. It is a tool, a tool in the arsenal of different systems and can bring good and evil, and at the same time "[9, p. 402]. So, advertising is ambiguous and can carry out a controversial impact on the interests of participants of market relations.

The purpose of this article is to summarize economic and theoretical approaches to determining the impact of advertising on the interests of participants of market relations; analyzing, comparing existing approaches to every aspect of this influence, empirical research.

3. STATEMENT OF THE MAIN RESULTS OF THE STUDY

Elements advertising firm behavior including the content, the volume of advertising messages, frequency of exposure and costs form a strategy that would have caused the reaction of consumers, contributed to the growth of sales, formed a commitment to the brand and increased market share. The reaction of the consumer, before forming his behavior is a psychological effect (knowledge, feelings, experiences). It should be borne in mind that consumer awareness is not a "clean sheet" because almost always when shopping it refers not only to advertising messages, but especially to my own experience, which affects his behavior.

To evaluate the contradictory impact of advertising on the interests of participants of market relations should compare existing approaches and directions. D. Vakratsas and T. Ambler, Having reviewed more than 250 scientific articles and books have explored how should still undergo analysis of the impact of advertising on various aspects of businesses. Having defined the main directions of view and adding additional circuit elements give it to Figure 1.

It should be noted that there is a reverse influence consumer behavior for advertising the company's strategy: study changes in demand for products based on price changes, determine the elasticity of demand for advertising made significant changes in the behavior of economic agents.

In the case of advertising is a source of monopoly power, according to L. Telser, there must be a positive relationship between concentration and intensity of advertising. Companies with large advertising budgets should occupy a stable market share, the life cycle of highly advertised products should last much longer than non-advertised.

In our opinion, it is necessary to pay attention to the studies on the elasticity of demand changes on advertising that are based on the classical model of Dorfman-Steiner, which results in the equation:

$$\frac{A}{TR} = \frac{P - MC}{P} \cdot E^D_A = \frac{E^D_A}{E^D_P}, \qquad (1)$$

, where A - advertising costs; TR - total revenue; P - price of the product; MC - marginal cost; EDA - elasticity of demand for advertising costs; EDP- price elasticity of demand.

This analysis is very interesting and is markedly different from previous models because there are no restrictions on the forms of market presence barriers. But this study does not answer the question of optimal volume of advertising in terms of changes in welfare. However, R. Dorfman and P. Steiner in his analysis used psychological factors, interpreting them through the elasticity of demand. This is a very important innovation in advertising research as important to study this issue, synthesizing psychological approach marketing and microeconomic methods of consumer behavior [8, p. 325]. However, this analysis does not provide a complete understanding of the strategic cooperation between competing firms, the model does not show how firms react to changing prices and differentiating products, changes in competitors' advertising policy [3, p. 524].

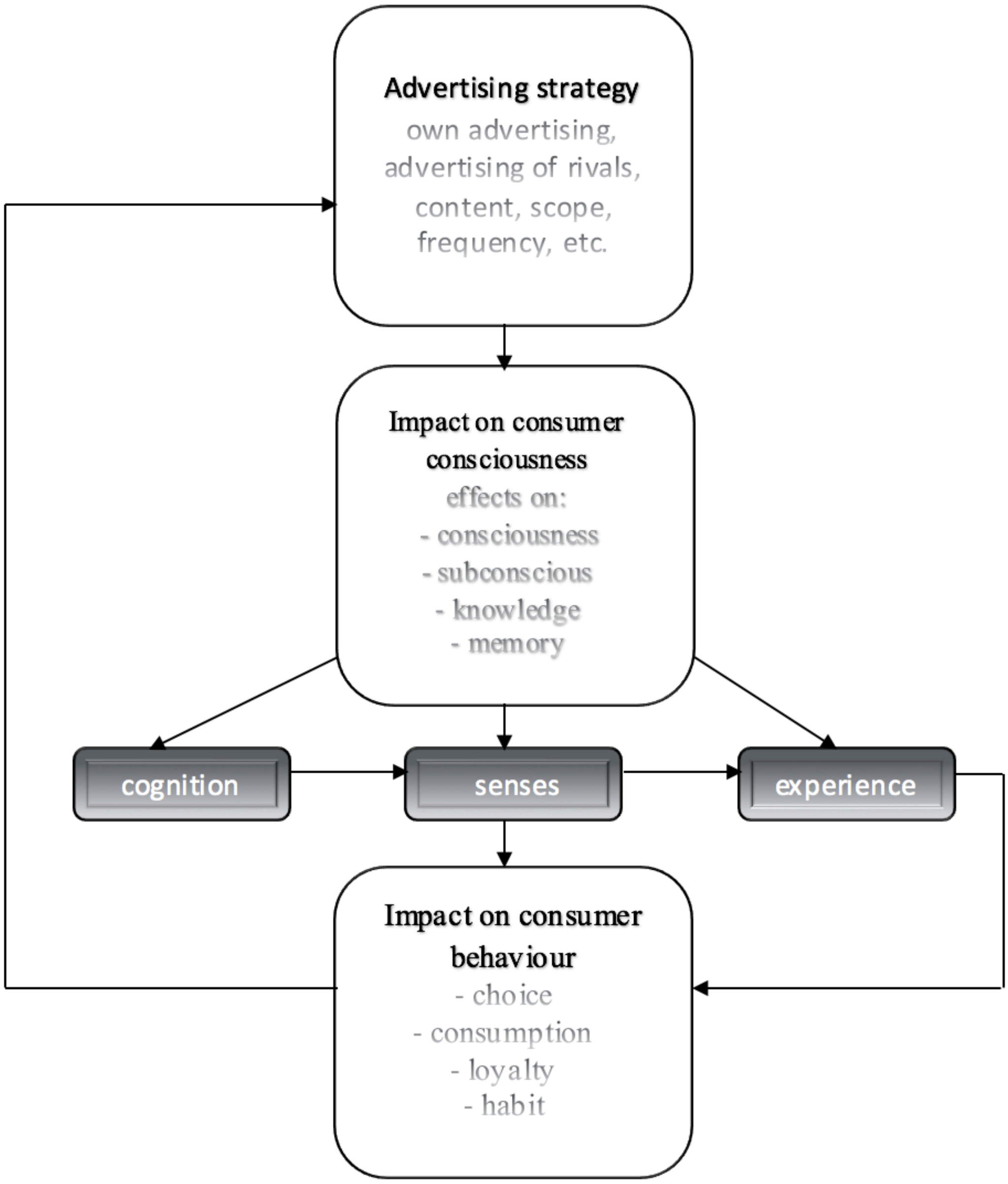

Figure 1. Structure of the studies of the impact of advertising on consumer behavior.
Source: compiled by the author based on [1, p. 26].

Previous studies of the economic impact of advertising presented conflicting views. Some authors believe that advertising creates market power artificially differentiating products and, thus, reducing the price elasticity. Others consider advertising as an effective source of information on existing substitutes, arguing that advertising increases price elasticity.

Thus, all theoretical studies of advertising can be roughly grouped into two groups: 1) advertising as a factor affecting the monopolization; 2) advertising as a factor that promotes competition. Anticompetitive view argues that advertising increases product differentiation in the minds of consumers and allows each company to gain greater degree of monopoly power in the market, and to do so at the expense of consumers. So, we can say that advertising makes demand curve less elastic, allowing the firm to appoint higher prices and earn increased profits. Thus, advertising reduces competition among existing firms and industry, speaking to them as a barrier, protecting established firms from potential new competitors. The other, a competition point of view considering advertising as information that makes the demand curve of any vendor, especially those operating in a monopolistic competition, more elastic, and prices and profits tend to decrease. Rising consumer awareness about the quality of products successfully increased the number of substitutes and making the industry more competitive. Most of the economic literature on advertising, has been associated with the choice between these diametrically opposed views.

Monopolization	Advertising	Competition
Advertising influences the tastes and preferences of customers, changes the properties of products, the company differentiate products from competitors' products.		Advertising informs consumers about the characteristics of goods and does not change their value.
Consumers are beginning to prefer the brand and become less sensitive to price. It remains only a few substitutes for the advertised product.	**Consumer behaviour**	Consumers are more sensitive to price and buy products at the best value for money. Only the relationship between price and quality affects the elasticity of demand for the product.
Potential companies that are going to enter the market should surpass the cost of advertising existing companies to gain customer loyalty to their own brand.	**Barriers to entry**	Advertising enables the emergence of new brands on the market because it can convey information about the characteristics of new products to the consumers.
Firms are insulated from market competition and potential competitors. Growing concentration. The companies with a discretionary power stay.	**The structure of the industry and market power**	Consumers can compare competing offers easily, increasing competition. Remain firm working effectively unsuccessful leaving the market comes a new company. The impact on market concentration is not straightforward.
Firms can set high prices. No competition is the quality or the difference in prices. Application Innovation reduced.	**The market behaviour**	More informed consumers are putting pressure on the company to reduce those prices and increased quality. Innovations are possible due to the emergence of new companies.
Due to high prices producers get excessive profits, pushing them to more actively promote their products.	**Market conjuncture**	Industry prices are reduced. The impact on profits of companies due to growing competition and increased efficiency are ambiguous.

Source: compiled by the author based on [6, p. 97]

5. CONCLUSION

In this article we grouped the main results of empirical studies of the effect of advertising in the following areas: the impact of advertising on the elasticity of demand for consumer response, in adherence to the brand, sensitivity to price; advertising research as an information signal about the quality of goods; study of the effect of advertising on demand for goods that the consumer has used and new, known consumer products. Within these areas also studied aspects of barriers to entry to the industry markets, the formation of individual firms monopoly power by reducing the elasticity of demand, which is achieved through the formation of a consumer brand attachment.

It was established that during the investigation still has not developed clear consensus economists and theorists about the positive or negative impact of advertising. It therefore can be roughly grouped study the role of advertising in today's economy in two groups: 1) advertising as a factor affecting the monopolization; 2) advertising as a factor that promotes competition. Most of the economic literature on advertising, has been associated with the problem of choosing between these diametrically opposed views.

According to the first direction, advertising is considered to be a factor that contributes to the monopoly power of individual companies and thus limit the development of competition and the industry. According to a second direction, advertising is informative role, giving consumers the opportunity to freely choose among the many advertised products, the formation of new companies, the development of science and technology and the formation of a perfect competitive environment.

After a review of research scientists dealing with the process of analysis of impact of advertising on the consumer, we came to the conclusion that there is a reverse influence of consumer behavior on the company's strategy of advertising: the study of changes in demand for products based on price changes, determine the elasticity of demand for advertising made significant changes in the behavior of economic agents.

Today, the researchers of economic impact of advertising have not come to a common conclusion. The market economy is dynamic and full of uncertainties, and, in spite of this, it is necessary to continue to analyze the economic effects of key market elements - such as advertising.

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