1962


Benjamin Barnes Graves

Louisiana State University and Agricultural & Mechanical College

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Louisiana State University, Ph.D., 1962
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AN INQUIRY INTO THE SOCIAL, ECONOMIC AND BUSINESS EFFECTS OF FINANCIAL ADVERTISING

A Dissertation

Submitted to the Graduate Faculty of the Louisiana State University and Agricultural and Mechanical College in partial fulfillment of the requirements for the degree of Doctor of Philosophy

in

The Department of Finance

by

Benjamin Barnes Graves
B.A., University of Mississippi, 1942
M.B.A., Harvard Graduate School of Business Administration, 1947
January, 1962

PLEASE NOTE: Several pages are not original copy with blurred type. Filmed as received.
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ABSTRACT

Three observations suggested the pertinence of this inquiry: (1) bank advertising expenditures increased 1,000 per cent during the 1946-1961 interim, two and one-half times the increase in general advertising, (2) the mass of advertising thought has been product-oriented, despite the fact that services now attract almost forty per cent of personal spending, and (3) several social scientists, influential in public policy determinations, have labelled advertising as a major social and economic issue of the 1960 decade.

Discussions with financial executives confirmed the fact that advertising has become not only a matter of significance in their institutions, but one of concern in client relationships and in general economic considerations.

Based on these observations and discussions, this study had three aims: (1) to provide a broad perspective on advertising, (2) to develop basic considerations underlying the advertising decision in financial institutions, and (3) to treat in depth two areas deemed critical to this decision, budgeting and measurement. General conclusions suggested that:

1. Advertising is a many-sided phenomenon which exerts opposing and parallel forces throughout the social, economic and business spectrums. Literature is voluminous on fragments of the question, but total appraisals are scarce, contradictory, and subject to emotional involvement. A universal judgment applicable to all advertising is meaningless, if not impossible. Nevertheless, both champion and critic have been prone to pick one side of one of the facets as a criterion and render across-the-board judgments. There are many disturbing features surrounding
advertising, but the evidence suggests that the "affluent society" which has developed in its presence is preferable to the "barren society" which frequently exists in its absence.

2. Problems of budgeting and measurement are inseparable.

3. Measurement theory is embryonic and complicated by the presence of dozens of variables, but a growing body of knowledge is evolving in this area. Where volume of expenditure warrants it, the most promising outlook lies in the direction of multiple correlation analysis. In most financial institutions, however, volume does not justify the use of this sophisticated technique at this time.

4. If some degree of success is attained in measurement, incremental analysis offers a logical approach to the budgeting decision.

Commercial banking was selected as the area for case studies.

Specific conclusions were that:

1. Banks have been forced by pressures from both competing banks and other financial institutions to assume more aggressive selling policies.

2. Advertising has become a distinct tool in this aggressive selling process, and banks have encountered problems in trying to use the tool effectively.

3. Because of relatively small expenditures and the lack of specialized talent, banks are confronted with limitations in the selection of aids to advertising decision-making.

The factor of practicality plus an hypothesis led to a specific measurement and budgeting proposal for use in financial institutions. The hypothesis was that the financial institution, and particularly the bank, is in a favorable and perhaps unique position with respect to the control of variables in the advertising process.
If this conjecture had merit, it was reasoned that a technique, employing the general outlines of a scatter diagram familiar to linear regression analysis, should show some useful, though not necessarily precise, relationships between advertising and total deposits, total operating earnings or net income after taxes.

Such a technique was developed and applied to a series of actual case situations. It was concluded that the proposed technique did provide a rough, inexpensive device which focuses attention on problems in the advertising area, suggests the degree of response to advertising, and offers guide lines for future budgeting.
CHAPTER I

INTRODUCTION

In a transcript dictated during the course of the Oral History Project at Columbia University, Albert Lasker, one of the early masters of the advertising art, made the statement:

The first few years /about 1900/ that I was in advertising (and it had been that way for many years) most bankers were very opposed to advertising as being a gambling device. Many times when a firm began advertising, their bankers sent for them and said, "Unless you quit this, we'll withdraw your credit." They could not see any tangible /italics in original/ addition to the security in advertising. They looked upon it as a gamble that might take away their security. They would loan the same people large sums of money to build plants of brick and mortar—the product of which they might be able to see—but there was violent prejudice generally among bankers against firms which advertised.¹

A half century later, such an eminent economist as John Galbraith, who is quite critical of many of the facets of advertising, admits that:

The path for expansion of output must be paved by a suitable expansion in the advertising budget. Outlays for the manufacturing of product are not more important in the strategy of modern business enterprise than outlays for the manufacturing of demand for the product.²

The above remarks reflect the evolution in the thinking toward advertising in this country. Although advertising has become more or less of a permanent fixture on the American scene, even for the banker, controversy continues to swirl around many aspects of this phenomenon. Not only is

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advertising a matter of concern for the businessman but also for the economist, the consumer and for those concerned with the ethics of society.

Three objectives have been established for this thesis: (1) to take a broad view of this entire controversy, and (2) to develop basic considerations underlying the specific advertising decision in financial institutions, and (3) to treat in depth two areas deemed critical to this decision, allocation of funds to advertising and measurement of results.

A. ORGANIZATION

Following the brief introduction and a definition of terms, the thesis presents a cross section of opinion on the effects of advertising from three points of view— that of ethics, economics and business. The third chapter reviews growth trends in advertising with particular reference to the financial institution. At this point it is hoped that the reader will have gained a perspective on the question of advertising in general and its application to the financial institution in particular.

In Chapters IV and V specific problems will be treated— those of attempting to decide how much money to spend on advertising and how to measure the results from the monies spent. In addition to presenting and evaluating existing theories and practical approaches, an attempt is made to consolidate existing thinking to provide a broad base for understanding the complex problems of budgeting and measurement as they pertain to advertising.
Chapter VI examines the current status of advertising in the financial institution and suggests avenues for future directional effort. The final chapter summarizes the findings and draws certain conclusions.

B. DEFINITION OF TERMS

Advertising

The word itself derives from the Latin combination of *ad* meaning to or toward and *vertere* meaning to turn. Literally, then, it means to turn toward.

A generally accepted definition is that composed by the Definitions Committee of the American Marketing Association which states that advertising is "any paid-for form of nonpersonal presentation of the facts about goods, services or ideas to a group."³

An even more thorough definition, which will be used as the basis for thoughts expressed in this thesis, has been presented by Professor Neil Borden:

Advertising includes those activities by which visual or oral messages are addressed to the public for the purpose of influencing them either to buy merchandise or services or to act or be inclined favorably toward ideas, institutions, or persons featured. As contrasted with publicity and other forms of propaganda, advertising messages are identified with the advertiser either by signature or by oral statement. In further contrast to publicity, advertising is a commercial transaction involving pay to publishers or broadcasters and others whose media are employed.⁴

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Public Relations

Public relations, on the other hand, can be defined by noting certain exceptions in the Borden definition on advertising. The purpose of the two functions is essentially the same. Public relations messages, however, are seldom identified with a signature and only on occasion by an oral statement. And further public relations messages generally do not entail commercial transactions; i.e., pay is not involved with the publishing, broadcasting or television media employed.

Budget

Where this term is used, it is to be interpreted as meaning the allocation of funds to advertising and/or public relations purposes. It shall include not only the total allocation but, where the adjacent facts suggest it, a breakdown of the total into its component parts. Some authors prefer the use of the word appropriation when referring to the total allocation and limit the use of the word budget to the breakdown, but this distinction does not seem necessary in this instance.

Investigator

To avoid confusion in the use of the words, author, writer, and researcher in the thesis, the term investigator is to be used exclusively when referring to this author during the course of the discussion.

For purposes of this thesis, it has been decided to combine advertising and public relations considerations because it is more or less common practice for financial institutions to handle the two functions in the same department and often under the responsibility of a single
individual. In fact the Financial Public Relations Association is the official name of the professional trade organization concerned with both advertising and public relations functions in financial institutions.

C. ELEMENTS OF COSTS INCLUDED IN THE TWO FUNCTIONS

Advertising Costs

There is sharp disagreement among businessmen, accountants, advertisers and public relations men with respect to what costs properly belong in the advertising and public relations accounts. These are important variables which must be considered in trying to compare the costs of these functions among similar institutions. Frequently large elements of costs will be allocated in quite different fashions. Perhaps the most authoritative and reliable guide on advertising costs is the well known "Black, White, and Gray List" of ninety-two items compiled by Printer's Ink.\(^5\) Another reference is J. K. Lasser's list based on his own research.\(^6\) An adaptation of the Printer's Ink list for the specific use of banks has been developed by a joint committee of the National Association of Bank Auditors and Comptrollers and the Financial Publications Association.\(^7\)


Public Relations Costs

With respect to public relations, there is even less agreement on what costs should properly be included. To the investigator's knowledge there is no list comparable to that published by Printer's Ink for advertising. This is probably due to the relative newness of the public relations function. As a departmental activity, it is essentially a post-World War II development in the majority of businesses. The following types of costs are generally included in this category:

1. Salaries and administrative expense associated with personnel responsible for press relations—releases, conferences, contacts, etc.

2. Charitable, religious, educational, fraternal, and civic donations.

3. Tours and plant visitors.

4. Open houses.

5. Fees to public relations counsellors.

6. House organs which, although aimed specifically at company employees, have considerable circulation beyond the company confines.

7. Membership in trade associations.

8. Annual reports.


10. Exhibits of an educational or institutional nature as contrasted to sales exhibits.

11. Costs of certain types of institutional advertising campaigns where the motive is considerably removed from the sale of a product or service.

Upon reflection, it is obvious that there is considerable overlapping in the advertising and public relations functions. This is true
even when the functions are separated departmentally. It is even more true in the financial institution since they are frequently integrated. In theory both are justifiable only insofar as they make a significant contribution to the objectives of the firm--that of satisfying a want of the consumer and in so doing permitting the firm to operate at a profit.
CHAPTER II

A CRITIQUE OF A CROSS SECTION OF LITERATURE ON THE EFFECTS OF ADVERTISING

Much of the controversy which surrounds advertising appears to be due to the failure on the part of the critic to identify the facet of the phenomenon to which he is addressing his remarks. Too often the reader is confronted with broad generalizations concerning the miracles and evils of advertising. Advertising, in perspective, has at least three facets—the ethical, the economic and the business. Each will be examined in turn.

A. FROM THE POINT OF VIEW OF ETHICS

Advertising began to appear as a significant element in the American business structure in the latter part of the nineteenth century. It was not until the post World War I era, however, that the critics became really concerned about the ethics of advertising, particularly with respect to its effects on the social structure of the nation. Such advertising forays as those of George Washington Hill and Albert Lasker with tobacco and those of George Lambert with antiseptic seemed to have left indelible impressions on many observers of the day. Two books of this period which reflected some of these impressions were Stuart Chase and F. J. Schlink's Your Money's Worth,¹ and Arthur Kallet and

F. J. Schlink's 100,000,000 Guinea Pigs. 

A Cross-Section of the Critics' Views

Chase, in particular, appears to have capsuled the thinking of the earlier critics. In addition to co-authoring the just-mentioned book, he dealt with this subject in The Tragedy of Waste which appeared in 1928 and The Road We Are Travelling in 1942. The latter contained these words:

"Science is responsible not only for the speed of transmission from mouth to ear drum, but for a lot of the word combinations coming out of the mouth. The whole bag of psychology has been up-ended and shaken out to provide word patterns which can make people do things they had not planned to do, buy things which they had not planned to buy, believe things they had never thought possible, see things which are not there, fear things that do not exist, hope for things which are unattainable." 

Following World War II, there came along a whole spate of books whose authors chose the evils of advertising and public relations to shape their themes. Among these were Frederic Wakeman's The Hucksters, A. E. Spectorsky's The Exurbanites, Sloane Wilson's The Man In The Gray

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2 Arthur Kallet and F. J. Schlink, 100,000,000 Guinea Pigs (New York: Grosset and Dunlap, 1933).


4 The Road We Are Travelling (New York: The Twentieth Century Fund, 1942), p. 73.


Flannel Suit\textsuperscript{7} and H. A. Overstreet's The Mature Mind.\textsuperscript{8} Of these only the latter was non-fiction and could be considered a scholarly effort to present an unbiased view. Overstreet, a psychologist of considerable reputation, argued that four significant influences were continually at work shaping the human character. These influences were newspapers, radio, movies and advertising. Were he writing currently, he undoubtedly would have included television. Overstreet summed up his case on advertising in this manner:

\begin{quote}
The ingenuities of men in producing endless things for use, comfort and convenience have been good ingenuities; and much of the wanting that we do, under the stimulus of advertisements, is good wanting . . . . Yet there are psychological questions to ask here: questions that are tied up with the problem of our individual and cultural maturing . . . . To put the matter succinctly, advertising halts our psychological growth to the extent that it makes us do too much wanting and makes us want things for the wrong reasons. /italics in original/\textsuperscript{9}
\end{quote}

In recent years the momentum of the ethical or social critics has picked up. The three non-fiction best sellers of Vance Packard---The Hidden Persuaders,\textsuperscript{10} The Status Seekers\textsuperscript{11} and The Waste Makers\textsuperscript{12} unload

\begin{itemize}
\item \textsuperscript{7}Sloane Wilson, The Man In The Gray Flannel Suit (New York: Simon and Schuster, 1955).
\item \textsuperscript{9}Overstreet, op. cit., pp. 222-223.
\item \textsuperscript{10}Vance Oakley Packard, The Hidden Persuaders (New York: David McKay and Company, 1957).
\item \textsuperscript{11}The Status Seekers (New York: David McKay and Company, 1959).
\item \textsuperscript{12}The Waste Makers (New York: David McKay and Company, 1960).
\end{itemize}
the brunt of their stinging criticism at the door of advertising. The first deals with advertising almost in its entirety and the successors to a considerable degree. Packard's main emphasis is on the sociological and psychological effects of advertising or propaganda. As the titles suggest, his conclusions are not pleasant. In general, he thinks that advertising today is replete with dangerous psychological gimmicks, that it encourages waste in our economy and that it tends to force the development of rigid class structures in society. The essence of his thinking is captured in the following excerpts:

The vicarious merchandising of goods as status symbols by advertisers is playing a major role in intensifying status consciousness. Emotionally insecure people are most vulnerable . . . . The Status Seekers, as I use the term, are people with visible evidence of the superior rank which they are claiming.13

Still on the identical theme, Packard adds:

A great many advertisers, however, are not content with being merely realistic about class. They want to put sizzle into their message by stirring up class consciousness. In fact they sometimes playfully call themselves "merchants of discontent."14

Reaction on the Political Front. Two of President Kennedy's advisors, Historian Arthur Schlesinger and Economist John Galbraith have expressed strong views on the social implications of advertising. Schlesinger's thesis is that:

14 Ibid., p. 308.
We have permitted our leaders to commit us . . . to the fatuous thesis that private spending is more intelligent and more useful . . . . We spend three times as much each year on advertising as on education. The Ten Commandments do not require this. It is not a provision of the Federal Constitution.15

Galbraith spoke in much the same vein when he said, "The engines of mass consumption, in their highest state of development, assail the eyes and ears of the community on behalf of beer, but not of more schools."16

Apparently these views made an impression on the Democratic Party strategists. A fifteen-minute film shown to the national television audience on the opening night of the Democratic National Convention in Los Angeles contained the Schlesinger quotation on education.17 And in the Convention's keynote speech on the same night, Senator Frank Church of Idaho declared, "Today's economy is a 'pitchman's prosperity' . . . . Are we to become a Babylon of public want amidst private glut?"18

Summary of the Critics' Views. In synthesizing the arguments presented by the foregoing sources, they would seem to boil down to the following:

1. Advertising tends to make people spend too much on private indulgence and too little on national needs.

16Ibid., p. 19.
17Ibid., p. 23.
18Ibid., p. 23.
2. Advertising tends to make people want too much of the wrong things.

3. Advertising tends to halt a person's progress toward psychological maturity.

4. Advertising tends to create fear and anxiety within individuals which in the long run may lead to status consciousness and class struggles.

5. Advertising may act as a barrier to complete freedom of the press, radio and television.

Recommendations of the Critics. Most of the critics admit that the palliatives for these ills do not come easy in a dynamic society. However, certain specific ideas have been advanced. Galbraith proposes a national sales tax to make private spending more costly and a greatly expanded unemployment compensation program to take the pressure off the economy for greater and greater production to alleviate unemployment. If pressure for production were relieved, it is his opinion that this would have the complementary effect of relieving the pressure forces, such as advertising, which must be used to maintain a high rate of consumption.19

Schlesinger would tax advertising and impose other curbs.20 Many politicians apparently favor legislation as evidenced by the fact that Congress had under consideration over one hundred bills during 1960 aimed at regulation of advertising. The majority of the critics, however, would seem to lean toward public education, national leadership, personal introspection and an aroused public opinion.


20Printer's Ink, op. cit., p. 19.
A Cross Section of Supporters' Views

On the other side of the ethical spectrum, the voices have not been so strident, but they have made their points. Perhaps one of the stronger cases is attributed to no less a personage than Sir Winston Churchill:

Advertising nourishes the consuming power of men. It creates wants for a better standard of living. It sets up before a man the goal of a better home, better clothing, better food for himself and his family. It spurs individual exertion and greater production.21

When confronted with the charge that advertising tended to create insecurity among the reading, listening and viewing public, Dr. George Gallup is reported to have answered with the blunt question, "Who the hell ever amounted to anything who didn't have feelings of insecurity?"22

With respect to the allegation that advertising has created fear within the individual, The Twentieth Century Fund concluded, "Advertising has substituted in the lives of the masses the motive force of desire for that of fear."23

In assessing the Galbraith-Schlesinger thesis, numerous voices have been heard. Dr. Raymond Saulnier, Former Chairman of the Council of Economic Advisors under President Eisenhower, had this to say:

22Ibid., p. 18.
I feel as strongly as the critics about some of the consumption habits of the country . . . . But where I differ . . . . is that they seem to be arguing for a directed economy in order to get rid of non-essential consumption.\(^24\)

An even stronger position was taken by Dr. Wilhelm Roepke, Professor at the Graduate Institute of International Studies in Geneva. Roepke calls himself a "decentrist" and Galbraith-Schlesinger "centrists."

In appraising the latter he concluded:

> We see the "centrist" as the cheap, rhetorical moralist . . . who poses as a paragon of virtues and stoops to use his moralism as a political weapon and to represent his more reserved adversary as morally inferior.\(^25\)

After studying the charges, the magazine *Printer's Ink* surmised that:

> There is good reason to believe that Galbraith-Schlesinger attitudes spring, in part, from the emotional desire to achieve a higher status in society . . . . Their writings are imbued with emotionalism . . . . They see public needs as being in direct opposition to private wants. Thus advertising is evil . . . . It stimulates private wants.\(^26\)

Leon Keyserling, former Chairman of the Council of Economic Advisors under President Truman, called it a "fantastic mis-analysis of the problem" to picture consumer goods and public goods as opposing forces.\(^27\)

Sandage and Fryburger studied the charges concerning advertising and freedom of the press and concluded that the exertion of successful pressure on news media has been much less than people suggest. In fact

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they would argue that the paid advertisement is actually a device that permits virtually any group access to the reading public.²⁸

Summary of the Supporters' Views. The consensus among those who support advertising against the charges of the ethical critics is that:

1. There are certain consumption and behaviour patterns in society which appear undesirable, but it is a misinterpretation of fact to attribute these patterns exclusively to advertising and to expect a cure by the elimination or control of advertising.

2. There are no inevitable conflicts between private wants and public needs, and that, in fact, the public sector can best be satisfied through tax revenues supplied by high rates of consumption in the private sector.

3. There are worthwhile psychological stimulants in advertising as well as undesirable. In fact, some of those tendencies assumed to be undesirable by the critics may actually be necessary in a dynamic, competitive economy. One authority would argue, even, that advertising provides the individual with an element of "vicarious enjoyment" although the person may not be able to purchase the item or service. It may provide a person with hope and expectation of a better life to come.²⁹

4. There is little evidence to support the contention that advertising has had any substantial effect on freedom of the press, radio, and television.

Recommendations of the Supporters. Few of the staunchest supporters of advertising would deny the need for higher ethical standards in both the advertising agency and the firm whose products


²⁹Sandage and Fryburger, op. cit., p. 44.
or services are being promoted. Likewise, few would deny the need for impartial regulation by governmental and private agencies such as the Federal Trade Commission, Federal Communications Commission and the local Better Business Bureaus.

The supporters would argue, however, that more can be accomplished through self-analysis, self-criticism and self-control and by raising the professional standards of the advertising profession than can be accomplished through punitive legislation which might result in serious drags in a dynamic economy. It is significant to note that the trade magazines and newspapers of the advertising business, the Advertising Council—a public service organization in the industry, a number of advertising agency executives and numerous local advertising organizations are currently engaged in programs aimed at raising the ethics of the industry.

Appraisal of the Conclusions on the Ethics of Advertising

Studies suggest that the average individual in this country is subjected to several hundred advertising or propaganda exposures each day. Amidst these are the frivolous jingles, the repulsive excursions to the pit of the stomach, the pleading entreaties to try some new cereal or headache remedy, the sometimes misleading advertisements with respect to price and quality comparisons or even the distorted views of certain politicians. With repetitive exposures of this type, it is

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30The February 6, 1961, issue of Advertising Age (p. 70) reported that the two major political parties spent $14,250,000 on television advertising in the 1960 presidential campaign.
not surprising to find a considerable element of antagonism toward
the institution of advertising. It is probable, however, that the
objectionable percentage leaves a much deeper impression on the public
than its size warrants. For example, in a recent year, the Federal
Trade Commission found sufficient evidence to warrant investigation in
only 1,299 cases out of a total of 1,054,352 printed and broadcast
messages reviewed.31

This investigator attempted to determine, in three undergraduate
Marketing classes at Louisiana State University, prevailing opinion
among these students toward the ethics of advertising. When queried on
this question, the vast majority of students found certain types of
advertising objectionable and unethical. When asked, however, to name
specific advertisers, the same students encountered difficulty in com­
piling a list of more than eight or ten. These students were quite
vehement in their contention that they did not buy the products or ser­
VICES OF THOSE ADVERTISERS WHOSE TACTICS THEY FOUND OBJECTIONABLE.32

In fact, students were inclined toward the position that adver­
tising, even at its best, was but one factor in their purchasing decisions
and by no means the decisive factor. These attitudes probably represent
some degree of sophistication on the part of the college student, and

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31Reginald T. Clough, Encyclopedia Americana (New York: Americana

32Based on an informal survey conducted among ninety students in
April, 1960. Students were asked three questions—Do you find certain
advertising objectionable and/or unethical? If so, list the names of
advertisers or products involved. Do you patronize these advertisers?
for this reason, should be discounted. Nevertheless, they may lend some
credence to the supporters of advertising who argue that the critics are
really talking about a minority of advertisers and that they attribute
influences to advertising beyond those warranted by the facts.

Further support for the contention that a small minority of
advertisers account for the bulk of criticism is found in the records of
local Better Business Bureaus which consistently report that less than
five per cent of advertisers in a given community are responsible for
the great bulk of complaints.

With respect to the charge that advertising can and does make
people buy things that they do not want or need, the critics have
experienced difficulty in explaining the failures or declining sales of
such heavily advertised products as the following:

1. The Edsel and Desoto automobiles in recent years,
   and almost one thousand other autos since the turn of the
   century.

2. The poor response to the "sack dress."

3. The recent failure of the high-priced "Gourmet
   Foods" line marketed by General Foods.

4. The steady decline since 1945 in the per capita
   consumption of beer.

5. The failure of automobile sales to surpass the
   1955 peak year despite steadily increasing population,
   rising incomes, and higher advertising expenditures.

6. The poor response to certain brands of cigarettes
   such as American's "Hit Parade," Brown and Williamson's
   "Kentucky Kings."

Two interesting case histories lend further support to the
advertiser's contention that the bulk of advertising is informative and
unobjectionable. The first occurred in New York:

On the morning of November 29, 1953, New York City's photo-engravers went on strike. That meant no newspapers . . . . Department store sales started to sag. United Parcel, an organization that makes deliveries for department stores, reported a shrinkage in sales of 15% to 18%. Job applications fell off. No classified ads. It was the same for used cars and a host of products. Even funeral attendance dropped because no death notices could be run . . . .

Following the strike a survey asking readers what they missed most about having newspapers, found that 54 per cent of the women reported the advertisements.34

A second case supporting this contention has occurred in Great Britain where the Independent Television Authority with its commercially sponsored programs has on numerous occasions drawn a larger viewing audience than the non-commercial British Broadcasting Company.

In the ultimate assessment on the question of ethics in advertising, it is the investigator's opinion that there are, in fact, serious social considerations which cannot be ignored. The Chase and Overstreet contentions, for example, that advertising tends to halt psychological maturity and that it tends to make society susceptible to control by clever propaganda could be of far reaching consequences in terms of long range national goals and national security. Subliminal techniques, if perfected and utilized for devious purposes, could have frightening connotations. Likewise a rigid stratification of society in this country might lead to

33 Manchee, op. cit., p. 192.

34 Ibid.
political repercussions such as those that have occurred in other parts of the world in recent years. It is also difficult to overlook serious national weaknesses in the areas of education, medical care and unemployment, if in fact advertising is a major contributor to these deficiencies.

On the other hand, it seems probable that the critics have overstated the effects of advertising; that they have attributed to advertising a greater influence than the evidence warrants; that they have arbitrarily determined the "best interests of society" on the basis of their own personal value judgments rather than a reliable scientific standard.

It also appears probable that advertising stirs in the individual certain worthwhile motives such as ambition, desire and personal drive, which tend to counter, if not neutralize, the undesirable motives about which the critics complain. In a static society the above motives may be of little consequence, but in a dynamic society they could be important, if not essential. It is possible, therefore, that the defense has some merit when it argues that the critics are aiming their charges at a target much broader than advertising itself; namely, the competitive system under which the American economy operates.

As for improvements in the tastes and ethics of advertising, it would seem that the most promise lies in the direction of the advertising profession's raising its own standards and in its removing itself from a position of servility to the advertiser; in the direction of communications media raising their standards and refusing to accept questionable
advertising; in the direction of business and industry endorsing and supporting higher standards; and perhaps most important of all in the direction of creating through the educational process an informed public capable of making independent and critical judgments on the propaganda to which it is exposed.

Although existing legislation seems generally adequate, there may be some merit to certain legislation such as the proposition that advertisers should not be allowed to exercise control over the content of the radio and television programs with which their advertisements are associated. This is already accepted practice in newspapers and magazines which seem to enjoy a higher believability rating than radio and television. With reference to the tax proposals of Galbraith and Schlesinger, it would seem that these should be considered on their merits as revenue producers and not as control devices for advertising.

B. FROM THE POINT OF VIEW OF THE ECONOMIST

Historically, the classical economist held two important tenets pertinent to advertising. First, he studied economic phenomena as they existed in a particular system and in the main did not attempt to make value judgments on the merits of that system. Second, he believed that "supply tended to create its own demand"; or conversely that wants were given data. His job was to maximize want satisfaction. In such a perspective, the question of advertising was not a major issue.

During the nineteenth century a number of economists expressed doubts concerning the validity of the classical tenets, but prior to the
new theory of John Maynard Keynes,\textsuperscript{35} the overall area of consumption had not received paramount attention. Keynes work, coupled with that of Professor E. H. Chamberlin\textsuperscript{36} and Mrs. Joan Robinson\textsuperscript{37} in the area of imperfectly competitive markets, has drawn increasing attention to the matter of consumption and to the influences affecting consumption. One of these influences is advertising.

With the exception of the monumental effort, however, of Professor Neil Borden, the treatment of this perplexing phenomenon has been generally lacking in depth. Even Borden's work raised as many questions as it answers. A number of economists have made significant contributions to theoretical segments of the problem, but few seem to have pursued it to really satisfactory conclusions. Although many have not shown sympathy with Galbraith's general thesis, he has explained this lack of attention to advertising in this fashion:

Economists have closed their eyes (and ears) to the most obtrusive of all economic phenomena; namely, modern want creation . . . . Here is something which cannot be accommodated easily into existing theory . . . . More often the uneasiness has been manifested in a general disapproval of advertising and advertising men, leading to the occasional suggestion that they shouldn't exist . . . . And so the notion of independently determined wants still survives.\textsuperscript{38}


\textsuperscript{37}Joan Robinson, \textit{The Economics of Imperfect Competition} (London: Macmillan and Company, Ltd., 1934).

\textsuperscript{38}\textit{The Affluent Society}, p. 156.
Since the opinion of Galbraith is relatively recent from the standpoint of both time and concept, a cross section of more recent economic thinking should help to place the Galbraith thesis in its proper perspective. Prior to the 1920-1930 decade, advertising had not reached quantitative proportions which warranted the serious attention of the economist. For this reason, the analysis has been restricted to the period from about 1930 to date. This should not suggest, however, that earlier economists were unmindful of some of the implications of extraneous influences on the consumer. For example, the Austrian marginal utility theorists and others such as Knight, Pigou, Marshall, and Veblen raised questions concerning advertising, particularly with respect to the diversity of wants, their multiplying characteristic and their sometimes frivolous nature.

A Cross Section of Specific Economic Views

To gain an appreciation of the dilemma created by the breadth and divergence of economic opinion, the investigator has arbitrarily grouped a cross section of economic thought on advertising into three broad categories: that which has expressed unqualified disapproval, that which has expressed qualified disapproval, and that which has expressed qualified approval. The analysis follows:

The School of Uncualifed Disapproval. Four economists studied would seem to typify this school; these are Stuart Chase, John Ise, John Galbraith and Alvin H. Hansen. Chase started his crusade about
1927 and continued his major efforts in this area through the World War II. Ise wrote in the middle of the era. Galbraith and Hansen have voiced their opinions in recent years. In fact, Hansen's most recent effort was in the publication stage during the course of this investigation.

Chase expressed the opinion that ninety per cent of advertising is neutral. On this basis, he estimated that 900,000 persons might be released from advertising and related fields and placed into some productive occupations. He reasoned in this manner:

Advertising creates no new dollars. In fact, by removing workers from productive employment, it tends to depress output and thus lessens the number of real dollars. What it does do is this. It transfers purchasing power from A to B. It makes people stop buying shaving soap in mugs, and it starts them buying it in tinfoil sticks. It can make B rich and ruin A.39

Although Ise admitted that advertising created some socially desirable habits, such as cleanliness and tooth brushing, he argued that the undesirables were dominant. He recognized not only the influencing power of advertising on wants but the possibility of its creative power. And to the extent that it was creative, he argued that it induced consumers to dissipate incomes on useless or even harmful objects; that advertising added little to the sum of human satisfactions; that it tended to make people happy and then unhappy; and finally, that the

consumer did not need the satisfaction of the wants he has but rather that he needs a better set of wants.40

Ise then turned philosophical and asked, "Is man a glorified type of animal or is he a creative animal? Is he an aspiring rather than a desiring being?"41 Beyond this point Ise continued his analysis in which he expressed concern about the false and misleading nature of advertising,42 the tawdry level of both the wares and the ethics of advertising,43 the great social waste caused by competition in advertising,44 the undesirable influence on competition45 and finally the tendency for big business to gain control of important communications media such as newspapers and radio.46

Galbraith in his analysis concluded that advertising was a major, if not the significant factor responsible for the three "unsolved problems" of the "affluent society"; namely, modern demand creation and its financing, inflation, and what society produces.47

41 Ibid., p. 162.
42 Ibid., p. 167.
43 Ibid., p. 537.
44 Ibid., p. 185.
46 Ibid., p. 548.
47 Galbraith, op. cit., p. 209.
From an earlier quotation, he was seen to be arguing that economists have been indifferent to the serious nature of the advertising phenomenon. In pursuance of this point, he maintained that "the shortcomings of economics are not original error but uncorrected obsolescence." To explain how this obsolescence (apparently the failure to understand the consumer demand creation phenomenon) had crept into economic dogma, Galbraith traced the history of economic thought and finally arrived at this conclusion:

The ancient preoccupations of economic life—with equality, security, production—have narrowed down to a preoccupation with production and productivity. Production has become the solvent of the tensions once associated with inequality and it has become the indispensable remedy for the discomforts, anxieties and privations associated with economic insecurity.

Continuing his main thesis that the economist should shift his attention from the productive to the consumptive sphere, he discussed the "dependence effect" which he described as the way in which wants depend upon the same process by which they are satisfied. To support this thesis, Galbraith drew on the contributions of James Duesenberry and W. Beckerman. Thereafter having accepted the validity of the

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48 Galbraith, op. cit., p. 4.
49 Ibid., p. 119.
"dependence effect" hypothesis, Galbraith argued that a "rat race" has developed in which wants beget wants and production begets production. And this happened despite the fact that "consumer wants can have bizarre, frivolous, or even immoral origins and an admirable case can still be made for a society that seeks to satisfy them.  

Within this framework of reference, Galbraith concluded that the economist should: lay aside arcane mathematical skills; put on a cloak of value judgment; recognize that wants are no longer urgent and that they do not originate in the personality of the consumer but that they are, in fact, created primarily through the institution of advertising; recognize that a "redress of balance" is in order; and finally that this can be accomplished through the device of making private consumption more expensive by the institution of a national sales tax. The latter would satisfy Galbraith's requirement that more of the national product be devoted to the public sector and less to the wasteful private sector.  

Mention was just made of the contribution of Beckerman. Although the latter wrote before the publication of the Galbraith thesis, and should not be construed as endorsing that thesis, Beckerman lent some support to Galbraith with the suggestion that the economist is confronted with the necessity of assuming a new and unfamiliar role in a mature economy:

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53 Ibid., pp. 251-321.
In an economy, such as the United States of America, where leisure is barely moral, the problem of creating wants... to absorb productive capacity may become chronic in the not too distant future. In such a situation the economist begins to lead a furtive existence...54

Hansen has apparently picked up the threads of the Galbraith, Schlesinger and Beckerman hypotheses, and extended them into the most severe treatment of advertising encountered. He is blunt in his argument that the "decadent influence" of advertising should be greatly curtailed, if not banished from the economy and that "caution, restraint, and complacency" must be thrown out the window to permit the federal government to "play the role which is requisite for adequate growth."55

Hansen reached a number of other significant conclusions. Among these were that advertising:

1. Represents a form of inverted education which an educated citizenry would laugh out of court.

2. Serves to intensify instability in recessions and adds to inflationary pressures in booms. He does admit, however, that advertising might be useful as a countercyclical force, if properly applied.

3. Supports the condemnation of planned obsolescence, a practice which he contends has reached the point where too little of the Gross National Product is left for public investment.

4. Causes too much productive energy to be devoted to manufacturing wants. To support this conclusion, he argues that the competitive struggle is no longer based on price but on dubious advertising techniques designed to win support for particular brands.

54W. Beckerman, op. cit., p. 112.

5. Misallocates resources resulting in serious deficiencies in national security, and human and natural resources development. Hansen attributes failure of the United States to match the Russian rate of growth in part to the considerable portion of productive resources being wasted on artificially created wants.\textsuperscript{56}

Hansen has followed up these conclusions with equally strong recommendations which call for:

1. Increasing postal rates to make direct mail advertising more costly, if not prohibitive.

2. Eliminating advertising from regular radio and television and putting entertainment on a paid basis in these media.

3. Imposing a national sales tax to restrain wasteful consumption.\textsuperscript{57}

In summarizing the views of this particular school, it would seem that the critics, from the beginning of the period reviewed to the present, have been saying much the same thing. But the latter group can be distinguished by the severity of its recommendations.

\textit{The School of Qualified Disapproval}. Economists such as Chamberlin, Robinson, Samuelson, Enke, Weintraub, Buchanan, Due and Leftwich could be considered as representative of this school. In this case the main brunt of the analysis on advertising has centered on its tendency to introduce non-price factors, product differentiation

\textsuperscript{56}\textit{Ibid.}, p. 82.

and sales promotion, into the competitive situation. Subsequent reactions, then, of these non-price factors on demand, costs, prices, allocation of resources, and income distribution have been considered. This group has generally refrained from attempting to make value judgments on the ethical and social aspects of advertising and has attempted to draw its conclusions based on maximization and optimum concepts with respect to satisfaction of wants, employment and allocation of resources, and distribution of incomes.

Chamberlin and Robinson in the first half of the 1930-1940 decade, charted the course of analysis for this school with their concepts of the sloping demand curve and with the further proposition that on this type of demand curve, the minimum point of the combined cost curve lies farther to the right than that of the cost of production curve. It is on this point that Chamberlin based two of his main contentions. First, that monopolistic competition tends to be less efficient than pure competition in the use of resources. Second, that the sloping demand curve for the individual firm tends to reduce the remuneration of a factor of production below the value of its marginal product. Although Chamberlin agreed that results depended upon whether advertising outlays are subject to increasing, constant or diminishing returns, his analysis suggests that a stage of diminishing returns is almost inevitable. The essence of his case is stated thusly:

58 Chamberlin, op. cit., p. 144.
59 Ibid., p. 187.
Advertising 'increases the demand' for the product; that is, it enables the seller, at whatever price he decides upon, to dispose of more than he could without it. Shifting the demand curve upward and to the right, at each price more of the commodity will be sold; for each amount the marginal demand price (the price at which this amount will just be taken from the market) will be higher.

Another representative who wrote in the middle of the era studied, Enke, maintained that a firm had available three weapons for use in enhancing profits—price, product, and promotion. These weapons were also related to output, as well as to each other. Enke used both a graphical and algebraic approach to the study of the sales and price effects of promotion. His basic conclusion on price was that the price after promotion will be higher if either marginal costs are higher at the new output or if the new demand schedule is less elastic than the old demand at the old price.

Enke also examined the argument that advertising increases the demand for the product, resulting in the firm's being able to realize mass production economies which can be passed on to the consumer in the form of lower prices. He concluded that several results were possible. First, increased consumer acceptance may be exploited in other ways than by increasing output, higher prices for example. Second, the expense of advertising may be greater than the production economy. Third, there is every reason to doubt that cost reductions will be

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60Ibid., p. 130.
passed on in lower prices because owners would surely pocket any cost economies. Fourth, although competition might force firms in certain cases to pass on economies, there is the counter possibility that successful advertising usually has the effect of reducing competition. It invests in the firm limited monopoly powers.62

After having discussed the price and output argument in detail, Enke reached the decision that promotion should not be judged on the basis of price, because any analysis that stops at the price effect is "altogether too superficial to be useful." At this stage he concluded that the more fundamental evaluation must be made on the basis of resource employment and resource allocation. And in this respect he questioned whether or not resources equal to three to four per cent of the national income could be used for other purposes that would contribute greater consumer satisfaction. His conclusion was that there can be little doubt that promotion, in a great many instances, does not invest the product with any extra utility and that the labor and materials that it requires are being wasted. Enke admits, however, in reaching this conclusion that it fails to take into account the attributes in a particular product that exist only in the mind of the consumer and that it is possible that the total utility of the advertised product might be increased for the consumer through advertising. To illustrate, he says the same value of economic resources might produce 100 units of unadvertised goods and only 96 units of advertised goods, but if the advertised

62Ibid., p. 317.
goods created more total utility, the advertising would seem to be economically worthwhile. Thus, Enke's total appraisal would seem to fit the pattern of qualified disapproval.\(^3\)

A third representative selected from the latter part of the period, Leftwich, agreed with his predecessors that advertising and product differentiation were forms of non-price competition and that the primary purpose of advertising was to shift the demand curve of a single seller to the right and to make it less elastic. He argues that this will enable the seller to sell a larger volume at the same or perhaps at a higher price without the danger of touching off a price war.\(^4\)

Regarding the effect of advertising on costs and prices, Leftwich stated that in some instances (such as bread and cigarettes) rival advertising campaigns succeeded only in increasing the costs of individual sellers and further that once advertising is started, no single seller could withdraw without losing his place. The advertising outlays become "built-in" elements in the cost structures of individual firms and lead to higher product prices.\(^5\)

On the question of resource allocation, Leftwich maintained that to the extent that advertising and product differentiation add

\(^3\) Ibid., p. 318.


\(^5\) Ibid., p. 260.
nothing to consumer satisfaction, resources used in them are wasted. He granted, however, that advertising and product differences yield certain satisfactions to the consumer in the form of entertainment and improved product quality. In such cases, the important question with regard to economic efficiency is whether or not the additional satisfactions obtained from resources used in sales promotional activities and product changes are equal to their costs; i.e., equal to satisfactions that the resources could have produced in alternative employments. He argued, on the latter point, that since price decisions regarding entertainment and product quality are made by the business firms rather than by consumers in the market places of the economy, a strong case can be made that expenditures on resources so used will be overdone and that the value of consumer satisfaction obtained will be less than the cost of resources producing it. And to the extent that this occurs, economic wastes will result. Leftwich leaves his case on advertising with many questions unanswered, particularly with respect to the effects of advertising costs, but in the main would seem to join the group taking the position of qualified disapproval.

Since it appears that the conclusions of this school are dominant and represent the consensus of economists, a summary of this group's thinking will be omitted at this point and discussed later as a part of the general economic conclusions.

The School of Qualified Approval. The investigator found only a small minority of economic literature written in the period under
study where the weight of opinion on advertising seemed to be on the favorable side. Among the approving works, four were considered representative. Of these two are from British sources, K. W. Rothschild and E. Lever; two are American, Neil H. Borden and Vincent W. Bladen. Rothschild's and Bladen's contributions were actually short notes in journals and Lever's volume, by his own admission, represented tentative conclusions. Thus it is obvious that the case must rest heavily on the work of Borden. Even with Borden some doubt may be raised on the classification of his work as representative of economic thought since he is now, and was at the time of his writing, an advertising academician. However, Borden's economic background, his general research reputation, and a review of his work would seem to dispel this doubt.

With the exception of Bladen, whose treatment of advertising was only part of a general thesis, all of the above writers have credited the pioneering effort in looking at the economic aspects of advertising to a British author. Also, among representatives of this school, the work of Keynes, Chamberlin, and Robinson has been recognized. Rothschild, whose work was published three months after Borden's, apparently was not aware of the latter's findings, although he was acquainted with those of Braithwaite. Writing in this perspective, he maintained that advertising

had not received the attention that it deserved, contending that consideration had only been given to the individual entrepreneur in his endeavor to maximize profits. Such consideration, he continued, was all that was needed to appraise advertising in the theory of value.  

Rothschild argued further that Marshall and Pigou had erred in trying to draw distinctions between combative and informative advertising; that the argument on waste of resources associated with combative advertising was only applicable in a full employment economy; and that such a fully employed economy was not typical of the dynamic world. Thus he concluded that the alternative to advertising might mean complete idleness of the resources involved rather than alternative employments of those resources.

At this point, Rothschild launched into the heart of his thesis—that advertising is actually a form of investment. Even if combative, he said, advertising of one commodity might help the sale of substitutes. Advertising investment he likened to public works or charity in that neither led to an increase in the quantity of consumable or capital goods but each created new incomes and increased old ones. Through the multiplier, he believed that initial employment in advertising would lead to further employment in consumption industries and finally investment industries. In fact, he maintained that advertising investment

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68 Ibid., pp. 113-114.
had an advantage over other forms of investment since it increases effective demand and the propensity to consume without increasing the supply of goods and that its effect actually would be more lasting than in the case of investment in fixed and working capital. Regarding its quantitative importance in the economy, Rothschild estimated that advertising expenditures during the depression were about seven times as large as those for public works. With these arguments, he concluded that advertisement could not be judged a waste of resources in times of unemployment and that the criticism (if any) should be directed at the economic system itself, not advertising.\textsuperscript{69}

On the adverse side of the question, Rothschild granted that advertising expenditures did tend to be paid to monopolistic elements in the economy such as newspapers and radio stations; that the multiplier on advertising was probably lower than that on public works; and that advertising was closely tied to the production and trade cycle. He did not consider, however, any of these adversities to be of sufficient magnitude to negate his positive conclusions. With regard to the trade cycle comment, he indicated that contrary to popular thought, public works expenditures had likewise followed rather than countered the trade cycle. In the case of advertising, he believed that it could be an extremely effective countercyclical force if properly applied. To support his theory on advertising and the trade cycle, he cited the case of the

\textsuperscript{69}Ibid., pp. 114-117.
Eastman Kodak Company which maintained a steadfast advertising expenditure policy during the depression, and as a result, this company experienced a decline in sales considerably smaller than industry in general. He also contended that even with its poor application, advertising tended to keep the slump from going deeper than would have been the case otherwise.70

The second representative whose work was noteworthy was Borden. His main contribution was published in 1942. A condensation of the same work appeared in 1945. Borden's study is particularly significant inasmuch as it represented the first, and in fact the only, major effort to examine advertising not only from a theoretical but also from an empirical point of view. The emphasis is on the empirical findings. The study, performed under a research grant, was conducted by Borden under the guidance of an advisory committee consisting of members of the faculty of the Harvard Business School. Research and writing covered a five-year period. The preceding background is not intended to shroud this effort with reverence, but rather to point out the depth with which the study was pursued.

Borden attempted to examine the problem in its total perspective, but his concentration was on the economic aspects and even more particularly on the effects of advertising on demand, costs, and prices. Borden's findings were compiled in a report produced by his advisory committee.

70Ibid., pp. 117-121.
and reproduced as a part of the preface to his work. This report, from which the following summary has been drawn, concluded that advertising:

1. Speeds up favorable trends in demand where underlying trends are favorable (cigarettes, for example in the 1920-1940 period), but it is powerless to halt or reverse a trend where conditions are unfavorable (cigars, for example, in the same period).

2. Helps to increase the elasticity of demand through accelerating a rising trend of demand.

3. Makes it possible for new competitors to enter the market through expansion of the market.

4. Makes price reductions attractive or possible for large firms and also creates the opportunity for the introduction of private brands which are often offered at lower prices than the advertised brands. Private branders would have much less opportunity to operate if advertising by others did not precede their operations.

5. Recognizes that advertising tends to make businessmen assume that demand is inelastic. In some cases this is true, according to the findings, but in many cases it is not true and the businessman is missing profit opportunities by not exploiting demand elasticity and experimenting with price strategy. Further in this respect, there is a tendency for competitive forces (other manufacturers or private branders) to weaken the condition of a company which relies on advertising to bring about inelasticity of its individual demand, especially in periods of recession.

6. Recognizes that there are cases where advertising is highly unlikely to increase the demand for the product (matches, wheat and nails). In such situations it does not pay to advertise.

The committee next examined the area of costs. In this respect it was found that advertising:

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1. Is not in itself the cause of high distribution costs nor a basic cause of a high proportion of these costs. The study attributes high costs to a variety of complexities of modern business society, of which advertising is only one part.

- 2. May or may not have the effect of increasing marketing costs in general. This is indeterminate because of gaps and discontinuities in available data on marketing and advertising costs. There is further recognition of the fact that it is possible to have increasing marketing costs in the face of lower production costs and still end up with lower total costs to the consumer. The report argues that this has happened for many articles, but states that a safe generalization can not be made on this point.

3. Has in many industries played a part in making possible large scale operations which have resulted in reductions in manufacturing costs, but again safe generalizations are not possible. It was agreed, however, that many small firms "ride the coat tails" of larger firms by letting the larger firm bear the burden of developing the demand. The latter firms, on the other hand, avoid information costs but may have higher production costs. This situation, Borden's advisory committee noted, suggests that it may be a mistake to view each concern, institution or function atomistically; that comparisons between small and large concerns or between advertising and non-advertising concerns are necessarily imperfect; and that costs have organic aspects in society which defy traditional methods of analysis. Taking further cognizance of the cost dilemma, the committee noted that a special study of production and distribution costs made in connection with Borden's investigation had yielded meager and largely unsatisfactory data. It did note, however, that the study indicated that economists had made unwarranted assumptions about the businessman's knowledge of costs. The committee said that businessmen were not able to furnish the type of cost information required by economic analysis and that a sufficient body of data did not exist to support many of the statements made by both the proponents and opponents of advertising.

With regard to effects on price, the study suggested that costs of advertising:

1. Should be related in the main to the concept of innovation and growth costs. In some cases the costs do enter into the long-run price equilibrium, but this depends on the
strategy and timing of the imitators. Frequently, according to the committee, the imitators use price competition which will prevent the advertiser from recovering growth costs and will prevent his raising prices.

2. Has the effect of slowing up the development of price competition but rarely succeeds in preventing it over longer periods. It was granted that advertising, to some extent, lessens the flexibility of the price system. Further, it was granted that advertising has been a factor but not a basic cause in concentration of supply in the hands of a few firms.

On the questions of quality, range of merchandise, and consumer choice, the advisory committee concluded that the evidence strongly suggested that advertising has made significant contributions to society and to the economy in these areas. It was agreed, however, that the inadequacy of information furnished in some instances had justified the development of the consumer movement in this country.

On the question of investment and the level of national income, the advisory committee said that advertising and aggressive selling had been significant forces in advancing the technology of production and increasing the investment in productive facilities—two developments which the committee concluded had largely explained the four-fold increase in real per capita income during the period from 1840 to 1940.

As far as advertising's effect on the business cycle, the committee granted that advertising had slightly accentuated the business cycle, but did not accept the thesis that advertising was a cause of cyclical fluctuations. The committee further recognized that advertising had distinct possibilities as a countercyclical force when properly applied.
Finally, although certain dangers and weaknesses in the use of advertising were recognized, the committee maintained that there were important counterbalancing forces also at work. Its fundamental judgment on the entire study was stated thusly:

On balance, the general conclusion to be drawn from the evidence is that the functional objectives of advertising in a dynamic economy are socially desirable and that advertising as it is now conducted, though certainly not free from criticism, is an economic asset and not a liability.\(^7\)

Lever, writing in England in 1947, was well acquainted with the works of the two authors in this school previously discussed. His attention was directed in the main to the British scene, but he showed keen awareness of the advertising phenomenon in the United States. Lever, among other things, endorsed the Borden thesis that a considerable portion of the costs of advertising could be looked upon as growth costs, and he granted that the bulk of marketing was conducted under conditions that might be described as imperfect, monopolistic or non-price competition.\(^7\) Within this framework of reference, he concluded that:

1. The benefits of mass consumption cannot be obtained without using advertising, at least on consumption goods. In this respect, he also believed that low or lower prices were less of an inducement to buy than economic theory had assumed and that consumers put considerable stress on the reputations of producers.

\(^7\)Borden, The Economic Effects of Advertising, p. xxxvii.

2. A person's wants result from his reactions to the stimuli affecting him and advertising can create and change wants. Therefore it was his opinion that advertising produces utility and that added satisfaction tends to result from purchases of advertised goods. Lever argued that this conception of utility is more realistic than the classical definition of the term.

3. Advertising can cause greater quantities of goods to be sold without an increase to cover the cost of the advertising and, at the same time, provide greater profit for the producers. Using both graphical and algebraic analyses, he concluded that this was possible so long as advertising increases the demand proportionately by an amount which is greater than the proportionate increase in overhead costs due to the advertising expenditure. On this point, he conceded that waste resulting from advertising expenditures was possible, but that this was a disadvantage of the economic system to be set against its many advantages. In amplification of the latter point, he contended that the economist frequently confused moral, social and political issues and that when a social code permits advertising that is shallow, vulgar, and in bad taste, it is an indictment of the social system, not of advertising or the economic system.

4. The distinction made by writers between "informative" and "combative" advertising was not realistic and further that case studies had shown that the bulk of advertising was informative.

5. A study of advertising activity over a quarter century showed that advertising tended to follow, or be correlated with, production rather than vice versa. On this matter, however, he believed that advertising tended to prevent a slump from becoming worse since it was continued even at the depths of the depression.

6. Finally he concluded that, using Lord Keynes definition of the term investment, advertising represented a form of investment\textsuperscript{74}.

A final contribution representing an economic point of view developed in the form of a discussion on two papers presented to the 1959 annual meeting of the American Economic Association on the general subject "Standards of Performance of Our Economic System." The two

\textsuperscript{74}Ibid., pp. 122-125.
principal papers had been presented by Donald J. Dewey and Tibor Scitovsky. One of the discussants was Vincent W. Bladen, who was working not only with knowledge of the two main papers but with an awareness of concurrent economic thinking on this question, particularly that of Galbraith.

As his main thesis, Bladen urged that economists "stick to their lasts" and not wander too far a field from their specialty. He said that there was a difference between deliberate poverty on the one hand and the thwarting of a deliberate search for plenty on the other; that there is no simple relationship between wealth and happiness but that much unhappiness is the result of dire poverty; and that many people want more of what can be supplied only by productivity increases. Summarizing his thoughts on this particular matter, he remarked:

I am thinking of drama and music, of education and health services or better houses and more beautiful cities. I have little hope of getting more of these as a result of developing ascetism, through a shrinking of our present wants.

Commenting on views expressed by Scitovsky and Galbraith to the effect that Americans must not only think of quantities but of the right

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things, Bladen asked, "But what are the right things? This question is for priests and prophets." He made the additional point, on this matter, that even the Communists are showing increasing reliance on consumer preferences as a guide to resource allocations.

In discussing specifically the matter of advertising, Bladen pointed out that the desire for free choice in this country was deep seated, and he disagreed with the critics that advertising interfered with this freedom. As a matter of fact, he argued that persuasion was an inevitable accompaniment of free choice in political elections as well as in the market place; that the real fear is monopoly of persuasion from big government; that competitive persuasion may be wasteful but that it is a part of the price of freedom; that the gullibility of man has been exaggerated (in this case he used the current trends toward smaller cars in the automobile industry to support the point); and that the charge that advertising limits choice and forces standardization is not valid.

Bladen summarized his case as follows:

We need to rediscover the value of simple economics and to recognize how much wisdom there was in the "conventional wisdom" at which Galbraith jeers.

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77 Ibid., p. 22.
78 Ibid.
79 Ibid.
80 Ibid., p. 23.
In synthesizing the thoughts of the school of qualified approval, it would seem that the summary in this section of the Borden study and the report of his advisory committee has captured the essence of the case. One exception would be recognition of the major emphasis which Rothschild places on the investment aspects of advertising and its importance in a less than fully employed economy. This same point was also recognized by Lever. The contribution of Bladen should be helpful in seeing the Galbraith and Hansen theses in better perspective.

General Conclusions of the Economists

In the thirty-year period reviewed, economists, following the broad outlines of the Chamberlin and/or Robinson analytical techniques, have frequently examined advertising as it affects:

1. Demand, with particular emphasis on charges in both the position and the slope of the demand curve.

2. Costs, from both a manufacturing and marketing point of view.

3. Prices.

4. Allocation of resources.

5. Distribution of incomes.

6. Competition.

Although wide divergence of opinion has developed, the economist has generally concluded that advertising:

1. Tends to shift the firm's demand curve upward and to the right. It also may affect the slope of the firm's demand curve, the tendency being to make it less elastic.

On the other hand it has a multi-sided effect on the industry's demand curve; that is, it may increase the total demand for the product; it may simply cancel the effect of another firm's
advertising and leave the industry demand curve the same; or it may shift the demand curve of one firm to the right and, as a countereffect, shift the curve of another firm to the left, leaving the industry demand curve unchanged.

2. Tends to raise the level of both marginal and average costs. A number of economists, however, admit that this conclusion is poorly supported because of the lack of reliable empirical information on the effects of advertising costs. This lack of information is due in part to accounting deficiencies, specifically the lack of agreement on what costs are chargeable to the advertising account.

3. Tends to result in an allocation of resources less than optimum or, conversely, a waste of resources. Some economists extend their conclusion on this point to suggest that it causes a diversion of resources from the starved public sector to the frivolous private sector.

4. Tends to result in many instances in higher than optimum prices to the consumer because of its tendency to raise costs and because of its tendency to eliminate price as the prime factor in resource allocation.

5. Tends to aggravate the distribution of incomes by "making the rich, richer and poor, poorer." This conclusion is related to the conclusion on competition.

6. Tends to push the economy closer to the monopoly variant and away from the economist's ideal of pure competition.

Beyond the above areas which have been rather generally examined, certain economists have also considered the effects of advertising on such factors as the quality and range of merchandise, consumer choice, consumer knowledge of goods and services, investment, the level of national income and the business cycle. Though the conclusions in the latter areas have been inconsistent and, in many cases actually contradictory, the consensus would again suggest unfavorable connotations.

Pulling together, then, the sum of the preceding generalizations, the investigator must reach the inescapable conclusion that the economist,
in the main, has judged advertising to be an impediment to the best working of the economic system. It would seem, however, that a second conclusion must also be reached at this point; namely, that the economist has based his judgment largely on a theoretical analysis. Though this theoretical framework appears sound, it is unfortunate that it is seldom supported by reliable empirical data. Only the Borden study can be judged as a significant analysis based on an empirical foundation, and it is noteworthy that this study raises doubts, if not divergent conclusions, on many of the generally accepted economic assumptions.

Appraisal of the Economist's Conclusions

Figure 1 illustrates the usual approach of the graphical analysis on the effects of advertising. It is obvious, on inspection, that the conclusions drawn rest heavily on assumptions regarding the effect of advertising on demand, costs, and prices. Leftwich has commented on the serious weakness of the analysis in the area of costs:

In practice probably less is known about the effects of advertising outlays than about the effects of any other cost outlays of the firm. Nevertheless, any intelligent approach by management to the correct magnitude of the advertising budget must be made on the basis of estimated marginal revenue and estimated marginal cost resulting from its contraction and expansion.81

Another observer has also noted weaknesses in traditional economic analysis regarding cost assumptions. He argued that the assumption of

81Leftwich, op. cit., p. 260.
Based on the following assumptions:

1. Demand schedule of firm shifts upward to right.
2. Elasticity of demand remains unchanged.
3. Product is not changed.
4. Marginal costs rise at trailing end of "U"-shaped curve.
5. External factors are not changed.
long run "U shaped" cost curves is not borne out by the facts and that declining long run cost curves are the rule rather than the exception. To support this argument, he cited the fact that large segments of the economy are attempting to increase quantities sold. Once the notion of declining long run cost curves over an indeterminate range of output is accepted, he believed that this would shift the economist's interest from the area of production to that of distribution and particularly to the element of transportation.82

A second obvious weakness involves demand. Does advertising shift the firm's demand? Does it merely neutralize another firm's advertising? Is the industry demand affected? What is the effect on the elasticity of demand or, stated another way, what is the slope of the demand curve before and after advertising? It is generally acknowledged that the demand assumptions, only infrequently supported by empirical evidence, have much to do with outcome of the analysis.

Still a third area of serious doubt has arisen. This involves the circular effect of changes in costs and demand on the price structure of the firm and the industry. Since the firm which advertises is assumed to be operating in a less than purely competitive market, it is further assumed that the firm has some degree of control over its prices and is unlikely to pass on the benefit of lower costs from

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increased demand to the consumer. A number of cases, such as those of aluminum and home appliances, raise doubts concerning the validity of these assumptions.

In examining the above three areas, Buchanan argued that the results depend on the directional movements of long range average costs and long range average revenues. And he concluded that the more advertising increases price elasticity of demand, the less will be the rise in price; the more nearly the firm is operating under conditions of failing costs before advertising, the greater the likelihood that average production and selling costs will be as low or lower than before advertising began.83

Buchanan's conclusion would appear beyond challenge, and his reasoning is typical of most economists. It is likely that even Borden would agree because it is so close to his own thinking. Yet the two men would probably end up with contradictory predictions on the probable results and the actual contribution of advertising in the economy.

This, then, suggests one striking fact which has been noteworthy throughout the course of this investigation. This fact is the broad divergence of opinion that is encountered on the particular subject of advertising. And it would appear to hold irrespective of the field of authority represented, including that of economics. The economist has normally taken pride in his reliance on logic and empirical

evidence to support his conclusions. Yet in the field of advertising, the lack of evidence cannot be ignored. In seeking an explanation of this paucity, it is possible that the economist has been caught in the trap of his own emotions on this very controversial subject and could be victim of the same "myopia" which he has so often attributed to the businessman.

C. FROM THE POINT OF VIEW OF THE BUSINESSMAN

By sectionalizing this chapter, the investigator might have left the impression that advertising must be examined from a narrow point of view. Such is not necessarily the case. Many of the observers have touched on all aspects of the problem; Galbraith and Hansen, for example, appeared to have aimed their attacks more at the social and ethical aspects than at facets within the domain of their own economic specialty. In the majority of cases, however, the observer is likely to reflect his own particular interest. And since the businessman is more immediately and more directly affected by the results of the advertising effort than any other group, his observations should be evaluated in this context.

On the other hand, to suggest that the businessman has no concern for the social and economic aspects of advertising would be an unwarranted conclusion. Based on a literature search it seems unfortunate that more able businessmen have not spoken out on this vital issue. The case of the businessman has too often been made through an intermediary--
the advertising agency spokesman, one of the trade publications in
the field, the academician in the field of advertising or marketing, or
the independent research organization.

A Cross-Section of Viewpoints on the Business Aspect of Advertising

One businessman's contribution, however, has impressed this
investigator and has received particular attention in this critique.
It was made by Howard Morgens, President of the Proctor and Gamble
Company, consistently one of the nation's largest advertisers in terms
of dollars spent per year. Morgens presented his case before the 8th
Annual Marketing Conference of the National Industrial Conference Board
on September 15, 1960. He defined the specific kind of advertising to
which he was referring as being that directed at consumer goods, backed
by a well-organized sales effort and in support of good products which
were priced right in the market place. In delineating the type of adver-
tising to which he was referring in such a specific way, Morgens was
emphasizing the point that if advertising is not used in this manner,
it is often unproductive and wasteful.\footnote{24}

His important conclusions were as follows:

1. Advertising is part of the total selling job—not a
separate entity. On this aspect, he emphasized that from the
public point of view, advertising alone should neither be
praised nor damned for its effect on the economy because it
was a combination of selling functions which provided the
motive power for sales, not advertising in itself.

\footnote{24} Howard Morgens, "Advertising from a Management Viewpoint,"
Reprint of an address before the 8th Annual Marketing Conference Board
on September 15, 1960, p. 3.
2. Advertising is only one way of selling to the consumer. It competes with personal selling in the store, bazaars, street markets, and door-to-door salesmen. With regard to the latter type he pointed out that one of Procter and Gamble's major competitors (undoubtedly Avon) relies mainly on the door-to-door method for selling its products to the public. Also on this point, he estimated that twenty per cent of total grocery sales were currently being made in retailer owned brands and that these brands represented another significant competitor for the nationally advertised brand. If a tax on advertising were imposed, competitors using methods other than advertising would be the benefactors. Since the job of selling must be done, he maintained that it is to the benefit of society to use the most effective and efficient method.

3. Advertising is the most effective and efficient way to sell the consumer for many types of products.

4. Advertising can and does create markets, and it can do it more rapidly, more intensively, and less expensively than any other method of selling to the consumer. This is true, he maintained, only for products which fill a genuine—though often unexpressed or latent—consumer want. Commenting on the charge that advertising can force people to buy products, Morgens stated, "I'll say categorically that no amount of advertising can force any large number of people to buy things they do not want." 85

To amplify this point, Morgens reviewed the pre-testing procedures used by the Proctor and Gamble Company. Pointing out that as a part of the testing process, a representative sample of consumers was asked to use the product "blind"; that is, without exposure to advertising, without a brand name, without labels and without glamorous packaging. If the response under such circumstances is favorable, the product has a chance to develop a market. If the response to a product is not favorable "when exposed to it without advertising [italics in original] then the surest way to go broke is to spend advertising money trying to create a new market for it." 86

85 Ibid., p. 7.
86 Ibid., pp. 7-8.
5. Advertising, if properly used, does lower the costs to the consumer. He admitted that advertising, in itself, does add to the cost of the product, but in most instances it also results in savings that are greater than the cost of the advertising. It does this because it (1) brings about savings in manufacturing costs, (2) brings about savings in other types of distribution costs such as lowering the cost of salesmen per unit of goods sold and increasing the turnover of the retailer, and (3) brings about savings in buying, financing and other business operations, particularly those associated with stability of volume. On this particular point, Morgens granted that once a mass market had been created, it was possible for someone else to take a free ride by selling the same type of product at a lower cost by not advertising. But he argued that it would be a great fallacy to go on from there and to infer that all such products would be cheaper if there were no advertising on any of them.

6. Advertising plays a tremendous part in the constant upgrading of consumer products. To support this argument, he stated his case in this manner:

Advertising cannot sell a poor product. It might induce people to try it once. But it cannot build an enduring business on such a product. That has been proven over and over again. In fact the quickest way to kill a brand that is off quality is to promote it aggressively. People find out about its poor quality just that much more quickly.

I'll go further. Advertising cannot sell a product for very long in a competitive market if that product stands still quality-wise.\(^{87}\)

7. Advertising acts as a prod to the research department to develop better and more useful products. And when a company is confident of its ability to acquaint the public quickly with a product advance, it is more willing to invest dollars in the research needed to bring improvements from the laboratory to the consumer.

\(^{87}\text{Ibid., p. 10.}\)
8. Advertising increases competition. To back up this contention, Morgens restated some earlier premises to the effect that (1) advertising will not work effectively if the product is not competitive in quality, (2) advertising will not work effectively if the product—quality considered—is not fully competitive in price, (3) advertising will not work effectively unless the sales and other distributing forces are on their toes, and (4) the very essence of advertising is that it is an instrument of competition and "to our mind it is completely irrational and certainly contradictory to be for competition and against advertising." [italics in original].

In summarizing his case, Morgens challenged the critics who contend that advertising goods for private wants is causing neglect in the public sector. One statement, in particular, seemed pertinent to this criticism:

... If, as is said, advertising tends to put pressure behind commercial products and services, our political system tends to put a great deal of pressure behind the non-commercial items. In fact, much of our political mechanism in this country seems to exist for the purpose of detecting, arousing and satisfying people's wants. Some of our politicians appear to make a career out of telling people what they should want and then offering to get it for them. What's more, the media of the nation are available for this purpose—usually without charge.

Lest the above quotation be interpreted as indicating that Morgens was opposed to additional support in the public sector, he concluded with this statement:

Above all, I believe there is room in this country for the full play of private initiative plus whatever is needed for such things as education and medical care. If there isn't room for both—all arguments are off as far as I'm concerned. But I think definitely there is room for both, and I think it

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88 Ibid., p. 12.
89 Ibid., pp. 13-14.
is essentially a backward philosophy to argue that private endeavour must be curbed so that the government can "allocate" more of the resources of the nation in the way it thinks best for the people.90

In the opinion of the investigator, Morgens has presented a succinct case from the point of view of the businessman and one which would receive general endorsement from, although not always practiced by, the business community. Borden, in addition to looking at the economic aspects of advertising, also examined the business aspect. His conclusions registered almost complete agreement with Morgens, despite the time differential. Briefly, he held that:

1. The businessman uses advertising with the objective of long-run profits rather than immediate returns.

2. Opportunities for the successful use of advertising vary widely; it is not a business stimulator that can be turned on and off; and certain factors must be favorable for it to be used effectively.

3. Advertising is not homogeneous, isolated, or unique. Instead, it is a part of an integral business plan.

4. Advertising results in waste if the tasks of judgment and execution are not executed skillfully.91

Further support for the business use of advertising came from The Twentieth Fund's study which concluded that:

The high degree of specialization in American industry, simplification of design, and the lavish use of automatic power driven machinery in turning out low cost standardized goods would be impossible without the means for assuming mass consumption in a mass market. National advertising

90 Ibid., pp. 15.

91 The Economic Effects of Advertising, pp. xxxvii-xxxviii.
and whether we like it or not—even the singing commercial—are just as much a part of American technology as are radioisotopes and forklift trucks.92

For a unique viewpoint on advertising in the business spectrum, the comments of William Benton were interesting. Benton is a man with a multisided career—former President of Benton and Bowles advertising agency, assistant to former University of Chicago President Robert Hutchins, former U. S. Senator, and now President of Encyclopedia Britannica. Following a speaking engagement in New York City, he was confronted with specific questions on the effectiveness of advertising as a selling tool. "Advertising can't sell encyclopedias," he said, "and if they depended on advertising, they wouldn't have five per cent of their volume."93

When asked, however, if this same logic applied to General Foods, a company which he is sometimes credited with having pulled from the doldrums with his advertising genius, Benton's reply assumed a new tone:

I could drop advertising and save three to four million per year. I could do it for ten years and save $30,000,000 to 40,000,000, and we wouldn't be off two per cent... but over 100 years we'd be ruined.94

Benton's comments would seem to be especially pertinent to the theses of Morgens and Borden, especially in regard to two points.


94Ibid.
First, opportunities for advertising vary widely and where the factors are not favorable, it is probably a waste of money. It is rather generally agreed that the selling of encyclopedias may be one case in point. Second, from the standpoint of the national advertiser, advertising is based on long-run profit objectives and not immediate returns. This would also lend some support to the view of certain economists that a great deal of advertising should be regarded as a capital investment and judged along with other investments rather than as an expense item. In the case of General Foods, Benton was apparently saying that the company had built a sufficient image around its brand names, such as Jello and Maxwell House, to permit it to coast without advertising for some time without serious results. In the long term, however, the lack of advertising would be disastrous from the point of view of this business.

To put the use of advertising in business in perspective, the viewpoints of academicians Sandage and Fryburger and general management consultant, Peter Drucker would seem to be significant. Sandage and Fryburger offered this appraisal:

As a tool, advertising may be cheaper than many other selling tools; e.g., an increase in personal selling costs and greater margins to dealers to encourage sales promotion.

As an agency for announcing new products, the place where they may be purchased, their price and quality and how they are to be used, advertising is perhaps the cheapest and most efficient now available.  

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95Sandage and Fryburger, op. cit., p. 54.
Drucker was even more pointed when he said:

Individual selling is becoming a marginal and essentially dubious activity. Advertising is becoming the central mechanism for doing the essential part of the marketing job.96

Summary of Businessman's Point of View on Advertising

The able businessman uses advertising when it pays; that is, when the profits from advertising exceed the costs associated with it. The economist would state this proposition in another way: advertising should be used to the point where marginal costs of advertising equal marginal revenues resulting from that advertising. Actually the concepts are the same; the problem arises in semantics on the one hand, and the businessman's inability to determine marginal cost and marginal revenue on the other.

Morgens has stated the case well when he said that advertising properly used was probably the most effective method of selling. When improperly used it is a waste of the firm's money and the nation's resources. The businessman's case would seem to be just about that simple. The real problem, however, arises when he gets down to the task of trying to determine when advertising actually pays. The exact nature of this dilemma is tackled in later chapters in this thesis.

Appraisal of the Businessman's Point of View

Many businessmen realize that they are sitting in the middle of a swirling controversy involving the ethics and economics of advertising. But at the same time, the businessman is confronted with an even weightier problem—that of surviving in the competitive struggle with which he is surrounded. Since the latter is of paramount importance to his personal livelihood, it is not surprising that this consideration takes priority. Thus, the businessman is susceptible to suggestions from his own staff or from an extraneous source which offers relief in this struggle. Perhaps the businessman is occasionally victimized and wastes his money on advertising, but it would appear that this waste is due to his inability to predict and measure results rather than intent. And it should be pointed out that the businessman is not alone in this measurement dilemma; it is a general problem, compounded by the number of variables affecting the selling process. Credit must go to Professor Borden who has stated the nature of this problem so well.

The student must avoid the error so frequently made of assuming a simple cause and effect relationship between advertising and change in the consumption of a brand or product.97

In generalizing on the businessman's viewpoint, it would seem fair to conclude that his view on advertising is at least as rational as that of his contemporary on the ethical or the economic side of the

controversy. Unfortunately, all three viewpoints reflect elements of emotional involvement which have clouded and confused the issue.

The Twentieth Century Fund pinpointed the need for rationality and less emotion on this problem when it concluded:

... Studies should be made of products, lines of trade and advertising media. We probably know less about the results of advertising than about almost any other phase of business, and yet it has appreciable and increasing effects on the total costs of distribution.\(^98\)

D. GENERAL SUMMARY OF THE EFFECTS OF ADVERTISING

In the introduction to this chapter, it was pointed out that advertising is a phenomenon with many facets, three of which have been dwelt upon in the course of the preceding discussion. With such a multi-sided structure, it is to be expected that advertising is likely to create both opposing as well as parallel forces. For example, it may aid one businessman at the expense of another, where the total demand for a product or service is relatively inelastic, but it may aid all businessmen in a situation where the total demand for a product or service is expanding; it represents a potent stimulant for higher consumption; but it may also encourage the consumption of goods and services of debatable social and economic value; it subsidizes mass communications media, and in so doing provides avenues for education, entertainment, and information that might not otherwise be available, but it may also encourage the dissemination of information and entertainment of questionable social value.

It seems to this investigator that the literature is replete with instances where the observer has selected one side of one of these facets around which to build his case. The diametrically opposite positions cited in the foregoing discussion lend support to this conclusion. A universal judgment applicable to advertising is difficult, if not impossible. If such a judgment is attempted, however, it should rest on the entire balance sheet rather than on one single debit or credit item.

Succeeding chapters are to deal with specifics of the economic and business aspects of the problem and to a lesser degree with the social considerations.
CHAPTER III

FINANCIAL ADVERTISING IN PERSPECTIVE

From the discussion in the preceding chapter, it appears clear that advertising has become a phenomenon of such proportions that it has affected the course of social, economic, business, and perhaps political history in the United States. Beyond this nation, the traditional position of advertising has exerted a lesser force. As late as 1950, the volume of advertising outside the United States was estimated to be only one fourth of that inside. Since that time, however, external growth has exceeded internal, and it has been projected that by 1970 advertising abroad will have reached the point where it will be equal to the domestic volume.¹ Much of this growth has taken place in western Europe and Japan, but oddly enough, the Soviet Union is also beginning to partake of this spoil that is allegedly inherent only in the capitalistic system.

Although total advertising in the United States volume is substantial, the extent and nature of growth in this area is subject to some misunderstanding. Figure 2 provides a graphic picture of the movement of general advertising expenditures over a thirty-year period. The solid line (left scale) represents absolute dollars; the broken line (left scale) represents the same data in terms of constant

FIGURE 2

TRACEABLE ADVERTISING EXPENDITURES
ABSOLUTE DOLLARS, CONSTANT DOLLARS
AND PERCENTAGE OF GROSS NATIONAL PRODUCT
FIVE YEAR INTERVALS (1929-1959)

2. Statistical Abstract of the United States, 1960,
p. 336. 1947-49 = 100 For Consumer's Price Index
(All Items). Used in conversion of absolute to
constant dollars.
dollars. As a percentage of Gross National Product (right scale), overall advertising has been relatively stable, running between two and three per cent during most of this period. Although the record bears out the contention that absolute dollars devoted to general advertising have shown a marked uptrend in the last fifteen years, it shows an even more sensational growth in one particular area—the financial institution. Historically, however, growth in this latter area, has been sporadic and subject to severe cyclical fluctuations. Therefore, to put financial advertising in perspective, a statement on its history would seem to be useful.

A. A HISTORICAL STATEMENT ON FINANCIAL ADVERTISING

The Industrial Revolution, and its accompanying mass production, encouraged if it did not force the development of advertising in the United States. By the turn of the last century, advertising of the products of industry and business had become an integral part of the distribution process. The development of advertising, however, as a means of marketing services was a much slower development. The reasons for the lack of parallel growth were numerous, but perhaps the most significant was the intangible nature of a service as contrasted to that of a product. Another reason was undoubtedly the aura of uncertainty, if not outright suspicion, which surrounded the advertising process. The latter fact made the financial institution, with its quasi-public nature, especially hesitant to use the advertising medium.
Trends Up to World War II

Prior to the Civil War, financial advertising resembled the form of legal announcements, consisting in the main of opening notices, and dividend and interest declarations. One of the first, if not the first, bank advertisements appeared in the New York Packet on June 7, 1784, when the New York Bank and Trust Company ran a notice saying it would open. It presented a list of "rules to be observed by the bank" and quoted rates on various coins.2

The first trust company advertisement appeared in 1822 and even though about forty trust companies had been organized in the United States by 1860, there was still a negligible amount of advertising in the financial area.3

The period from 1861 to 1873 proved to be a significant one in the history of financial advertising due mainly to the effort of one man, Jay Cooke. Cooke opened a banking house in Philadelphia in 1861 and almost immediately succeeded in floating a $3,000,000 Pennsylvania Bank Loan. He resorted to so-called publicity and appealed to patriotism and to the self interest of individuals. His success caused him to be enlisted to help sell Union war bonds. In the course of this effort, he promoted an advertising campaign which is said to have

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3Ibid., pp. 21-23.
"constituted the first truly national advertising effort, and in
the number of publications used made a record that stood for many
years."  

Following the panic of 1873, the financial community lost
prestige and from this period to 1917, progress in financial adver­
tising was almost at a standstill. World War I, however, gave it a
spurt. Again War Bonds were the great impetus, and some twenty-four
billion dollars worth were sold. Between 1917 and 1930, several new
factors entered the picture which affected the growth of financial
advertising:

1. The levying of income and excess-profits taxes.

2. The general prosperity in the decade following
World War I.

3. The increase in competition among financial
institutions.

4. The tremendous volumes of securities issued
during the period which forced the abandonment of con­
servative selling methods.

5. The extension of trust activities through national
and state banks.

6. The rapid development in advertising techniques
applicable to tangible products. This development acted
as a catalyst in pulling the financial community along.  

As had happened in 1873, a period of growth was brought
abruptly to a halt by the Great Depression. During the decade of the

4Ibid., p. 23.
5Ibid., p. 28.
thirties, the financial institution, with its bank failures and investment scandals, virtually went into hiding. Once again, though, war helped to restore prestige and confidence. Gradually the banks and other financial businesses rekindled their interest in the almost forgotten selling function.

**Trends Since World War II**

For the third time in a century, the financial institution used a post-war period for a burst of expansion in the use of advertising. This is clearly evidenced by Figure 3, which relates the growth of bank advertising to general advertising expenditures in the post-war period. Bank advertising expenditures have increased ten-fold in the fifteen year interval from 1946 to 1961, and with the exception of the 1949 and 1953 recessions, this trend has been consistently upward.

**Reasons Behind Unusual Post-War Growth.** The recent trend in the financial area probably reflects a general tendency for the service sector of the economy to take an increasing share of the consumer's dollar. Beyond this tendency, however, it would appear that several other factors have contributed to the growth of advertising in the financial institution. Among these factors were:

1. The recovery of the financial community from the pall which surrounded it during the Great Depression.

2. The steady climb in personal incomes coupled with the increasing complexity of personal and business financial
GROWTH IN BANK ADVERTISING IN COMPARISON TO GROWTH IN TOTAL ADVERTISING—U.S.A. 1946-1961 ABSOLUTE DOLLARS

Sources: 1. Banking, March, 1960, Cover.  
transactions which made the use of banking services necessary and desirable.

3. The renewed growth of competition in the financial community, particularly in certain areas of the nation and more particularly associated with branch banking, small loan companies, insurance companies and savings and loan associations.

4. The demand for loan funds for personal, commercial and industrial use.

5. The "bull market" atmosphere which prevailed in the investment community during much of the period.

6. The sheer availability of funds in the financial institution resulting from generally profitable operations.

7. High income tax rates which probably have encouraged the use of cheap dollars for advertising.

The Nature of Financial Advertising Growth. The following excerpt reflects the nature of this growth:

Commercial banks plan to spend $172 million on advertising in 1960, an increase of twenty per cent over 1959, according to estimates of the Advertising Department of the American Bankers Association. Based on the survey, G. Edwin Heming, manager of the A. B. A.'s Advertising Department, declared that "it seems perfectly reasonable to expect that the 1961 advertising budgets of commercial banks are likely to total more than 200 million." 6

In the investment field, similar if not even more dramatic growth has taken place. Although there is no reliable body of data available on total expenditures in the investment field, mention of one particular type of advertising will indicate the nature of this

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6"Banks Increase Advertising Expenditures," Morning Advocate (Baton Rouge, La.) (February 29, 1960), p. 6A.
growth. In a study conducted by *Fortune*, New York Stock Exchange member firms reported that they produced more than 48,000 different direct mail pieces during 1956, and thousands of others were produced by non-member firms and investment counselling services. Based on this survey, *Fortune* speculated that this flood of direct mail had greatly expanded since 1956.7

The Stop and Go Phenomenon of Bank Advertising. A notable observation on bank advertising is that depressions seem to bring it to a striking halt and booms exaggerate it in the other direction. From Figure 3, for example, it can be seen that overall advertising has increased about 400 per cent during the fifteen-year period and bank advertising about 1,000 per cent. With considerable logic, many economists argue that advertising should be used as a contracyclical force. Some of this increase undoubtedly reflects higher media costs and other inflationary factors, but the size of the increase indicates that much of it is due to larger physical volume of advertising. If the advertising during booms were directed solely toward the savings motives, it might be defensible on cyclical grounds. An examination of bank advertising does show savings as the most often used theme, but loans also rank near the top. Thus the contracyclical effect may be neutralized if not negated.

Types of Services Promoted

To pinpoint the specific type of services subject to promotion by advertising, the following list covers the normal situations:

1. The services of commercial banks—acceptance of time and savings deposits, the granting of commercial and installment loans, the rental of safety deposit boxes plus the myriad of other services now offered.

2. The services of investment brokerage concerns—the giving of advice and counsel, the processing of orders for the purchase and sale of securities, and the issuance of publications pertaining to these services.

3. The services of investment counselling firms—the furnishing of factual and statistical information and, in some cases, advice and counsel.

4. The services of other financial institutions such as building and loan associations mutual savings banks, consumer finance companies, mercantile finance companies, life insurance companies, mortgage companies, title companies, bonding companies, investment banks and bankers, and the large number of financial agencies associated with programs of the Federal government.

In order to keep this investigation within manageable bounds, the services of commercial banks will be the sector of primary interest.

Conclusion On Historical Aspects Of Financial Advertising. The foregoing facts on financial advertising suggest a significant growth pattern. They do not, however, explain the factors underlying the determination of the amount of money to be spent nor do they reveal the effectiveness of the use of the money which has been spent. Succeeding sections will investigate these questions.
B. EXPENDITURE PATTERNS IN BANK ADVERTISING

Table I presents a quantitative statement of advertising expenditures among various size banking institutions. These data were extracted in part and calculated in part from estimates on 1960 spending plans submitted by 3,000 banks to the American Bankers Association. The main purpose of this effort was to determine if there were any categories of banks which accounted for more than a proportionate share of total expenditures. Two particular facets of the tabulation are worth noting. First, using mean average expenditures per million dollars of deposits as a criterion, there are no significant differences in spending patterns, regardless of the size of the bank. As reflected in the fourth column, there might be a slight trend to spend proportionately less in the larger banks, but it is more likely that the wide spreads in the range of deposits have created statistical discrepancies. For example, one or two banks in which expenditures deviated significantly from the mode could affect the mean average. Underlying data were not available to measure dispersion.

A second facet, however, deserves more careful attention. This is the range of expenditures shown in the second column. The variations between banks of the same approximate size appear to be significant. The explanations are apt to be multitudinous, but probably reflect such factors as competition, attitudes of management toward advertising, media aggressiveness in the area, growth patterns in the community, cost
accounting practices in the bank, accuracy of the reporting of data, and perhaps the degree of aggressiveness shown by the advertising and public relations department in the bank or that of its advertising agency. In Chapter I, it was mentioned that considerable diversity of opinion existed regarding the proper allocation of costs to the advertising and public relations functions. The second column suggests the presence of this problem in some of the reporting banks. For example, it would appear that the cost accounting practices of a bank with $10,000,000 deposits are open to question when it reports plans to spend only $100 on advertising in the course of one year. The publishing of one significant advertisement could hardly be accomplished for this amount.

From the data presented in Table I, two general observations are appropriate:

1. Certain banks have grown to substantial sizes without resort to advertising or at least without charging selling costs to an advertising account. The specific conditions under which this growth has been attained are not, however, evident. Questions such as whether this growth developed under conditions of a bank monopoly in the area or whether it was attained by the use of more or less efficient methods of selling services are not answered.

2. The range of absolute expenditures between individual banking institutions suggests the probability that some banks are spending on advertising at other than optimum levels. In other words, some institutions may be spending beyond the point of economic return on certain services, and others may be missing real opportunities by not advertising these services at all.
# TABLE I

ANALYSIS OF BANK ADVERTISING EXPENDITURES—1960

<table>
<thead>
<tr>
<th>Size of Deposits Millions of Dollars</th>
<th>Range of Annual Expenditures</th>
<th>Mean Average Expend. Per Bank.</th>
<th>Mean Avg. Expend. Per $1 Million Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $ Million</td>
<td>$ 50 - 10,000 $</td>
<td>$710</td>
<td>$710</td>
</tr>
<tr>
<td>1 - 2</td>
<td>50 - 18,000</td>
<td>1,065</td>
<td>422</td>
</tr>
<tr>
<td>2 - 3</td>
<td>100 - 25,000</td>
<td>1,055</td>
<td>422</td>
</tr>
<tr>
<td>3 - 4</td>
<td>200 - 12,000</td>
<td>2,418</td>
<td>690</td>
</tr>
<tr>
<td>4 - 5</td>
<td>50 - 25,000</td>
<td>3,073</td>
<td>682</td>
</tr>
<tr>
<td>5 - 6</td>
<td>250 - 15,000</td>
<td>3,916</td>
<td>712</td>
</tr>
<tr>
<td>6 - 7</td>
<td>300 - 12,000</td>
<td>4,624</td>
<td>711</td>
</tr>
<tr>
<td>7 - 8</td>
<td>500 - 23,000</td>
<td>5,720</td>
<td>763</td>
</tr>
<tr>
<td>8 - 9</td>
<td>500 - 30,000</td>
<td>6,347</td>
<td>747</td>
</tr>
<tr>
<td>9 - 10</td>
<td>100 - 27,000</td>
<td>7,518</td>
<td>791</td>
</tr>
<tr>
<td>10 - 15</td>
<td>500 - 36,000</td>
<td>9,105</td>
<td>728</td>
</tr>
<tr>
<td>15 - 20</td>
<td>1,000 - 40,000</td>
<td>12,948</td>
<td>740</td>
</tr>
<tr>
<td>20 - 25</td>
<td>1,800 - 50,000</td>
<td>17,890</td>
<td>795</td>
</tr>
<tr>
<td>25 - 50</td>
<td>5,000 - 100,000</td>
<td>26,965</td>
<td>719</td>
</tr>
<tr>
<td>50 - 75</td>
<td>5,000 - 100,000</td>
<td>44,683</td>
<td>715</td>
</tr>
<tr>
<td>75 - 100</td>
<td>25,000 - 145,000</td>
<td>63,727</td>
<td>728</td>
</tr>
<tr>
<td>100 - 200</td>
<td>30,000 - 200,000</td>
<td>95,471</td>
<td>636</td>
</tr>
<tr>
<td>200 - 300</td>
<td>110,000 - 220,000</td>
<td>161,045</td>
<td>644</td>
</tr>
<tr>
<td>300 - 400</td>
<td>120,000 - 320,000</td>
<td>217,000</td>
<td>620</td>
</tr>
<tr>
<td>400 - 500</td>
<td>120,000 - 320,000</td>
<td>235,000</td>
<td>522</td>
</tr>
<tr>
<td>500 &amp; over</td>
<td>163,000 - 2,500,000</td>
<td>857,976</td>
<td>957*</td>
</tr>
</tbody>
</table>


Column 4 calculations based on mid-point in range.

*Based on mean average deposits of $1 billion.
C. SERVICES ADVERTISED BY BANKS

Traditionally banks built their operations around the simple concept of obtaining funds from the general public in the form of checking and savings accounts and lending these funds to selected outlets in the community. Within this limited framework, the bank placed emphasis on three or four key financial services. In recent decades, and particularly since World War II, banking has moved steadily toward the "supermarket" concept in marketing its financial services. The success of the latter approach in tangible goods has undoubtedly influenced the bank. Beyond this influence, however, strong competition from other rapidly growing financial institutions for the savings dollar on the one hand and the willingness to lend money on the other, has tended to force the bank into a broadening of its operations.

The extent of the competitive problem confronting banks was emphasized in a recent address by Professor Ross M. Robertson. According to Robertson, banks controlled seventy-seven per cent of total combined assets held by banks, insurance companies and savings and loan associations in 1919; by 1945 the percentage of this combined total held by banks declined to seventy per cent, and by 1960 to fifty-two per cent. Because of restrictive legislation, Robertson argued, that banks will continue to lose relative position in the financial structure of the nation unless corrective action is taken.8 In the

1960 survey conducted by the American Bankers Association, thirty-two per cent of the nation's banks stated that the "supermarket" approach would be used in their current year's advertising. This approach is undoubtedly an effort to counter this trend.

Table II lists the various services offered by a modern bank and also indicates the order of emphasis in which each of the services was being advertised in 1960. The extent of this list shows the degree to which the modern bank has become literally a department store of financial services. An observation, which will be probed more thoroughly later, should be made at this point. The department store and the "supermarket" have long argued that the particular items advertised should not necessarily be expected to carry the full burden of costs since they are frequently used as "fly paper" or "loss leaders" to attract foot traffic into a store. Having drawn the traffic, the store believes that the customer will make purchases of more than just the advertised goods. An analogous situation may have developed in the banking institution. Borden's contention that advertising should be examined as an integral part of the marketing process rather than atomistically would seem to raise just as pertinent a question in the case of the modern bank as it does in the department store. The success of a bank's selling effort on one particular service may be reflected in its sale of other services.

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<table>
<thead>
<tr>
<th>Service</th>
<th>Order of Advertising Emphasis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>1</td>
</tr>
<tr>
<td>Regular Checking</td>
<td>2</td>
</tr>
<tr>
<td>Auto Loans</td>
<td>3</td>
</tr>
<tr>
<td>Personal Loans</td>
<td>4</td>
</tr>
<tr>
<td>Bank-by-Mail</td>
<td>5</td>
</tr>
<tr>
<td>Institutional Ads</td>
<td>6</td>
</tr>
<tr>
<td>Special Checking</td>
<td>7</td>
</tr>
<tr>
<td>Farm Production Loans</td>
<td>8</td>
</tr>
<tr>
<td>Repair Loans</td>
<td>9</td>
</tr>
<tr>
<td>Mortgage Loans</td>
<td>10</td>
</tr>
<tr>
<td>Drive-in-Window</td>
<td>11</td>
</tr>
<tr>
<td>Safety Deposit</td>
<td>12</td>
</tr>
<tr>
<td>Trust Services</td>
<td>13</td>
</tr>
<tr>
<td>Business Loans</td>
<td>14</td>
</tr>
<tr>
<td>Farm Equipment Loans</td>
<td>15</td>
</tr>
<tr>
<td>Home Appliance Loans</td>
<td>16</td>
</tr>
<tr>
<td>Free Parking</td>
<td>17</td>
</tr>
<tr>
<td>Educational Ads</td>
<td>18</td>
</tr>
<tr>
<td>Night Deposits</td>
<td>19</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>20</td>
</tr>
<tr>
<td>Emergency Loans</td>
<td>21</td>
</tr>
</tbody>
</table>

The experience of the Bank of America, the nation's largest commercial bank, may well be a case in point. Judged by almost any standard, this institution has become the largest of the nation's banks. The liberal laws of California with respect to branch banking have undoubtedly been a factor in this growth. Other factors behind this growth are probably numerous, but one relevant factor is known. The Bank of America has pursued, at least for banks, a very aggressive advertising policy. With a current annual budget in the neighborhood of $5,000,000, which in 1959 represented more than three per cent of all the nation's bank advertising, this bank has consistently pushed the "supermarket" concept. But at intervals, it has chosen to concentrate its efforts in one particular area. In 1959, for example, it emphasized loans for "the little guy" and, as one source put it, ended up "selling loans like cigarettes."\(^{10}\) Although normally banks do not require that a person obtaining a small personal loan maintain an account in that bank, it is rather generally agreed that there is a tendency for the two services to have a positive correlation. Thus, in the case of the Bank of America, there is perhaps a "spill-over" effect on other banking services from its successful loan campaign.

D. MEDIA PREFERENCES OF BANKS

The choice of media used by banks and the percentage of banks using each type of media is shown in Table III. This table reflects

\(^{10}\)K. R. McDonald, "Sells Loans Like Cigarettes; Bank of America's $5,000,000 Ad Money Pushes Loans for the Little Guy," Advertising Age, Vol. 30 (October 19, 1959), p. 94.
TABLE III
MEDIA PREFERENCES OF BANKS—1960
(Based On 3,000 Samples)

<table>
<thead>
<tr>
<th>Media</th>
<th>No. of Banks Choosing</th>
<th>% of Banks Choosing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newspapers</td>
<td>2,900</td>
<td>97</td>
</tr>
<tr>
<td>Posters</td>
<td>2,771</td>
<td>92</td>
</tr>
<tr>
<td>Direct Mail</td>
<td>2,156</td>
<td>71</td>
</tr>
<tr>
<td>Calendars</td>
<td>2,077</td>
<td>69</td>
</tr>
<tr>
<td>Radio</td>
<td>1,481</td>
<td>49</td>
</tr>
<tr>
<td>Specialties</td>
<td>1,379</td>
<td>46</td>
</tr>
<tr>
<td>Billboard</td>
<td>922</td>
<td>30</td>
</tr>
<tr>
<td>Movie Trailers</td>
<td>470</td>
<td>16</td>
</tr>
<tr>
<td>Television</td>
<td>348</td>
<td>12</td>
</tr>
<tr>
<td>Magazines</td>
<td>171</td>
<td>6</td>
</tr>
<tr>
<td>Business and Cor. Cards</td>
<td>161</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Banking, March, 1960, pp. 70-71.
about what would be expected, except perhaps the relatively minor emphasis which banks as a whole have accorded the use of television. In certain areas of the country, especially metropolitan, the percentage using television would undoubtedly be higher. For example, in Baton Rouge, Louisiana, all five of the city's banking institutions use television extensively.

E. SUMMARY

The foregoing discussions in this chapter have attempted to place bank advertising in historical perspective, to suggest the quantitative proportions of bank spending on advertising, to point up the types of services which the bank advertises, and finally to indicate the advertising media used by banks. The questions, then, of how much banks spend, what they spend it on, and where they spend it should have been satisfied. But the central questions of the inquiry—the determination of how much to spend and the effectiveness of this spending—have yet to be tackled directly.
CHAPTER IV

THE ADVERTISING BUDGET

Preceding chapters have: (1) dealt with the broad aspects of the advertising phenomenon, and (2) sought to place financial advertising in perspective. A universal problem for banks and a central question in this inquiry, however, is the matter of the determination of the advertising budget. But in pursuing any avenue of thought on the budget, a second, and in fact an inseparable, problem arises. This is the measurement of advertising results. These two questions, then, are to be examined in succession. To a degree the treatment will be simultaneous.

A. THE NATURE OF THE TWIN DILEMMA

Budgeting, in its broad context, is a planning device, the purpose of which is to assure the firm that its proposed expenditures are spent in a manner which is likely to offer optimal returns. In addition, it is a predictive process. But reliable prediction of future returns rests heavily on the firm's ability to measure the results of similar expenditures in the past. For example, it would appear that a reasonable degree of success in the measurement of prior advertising effort would offer a logical solution to the matter of the setting of the current year's budget. The problem of measurement, however, has presented such a staggering dilemma in the majority of advertising situations that, at the time of this inquiry, few firms
have claimed that their appraisal of results have been more than educated guesses. This uncertainty, in turn, has resulted in a wide assortment of methods used in setting budgets and an even wider assortment of techniques which purport to measure the results of certain aspects of an advertising program.

A Case of Multiple Variables

The difficulties involved in the budgeting and measurement problems are pinpointed by a consideration of relevant variables. Frey, for example, has listed no less than 113 factors which bear on a purchase, or vice versa, a sale. His major subdivisions of factors are the market, the competition, the policies of the company, the package, the price, the service, the numerous considerations surrounding personal selling effort, advertising, sales promotion and publicity.¹

Culliton recognized a similar problem in his attempt to develop useful approaches in the control of marketing costs. In an investigation covering the marketing practices of more than 100 manufacturers of industrial goods, he found advertising to be one of thirty-two different order-getting ingredients in use. He further suggested that almost every company could add ingredients to this list because of its own peculiarities. In fact, he concluded that the preparation

of a complete list was almost hopeless, at least at the time of his investigation.\textsuperscript{2}

Borden, likewise, suggested that advertising was only one variable among many that affects sales results. Recognition of this factor was undoubtedly a prime consideration behind his warning that it was erroneous to assume a direct cause and effect relationship between advertising and the subsequent sale of a product or service. This awareness led to his further contention that advertising must be viewed as an integral part of the marketing process and not as an isolated whole.\textsuperscript{3}

Illustrative of the minutiae which can affect the successful sale of a product or service is the experience of the Proctor and Gamble Company with the introduction of one of its current big sellers—Ivory Snow. This product had fared rather badly in initial test markets, and an almost identical competitive product, Colgate's Palmolive Beads had failed so miserably that it had been withdrawn from the market. On one final desperation hunch, Proctor and Gamble decided to change the package size very slightly to correspond to that of two existing products, Proctor and Gamble's own Ivory Flakes and the latter's competitor, Lux Flakes. This involved a minor change

\footnotesize{\textsuperscript{2}James William Culliton, \textit{The Management of Marketing Costs} (Boston: Division of Research, Harvard Graduate School of Business Administration, 1948), pp. 20-40.}

\footnotesize{\textsuperscript{3}Borden, \textit{The Economic Effects of Advertising}, p. xxvii.}
in the density of the product but altered neither the weight of
the package nor the cost of manufacturing. The result was a phenomenal
success. Ivory Snow now outsells by a margin of two to three to one,
both Ivory Flakes and Lux Flakes. The slightly smaller size of the
initial package apparently had created a psychological barrier in the
mind of the purchaser; the second package contained identical quantity,
the only difference being the amount of air in the granule of soap.4

The Danger of Circular Reasoning

Inherent in this context of multiple variables are conditions
which have led to a great deal of circular reasoning on the role
actually played by advertising in the marketing process. Very often,
for example, advertising budgets are determined by the volume of sales.
Yet logic suggests that advertising costs have no necessary functional
relationship to sales. As Joel Dean put it, "they are a cause rather
than a result of sales."5 The extent of the "chicken and egg"
dilemma which has surrounded these inter-related problems can be
illustrated by several poignant statements. One is the oft-quoted remark
by one of the nation's leading retailers for many years, John Wanamaker.
He said, "I know half of the money I spend on advertising is wasted,
but I cannot find out which half."6

4Proctor and Gamble College Case Series, Problems in Marketing,
Nos. 11 and 12. "Marketing Considerations In Introducing a New Product--
Ivory Snow" and "Evaluating Test Market Results--Ivory Snow."

5Joel Dean, "How Much to Spend on Advertising," Harvard Business

6Martin Mayer, Madison Avenue, U.S.A. (New York: Harper and Bros.,
Another story related by Daniel Seligman tells of an advertising manager, entrusted with a popular consumer product, who was asked at an Association of National Advertisers meeting to describe the procedure used in his company to determine the advertising budget. His answer:

Why it's very simple. First, I go upstairs to the controller and ask how much they can afford to give us this year. He says a million and a half. Later, the boss comes to me and asks how much we should spend. I say, "Oh, about a million and a half." Then we have an advertising appropriation.

As an afterthought, Seligman adds that the procedure has several merits. It eliminates intracompany arguments over the diversion of funds to advertising; it cuts down on the need for expensive market research; and finally, it is difficult to prove that it is not the right figure because the particular company which used this technique has doubled its earnings in the last five years.

Perhaps the classic statement attempting to explain the advertising-sales relationship has been attributed to George Washington Hill whose controversial genius, in combination with that of Albert Lasker, is credited with the historic Lucky Strike advertising campaign which began in 1923. To the current day, this particular campaign is regarded as a landmark in the history of advertising. To appreciate the extent

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8 Ibid., p. 161.
of the accomplishment, it is worth noting that in 1923 Lucky Strike sold about 25,000,000 cigarettes a day, a poor third to Camel with 80,000,000 to 100,000,000 a day and Chesterfield with 60,000,000 a day. Within three years, Lucky Strike led the entire field with sales of 150,000,000 a day, and held its position as a pacemaker for two decades. American Tobacco increased its advertising budget on Lucky Strike from $400,000 in 1923 to $19,000,000 in 1931. In the face of such spending, Hill, in about 1933, was able to add the following contribution to the sum of knowledge on advertising budgeting:

> It has been our experience that advertising that produced results and increased sales, regardless of its expense, is inexpensive. On the other hand, advertising that does not increase sales, no matter how cheap it may be, is a drag on business.

The naivety of this statement cannot be overlooked; nevertheless, it typifies much of the reasoning encountered on advertising.

B. A THEORETICAL FRAMEWORK FOR BUDGET SETTING

Despite the broad gap between theory and practice in the actual determination of the budget, there is little disagreement between these schools on the aim of an optimum budget. The typical practitioner is prone to say that expenditures on advertising shall be extended to

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10As quoted in Mayer, op. cit., p. 309.
the point where advertising ceases to pay for itself. The economic theorist, following the lines of marginal (or incremental) analysis, would set the budget at the point where marginal revenue accruing from a unit of advertising equals the marginal cost resulting from the unit of advertising. Consideration of these points of view suggests that the differences are essentially in semantics, rather than real. From this starting point of agreement, however, there has been wide divergence between theory and practice in an effort to find this optimum.

Since advertising is generally assumed to have had little purpose in a purely competitive economy, the basic theoretical framework for the use of economic analysis in the setting of the advertising budget can be credited to the previously discussed works of Chamberlin and Robinson in the area of imperfectly competitive markets. In the decade following the publication of these works (1935 to 1945) the literature makes frequent reference to the marginal approach in the considerations of the general matters of advertising, sales promotion and product differentiation, but there do not appear to have been significant efforts to apply the theory to the pertinent matter of advertising budget determination. Beyond the normal gap which occurs between theory and application, it is possible that the lull in advertising effort during the under-saturated economy of the war years caused the businessman and the economist to withdraw his attention from this element of costs. In 1946, however, one economist proposed the specific hypothesis that incremental analysis would help the advertiser
determine his advertising expenditures. His particular study related to the selection of printed advertising media. Using the results of readership surveys, he concluded that an advertiser should spend to the point where added readers or rememberers of advertising were not worth what it costs to obtain the increment.11

The rapid increase in advertising expenditures in the period immediately following World War II, and especially the introduction of the costly television medium, forced increasing attention to the element of advertising in marketing costs. At this point in time Professor Joel Dean is probably due major credit for pulling together existing economic theory and attempting to apply it to the specific problem of advertising budgets. Working on the general premise that marginal analysis is the basic and logically superior economic approach to all business problems, he attempted to adapt it to the problem of advertising budgets. Although granting that the analytical problem was much more complex on advertising than on production costs, he argued that the problem could be cut down to manageable proportions by restricting the analysis to a short run period of about one year and by making several important assumptions about prices and costs. His assumptions were:

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1. Advertising costs were to include only pure selling costs.

2. Physical distribution costs were to be included in production costs.

3. Incremental production costs were assumed to remain the same over the practical range of sales.

4. Price of the product was also assumed to remain the same over this same range.

5. Average revenue and marginal revenue are the same, given the preceding assumptions.  

Dean's Simplified Marginal Approach

Dean, using a hypothetical product selling at a price of seventy cents, proceeded with an analysis along the lines illustrated in Figure 4. By holding production costs and price constant, an incremental profit of fifty cents is realized from the sale of each additional unit. It is assumed that the incremental advertising cost to sell an additional unit follows a U-shaped curve. This pattern evolves from the logic that to a point, the flattened area of the curve, there is a pool of ready prospects which can be easily tapped. At the point where the curve starts to rise, the prospects have become poorer. The law of diminishing returns is activated not only by this fact but also because the firm has begun to feel the effect of geographical limitations, competition, or the ineffectiveness of certain advertising media. The optimum expenditure, as

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EXAMPLE OF INCREMENTAL ADVERTISING COST CURVE

defined by marginal theory, occurs on the upward slope of the incremental advertising cost curve where the advertising cost for an additional unit of sale equals the incremental profit from that unit, or at the level of fifty cents on the right hand scale.¹³

To further clarify his example, Dean stated that the totals appearing on a regular income statement could be used instead of increments. Following this thinking, the total production cost of a given output is determined by the area under the incremental production cost curve. In a similar manner the total revenue could be determined by the area under the price line and the incremental advertising cost by the area under the incremental cost curve.¹⁴

**Limitations of the Method.** Dean admitted the method had limitations, the main one being the difficulty of estimating incremental advertising costs. He acknowledged, also, that the relationship of advertising to sales was more intricate than short run marginal analysis indicated. This difficulty is explained by Dean's recognition of the problem of controlling variables. Although he held many of the critical variables constant in his assumptions, he could not allow for such factors as rivals' advertising reaction, response lags, gauging the quality of the advertising, and the reservoir effect of prior advertising outlays. Dean went further and recognized that even when

¹³Ibid., p. 66.

¹⁴Ibid., pp. 66-67.
incremental advertising costs can be estimated with some reliability and a cost curve plotted, the validity of the cut-off point proposed by marginal analysis is questionable. This is due, in his opinion, to the fact that much advertising is in fact a capital investment, with long-range objectives rather than an expense item with an immediate prospect of returns.15

Despite these limitations, Dean maintained that the marginal approach to the determination of budgets makes a conceptual contribution of practical importance; that it provides a useful guide in thinking about advertising budgets; that it is helpful in directing thinking on empirical measurement; and finally that the marginal approach is superior to existing methods in practical use.16

One Modification of Dean's Method

Dean's work on marginal analysis applied to advertising budgets evoked several additional efforts in the same general direction. One of the more notable was that of the Danish author, Arne Rasmussen, who took Dean's basic approach and reformulated it into a concept of advertising elasticity of demand.

The Nature of Advertising Elasticity of Demand. Based on the limited knowledge available, Rasmussen believed that advertising elasticity depended largely upon:

15 Ibid., p. 67.

16 Ibid.
1. The amount of money already used on advertising.
2. The quantity of the product already sold.
3. The share of the market held by the firm.
4. The sort of commodity or service in question.
5. The effect of competitors' advertising and the tendency for competitors to react to the subject firm's advertising.
6. The cyclical position in the income elasticity of the good.

The Rasmussen Thesis. In introducing his argument, Rasmussen noted that economic theory had made a significant contribution to marketing with the concept of price elasticity of demand, the effect of changes in price on the quantity demanded. Where \( d = \) change, \( q = \) quantity demanded, and \( p = \) price, the elasticity of demand is expressed algebraically as: \( \frac{dqp}{qdp} \). At a specific point on a demand curve, elasticity is expressed geometrically by the ratio of distances from that point to the two axes.

It will be recalled that Dean assumed that the price of the commodity, the marginal production costs, and incremental profit per unit were constant in the short run. Rasmussen endorsed these assumptions but chose the term "gross revenue per unit" in lieu of and equivalent to Dean's incremental profit per unit. Having accepted these assumptions, Rasmussen maintained that this permitted the development of an advertising demand curve. The projected appearance of such a curve is illustrated in Figure 5. Where \( A = \) amount of advertising expenditure in dollars, advertising elasticity of demand
FIGURE 5

ADVERTISING ELASTICITY CURVE

is represented algebraically as: \( dqA / dAq \). From this equation is obtained the change in quantity demanded by a change in advertising expenditure of one per cent. For example, an advertising elasticity of .2 would mean that a one per cent change in advertising increased sales by only .2 of one per cent.\(^\text{17}\)

Rasmussen contended, then, that the optimum advertising budget could be determined by the elasticity of advertising demand. If the increase in advertising outlay is expressed as \( dA \), and his narrowly defined gross revenue per unit as \( r \), the optimum condition is represented by the equation: \( dq r = dA \). This equation coincides with the marginal analysis theory in the sense that it says that it pays to increase advertising to the point where incremental profit (the increase in quantity sold times the gross revenue per unit) equals the incremental cost.\(^\text{18}\)

Beyond this point, Rasmussen pursued his analysis to show that there was a relationship, even though illogically used by most businessmen, between the concept of advertising elasticity of demand and the per cent of sales approach used by many firms in setting their advertising budgets. His reasoning proceeded as follows:


\(^{18}\)Ibid., p. 442.
(1) If: \( dq_r = dA \)

(2) Then: \( \frac{dq}{dA} = \frac{1}{r} \)

(3) If both sides of equation are multiplied by \( A/q \), then: \( \frac{dqA}{dAq} = \frac{A}{qr} \)

The latter equation maintains that where anticipated elasticity of demand equals advertising expense divided by gross revenue, an optimum profit position has been reached. The right side of the final equation is similar, though not identical by Rasmussen's qualified definition of gross revenue, to the businessman's yardstick of advertising expense as a percentage of sales.\(^{19}\)

Graphically, this relationship is illustrated on Figure 6. A forty-five degree line, representing percentage of sales, drawn from the origin and sloping upward to the right would indicate that each incremental unit of advertising brings forth a constant addition to sales volume. Thus, the businessman setting a budget based on a fixed percentage of sales is assuming that all advertising is equally effective and that his advertising-sales relationship is following the straight forty-five degree line. Since the advertising demand curve, however, is believed to follow an elongated "U" pattern rather than a straight line, it would suggest that points on the curve to the left of the forty-five degree line would indicate ineffective use of advertising at the lower and upper ends. On the other hand, points

\(^{19}\)Ibid., p. 442.
Ineffective Use (Too Much or Poor Quality)

Effective Use At This Stage

FIGURE 6

ADVERTISING ELASTICITY OF DEMAND RELATED TO ADVERTISING AS PER CENT OF SALES

to the right of the forty-five degree line would suggest a profitable use. Accepting this thesis, it follows that the percentage of sales method relies on chance rather than plan to find an optimum.  

Limitations of the Rasmussen Reformulation. It would appear that this approach contains the same basic limitations of the Dean method, the most severe being the difficulty of projecting an advertising demand curve. This would, among other things, involve a reasonable degree of success in the measurement of advertising results, a major problem in itself. A second area of doubt surrounds the multiple assumptions, an important one of which is that the quality of advertising can be held constant. Despite these limitations, however, two of Rasmussen's followers, Parish and Ryan, suggested that his work on advertising elasticity had added another dimension to the incremental analysis approach to setting advertising budgets, and that it had provided a base from which additional study could proceed in the search for the millennium in advertising budgeting.

An Adaptation of the Marginal Analysis to the Bank Environment

In the main, the theoretical effort on the setting of advertising budgets has been conceived with a product, as distinguished from

\[ \text{Ibid., p. 444.} \]

a service, in mind. A notable exception, however, is W. T. Tucker's adaptation of marginal analysis to the advertising environment of the banking institution.\textsuperscript{22}

The earlier contributions from the previously cited works of Dean, Frey and Borden formed the basic foundation for Tucker's approach, but the latter has made some significant extensions, especially the concept of the advertising cost curve in both expansible and inexpressible demand situations. This concept is related, though not identical, to Rasmussen's elasticity of advertising demand. Tucker was concerned with advertising's ability to shift the total demand schedule of a product or service. Rasmussen, on the other hand, appeared to be interested in advertising's ability to attract a larger share of existing demand for the firm.

Although not intended to be a realistic representation of the advertising cost curves of banks, Figure 7 illustrates the general appearance of Tucker's expansible and inexpressible demand curves; from this illustration a rough indication of the problem confronting banks in the matter of advertising can be obtained, if Tucker's thesis is valid.

The Expansibility of the Demand for Bank Services. In general, Tucker concluded that the demand for most bank services is not highly

\textsuperscript{22}W. T. Tucker, "Advertising Appropriation Methods in Banks," \textit{Bulletin No. 2, Bureau of Business Research, School of Business Administration, Georgia State College of Business Administration} (Atlanta, Georgia, 1959), pp. 1-52.
FIGURE 7

ADVERTISING EXPANSIBILITY CURVES

Source: Tucker, op. cit., p. 38. *
expansible. This conclusion was based on a correlation analysis relating advertising expenditures to new business obtained by a group of banks during the year 1957. The data were drawn from surveys conducted among 280 banks by the Financial Public Relations Association. Tucker admitted that the data were subject to substantial limitations and that the research should be regarded as exploratory. Within these reservations, however, his conclusion was drawn from two significant implications revealed by the correlation analyses. These were that:

1. Bank advertising is an increasing cost process. In other words, most banks appear to be operating in the steeply rising portion of an inexpansible demand curve, and each additional account or loan becomes more costly to obtain.

2. The more the bank spends on advertising, the more business it gets. In other words, there is a correlation, though not to a high degree, in the amount of advertising and the number of new accounts and loans. So bank advertising should not be regarded as a hopeless process.23

Before reaching the aforementioned conclusion on expansibility, Tucker considered three possible interpretations of the correlation analyses:

1. Advertising does not work very well in banks. This is equivalent to saying that the demand for banking services is not highly expansible. To support this possibility, Tucker drew heavily on Borden's rather widely accepted five prerequisites for successful advertising: (a) a rising demand for the product or service, (b) a substantial chance for differentiation of product or service from that of competitors, (c) the existence of hidden qualities that the purchaser cannot easily judge, (d) the possibility of using strong

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23 Ibid., pp. 37-42.
emotional appeals and (e) a financial return that makes advertising money available.\textsuperscript{24} An analysis indicates that, of the five desirable prerequisites, only the first and last can be considered generally favorable in the case of banks. Thus if these yardsticks are accepted, the bank does not provide the ideal climate for effective use of advertising.

2. One year is too short a time to judge the results of advertising. Tucker acknowledged that there was some merit to this proposition, but suggested that it was probable that the banks which were large advertisers in 1957 were probably the larger advertisers in previous years so that there should have been a tendency for these factors to wash out since some of the previous effects of advertising were probably being measured.

3. The effect of local variables, such as the nature of the community, the policies of the bank, the character of the competition and the quality of the advertising, are not taken into account. Tucker concluded on this point that there was considerable support for this interpretation if based on nothing but personal judgment. In analyzing particular banks, it was discovered, for example, that one bank which did very little advertising was located just across the street from the campus of a large university and was assured of a large number of accounts on the strength of its location and the transient nature of the students. Still another bank that advertised heavily, with apparently poor results, was a small bank located in the heart of an extremely large city. Even beyond this factor, it was surrounded by much larger banks, all of whom advertised even more heavily.\textsuperscript{25}

After considering these three possible interpretations of the results, Tucker reached the following broad conclusion:

While the amount spent on advertising may directly influence the amount of new business a particular bank gets, various local factors and the increasing cost

\textsuperscript{24}Borden, \textit{The Economic Effects of Advertising}, p. xxvii; and as reported by Tucker, \textit{op. cit.}, pp. 43-44.

\textsuperscript{25}Tucker, \textit{op. cit.}, pp. 44-45.
process prevent as strong a relationship of this kind as might be expected.26

The Specifics of Tucker's Marginal Approach. The ultimate aim of the method is budget determination by means of equating the incremental costs of advertising with the incremental value of new accounts and loans obtained. An intermediate goal, however, is the measurement of advertising results. Although Tucker did not identify it as such, it would seem that the method is first a measuring device and secondly a budgetary tool. His approach proceeded roughly as follows:

1. Select the major bank services to which the advertising budget is devoted and to which there is a reasonable expectation of response to advertising. In his opinion three particular services (comprising eighty per cent of the average bank's ad budget) would normally be chosen—checking accounts, savings accounts, and installment loans.

2. Allocate the cost of the advertising for the previous year (or preferably years) to these services.

3. Determine the number of new checking accounts, savings accounts, and installment loans which the bank gained in the previous year.

4. Determine the advertising cost per new account. Tucker's sample calculation looks like this: (Bank with $15,000,000 deposits)

<table>
<thead>
<tr>
<th>Service</th>
<th>New Accounts Last Year</th>
<th>Advertising Cost Last Year</th>
<th>Ad Cost Per Account Last Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>1,000</td>
<td>$5,000</td>
<td>$5.50</td>
</tr>
<tr>
<td>Checking</td>
<td>700</td>
<td>3,500</td>
<td>5.00</td>
</tr>
<tr>
<td>Installment</td>
<td>2,000</td>
<td>4,000</td>
<td>2.00</td>
</tr>
</tbody>
</table>

5. Calculate the average size of these accounts and loans.

26 Ibid., p. 45.
6. Calculate the average life of the accounts and loans. He concluded that the typical savings and checking account had a life expectancy of ten years.

7. Calculate the expected net return to the bank from the typical account over its average life.

8. Compare the cost of obtaining this account with the expected return and thus arrive at an average annual return on the advertising investment. If this return is still within the desirable range, it would indicate that the bank's advertising is within logical bounds. If the return is too low, it would suggest that the bank has reached the point of diminishing returns on advertising this particular service. Of course, the opposite would be the case if the return was high. Tucker's calculations, based on the FPRA data, showed extremes from $.78 to $83.66 in advertising costs associated with obtaining one new account. He also estimated that the ten-year profit potential for a bank, employing the funds made available through a typical account, might run from $18 to $150. Within such a range of advertising costs and possible returns, it is clear that advertising could be highly profitable or extremely wasteful.27

The foregoing is the basic method. It is obvious, however, that at this stage the method has done no more than attempt to measure the results of advertising and suggest whether or not the expenditures have been too high or too low during the particular period, normally one year. It has not determined how high or how low; in other words it has not yet determined an optimum. To tackle this latter problem, Tucker argued that at least a second year or perhaps several years would be necessary to establish a reliable optimum. At this point in time the incremental analysis would actually be applied and the nature

27Ibid., pp. 26-29.
of the advertising cost curve determined. Tucker would accomplish this by making successive increases or slashes in advertising expenditures and noting the incremental effects on volume of new accounts and loans. For example if, in the base year, the bank spent $5,500 on savings account advertising and obtained 1,000 new accounts, there would be a cost per account of $5.50. This figure is assumed to be reasonable. So in the second year, the comparable expenditure is increased to $6,500 and 1,300 new accounts are obtained. The increment of 300 additional accounts was obtained at an advertising cost of $1,500 or an average of $5.00 per account. In this instance, the bank would still be on the declining portion of the cost curve. The process would be continued until the point of diminishing returns is encountered, and the shape of the specific bank's cost curve is defined. Eventually the bank should arrive at the optimum point where added advertising cost for a new account would be equal to the projected incremental return from that account.28

Tucker's Evaluation of His Own Method. The following advantages to the method were claimed:

1. Related profits to expenditures in advertising.

2. Provided sharpness of control data. For example, he concluded that only rather unusual circumstances could make an account worth more in advertising costs than $15.00 or worth less than $2.00.

28Ibid., pp. 29-30.
3. Provided an excellent method of searching out those services that react to advertising.

On the other hand, he granted some disadvantages. These were:

1. Technical requirements—essentially the method involves the clerical work, associated with collecting the data, to make the necessary calculations demanded by the method. In this connection, he noted that most banks were already collecting the basic data involved, but it would probably involve some rearrangement of existing data. Also he noted that much of the original data would not require recalculation each year. For banks, other than those in the smallest categories, the data collection in his opinion would not seem to be an insurmountable problem. In the smaller banks, Tucker suggested a simplified cost-per-account and cost-per-loan method which might be used.

2. Failure of the method to take long-term advertising effects into account, or stated positively, the method is primarily directed at advertising results measurable in the short term. Although he granted this area of weakness and admitted that it discouraged the use of advertising directed at long-range results, Tucker maintained that his method did tend to take into account the effects of past advertising beginning with the second year.29

Summary and Appraisal of the Theoretical Framework

If short term profit maximization is accepted as the primary objective of the business firm, it is difficult to deny the validity of the marginal analysis theory as a logical base for the optimization of the advertising budget. On the other hand, if profit maximization is not the compelling motive, marginal theory can do little more than suggest the degree to which the firm is diverting from this generally accepted norm. There is increasing evidence which, though beyond the scope of this investigation, suggests that other motives have

29 Ibid., pp. 33-34.
supplemented or perhaps in some instances even supplanted profit maximization as the objective of the firm. These motives should be mentioned although they will not be pursued. Among them are such possibilities as long term profit target, survival, business stability, sheer growth without regard to short run profit maximization, share of the market, leadership and prestige in a specific community, and satisfaction of psychological egos of both management and employees of the firm.

In some cases the welfare of the community or that of the general economy may be given precedence over the welfare of the firm. It is probable that the typical bank, with its quasi-public nature and with its substantial degree of regulation by government, is much more conscious of the latter objective than is the ordinary business firm. The bank is especially concerned with its own stability and that of the total banking system. This is particularly true because of the close association in the minds of many people between the actions and policies of banks and the economic welfare of the community. Dr. Paul W. McCracken, Professor of Business Conditions at the University of Michigan and a former member of President Eisenhower's Council of Economic Advisors, emphasized the importance of the banking system to the nation's welfare when he said:

There is conclusive evidence that the collapse of the banking system was the fundamental cause of the prolonged depression starting in 1929. Had not the banking system collapsed, the depression should have been over in 1931.30

30An Address before the Mid-South Business Seminar, Louisiana State University, May 5, 1961.
As the foregoing discussion implies, the objective of profit maximization in the banking institution can be questioned. For purposes of this investigation, however, profit maximization has been accepted as the primary objective of the bank. In those cases where the bank is clearly pursuing another objective, an understanding of this fundamental concept of profit maximization will still be helpful in evaluating the cost of its diversion. Within this analytical context, the contributions of Dean, Rasmussen and Tucker are substantial from a theoretical viewpoint and at least provide a rough blueprint for practical application.

On the negative side of the spectrum, serious limitations to marginal analysis must be noted. The most obvious is the requirement that a large, and in many cases an indeterminate, number of variables be held constant. It is possible that failure to allow for the dynamic nature of certain of these variables could negate the validity of the analysis. For example, the marginal technique assumes that the quality of advertising can be held constant and that quantity is the only variant. Hardly any practitioner would be willing to subscribe to such an assumption. Furthermore he is likely to offer documented evidence to sustain his objection.

An examination of a typical issue of the Starch Readership Report can be used to illustrate the point. It normally shows wide variances in its readers-per-dollar ratios on advertisements in the same magazine. In successive issues, advertisements of the same company
will show substantial swings in readers-per-dollar. As a specific case, the Starch analysis of the October 8, 1960 issue of the Saturday Evening Post showed one advertisement attracting only four readers-per-dollar of advertising cost, while another advertisement attracted eighty-six readers per dollar of cost.

The following account will amplify the point on quality. Claude C. Hopkins, an associate of Albert Lasker's in the old Lord and Thomas advertising agency, and a man whom many in the advertising profession still regard as being without a peer in the subtle art of copywriting, made the following observation on the results of a particular direct mail campaign:

A man was selling a five-dollar article. The replies from his ad cost him 85 cents. Another man submitted an ad which he thought better. The replies cost $14.20 each. Another man submitted an ad which for two years brought replies at an average of 41 cents each.

Consider that difference, on 250,000 replies a year. Think how valuable was the man who cut the cost in two. Think what it would have meant to have continued that $14.20 ad without any key on returns.

Yet there are thousands of advertisers who do just that. They spend large sums on a guess. And they are doing what that man did—paying for sales from 2 to 35 times what they need cost.31

Beyond quality, there are a number of other variables about which questionable disposition is made in the marginal analysis. The factor of location is one, especially with the rapid spread of branch

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31 Claude C. Hopkins, Scientific Advertising (No Indication of publication location, Lord and Thomas, 1923), pp. 17-18.
banking. One market survey indicated that sixty-eight per cent of one bank's customers based their patronage choices on the matter of location.\(^{32}\) If location is in fact such an important element, it is possible that a new bank in an area could seriously affect, if not almost negate, a more distant bank's advertising within a certain radius of the new bank.

Still other factors raise questions about constancy. Among these are:

1. the amount of personal selling effort used by particular banks and the cost of this effort in relation to other banks,

2. choice of media and, in the case of television and radio, the choice of the program around which the advertiser's message is pegged,

3. the spill-over effect of advertising of one of the bank's services on the use of others,

4. the age of the bank,

5. the image of the bank which has been developed in the minds of residents of the community, especially the image created prior to the particular period in which the advertising effort is being measured, and

6. the internal policies and practices of the bank.

If the Frey analysis of variables is accepted, the above list could be extended to almost infinitum. Beyond the problem of control of variables, there is a second area of general concern. This is the administrative cost associated with the maintenance of records essential

to the application of the marginal analysis, specifically the Tucker adaptation. The investigator asked six banking officials to make estimates of man-hour requirements to maintain the necessary records to apply the recommended technique. These estimates ranged from 100 to 2,000 on an annual basis and, in most cases, accounting practices would require alteration to gather data in a usable form. These factors, then, raise the question as to whether the additional manpower requirement and accounting adjustments would be offset by the gain from the improved control in management of advertising costs. The annual advertising budgets of the banks interviewed ranged from a low of $25,000 to a high of $300,000. None of the banks was able to give a definitive answer to this question, but indicated virtually unanimous agreement that there was considerable reluctance among bank managements to add clerical manpower at the present time in the light of widespread moves toward the automation of bank clerical and accounting procedures.

The latter development has the effect of being both a cause and a cure of the present deficiencies in the cost accounting practices with respect to advertising and public relations costs. It is a cause in that many banks are aware of the deficiencies and inconsistencies in handling this increasingly significant element of their costs, but awaiting the impending developments, are hesitant to make the necessary changes in manual accounting and clerical procedures which are necessary to correct these deficiencies.
Automation, on the other hand, offers hope for improvement since many of the banks indicate plans to incorporate recommended accounting procedures on advertising and public relations costs into their new systems. The opinion has been generally expressed that with proper planning the necessary data to evaluate the advertising problem can be obtained from the new systems without significant additions to the fixed costs of the new equipment. Whether this expression is logical thinking or a convenient excuse is debatable, but the unanimity of the opinion suggests that it is likely to create a stalemate in progress in this direction for the next four or five years. Most banks are looking toward a target date around 1965 or 1966 for the full impact of the rapid trend toward automation in banks. In the light of these expectations, it is likely that specific action aimed at the resolution of the marginal approach, and specifically the Tucker technique, is several years away for the majority of banks.

Return on Advertising Investment--A Supplement to Marginal Theory

This approach is related to the marginal technique, in that both are attempting to place a specific value on the results of advertising and relate this value to some established norm. One of the acknowledged weaknesses of the incremental analysis is its failure to adequately take into account the long range aspects of advertising. Theoretically, then, the return on investment method might take up where incremental analysis leaves off, measure the long range effects and compare the result with alternate forms of investment to determine if this type of advertising is providing a reasonable return.
To successfully blend these two theoretical approaches, however, would require the separation of all advertising into two main categories—short term or that measurable in a period of approximately one year, and long term. To a degree the classifications "direct action" and "indirect action" are descriptive. The long term portion is also often characterized as institutional, cumulative, or image building. Whatever the term applied, it is assumed that the short term segment would be subjected to marginal analysis; the long term would be subjected to the traditional return on investment analysis, or perhaps to one of the more sophisticated treatments, such as discounted cash flow. In investment type advertising, the problem becomes one of capital budgeting as opposed to expense budgeting. Although it is theoretically possible to apply the return on investment approach to both the long term and the short term segments of advertising, marginal analysis would seem to be the more meaningful and logical for the direct action or short term type.

Strong support for the investment approach to advertising evaluation has come from several sources, among them the previously discussed works of Lever, Borden, Rothschild and Dean. More recently, at a national conference of the American Marketing Association, a panel discussed the relationship between advertising and economic stability. There was general agreement that much advertising was in fact of an investment nature and further, if applied at the proper time, it could be a potent countercyclical investment force. Gainsbrugh and Cohen, in particular, argued that advertising should be handled in a manner
comparable to research and development expenditures; that such an approach was especially pertinent in a goods saturated economy; and that it would require comparing returns on advertising and research and development expenditures with returns from capital goods. It was their further contention that investments in advertising should be integrated with those in research and development so that the outlays on these two types of investments would reach maturity at the stage in the business cycle where expenditures for capital goods would be tapering off.33

Appraisal of the Return on Investment Approach. It is recognized that advertising does in fact have a dual nature which this concept takes into account. It is also agreed that the ultimate theoretical approach should seek to measure both the short and long range effects of advertising. The problems, however, of separating the two effects and measurement of the long range results are enormous. Hollander has suggested the possibility of multiple correlation analysis.34

Dean, who has given this general subject thoughtful treatment, concluded that this was a possibility but a slim one. The difficulties revolve around the much discussed problem of variables which are even


more aggravated in the long term analysis. Despite the nature of the dilemma, Dean was firm in his conclusion that institutional and cumulative advertising should be viewed in the intellectual setting of the capital budget rather than as an item of current expense. He drew an analogy between these types of advertising expenditures and those for such items as department store escalators and research laboratories which he contends are equally impossible of precise measurement.35

The concept of investment spending may be particularly relevant to new products. Proctor and Gamble, for example, used the blitzkrieg technique in introducing its Gleem and Crest toothpastes, spending in the neighborhood of $15,000,000 on advertising each the first year; these outlays, by themselves, wiped out gross profit in the initial year.36 Had they subjected these products to short term analysis, the results would have been meaningless and, if taken seriously, would have suggested sharp cutbacks in advertising or dropping of the product lines. In the long run, however, both are regarded as successes, so much so that Crest has become the leading seller in certain parts of the nation.

Bristol-Myers also has suggested that advertising has a salutary effect in creating brand stability, and because of this fact, this firm leans toward an upward bias in its spending policy on

35Dean, op. cit., pp. 70-71.
advertising even if it does not produce sales immediately. In new product introduction, it may go so far as to spend an amount equivalent to 100 per cent of estimated first year sales in order to seek the stability and long term acceptance of their product. Their advertising vice-president explained the policy thusly:

... We'd plan on getting our investment back in three years—that is, we'd break even the second year, and the third year, ideally, we'd make up for the losses of the first year. It's a tricky operation.37

In discussing the general concept of return on investment with banking officials, it is not uncommon to encounter a reaction of sheer amazement that such an idea could be applied to bank advertising. On this point one outstanding authority on bank advertising, and a past President of the Financial Public Relations Association, commented in a letter to this investigator as follows:

... I have never heard of basing a budget on the "estimated return on advertising investment." Any such estimate would be the wildest sort of guess as no one can pinpoint with any degree of accuracy the tangible results of advertising an intangible. Much of bank advertising is institutional. It is image building, if you will forgive the much over-used word ... .38

It is interesting to note the contradictory nature of this statement. In effect it rejects the possibility of evaluating the return on long term advertising; at the same time it acknowledges the fact that much advertising is of the long term investment type—

37Ibid., p. 169.

institutional and image building. The latter are hardly measurable in the short term.

Although the basic conservatism of banking officials prevents them from calling it investment, it is obvious to this investigator that banks, especially the newer ones, have tended to pursue long range goals in their advertising, particularly in those areas where competition is firmly entrenched. In these instances, limiting the appraisal of their advertising to the short term could have been decidedly discouraging and probably misleading.

To summarize the case for the return on investment approach as a supplement to marginal analysis, it is fair to say that this concept at least recognizes a void in the consideration of the advertising phenomenon. This recognition suggests also that the firm should draw a distinction in both its budgetary and measurement considerations between the types of advertising designed for immediate and long term effects. The difficulties of making this separation, however, cannot be minimized. One controller put the matter bluntly when he said, "when they advertise and the stuff doesn't move, they call it investment spending." 39

There is an additional tendency toward the excessive use of advertising, under guise of long term investment, which has developed in the environment of high income tax rates. This is the willingness on the part of some companies to use cheap dollars for advertising with the forlorn hope that some long range benefit will occur. Such

39Seligman, op. cit., p. 169.
a policy not only emphasizes swings in the business cycle, but it can distort any logical approach toward budget setting and measurement of results.

C. PRACTICAL METHODS EMPLOYED IN BUDGETING

At the time of this investigation, neither marginal theory nor the return on investment concept have made more than a dent in the armor of bank management insofar as practical application to advertising budgets. To a lesser extent, this has been true of business firms in general, although in certain areas such as retailing, mail order, and direct mail, the basic theory has been successfully applied. The reasons for the general apathy that has surrounded the subject of a logical determination of the advertising budget are not easy to explain. Frey, however, has attempted to account for this condition along the following lines:

1. The widespread belief that there can be no scientific approach.

2. An inherent distrust of advertising in the minds of many business executives.

3. The tendency to regard advertising as a result of sales rather than a cause.

4. An unwillingness to accept advertising as a fundamental element in the operation of the business.

5. Failure to accord to the advertising executive the recognition he deserves, which results in the advertising problem being given a back seat in policy decisions.40

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40Frey, op. cit., pp. 2-3.
In a growing number of product oriented businesses, this apathy has disappeared and with the rapid growth in bank advertising budgets in the last several years, there is also an awareness among many bank officials that this problem can no longer be ignored.

To describe the broad categories of techniques used in the determination of advertising budgets, Edwards and Howard coined the terms "break-down" and "build-up" methods. The term "break-down" suggests any of the methods which follow the policy of first determining the amount of money to be spent and then deciding how and where it is to be used. The "build-up" method, on the other hand, seeks to determine where and how money needs to be spent, and arrives at a total budget by the addition of the estimated cost of the necessary components.41

The following is a resume of the more commonly used "break-down" approaches to the budgeting of advertising. With modifications, most of these approaches have been used in banking institutions.

**Personal Judgment (Also called The Arbitrary Technique)**

This method is simply a reflection of the intuition, judgment, and in some cases the caprice, of some individual or group responsible for the advertising policy. This policy maker might be the President, the official in the bank responsible for advertising or the bank's advertising agency. Considering all of the nation's 14,000 banks, this method is probably the most frequently used.

The following account will serve to illustrate the nature of this method as it is applied in a concrete banking situation. One bank interviewed stated that its advertising program had been determined on a month-to-month basis dependent upon recommendations of its agency. The agency, in turn, based many of its recommendations upon program and time availabilities in radio and television media. Following this procedure, it is noteworthy that this bank's expenditures were running about double the average for banks in its size class. Without attempting to draw inferences, it is also noteworthy that this particular bank, only fifteen years old, had grown to a level of roughly $70,000,000 in deposits which placed it in a size class comparable with much older and more firmly entrenched banks in its community.

In 1960 this same bank arbitrarily decided to cut its advertising expenditures in half and as, one bank official put it, "see what happened." The bank experienced a $6,000,000 drop in deposits; two other banks in the community also showed declines though not as severe; one had a small gain; and one had a substantial gain. A general recession and considerable unemployment in the area are known to have been extraneous factors in the 1960 situation and may have been responsible for part or perhaps all of the decline in deposits. But in appraising its own advertising policy, this bank admits that it has made no specific attempt to measure the effectiveness of its advertising or to relate the deposit decline to a shift in advertising policy. There was a general expression of confidence, however, that
aggressive advertising in the earlier years had been a key factor in its exceptionally high rate of growth. Much of its advertising has been the image building variety.

In the field of product advertising, there have been instances, bordering on the sensational, where the judgment of one man or a small group was the sole determinant of expenditures. One of the more famous of these occurred in the case of Listerine. Gerard B. Lambert is credited with this legendary success. In his own words, his method was as follows:

At that time [1922] we were spending about $100,000 on advertising Listerine. I made the board a proposition. If they would let me spend $5,000 more each month, cumulatively [italics in original]—that is, $5,000, then $10,000 and so on—I would resign if I couldn't show an additional net profit for each month of at least $5,000.

Some astute member of the board pointed out that they would be risking only one $5,000 on this gamble, and they agreed to take me up. I raised this wager to a much higher figure later, but we never failed to take in an additional profit in any one month that was not greater than the increased advertising cost for that month. By 1928 our expenditures for advertising were above $5 million a year.42

Appraisal of the Method. Except for its simplicity and the savings which might accrue from the elimination of market research and cost accounting effort, little logical support can be found for this method. In rare hands it may chalk up striking successes, but it is likely that the wastes and failures, though seldom recorded, would outweighe the gains.

Everything You Can Afford

This method could be considered a variant of the personal judgment approach, although most authorities consider it distinct. In effect the decision is still in the hands of the policy maker, limited to some degree by the availability of funds. There is little doubt, however, that the amount a firm can afford is likely to be quite different when the decision is made by the controller in contrast to the advertising manager. In fact, it is possible that the amount spent on advertising, following such a method, could vary from nothing to astronomical proportions. The general assumption, however, is that the method is used by the firm which puts all its faith and selling effort into advertising. Such is likely to occur with products or services with high emotional appeal such as patent medicines, hair restoring services, cosmetics, and the like. It is hardly applicable to a bank, and in this investigation no bank has admitted to its use.

Appraisal of the Method. Despite the fact that certain examples can be drawn where such a method has produced astounding results, it would seem to have even less logical support than that of personal judgment, especially in the case of the banking institution where the appeal to emotions is not particularly strong.

Competitive Parity

A business in this instance simply tries to keep up with its competition. The method tends to shift the burden of decision-making
on the budget from the firm spending the money to that of a competitor or the industry. It is likely to occur where the firm is a follower rather than a leader in its business or industry; there also is a tendency for it to be used by the smaller business although this is by no means the universal case.

Appraisal of the Method. Like its two predecessors, this method begs the question of making a logical decision. It rests its own case on the action of competition which may or may not have made a valid judgment. There is probably some merit to the idea that the larger firm has more competent research and is more likely to come up with the correct decision, but there is the counter possibility that the larger firm's objectives, costs, products or services, resources and personal selling effort may also be quite different. Such variances could have a major bearing on the applicability of identical decisions on advertising.

To illustrate this point, Chemway Chemical Corporation, a small manufacturer of consumer products, does no advertising on its toothpaste because it has concluded that it cannot make a dent against the more heavily advertised brands. At the same time, this Company spends up to twenty-five per cent of sales on other products such as an antiseptic and face powder. If it were following a blind policy of competitive parity, there would be a strong possibility of wasted advertising effort.

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Still another objection to the competitive parity approach is the possibility for its widespread use to create considerable waste in the use of economic resources; this would follow from the negating or cancelling effect of one firm's advertising on that of another selling similar products. This would be particularly true in the situation where the industry demand is relatively inelastic as, for example, in the case of bread. On this point, however, a counter possibility should be recognized. This is the chance that firms will recognize the futility of advertising on strictly competitive terms and will settle on advertising budgets at relatively low levels.

Percentage of Sales

This method has assumed the form of one of several variants, two of which are rather widely used. These two are a percentage of the previous year's sales and a percentage of the estimated sales for the current year. Based on historical evidence, this method has been employed by roughly one-half of all business firms.\(^4^4\) The percentage is set in a variety of ways--personal judgment, trial and error, industry averages, and market testing with varying percentages of sales applied to advertising in test markets. Percentages range from a fraction of one per cent in fields such as basic metals, to as high as twenty-five per cent in some cosmetic lines, and to even fifty per

\(^4^4\)Borden, The Economic Effects of Advertising, p. 721.
cent in the field of certain patent medicines. Based on one survey made by the National Association of Advertisers, the overall average for a group of 152 companies representing a cross section of twenty-one industrial classifications was 2.75 per cent of sales.45

In one recent year, for example, General Foods was planning to spend eight per cent of estimated sales, Revlon twenty-five per cent, and Dupont one per cent of total sales and five per cent of sales to final consumers.46

In the banking institution, total operating earnings from interest, service charges and miscellaneous sources for the year are used in lieu of the sales figure common to a product. The applicable percentage ranges from less than one per cent to five per cent in banks. In 1957 the average for banks and trust companies was 1.4 per cent of earnings.47

Appraisal of the Method. This method has the advantage of being simple and mathematically precise. Management knows what it is going to allocate to the advertising budget, and the advertising manager can plan, with some degree of reliability, the amount of money that will be available for the advertising program. Also, as Rasmussen pointed out, it could be adapted to the application of the marginal

46Seligman, op. cit., p. 164.
technique. And for those companies which are willing to experiment with such ideas as market testing with variable percentages, it is possible that the firm might approximate the optimum obtainable through incremental analysis.

On the negative side, its major weakness is that it tends to assume that advertising is a result rather than a cause of sales, especially when the previous year's sales figure is used. If this is actually a valid assumption, the case for using advertising seems to be weakened. Also, if roughly the same percentages are used by all firms in the industry, there is a likelihood that sheer competition in advertising will tend to create economic waste in its use. Finally, the method does not get to the heart of the real problem, determining what is the right percentage. And the right percentage one year—may be too high or too low for succeeding years; the approach seems to ignore the possibility that a poor sales response may be the result of an inadequate amount of advertising or a reflection on its quality. At the other extreme, the method seems to overlook the possibility that advertising might have reached the point of diminishing returns and that additional dosages will become increasingly ineffective.

**Percentage of Profits**

The preceding analysis on percentage of sales is assumed to be generally applicable to this technique and thus repetition is not justified. It is possible that high or low profits might be more indicative of the success or failure of advertising than the previous method, and
therefore, might be more effective in pinpointing strengths and weaknesses in advertising programs. In most cases, however, there would be a high degree of correlation between the two methods.

**Fixed-Sum Per Unit**

In product lines, this is likely to take the form of a specific dollar figure. Buick, for example, is said to have been spending $37.50 to $60.00 per automobile, depending upon the model; and Esso has been spending between one-fourth and one-fifth cent per gallon of gasoline sold under its own label.\(^4^8\) In the bank, this has normally taken the form of a specific number of dollars per million dollars of deposits, a figure currently averaging around $700. Frequently, this method is combined with the percentage of sales method. A firm will select a figure to apply to each unit, build this up into an overall advertising budget and compare this with a traditional percentage which it has used or a percentage that is common to the industry. If the latter comparison is out of line, the fixed sum per unit may be adjusted.

The advantages and disadvantages of this approach are essentially those of the percentage of sales method. The latter does give the firm more flexibility, however, in its consideration of individual products and does not demand a flat across-the-board percentage.

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\(^4^8\)Seligman, *op. cit.*, p. 164.
General Appraisal of the Foregoing Methods

Following the Edwards and Howard definition of the "break-down" method, all of the foregoing approaches tend to fall into this classification. Tucker, in his study, maintained that most banks, although officially disclaiming kinship to the "break-down" technique, actually pursued this approach in budget determination. In fact, Tucker narrowed the true determinants of advertising budgets in banks down to four main factors: (1) the President, (2) other bankers, (3) the profits and (4) the past.

Simple logic dictates that the "break-down" concept of budgeting is basically unsound. Yet observation also suggests that this practice is widely prevalent in many American institutions such as the home, government, education and even in businesses. It is somewhat ironic, however, that the bank which is least patient with such a practice on the part of one of its clients, should be so receptive to the practice in its own dominion. This situation would seem to lend support to the adage that "banks keep up with everybody's money but their own." Off the record, many bankers are frank to admit that this adage contains truth as well as fiction. But lax attitudes, which may not have been consequential fifteen years ago in the presence of very low advertising budgets, could have substantial effects on the profit results at present spending levels.

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49 Edwards and Howard, op. cit., p. 110.

If profit maximization is the primary objective of the bank, the "break-down" methods offer little beyond simplicity toward the attainment of this objective. Fortunately, most of the larger and more progressive banks have placed the funds allocated in the hands of executives schooled in the art and mechanics of advertising. In such hands, these banks have probably gotten a reasonable return on monies spent. There is, however, no adequate proof of this fact nor is it likely to be forthcoming with the methods in use. On the other hand, if advertising is a matter of judgment and is an art - which defies a scientific approach, as a substantial body of thought maintains, these methods may be as satisfactory as any other.

The "Build-Up" Approach

The other broad category of budgeting techniques, the "build-up" methods, are descriptive of those integrated approaches which purport to: (1) determine the need for advertising and all other selling efforts, (2) set certain objectives which are believed to be attainable through advertising, (3) establish broad plans to reach these objectives, and (4) develop a specific procedural schedule including media selections, timing, themes to be followed, and services to be advertised in pursuance of the objectives. The final step, under such an approach, requires the making of a cost estimate for the "build-up" program and deciding whether the probabilities of obtaining the objective justify the cost and the element of risk.
Objective and Task. A number of specific variants can be properly included in the broad category of the "build-up" approach. The origin of this school of thought is generally credited to A. E. Haase, who characterized his method as "objective-and-task."\textsuperscript{51} His approach followed the general procedure outlined above. Even before Haase, however, there is evidence of a recognition of this integrated concept. Specifically, Claude C. Hopkins' discourse in 1923 on overall marketing strategy is a masterpiece. He recognized that the effectiveness of one firm's advertising was significantly related to such factors as competition and retaliatory advertising, the possibility of substitution of another product, and the attitudes of dealers. His summation of the probable effectiveness of advertising, without attempting to evaluate the other marketing variables, is captured in the following excerpt:

Advertising without this preparation is like a waterfall going to waste. The power is there, but it is not made effective. We must center the force and direct it in the right direction.\textsuperscript{52}

The Borden Integration Philosophy. Although Borden never coined a term to apply to a budgeting method, his continuing thesis that advertising should be viewed as an integral in the marketing process is a recognition that a sound allocation must be developed


\textsuperscript{52} Hopkins, \textit{op. cit.}, pp. 59-63.
upward rather than downward. His further contention that advertising, as only one ingredient in the marketing mix, can exercise an effective role only if certain underlying conditions are present, is a realization of the fact that the firm must select its objective and evaluate the possibility of advertising's making a worthwhile contribution toward attainment of this objective.

Frey's Marketing Program. Beyond Haase's "objective-and-task" concept and Borden's idea of an integrated approach, such terms as "research-objective" and "task-oriented" have been applied to the same general idea. All are variants of the "build-up" method. One additional contribution in this direction, however, deserves particular note. This is the work of Albert W. Frey. Frey's analysis frankly admitted the superiority of the "logical approach," which in his opinion was marginal analysis. At the same time, he recognized the fact that marginal techniques were applicable to only a handful of advertisers at the time of his work. In view of this situation, Frey believed that an intermediate position between pure theory and the illogic of the "break-down" methods was the preferred solution for the budgeting of advertising dollars. Frey termed his particular answer the "marketing program."

In his own words, the "marketing program" is as follows:

A marketing program [italics in original] embraces, in words and figures, all of the sales-influencing (or, conversely, purchase-influencing) efforts (including advertising) exerted by a company during some specific period. The period is usually twelve months but companies
with two or more distinct selling seasons within a year may draw up a separate marketing program for each season.

The program, spelled out on paper, shows the kinds of marketing effort, the amount of each kind, the relationship among the different kinds, and the timing. Well thought out, it shortens the route, in terms of time, from factory to user. It insures moving toward company goals in orderly fashion. It coordinates all selling activity along the way.\textsuperscript{53}

From this starting point, Frey outlined a step-by-step approach to the total marketing consideration; he treats advertising as only one of the many variables to be considered in an effective program. Out of the composite picture which is obtained from his painstaking analysis, Frey argues that a defensible budget for advertising can be developed.\textsuperscript{54}

In evaluating Frey's contribution it must be regarded as the most thorough treatment of the specific problem of the advertising budget which has been developed. In fact it is almost a complete treatise on marketing. There is a strong possibility that any firm which can devote the time and money to follow the Frey recommendations is likely to come up with an improved marketing program. In the case of the larger firms, the effort may be justly rewarded in terms of increased profits. Unfortunately, however, the complexities associated with his method are likely to prevent its widespread adaptation.

\textsuperscript{53}\textit{Frey, op. cit.}, pp. 84-85.

\textsuperscript{54}\textit{Ibid.}, pp. 83-122.
One critic has gone so far as to term his approach "naive," especially his check list of 113 variables which might influence a sale. This critic was particularly adamant about his failure to emphasize the "effectiveness of media and copy"; in the latter's opinion, this single variable was apparently the equal of the other 112 combined.55

Another observer, however, commented that business schools had scarcely addressed themselves to the problem of advertising budgets, but, as an exception, he noted Frey's work and characterized it as a searching analysis of the problem.56

Of particular interest to banks, in considering the merits of Frey's "marketing program" approach, is the research report prepared by bank executive George Goodwin for the Financial Public Relations Association. Goodwin has used the Frey technique and attempted to lay out a format for practical application by banks.57

**Appraisal of the "Build-Up" Methods.** Despite the appearance of superiority in the "build-up" approach, it frequently deteriorates at the last, and most critical, stage when its proponents are confronted with a barrage of questions such as: (1) Is the cost reasonable? (2) How does it compare with competition? (3) What percentage

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55Mayer, op. cit., p. 309.

56Seligman, op. cit., p. 163.

of sales does it represent? (4) How can it be explained and justified to the President or the Board of Directors? and (5) Does advertising really pay for itself?

The proponents of this type of budget often are forced to rely for checkpoints on one of the earlier described "break-down" methods such as competitive parity, percentage of sales, percentage of profits or personal judgment. The latter elements can become highly influential in the final determination of the budget, and in such an eventuality, the method becomes "built-up" in name only.

To further weaken the case for this approach, it seems to have avoided the pertinent question of being able to place some numerical estimate on the value of past advertising and, in the same vein, to predict the results of the future with any degree of reliability. Such a requirement is inherent to sound budgeting.

According to Dean, the "build-up" method, specifically the "objective-and-task" variant, merely frames the problem for a solution. He would, however, accept a blend of this approach with marginal analysis and return on investment. This might be accomplished in the following fashion: (1) use a "build-up" method to define objectives and determine a procedural plan to attain these objectives, (2) separate the objectives and plans into short and long term, (3) apply marginal analysis to the short term results, (4) apply return on investment to the long term results and (5) adjust the budget accordingly.59

59Dean, op. cit., pp. 71-72.
In spite of the apparent weaknesses of the "build-up" or integrated approach to the advertising problem, a much sounder case can be developed for it than for either of the "break-down" methods. A consensus among authorities indicates a rather strong preference for one of the variants of this method to any of the "break-down" techniques in use, at least at the time of this investigation. This should not suggest, however, that the "build-up" approach is logically superior to marginal analysis, return on investment, or possibly to one of the more sophisticated econometric techniques now in experimental stages. Among the advantages of the "build-up" approach are the following:

1. The method tends to force a penetrating analysis of the entire selling problem, including the possible contribution of advertising. It prevents advertising from being viewed as an integrated whole or as an end in itself. Such an analysis is likely to encourage the use of advertising only in those places where the underlying conditions favor its use as a superior sales tool.

2. The method tends to bring unity and cohesion into the selling team, particularly since the conference and consulting process pervades its application.

3. The method serves as an educational tool for the management of the firm which should reduce the tendency to regard advertising as a necessary evil. In the light of keen analysis, the proper place, or lack of one, for advertising in the selling scheme can be demonstrated.

4. The method tends to provide a more realistic and defensible budget figure than can be attained with other of the practical methods, particularly those employed by banks.

D. SUMMARY OF THE ADVERTISING BUDGET

During the course of this chapter, an effort has been made
to present and appraise both segments of the basic theoretical structure underlying budgeting and practical approaches currently in use. It has been seen that a sizable gap exists between theory and practice at this time. Many firms are seeking, however, to narrow that gap through the device of the economic or marketing model. Several of the models have been discussed in the preceding discussion. A number of others are to be covered in the succeeding chapter which deals with the measurement problem. As has been suggested, the questions of measurement and budgeting are inseparable. It is hoped, therefore, to throw additional light on budgeting as the discussion proceeds.
CHAPTER V

MEASUREMENT OF THE EFFECTS OF ADVERTISING

From the discussions in the previous chapter, three salient and relevant facts stand out which bear on the issue at hand. These are:

1. The development of a defensible budget, in fact the pursuance of a logical advertising policy, rests heavily on the ability of the firm to place quantitative values on the results of its advertising.

2. The existence of multiple variables which frequently bear on a sale of a product or service prevent the establishment of a simple cause and effect relationship between advertising dollars and sales response. This condition raises difficult, if not insurmountable, problems in measurement.

3. The empirical evidence, despite its limitations, strongly indicates that both the quantity and quality of advertising create substantial differences in results that cannot be ignored by the firm interested in profit maximization.

Confronted with this apparent dilemma, which has created a shaky foundation around the whole argument for advertising, many businessmen assume an attitude of helplessness. Such a viewpoint is inferred from the following statement made by one company president:

Just after I got back from my vacation in Maine, the advertising department presented its proposed budget calling for an expenditure of more than $6,000,000 next year. If the production people had asked for one third as much, with as little justification of the need for it, I'd have fired them all.¹

¹As reported by Frey, op. cit., p. 1.
In part, the helpless feeling suggested by this statement is understandable. Yet, based on a study of the literature and personal discussions with a number of business decision-makers both inside and outside the financial community, much of it seems to stem from vague concepts surrounding the place and purpose of advertising in the total entity of the firm. In many cases the aura of mystery which has surrounded advertising appears to have become pr\'\`ema facie evidence that there is no escape from this dilemma. Too often the business executive views advertising as an inevitable necessity or even an "evil" of modern business and is content to follow the leader.

Despite these attitudes, there are alternatives and certain of the more progressive firms are seeking to find them. In the just noted case, for example, the president of the firm obviously thinks the budget is too high. There is the simple alternative of cutting back or even eliminating advertising, at least in selected test areas, and seeking to detect a pattern of response.

In the light of this general dilemma, and in order to get a better perspective on the measurement problem, it is appropriate, at this stage of the analysis, to re-examine the position of advertising in relation to the overall objectives of the firm. Since the literature appears to be extensive with respect to the specifics of practical testing methods, but incomplete and disjointed with respect to theory, the emphasis in this chapter will be in the latter area.
A. ADVERTISING IN THE DECISION-MAKING MODEL OF THE FIRM

In theory, or in the more recent concept of the business model, the firm has been generally conceived as having three essential elements—finance, production (or operations in the case of a service institution such as a bank), and marketing. Within these three main elements are a host of subsidiary or miniature elements. Interacting among all of the elements, both main and subsidiary, are a group of auxiliary functions such as planning, staffing, coordination and control. Logically, then, an all-inclusive model of the firm should encompass not only the main and subsidiary elements of the system but the interaction of the auxiliary functions.

The development of such a comprehensive model is now the aim of several outstanding research groups, one of the more frequently mentioned being that of Dr. Jay Forrester and his group of associates in the School of Industrial Management at the Massachusetts Institute of Technology.

Within this overall model of the firm is the marketing element or system. In reducing the marketing system into subsystems

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2 A model has been defined as a representation of reality that attempts to explain the behavior of some aspect of that reality.

advertising is seen as one of the major components. Further reduction suggests that budgeting is a key factor in the advertising component and still further that the measurement of advertising's effectiveness is critical to a sound budgeting decision. Following this line of logic, the measurement question could be treated as a separate entity, as a part of the budgeting problem, as one piece in the total advertising picture, as an integral in the entire marketing system, or even as a miniature component in the comprehensive business model.

Viewed in this setting, the problem of evaluating advertising could be approached from several levels in the firm's organization. When attempts at measurement are conducted at two or more levels in the spectrum, it is possible to encounter contradictory results although it is more likely that the evidence, if based on valid tests, will be complementary. For example, it is generally believed that an advertisement which creates an impact on its subject is likely to attract a large number of readers. In succession, heavy readership will normally be reflected in increased sales which in turn should produce larger profits. In the preceding example, evidence of high readership would tend to confirm advertising's positive effect on sales and profits. On the other hand, tests made at the top level in the firm which relied solely on profits and sales could, in the presence of multiple variables, leave serious doubts regarding the contribution of advertising. Because the number of variables is successively reduced as the lower levels in the spectrum are approached, some theorists prefer to attack the measurement problem as a separate entity and seek to integrate a total
system from an assemblage of the miniatures. Others argue that testing below the level of the total marketing system is meaningless. Regardless of the level in the firm chosen, however, theories and techniques of measurement pervade the problem.

B. THEORETICAL FRAMEWORK FOR MEASUREMENT

The theory surrounding the entire phenomenon of advertising, and particularly the area of measurement, is embryonic and fragmentary. The nature of the problem has been stated by Wroe Alderson, who for several years has conducted annual seminars on marketing theory and who is one of the foremost advocates for theoretical research:

Advertising practice needs a theory of advertising. Any attempt to measure advertising results must start from some basic considerations in the theory of measurement. The results of advertising can be measured if our measurement techniques can be made to conform to certain criteria. Useful measurements must be reliable, efficient, valid and relevant . . . .4

Weakness in the theoretical structure underlying advertising has been noted by another reputable source. Advertising Age, while commenting favorably in an editorial on a recently announced Dupont advertising project, has this to say:

There has been a great deal of advertising research, but almost all of it has been too narrow in its concept and execution to provide broad generalizations which can ultimately build up a sound theory of advertising performance.

4Alderson, op. cit., p. 381.
It is in this area of broad theory that many of us hoped the Advertising Research Foundation would lead the way. Perhaps it is, but at this stage it would be difficult to prove it.\(^5\)

Despite admitted weaknesses in existing theory, however, noteworthy developments, especially in the area of operations research, have occurred within the last decade. And some specific projects now in the experimental stage hold even more promise for the future.

To establish a point of departure for the discussion on theory of measurement, the work of Banks, Dean, Rasmussen, and Tucker, discussed in Chapter IV of this thesis, is to be considered applicable to the measurement problem as well as to budgeting. It will be recalled that in each case the amount of money spent was determined by the point at which advertising ceased to do no more than pay for itself. This point was graphically illustrated by a curve variously described as an advertising incremental cost curve, an advertising elasticity of demand curve or an advertising expansibility curve.

The graphical presentations were normally structured in terms of: (1) advertising costs on the vertical axis, and (2) sales on the horizontal axis. It was also assumed that advertising productivity was subject to the law of diminishing returns. Given these conditions, the curve would normally resemble a "U." At the tail end of the "U," the near vertical slope signals the stage of diminishing returns.

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These theorists argued that such a curve, developed in conjunction with reliable cost accounting records on advertising and sales, could serve as both a budgeting tool and a measuring device. Each would accomplish their goals with experimental applications of advertising to define the shape of the curve.

The Alderson Adaptation to the Problem of Measurement

Alderson has taken the general concept promulgated by the incremental theorists and adapted it more specifically to the problem of measurement. With a series of graphic models, the basic one of which is illustrated in Figure 8, he developed a theoretical framework designed for use in both budgeting and measurement. Due to certain refinements, additions, and the fact that the axes have been reversed, the Alderson graphic treatment assumes a different appearance. However, the thesis is the same; that is, advertising initially produces a positive effect on sales, but its productivity is a diminishing one, and as the saturation level is approached, it will exert a negative effect on profits. Alderson termed his sales curve "the advertising productivity curve." In his model, he defined gross profits as the difference between sales and all costs other than advertising. In addition to the overall advertising program, he believed that the productivity curve concept could be applied to specific copy themes and to the choice of media.  

6Alderson, op. cit., pp. 381-386.
THE RELATION OF PROFITS TO ADVERTISING EXPENDITURE

Like his predecessors, Alderson recognized that the key problem involved in application of the theory was the determination of the shape of the advertising productivity curve. Because of practical experiences with his own market research firm, Alderson and Sessions, he was able to offer certain concrete suggestions for pursuing the theoretical optimum. He proposed three possible approaches to the problem; his first method was through the use of experimental advertising. The specifics were described as follows:

... A typical experiment is one in which three or more test areas are selected. One is used as a control area either with no advertising or with only the normal level of advertising which is already in force. Advertising at various levels of intensity is carried out in the other test areas. There are both scientific and administrative difficulties to be overcome in such tests, but they can produce valuable results under favorable conditions.7

A second method suggested by Alderson was for the firm to make an analysis of the company's advertising history by regions and by sales territories. In doing this he proposed using multiple correlation analysis to measure the variation in sales resulting from differences in the promotional mix from one territory to another. He noted that differences almost inevitably occurred in relation to the sales potential of the various territories. Alderson noted further that multiple correlation analysis had become more practical from the cost standpoint with the advent of electronic computers which could

7Ibid., p. 383.
handle programs involving dozens of variables. It will be recalled that Dean had concluded that multiple correlation was a slim possibility as late as 1950.

The third method suggested by Alderson was to make estimates of minimum and maximum saturation levels using the graphic model. He believed that most active companies would have sufficient information to make such estimates and argued that even though the information was fragmentary, it would still be much better than a guess.

Alderson's Appraisal of His Method. Alderson himself believed that with relatively small additional expenditure for additional research, his methods, coupled with other contemporary testing techniques, could increase the effectiveness of any major advertising budget by ten per cent. He further believed that theoretical models should be used as guides for making market surveys and for conducting studies of marketing costs. If this were done, he concluded that reasonable approximations of an advertising productivity curve could be obtained and that such a curve would serve a useful purpose as a measure of advertising productivity.

8Ibid., pp. 383-384.
9Dean, op. cit., pp. 70-71.
11Ibid., pp. 389-390.
A Theoretical Approach Involving the Communications Process

The Advertising Research Foundation, a non-profit organization supported by advertisers, advertising agencies and media, has been engaged in a series of projects from which it is hoped to develop useful theories in the area of advertising measurement. Although, as has been noted, its failure to come up with a theory providing for broad generalizations has subjected this organization to some criticism, it has made substantial contributions to segments of the problem such as its continuing studies of reading habits, its work on audience concepts and its work on media comparisons.

This Foundation has concerned itself in particular with attempts to better understand the communications process which, in terms of the comprehensive business model, could be considered as a component in the advertising subsystem of the total marketing system or as a miniature component in the comprehensive model. Thus the ARF studies are aimed at a lower level in the spectrum than those of Alderson. The work should not be discounted for this reason, however, since many of the substantial developments in the field of physical and chemical sciences have resulted from the integration of theories among miniature systems.

The Ramond Thesis on the Intervening Variables. Dr. Charles K. Ramond, Technical Director of the Foundation, has attempted to consolidate the research of the Foundation with his own work and develop a theoretical structure for the measurement of advertising productivity
through the device of the communications model. Ramond has drawn heavily on the contributions of experimental psychologists and that of associates in the Advertising Research Foundation, particularly Seymour Banks. In fact, Banks's model on media comparison is a basic tool in the Ramond thesis. This model is reproduced as Figure 9.\(^{12}\)

Utilizing an investigative method of experimental psychology where response is considered a function of stimulus \(R = f(s)\), Ramond has explored the analogy between stimulus-response theories of the organism and input-output theories of the business system. In relating this analogy to the measurement problem, advertising is considered the stimulus or input and purchase the response or output. To complete the analogy and relate it to the model, shown in Figure 9, Ramond considered stages 1, 2, and 3 as experimental variables which were observable and therefore comparable to the stimulus variables in the stimulus-response theory. He concluded that the response variable, stage 6, was also measurable, at least indirectly, in terms of changes in knowledge and attitude. Stages 4 and 5, however, he considered intervening variables. According to Ramond's definition, an intervening variable is one which:

FIGURE 9
COMMUNICATIONS MODEL

... has no meaning other than that it derives from the equations relating it to observable factors. It may or may not exist within the organism; it may have a name no more connotational than a mathematical symbol; but it must be anchored by assumed or testable relationships to both *italics in original* stimulus and response variables.13

Having defined stages 4 and 5 in the model, perception and communication, as intervening variables, Ramond argued that logical theory construction required that functional relationships, preferably in quantitative form, be specified between each pair of:

1. Experimental variables.
2. Intervening variables.
3. Intervening and experimental variables.
4. Response variables and intervening variables.

Existing media research, so he believed, has succeeded to a reasonable degree in being able to state the relationships between the experimental variables. For example, it is possible to measure the approximate ratio of a magazine's exposure to its circulation and the ratio of exposure of the average advertisement in the magazine to the total exposure of the magazine. The relationships, however, from this point on, cannot at this time be stated with any degree of accuracy.14

At this step in his theory construction, Ramond paused to consider three alternative approaches:

1. Assume relationships between advertising communication and advertising perception and then conduct experiments which associate these relationships to observable advertising exposure on the one hand and to consumer response on the other.

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2. Ignore the intervening variables of perception and communication and simply try to determine the most accurate functional relationship between advertising exposure and consumer response.

3. Define advertising perception and advertising communication in such a way that they can be directly measured, take these measurements, and then determine the functional relationship between these intervening variables and the exposure and response variables.

Ramond considered either of these approaches useful in that: (1) each limited and directed research, and (2) each permitted the model to be anchored to reality on the input and output sides. He noted also that each of them had been used in experimental psychology in efforts to determine stimulus-response behavior. His personal preference for a first try in the communications model, however, was the third approach suggested above.15

Ramond’s Appraisal of His Thesis. In appraising the communications model and his own thesis, Ramond granted that even if the theory were pursued to a logical conclusion, it still would not bring research to the millennial goal of "measuring advertising's effectiveness." This observation, he noted, was warranted because of the fact that the communications process in advertising is only a small component of the total marketing system. In fact, he concluded, that it is likely that the interaction of the communicated attitude change with such variables as price, distribution, saturation, product advantages and product age may obscure the communications effect in advertising.

On the other hand, Ramond believed that the final realization of a sound theoretical structure surrounding advertising was more likely to be obtained through an understanding and integration of miniature components in the system rather than through a single broad attempt to assess the total role of advertising in the marketing process. He characterized the first approach as "merely difficult" while the latter he termed as "almost impossible."^16

The Association of National Advertiser's Study

This Association has published a study, based on the research effort of Robert Weinberg of the International Business Machines Company,^17 which could represent a major step in both theory and practice in the areas of advertising measurement and budgeting. Weinberg has approached the problem through the marketing model concept, using mathematical equations which attempt to relate each of the marketing factors to one another. In its broad outlines, it is a multiple correlation thesis. His source data are based on tabulations of one firm's recent history and the history of its competition. From these tabulations, he attempts to calculate the quantitative effect on a firm's sales which have resulted from a certain change in an advertising budget and also the effect on the competitor's sales.

^16Ibid., pp. 13-14.

Weinberg has argued that his method can:

1. Determine the amount of money a firm must spend on advertising to achieve a given share of the market.

2. Determine what share of the market will provide maximum profits for the firm.

3. Determine how a future change in the advertising budget will affect sales and share of the market.

4. Project the effect of changes in competitor's advertising on that of the given firm.

5. Select from thousands of alternative situations the most profitable one for the firm to pursue. This latter task, it is claimed, can be accomplished with the aid of electronic computers in a matter of minutes.  

Appraisal of the ANA Study. If the claims of Weinberg are accepted at face value, the so-called millenium in the measurement and budgeting of advertising would have been approached. Weinberg, however, has admitted that the figures fed into the model are in many cases only estimates and that the underlying factors used in the formulation of the equations are difficult to predict precisely.  

Beyond this self-appraisal, several other cautions should be noted. First, practical attempts to apply the recommended approaches depend largely on the firm's access to electronic computers and to the talent necessary to handle programming and processing details. The

19Ibid.
alternate possibility, however, of the firm's employing a consulting firm with access to equipment and talent should not be overlooked.

With respect to the computers, it should also be recognized that Weinberg is employed by a commercial firm, one of whose principal products is the electronic computer. But the reputation of IBM, the researcher and the fact that the study was published by ANA suggests that whatever bias might exist was not intentional. If competent programming and processing of the raw data is assumed, the claims with respect to speed and the ability of the electronic computer to accomplish the formidable mathematical tasks can hardly be questioned.

A third area of caution, however, deserves more thorough attention. This is the recognition that the output in the proposed system, no matter how mathematically precise, is useful only if the input figures are reliable and if the equations aligning the variables state valid relationships. Ultimately, the Weinberg contribution to both theory and practice is likely to be measured by its degree of reliability in these areas. The recency of the study prevents a valid judgment, but it seems certain that at the minimum, the study has opened up a wide range of possibilities for further research and development, particularly in the area of multiple correlation analysis.

The Dupont Project

Although the Dupont project could be treated as either a segment of theory or as a technique for practical application, one of the primary aims is to "develop a general theory of the process that
underlies the relationship between consumer advertising and consumer
sales response." 20

In 1957 the Dupont Company added to its advertising depart-
ment a methods development research team composed of two experimental
psychologists, one operations research specialist, one statistician,
and one chemical engineer. The tentative program outlined by this
group is shown as Table IV. The Company has dedicated to this project
approximately one per cent of its current advertising budget of
roughly $40,000,000, or about $450,000 per year. Its immediate goal
is to shift the results of its advertising a few percentage points in
the favorable direction. Dupont claims that it has approached the
problem from the methodological viewpoint because past studies have
been conducted by persons with insight into advertising but without
the necessary proficiency in methodology. Edward I. Pechin, Assistant
Advertising Director at Dupont, commenting on this point said, "this
could very well have retarded development of theories which are
necessary if we wish to predict the profit effects of advertising--
the ultimate goal." 21

According to Pechin, two philosophies have been dominant in
Dupont's decision to pursue this project:

20 "Dupont Puts 1% of $40,000,000 Ad Fund Into Effectiveness

21 Ibid., p. 94.
### TABLE IV

**A PROGRAM OF METHODS DEVELOPMENT RESEARCH AT DUPONT**

<table>
<thead>
<tr>
<th>Area</th>
<th>Advertiser's Decision</th>
<th>What is Measured?</th>
<th>Methods under Study</th>
<th>Immediate Methodological Goal</th>
<th>Ultimate Advertising Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motivation Research</td>
<td>What to say</td>
<td>Consumer motives</td>
<td>Non-structured interviews, projective techniques</td>
<td>Cheaper way of measuring buying motives</td>
<td>New appeals</td>
</tr>
<tr>
<td>Copy Research</td>
<td>How to say it</td>
<td>Recall, recognition of ads</td>
<td>Mail questionnaires (post)</td>
<td>Quick, inexpensive, sensitive, reliable, valid pre- and post-tests of ad memorability</td>
<td>More memorable ads</td>
</tr>
<tr>
<td>Visual Research</td>
<td>How to show it</td>
<td>Response to visual displays</td>
<td>Tachistoscopic devices</td>
<td>Company-wide service for rating visual displays</td>
<td>Higher impact for all forms of visual communication</td>
</tr>
<tr>
<td>Media Research</td>
<td>Where to say it</td>
<td>Audience size and composition</td>
<td>Re-analyses of existing surveys</td>
<td>Accurate two year forecasts of adometers per dollar</td>
<td>Best buys within and between media</td>
</tr>
<tr>
<td>Public Opinion Research</td>
<td>To whom to say it</td>
<td>Attitudes, demographic characteristics</td>
<td>Personal interviews</td>
<td>Identification of definable attitude groups</td>
<td>Correct audience for institutional advertising</td>
</tr>
<tr>
<td></td>
<td>(institutional</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>advertising only)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations Research</td>
<td>How much to spend</td>
<td>Relationship between advertising expenditure and sales</td>
<td>Mathematical models</td>
<td>Successful prediction of sales in test markets</td>
<td>Optimal size and allocation of ad budget</td>
</tr>
</tbody>
</table>

1. A belief that the logical approach should be long-range. In this connection, it was noted that in chemicals a period of nine years normally elapsed between the conception of an idea and commercial production.

2. A belief that advertising research should be regarded as an aid to the decision making process or "a way to minimize the area of uncertainty."22

The Television Study. The Dupont effort covers three key problem areas which combine both theoretical and practical aspects of the measurement problem. The first phase of the project relates to measurement of effectiveness of television commercials. For this phase Dupont is using a Yale psychologist, Dr. John Dollard, to direct the research effort from which it is hoped to develop principles for application in television advertising. To date this group claims to have determined the number of verified viewers who have seen the Dupont "Show of the Month" and the number who have witnessed one or more commercials. The Company contended that this initial information was available from no other source.23

The Consumer Study. The second phase of the project, which Dupont has declined to specifically identify, was chosen to help the Company develop a general theory of advertising applicable to the sale of consumer products. One element prompting the particular interest in this area was the fact that consumer products were accounting for

22Ibid.
23Ibid.
only twenty-one per cent of sales, but received twenty-seven per cent of the advertising budget. For this phase, the Company has chosen one of its consumer products which: (1) is readily identifiable, (2) has a well-defined market, and (3) is relatively mature in its life cycle. The major competition for this product is well known, and the competitive strategy is determinable. The research team proceeded in the following manner:

1. Chose nine market areas in the United States where it could "precisely and systematically control" the advertising and where the sales results were carefully measured.

2. Divided the analysis into a study of "retention of last year's customers" and the "retention of customers who had switched from competing brands." In this particular study of brand switching, Dupont claims to have taken into consideration such factors as availability of distribution, the degree of dealer support, and the amount of advertising put into the market by both Dupont and its competitors.

3. Applied experimental dosages of advertising to the various areas. In some cases the advertising was held at what was considered a normal level; in others it was increased up to 225 per cent of normal.

4. Checked results through interviews with a representative sample of customers in each of the areas. In 1960 these interviews covered 20,000 customers.

The Industrial Study. The third phase of the project, which has been most recently launched, is a study designed to determine the sales effects of industrial advertising. The industrial segment, as

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24 Ibid., p. 3.
25 Ibid., p. 94.
opposed to consumer, accounts for roughly seventy-nine per cent of the company's sales. In 1960, Dupont advertised 1,200 industrial products in 520 business and trade publications. The study is designed for a three-year period and will cover nine of Dupont's industrial products. It seeks to answer the following questions:

1. What are the sales effects of industrial advertising?

2. What, if any, are the side effects of industrial advertising?

3. How long do these effects last?

4. Are some of the products over-advertised and some under-advertised?26

Appraisal of the Dupont Project. For competitive reasons, Dupont has not released the specific details of its techniques nor the results of its research at the time of this investigation. A valid appraisal of this effort, therefore, is not possible. The fact, however, that the Company has begun to discuss openly the broad aspects of the project is regarded as an indication that the outlook is promising. And two of the key trade publications in the field of advertising have commented favorably on the work.

Advertising Age called it a sensible research effort and pointed out that it held promise for filling the vacuum created by the absence of a broad theory in advertising.27

26Ibid.

Printer's Ink termed the Dupont operational research the most famous example of a firm's striving for a theoretical goal which would allow it to pin down the effectiveness of advertising so precisely that it can say how much a given advertising increment will increase the sales of a particular product and even in a particular market area. Having approached such a goal, the magazine concluded that the firm should then find it possible to relate advertising expenditures to share of the market and net profits.28

Other Theoretical Approaches to Measurement

Beyond the work of Alderson and his predecessors hinged around incremental analysis, that of Ramond and his associates in the Advertising Research Foundation dealing with communication models, and the specific projects of the Association of National Advertisers and Dupont, several other theoretical efforts are noteworthy.

The Research of Arthur D. Little, Inc. This consulting firm, primarily noted for its work in product development and other forms of scientific research, has assigned an operations research team, reportedly dominated by high-energy physicists with no particular experience in advertising, to the problem of trying to relate advertising to sales. This group has attempted to break this problem into components, reduce the components to quantitative terms, and apply the

discipline of mathematical logic to the available data. The basic similarities between this approach and that of Weinberg and Dupont are to be noted. To date, the Little group has:

1. Concluded that if advertising support of an established product is substantially reduced or withdrawn, and if there are no new economic or competitive developments of importance, the sales of the product will decline exponentially; that is, sales will decline by a fixed percentage each year. This group claims to have measured this percentage, labeled the "decay constant," for a wide variety of products and, in cases where the constant is low, the Little clients are advised to consider the possibility of cutting back on advertising.

2. Attempted to formulate the impact of advertising algebraically:

\[ r = \frac{S}{A} (1 - f) - k \]

where \( r \) is the rate of return on capital in a sales campaign; \( S \) is the immediate response rate to the campaign; \( f \) is the ratio of production and distribution costs to selling price; \( k \) is the decay constant of the product; and \( A \) is the total cost of an advertising campaign. The formula is designed principally for use in a campaign which is short and intense.\(^{29}\)

A pattern slightly different from that noted by the Little researchers has been observed when advertising for a certain product was stopped and started several times and the resulting pattern of sales plotted. Sales were found to decrease according to a negatively accelerated exponential function resembling the half-life decay curves of radioactive elements.\(^{30}\)


\(^{30}\)Ramond, op. cit., p. 19.
It is interesting to note, in the case of the Little project, that the results are expressed in the terms of the physical scientist. Had the study team been composed of members schooled in other disciplines, it is probable that the results would have been related to the body of thought common to that particular school.

Linear Regression of Advertising Against Sales. This theoretical approach is perhaps the simplest and the oldest. As early as 1940, two researchers claimed a high degree of correlation between the amount of money spent on advertising in department stores and resulting sales; in fact, the conclusion was that the relationship was homogeneous to the first degree.\(^1\)

Among current theorists, this simple approach is viewed with suspicion in view of the problem of variables, but there is considerable support remaining for the thesis among practitioners. For example, Gerhold of the Foote, Cone and Belding advertising agency is a basic adherent to the theory. He proceeds as follows:

1. Collects data on changes from year to year in the per cent of total advertising received by a particular market.

2. Collects data for the same periods on the per cent of total sales accounted for by that particular market.

3. Prepares charts plotting the relationship between these two changes in the different markets.

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Gerhold has admitted that, in some cases, the charts prove nothing, but his contention is that they frequently show useful trends which indicate whether or not sales are responding to advertising. In one specific case, Gerhold claimed that his technique showed that increased advertising weight showed virtually no sales response and that the firm was able to eliminate advertising at an annual saving of $400,000.

Operations Research—Both a Primary and Supplementary Measurement Tool

Even if it is assumed that advertising theory is developed to the point where the relationship between advertising and sales can be determined with some degree of certainty, serious gaps still remain in practical utilization. One of these gaps develops because this relationship is not likely to remain static in a world where competitors are constantly changing their advertising strategies and introducing new products. The previously discussed introduction of Crest toothpaste, with its advertising blitzkrieg, provides a good example of a situation which could shift an existing advertising-sales relationship. It is likely that the traditional leader in the field, Colgate, has found

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33 Seligman, op. cit., p. 176.
its historical patterns of advertising and sales severely shaken by this development.

To aid the firm in planning its new strategy in such situations, a rapidly-growing body of theory, accompanied by a kit of practical tools, has arisen. This collection of devices is broadly categorized as operations research. Operations research emerged as an outgrowth of scientific efforts to solve various types of military problems during World War II and was given a major boost by the rapid developments in the field of electronic computers in the last decade. Miller and Starr have defined it as follows:

... O. R. [Operations Research] is applied decision theory [italics in original]. Operations research uses any scientific, mathematical, or logical means to attempt to cope with the problems that confront the executive when he tries to achieve a thoroughgoing rationality in dealing with his decision problems. 34

By this definition, all of the previously described measurement techniques fall into this category, along with a host of other tools. Among the latter is a growing complex of mathematical models applicable to marketing. Some of these models are based on a body of knowledge known as "game theory." One mathematical economist, Shubik, has defined it as "a method for the study of decision-making in situations of conflict." 35 This theory appears to offer some promise


in tackling certain types of advertising problems such as, for example, the case where one firm is seeking to increase its share of the market. This obviously was the case in the Crest campaign. The segment of game theory applicable to this particular type of situation is called a zero-sum game. These are games where a complete conflict of interest develops or "ones in which what one opponent gains, the other loses." 36

Shubik, now with the General Electric Company but at the time of the particular study working under an Office of Naval Research contract, has illustrated this case through the device of a $4 \times 4$ payoff matrix, reproduced as Figure 10. He has assumed that the market in the hypothetical case is dominated by two firms, A and B. Each of the firms has $1,000,000 to spend on advertising. Each firm is confronted, in the example, with four alternatives; this condition permits, however, sixteen alternative combinations. The hypothetical figures in the matrix represent profits of a firm in millions of dollars, assuming that each firm placed its entire million-dollar budget into the one medium shown at the point of intersection. The positive figures represent gains for firm A at the expense of firm B. The negative figures represent the opposite. Following the principle laid down for the solution of the problem, each firm looks for the position in the matrix which gives it the

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36 Miller and Starr, op. cit., p. 95.
### Firm B

<table>
<thead>
<tr>
<th></th>
<th>Radio</th>
<th>Television</th>
<th>Printed Media</th>
<th>No Advertising</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radio</td>
<td>0</td>
<td>-.5</td>
<td>0</td>
<td>2.5</td>
</tr>
<tr>
<td>Television</td>
<td>2</td>
<td>0</td>
<td>1.5</td>
<td>5</td>
</tr>
<tr>
<td>Firm A Printed Media</td>
<td>1</td>
<td>-.5</td>
<td>0</td>
<td>3.5</td>
</tr>
<tr>
<td>No Advertising</td>
<td>-2</td>
<td>-4</td>
<td>-3</td>
<td>0</td>
</tr>
</tbody>
</table>

**Note:** Figures inside matrix are hypothetical and represent profits of a firm in millions of dollars, assuming each firm placed $1,000,000 into the one medium shown at the point of intersection. Positive figures represent gains for Firm A at the expense of B. Negative figures indicate the opposite.

**FIGURE 10**

maximum figure in the column and the minimum figure in the row. It will be noted that this condition, called the saddlepoint, occurs for both firms only when each puts its entire budget into television. This leaves each firm in the same relative position as would have been the case without any advertising, but neither can afford not to advertise since the other firm would gain an advantage.37

Without pursuing a second example, it should be noted that advertising aimed at increasing sales, but not necessarily designed to claim an increased share of the market, could result in a nonzero-sum game. The latter game is one with "less than complete conflict of interest."38 In such a situation, it is possible for both firms to gain because of the shift in the demand curve to the right; in other words, the total market may be enlarged.

In relating the discussion of game theory to the previous discussion on measurement, it should be noted that the strategy devices, including game theory, are relatively useless until some approximations on measurement of results are available. Thus game theory should be regarded as essentially a supplementary tool.

Beyond the utilization of game theory, marketing models have been developed which employ a wide range of advanced mathematical concepts. A number of these models have been directed at the advertising segment of marketing. Prior to 1961, the literature on these

38Miller and Starr, op. cit., p. 95.
models was scattered among a wide range of publications, many of them outside the marketing and advertising fields. And in a number of instances the papers describing these models were unpublished, especially those outlining programs for specific firms. Seeing the need for coordination of effort in this field, the marketing group of Ford Foundation's Institute of Basic Mathematics for Application to Business conducted a year-long seminar at Harvard University, the purpose of which was to appraise the efforts in this area and to attempt a consolidation of the literature for wider dissemination. The compilation, along with useful editorial supplements, was published in May, 1961. The work appears to be a significant contribution to both theory and practice in the field.39

Summary and Appraisal of the Theoretical Structure

The situation, at the time of this investigation, suggests no fundamental agreement on broad theoretical principles applicable to the problem of measurement of advertising. On the other hand, there is evidence of a rapidly emerging body of knowledge in this area. This body consists of:

1. A substantial, and in some cases an enormous, collection of facts which are considered relevant to portions of the problem. These facts cover such matters

as historical records of advertising and sales, the quantitative figures on exposure to advertisements, including number of readers, viewers and listeners, and in a limited number of advertising situations data suggesting a response to specific advertisements.

2. A group of principles, some of which must still be labeled as tentative. For example, the principle that care must be exercised in inferring a direct cause and effect relationship between advertising and sales; the principle that advertising has both quantitative and qualitative characteristics; and the principle that a successful measurement tool must recognize the existence of variables in the marketing process other than advertising.

3. A number of hypotheses on approaches to measurement such as simple correlation, multiple correlation, decay constants, experimental applications of advertising in controlled test areas, and mathematical models of historical marketing data.

At this stage in the evolution of the theory a natural question arises. What are the probabilities, then, of overcoming the remaining weaknesses and developing a structure that can be broadly accepted? To attempt an answer, the weak and strong points in the skeleton should be analyzed.

Elements of Weakness in Existing Theory. Although Ramond has proposed the pursuance of a total theoretical structure through study and integration of subsections in the advertising process, in his own case the intervening variable in the communications model, he has taken a dim but cogent view of attempts to "try to tease out of the total business system the contribution of advertising." His thesis on this point was stated thusly:

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we mean to question the ultimate goal of all such systematic effort variously called theory construction or model building. If the goal of this activity is merely to understand better the complex relationships of a slice of the real world, then, of course, there is no logical reason why advertising may not be just as good a point of departure as any other. But if, as many people have said, the research goal is to provide management with information and procedures to guide this decision-making, then the question of "how much to spend on advertising" may be a blind alley. This is for no other reason . . . than the decision-maker's inability to comprehend and deal with more than a very small number of influential input factors.\(^4\)

To support this thesis, Ramond drew on several sources. First, he cited an actual case where a large manufacturer had developed a management game into which regular relationships had been programmed between three input factors and two output factors. The input factors were advertising, distribution and price; the output factors were sales and profits. There were no random or stochastic functions in the model. The fundamental task in the game was to allocate dollars to the three input factors and seek to maximize profits. The results of more than thirty experiments, involving four different teams, showed that in no case did any team make more than one-third of its potential profit.

After each of the games, sales were plotted as a function of advertising. The resulting pattern of measurements was so scattered around the actual programmed relationship as to suggest that some random element had been operative. And to compound the dilemma, these

\(^4\)Ibid.
scattergrams bore a remarkable resemblance to those obtained from sales and advertising data for the real products of the company. According to Ramond, this has led the company's researchers to the unnerving conclusion that even if there are completely regular relationships between advertising and sales in real world situations, and if the interaction between advertising and other variables are rational, these few simple interactions are sufficient to prevent regular detection by the decision-maker. From this revelation, Ramond arrived at this tentative conclusion:

The single profit-advertising relationship may be neither discoverable nor teachable to decision-makers — if advertising interacts, as it may well do, with price, distribution and other marketing factors.  

As further support for his general thesis, Ramond listed six conditions which explained why few, if any, advertisers or agencies had been able to provide a case history which demonstrated beyond reasonable doubt the relationship between profit or return on investment and advertising expenditures:

1. Uncontrollable factors. These must be held constant experimentally or accounted for statistically.

2. Unmeasurable factors. These are not only uncontrollable but also unmeasurable. Present empirical investigation simply assumes that these are small enough not to seriously interfere with observations of controllable factors.

\[42\] Ibid., pp. 14-16.
3. Newness of measurement techniques. Ramond claims that he knows of only six companies in the United States and Canada which have built mathematical models of past marketing data and applied appropriate analytic techniques in order to isolate advertising's influence. He has assumed that there are perhaps six others about which he does not know.

4. No experiments. Ramond says that no company, to his knowledge, which has built models, has taken the final step and demonstrated the applicability of the model by manipulating advertising expenditures and successfully predicting the change in profit. He notes that the causal effect can be demonstrated only by experimentation.

5. Competitive security. The unwillingness of companies to reveal results which provide clear-cut answers, either favorable or unfavorable.

6. Acceptance problems. The hesitance on the part of advertising decision-makers to experiment with the newer techniques, such as those provided by operations research. This results from the fact that the operations researcher is unable to place any dollar value on his effort until it is completed. Even then, though the improvement in results may be substantial, there is also the risk of total failure.\(^4\)

Even assuming that the firm has accepted and pursued operations research, Ramond pointed out that the model concepts still contained a number of logical inadequacies. The most glaring inadequacy which he noted was their failure to take into account all of the measurable factors which may influence sales. The second weakness resulted from the fact that the models were static rather than dynamic. They can do a fairly adequate job, for example, in predicting what next year's total sales will be, but a poor job in predicting changes in the sales pattern. On this specific aspect, he argued that marketing models should be evaluated on the basis of their ability to predict changes rather

\(^4\)Ibid., pp. 16-19.
than levels. Finally, he warned that most of the marketing models had overlooked the possibility that one or perhaps more of the variables might operate on a random or stochastic basis. This he thought was a distinct possibility in one of the intervening variables. In his concluding perspective, Ramond grants that he has ended up in a position remarkably close to that of Neil Borden, this position being that it is almost impossible to separate the contribution of advertising from that of the total marketing effort.44

It is to be recalled that Borden, whose main effort was published in 1942, argued that advertising was not homogeneous, isolated or unique. Instead, he maintained that it is a part of an integral business plan and that it must be coordinated with price policy, personal selling efforts and all other parts of the marketing and merchandising plan.45

The similarity between the Borden and Ramond conclusions is striking when it is recognized that the latter researcher was working from a vastly enlarged body of facts and in the rarified atmosphere of sophisticated research techniques and electronic computers capable of reducing years of manual effort to a matter of minutes.

Miller and Starr, although strongly endorsing operations research as an aid to decision-making in the marketing process, acknowledged that serious difficulties are involved in formulating

44 Ibid., pp. 19-21.
marketing decisions. They listed three specific problems which are relevant to the measurement question:

1. The enormous number of strategic possibilities open to the firm, the dimensions of which are so varied that it is impossible to include all of them in a formal analysis.

2. The effect of competition and particularly the problem of trying to formulate the strategic possibilities of rational competitors. To illustrate, they point out that if one decision-maker's strategy involves five product designs, five prices, five patterns of distribution and five ways of communicating with the consumer, 625 conditions covering controllable factors are involved. To compound the problem, but to make it more nearly realistic, they also assume that there are four competitors and still further that there are five states of nature (combinations of uncontrollable factors such as weather or movements in the national economy). With this total combination the number of different conditions that can prevail are 476,837,158,203,125. And they point out that the only thing wrong with the latter figure is that it is far too small to describe the actual condition.

3. The determination of outcomes. With the problem of strategies, competition, and states of nature, the conclusion is that it is impossible to find out one outcome that will completely satisfy all of the objectives.46

Confronted with these difficulties, however, Miller and Starr have taken a more optimistic view of the alternatives than did Ramond. Two approaches have been suggested. The first is similar to that of Ramond; that is, to consider only a few factors at the time or to work on parts of strategies. The second is to consider outcomes and suboutcomes without attempting to find relationships between them and the intervening factors involved. And these researchers have presented five models, developed in conjunction with the Young and Rubican

46 Miller and Starr, op. cit., pp. 171-172.
advertising agency, which offer practical approaches to segments of the measurement problem. These models involve the following subsystems of the advertising process: (1) brand-share, (2) brand-loyalty, (3) media selection, (4) optimizing message effectiveness, and (5) competition and mixed strategies.47

Gallup and Robinson have pointed to another weakness in the theoretical search for a method to relate advertising dollars to sales. This problem concerns the matter of quality, and is particularly relevant in the case of television where the advertiser has great difficulty knowing what he is getting beforehand. The argue that in such cases the relationship can be determined only on a post-facto basis. This type of measurement has restricted value in the predictive process.48

**Elements of Strength in Existing Theory.** The foregoing discussion might suggest that a hopeless task is involved in efforts to develop an acceptable body of theory. If the goal is to uncover a group of principles from which can be deduced theorems, formulas or mathematical equations which can, in turn, be used to regulate an advertising input to a desired output of sales or profits, the task may indeed be hopeless. On the other hand, if the horizon is lowered to a search for a group of principles and methodological techniques which


will aid the decision-maker in reducing his margin of error, the goal may be attainable. As the following discussion indicates, there is evidence of a number of strong points in the latter area.

Pursuance of the logic of the incremental theorists, and especially that of Alderson on products and Tucker on bank services, should help a firm to sharpen its thinking on measurement and to direct its testing of advertising. Alderson's claim that such an approach coupled with testing techniques now in use could improve the effectiveness of a major advertising budget by ten per cent does not appear unreasonable.

The work of Ramond, though perhaps discouraging from the standpoint of those who are seeking to determine the contribution of advertising in the total marketing process, suggests promise in research aimed at uncovering significant relationships at lower levels in the spectrum, particularly the subsystems in the advertising process. An improved understanding of some of the miniature components might serve a twofold purpose. It could result in an improvement in that specific segment of advertising, and at the same time, fill in gaps leading toward an integration of the total process.

Since the studies undertaken by the Association of National Advertisers and Dupont dealt with specific details which necessitated frequent references, a limited appraisal of each was included in the body of the discussion. In the way of repetition, however, each of these efforts is considered epochal and deserves to be watched with interest. Their recency, at the time of this investigation, prohibits
a final judgment. If either fulfills its mission, a major layer will have been added to the theoretical pyramid. In a similar vein, the same conclusion holds for the efforts of the Little organization and the other builders of marketing and advertising models.

Two particular aspects of the Dupont experimental effort, however, deserve some additional attention. The first is the outlook expressed by the management regarding the timing of the effort; that is, the Company's willingness to pursue the project for years in search of broad theoretical principles underlying the relationships between advertising and sales response. Management has drawn a parallel, in this instance, to its problems in chemical research which in many cases have required ten years for resolvement. The second aspect worthy of note is the Company's statement that it is looking for aids to decision-making, not a simple panacea, and that it will be pleased with an improvement of a few percentage points in the results of its advertising expenditure. Actually an annual improvement of one per cent would compensate for the research effort.

To the casual reader management attitudes associated with these two aspects of the Dupont research might seem of little significance; to the advertising practitioner, consultant and academician they are apt to appear revolutionary. It is an anomaly that such an infinitely complex phenomenon as advertising has been subjected often, if not the majority of the time, to pressures for quick results and specific answers from research. Failures frequently cause a shift in advertising management or a shift in advertising and market research agencies. The
same firm that assumes this attitude on advertising may be content to plow large sums into physical, chemical, or exploratory research, that is hardly more complex, and expect long time-intervals and failures as a matter of course.

To illustrate this point, the American Association of Petroleum Geologists reported that in 1960, only one oil well out of sixty "wildcats" drilled uncovered a profitable field. A "wildcat" well is one drilled in an area not yet productive.\(^4^9\) If a profit is the criterion used, a literal interpretation of these data would suggest that only two per cent of geological research is successful. To see the effect of such failure rates on an oil company's income statement, only a casual inspection is necessary. For example, Humble Oil and Refining Company in 1960 reported an expense item under the category "surrendered leases and dry hole losses" of over $75,000,000.\(^5^0\) Lest it be inferred that this one experience was atypical, the Company reported a drilling success ratio better than the industry average for the year.\(^5^1\) An analogy between geology and advertising may be remote, except that both fields are plagued with a surplus of variables between the input \(\text{stimulus}\) and the output \(\text{response}\), and perhaps random factors are operative in each case. In any event, the small number of


\(^{5^0}\)"Operating Highlights and Financial Highlights," The Humble Way, (Spring, 1961), pp. 3-4.

\(^{5^1}\)Ibid.
successes chalked up by the geologist is still sufficient to make his effort and research worthwhile. If the Dupont outlook on advertising research becomes widespread, and time, method and competent effort is applied to the advertising problem, the probabilities for developing a useful body of theory will be considerably enhanced. In fact, such a change in thinking could shift the outlook on theory development from dismal to encouraging.

Summary of Theory of Measurement. In the introduction to this section, the statement was made that the existing theory surrounding the measurement of advertising was embryonic and fragmentary. But the statement was amplified to indicate that there had been substantial developments in this area within the last decade, and further that certain experimental efforts underway held even more promise for the future. The foregoing analysis seems to have borne out this contention.

It is to be noted that little mention has been made in this discussion of theory specifically applicable to the selling of services, and particularly those of the bank. In the main, the marketing models involving such specific concepts as saturation levels, linear regression, multiple correlation, decay constants and game theory, would appear to lend themselves to application to a service as well as to the product. Where a bank's services are confined to one specific location, however, opportunities for controlled market testing are severely limited. Except for the contribution on measurement and budgeting by Tucker,
which was thoroughly discussed in Chapter IV, nothing of specific relevance to theory in this area has been encountered.

To summarize, the current orientation indicates no basic agreement on broad principles, but a growing body of knowledge which the larger and more progressive product-oriented firms are beginning to put to use. In the vast majority of smaller product firms and service institutions, such as banks, there have been but few attempts to pursue theoretical approaches and to test the newer techniques.

C. PRACTICAL METHODS OF TESTING

As stated in the introduction to this chapter, the literature on practical methods of testing advertising is voluminous, and in many cases detailed with respect to specific procedures. To complicate the problem of assimilation, most of the tests and the bulk of the literature deal with segments of the measurement question, and often these segments are minute pieces of the total marketing picture. This is the case, for example, with many of the discussions and suggestions in the area of communications. Obviously, advertising is a communicative process, but it is also an item of costs both to the firm and to the economy, an adjunct to the fields of publishing and entertainment, a social problem, an art or a semi-science, and above all a selling tool. Even in the latter instance, it is only one of many selling tools employed in the total marketing process. The extent of the literature in this general area might be indicated by the fact that the most recently published bibliography of the American Marketing
Association lists some 1,200 books, articles and pamphlets dealing with the subjects of marketing and advertising research.\footnote{Hugh G. Wales and Robert Ferber (eds.), \textit{A Basic Bibliography of Marketing Research}, AMA Bibliography Series No. 2 (American Marketing Association, 1956).}

Despite this proliferation, it appears to this investigator that the literature which has sought to develop broad principles and a general understanding of the advertising process is weak; it is diffused and contradictory. There are some exceptions to this generalization, the most notable of which is Borden's previously cited \textit{The Economic Effects of Advertising}. Even the latter has begun to suffer from obsolescence.

The aim, throughout this thesis, has been to pull together some of these scattered and diverse viewpoints, and, in selected areas, to provide some depth to the understanding of the advertising process. Generally, scope has been given preference over depth. The same viewpoint is to be maintained in this segment. For readers, however, interested in pursuing the details of the methods discussed, references are frequently cited.

Classification of Methods

Practical methods of testing may be classified in several ways; two of the more frequently used categories are based on the timing of tests and the nature of tests. Among the standard reference works in the field, there is seldom complete agreement on classification.
Frey, for example, generally follows the timing classification and comes up with three main categories: (1) copy testing or, in his usage of the term "copy," pre-testing, (2) concurrent testing, and (3) testing after full-scale use.53

Lucas and Britt follow the policy of classifying according to the research method used. Their procedure produced four principal categories: (1) opinion ratings, (2) concurrent methods, (3) tests based on memory, and (4) measures based on inquiries and sales.54

In addition to the foregoing classifications of advertising measurement, the latter researchers treat audience evaluation and measurement as a separate and distinct problem. They consider the latter as involving: (1) measures to determine size of the audience, (2) measures to determine the extent of audience accumulation and duplication, (3) measures to determine the classes of people comprising media audiences, including such factors as sex, age, race, economic status, educational level, and geographic location, and (4) measures to determine the attitudes prevailing among media audiences.55


55 Ibid., pp. 565-675.
Sandage and Fryburger follow no formal classification. Instead, they discuss what to test, how to test, when to test and dwell at length on several of the better-known testing methods.56

Since the timing breakdown appears to be more easily understood and perhaps the most widely used, this approach is to be used in this analysis. Pursuing this thinking, it is assumed that advertisements can be subjected to: (1) pre-testing, (2) concurrent testing, and/or (3) post-testing. Either singly or in combination, none of the more common tests currently in use can provide more than a partial answer to the overall measurement question. It is to be noted also that most of the current tests tackle only segments of the advertising problem, and in many cases suggest qualitative rather than quantitative judgments.

Pre-Testing

As the name implies, this basic category of testing attempts to place some value on the advertisement prior to the time it is used on a broad scale. One of the aims of the pre-test is to measure the impact of the copy in the body of the advertisement. For this reason, the term copy testing is often used in lieu of pre-testing. The word copy, however, has misleading connotations in advertising jargon. First of all, when applied to testing, it is normally assumed to include the total advertisement—headline, text, illustrations, general

appeal, and layout—not to just the word portion. Secondly, the term copywriter is applied in many cases to the person who coordinates the production of the entire advertisement, not just the writer of the words in the text. Finally, the testing of copy is also one of the aims of the concurrent test and of the post-test. Thus the term "copy" in advertising has a much broader meaning than the word suggests and is not to be used as synonymous to pre-testing in this analysis.

Frey lists the following types of tests as those most often applicable to the pre-testing category: (1) check-list or score-card, (2) consumer-jury, (3) limited market testing, employing such devices as counting of inquiries received or a tabulation of sales results from selected test areas, and (4) recognition and recall.57

Wiseman includes the latter two in post-testing but adds motivation studies to the pre-testing category.58

The Check-List or Score-Card. The aims of an effective advertisement are to: (1) draw attention, (2) create interest, (3) stimulate desire, and (4) stir the respondent into taking action. This totality is summed up in the AIDA concept. An exception, of course, to the total goal outlined is the institutional advertisement; its task is


directed primarily toward the first two aims, attention and interest. The check-list is simply a device to try to insure that the advertisement contains the essential elements.

*Printer's Ink* has compiled a composite list of fifty-nine ways to check an advertisement. But it has provided no practical device for use in making the check.\(^59\)

There are, however, two specific procedural methods usually associated with this technique. These are the Townsend Method and the Gould check-list, both of which reached the height of their popularity between the period from about 1930 to 1950. The Townsend Method assigned quantitative values to twenty-seven check points, four of which were concerned with getting attention, ten with arousing interest, seven with creating desire, four with securing memory and two with assuring action. The Gould check-list involved a five-step approach for comparing two or more advertisements. Both of these methods have been thoroughly covered in existing literature, and duplication of this coverage is not warranted.\(^60\)

A more recent advocate of a related technique, however, deserves current attention. Wiseman, who has developed and applied what he terms "a scientific method" in the preparation of advertisements, proposes the use of two specific pre-testing tools. One he terms a


"Guide List for Checking and Estimating Noting and Reading of General Magazine Advertisements" and the other an "Editing Form." The following represents his contention with respect to the guide list:

... My long experience with it (since 1938) has convinced me that when properly used it provides a sounder basis for predicting noting and reading [italics in original] than any other method I know of.

The check lists must of course accurately reflect the research findings and can be used to best advantage by an objective analyst whose experience and mental flexibility have equipped him with a kind of sixth sense of proportion. ... Nevertheless, I have found that, with some training in technique and judgment, even an amateur can make surprisingly accurate predictions ... 61

The research findings to which Wiseman referred were basically the Starch Readership studies to be discussed later in this thesis.

The editing form, which he recommends, is designed for application to the advertisement while it is in its preliminary form. The editor is expected to be someone other than the creator of the advertisement or the account executive representing the client. He attempts to assume the cloak of the ultimate reader, and makes no attempt to go far below the surface of the advertisement. He does not correct or revise, but rather makes suggestions. Samples of both the check-list and the editing form may be seen by referral to the references cited. 62

In appraising the check-list, Frey has made some cogent points in favor of its use:

61 Wiseman, op. cit., pp. 231-233; also 250-265.
62 Ibid.
Regardless of the approach used, the check-list method has certain advantages. Strongly in its favor are inexpensiveness and speed. There are no extraneous factors to control. It deals with specific points. It is applicable to all kinds of copy. It is simple. It indicates not only which advertisements are weak and which are strong but "why." It tends to insure that all desirable characteristics are present; it measures complete all-round effectiveness and not just certain phases, such as attention-getting. It has merit as a means of selecting advertisements to be subjected to other types of tests.63

On the minus side, however, he has noted that the person who draws up the list may be the only person qualified to use it, that certain qualities and words may have entirely different meanings to a second person, that it is difficult to adapt one list to all situations, that the possession of certain qualities is no assurance that the advertisement will sell, and finally that it is difficult for the tester to be objective in his scoring.64

On balance, the check-list can be regarded as no more than an early aid to the advertising decision-making process. On the other hand, its simplicity, low cost, and adaptability to various advertising situations suggest that it should be given a thorough trial. Wiseman, for example, shows how an application of his guide list to a typical issue of the Saturday Evening Post could have predicted, with a relatively high degree of reliability, those advertisements which would get little attention. Post-publication readership studies are used to confirm his point.65

63Frey, Advertising, pp. 579-580.
64Ibid., p. 580.
It is surprising that so few advertisers avail themselves of this simple tool. One survey showed only six per cent of banks doing any type of pre-testing with no mention of the check-list. The check-list could logically serve as a first step in the evaluation process.

Consumer Jury or Controlled Opinion. The aim of this method is to determine, from a limited but representative sample of consumers, a typical reaction to a proposed advertisement. The method normally employs individual interviews but may also be used with group interviews. It is adaptable to radio and television as well as to the printed advertisement. In the case of radio and television, the test seeks to determine not only the reaction to the advertising but to the program format. The method is frequently modified, particularly when more than one advertisement is being tested, to incorporate statistical ranking techniques such as order-of-merit, paired comparisons, and attitude scales. It also may involve certain advanced motivational research techniques such as depth interviewing.

Like the check-list, the consumer-jury or controlled opinion technique provides additional evidence as to whether the advertisement is likely to accomplish the AIDA objectives. Lucas and Britt argue that it is an effective tool for checking the interest, desirability,

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and believability characteristics of the advertisement, but that it is unreliable with respect to the attention and action characteristics. It is weak in the latter areas because attention is forced by the nature of the test and action is purely conjectural on the part of the respondent.\textsuperscript{67}

In a study made to determine the effectiveness of the consumer-jury method, Borden and Lovekin concluded that the method was reliable on products having wide consumer appeal and where the respondent had a particular interest and some knowledge of the product. To the contrary, they found that where these conditions did not prevail the results were not reliable. They also raised questions about the validity of the method on advertisements of an institutional or an indirect action nature.\textsuperscript{68}

The consensus suggests that the technique has a place in the measurement process, that it is quick, easy and inexpensive, and that it can be applied to the total advertisement or to any segment of it. But it should be recognized also that these types of tests are produced in an artificial environment and may suffer from a "halo" effect, that they are not measures of sales effects, and that judgment is required in interpretation of results. On the whole there seems to be considerable logic for any major advertiser to include some version of the controlled

\textsuperscript{67} Lucas and Britt, op. cit., pp. 413-414.

\textsuperscript{68} Neil Borden and Osgood S. Lovekin, A Test of the Consumer-Jury Method of Ranking Advertisements, Business Research Studies, No. 11, Harvard Graduate School of Business Administration, 1935.
opinion method as the second step in his decision-making process.69

Limited Market Testing. This is another step, logically the third, in the pre-test program. It is the closest approach to realism that can be attained short of full-scale marketing. The advertising test may take one of two general directions. It may seek to check only the number of inquiries received from a market test, or it may actually attempt to measure the sales effect in the area where the specific advertisement is being tested.

The inquiry test may be handled in one of several ways: (1) by the use of a coupon featuring some offer, (2) by an offer prominently displayed but without the coupon, and (3) by a so-called "hidden offer" where the offer appears in the body of the copy but without any prominence attached to it. The offer may involve the sending of money, requests for booklets, sample merchandise or some proposition available through a retail store or some other institution. The technique used is relatively simple. Two or more advertisements are selected and tried in the test area at approximately the same time. Normally the test is conducted in one medium either on an alternating or simultaneous basis. The latter is possible even with printed media through the wide-scale adaptation of the split-run publication technique, a procedure in which half of the copies of a magazine or newspaper contains one advertisement and half an alternate. Since the

69For more complete treatment of these methods of pre-testing, see Frey, Advertising, pp. 580-584; Lucas and Britt, op. cit., pp. 536-551.
advertisements are keyed, the results can be tallied, and the advertisement showing the largest drawing power is the one selected for full-scale use.70

Limited market testing, employing sales as the criteria for selection of advertisements, is more complex and yet, if carefully conducted, is likely to be the most realistic of all the pre-tests. Basically, this method involves the selection of certain test cities or areas where the trial advertising campaign will be applied and certain control cities against which the trial results will be measured.

Like other techniques, the method has limitations. The major problem in the sales test is that of holding other variables constant. For example, a competitor can frequently wreck a sales test with a counter-advertising campaign, with price cuts or with a host of other competitive devices. It is also recognized that the test is much more useful where direct action is the aim of the advertisement rather than the case where indirect action or the institutional image is the goal. Finally, the firm employing the method needs geographic dispersion of its operations; unfortunately this factor limits its adaptation by banks. One exception, of course, would be those areas where widespread banking is permitted such as California. Another exception occurs in the case of direct mail where the bank can be selective in its targets.

Strong support for market testing has been urged by Ernest Enright. The latter, however, presents his case in terms of the total marketing process, particularly as it applies to new products. He includes but does not limit his testing to advertising. He also urges that "market testing," a term credited to A. C. Neilsen, be used rather than the more usual term of "test marketing." His reason is that the first phrase places emphasis on the experimental nature of the test while the second tends to consider the test as a part of the formal marketing process. The latter places numerous pressures for speed and short-cuts on the test program which frequently invalidate it or produce erroneous conclusions. Enright maintained that "market testing," properly applied, is one of the most successful devices for reducing risks, and that it is a natural bridge to full-scale marketing. In eleven of fourteen cases which were studied as the basis for his article, he found that adjustments in the marketing program were necessary to correct weaknesses uncovered by the tests. His conclusion was that the basic question before a firm anticipating a major new marketing program was no longer, "Can we afford market tests?" but rather, "Can we afford not to market test?"71

Motivation Studies. This controversial field of research is not aimed at the testing of advertisements as such, but rather at themes, appeals, pictorial meanings and word meanings. It is aimed at the "whys" underlying human behavior. According to Wiseman,

motivation studies "help us to learn whether or not what we want to say is what readers want to know [italics in original], and what we mean by it is clear to them, acceptable and motivationally valid."\textsuperscript{72}

The basic tool of the motivation researcher is the interview, but of an unstructured and roundabout type. An attempt is made to keep the respondent unaware of the real purpose in order to eliminate bias, self-consciousness and other obstructions to the truth.

An interesting example of how prior knowledge of motives and opinions of possible respondents can shape the direction of an advertising program in a financial institution is found in a story related by motivation researcher Ernest Dichter:

Some work we have done for savings institutions [italics in original] showed an age-old appeal, "Look what you can buy after you have saved for 20 years" was a complete flop. Who wants to wait 20 years? We went out and asked people, "Do you know where you are going to be three years from now?" Well, you ask yourself that question. Very obviously, therefore, that kind of advertising approach in selling the advantage of saving is an outdated one, an outmoded one. A correct approach is to promise people immediate results. If you tell them they have to wait one year, they won't wait that long.\textsuperscript{73}

\textsuperscript{72}Wiseman, \textit{op. cit.}, p. 230.

Summary on Pre-Testing. Each of the pre-testing methods has its advocates and critics. The critic is apt to argue that there is no substitute for the actual running of the advertisement on a full-scale basis, that pre-testing creates an artificial environment which is likely to render the test invalid, that judgment and experience makes such testing unnecessary, and that the cost of certain of the pre-tests is excessive in terms of knowledge gained. The advocate, on the other hand, is likely to grant that pre-testing cannot replace judgment but argues that it can serve as a useful supplement in the decision-making process, that the tests will have validity if properly selected and carefully executed, and that the cost of pre-testing is minor compared to the losses of money and position which can be incurred by a poorly conceived and badly executed advertising program.

Concurrent Testing

This type of test attempts to take a measurement as close as possible to the time the respondent makes contact with the advertisement. The brevity of this interval virtually requires that the test be of a mechanical or semi-mechanical nature and that the results be stated in quantitative rather than qualitative terms. For this reason, concurrent testing is used mainly for radio and television as opposed to printed advertisements. There is rather general agreement that concurrent techniques can be classified under four basic approaches. Lucas and Britt, for example, list the following:
1. Personal Observation of Reading, Radio, and Television habits.

2. Diary Methods.


In referring to the AIDA concept, it should also be noted that the concurrent tests are aimed mainly at the attention and interest factors, thus once again the measurement is segmentary rather than total.

**Personal Observation.** This is a planned effort on the part of one individual or a group to observe the reading, listening and viewing habits of persons in a variety of advertising exposures. Such efforts have been undertaken in libraries, waiting rooms, barber shops, transportation vehicles, homes, theaters where program advertising is involved, and lounging rooms. The observer in each case tries to remain incognito. A number of specific techniques have been used such as peep holes, one-way mirrors, and specially-placed chairs to give the observer a commanding view of a group. The tests, except for establishing the fact that advertising does attract attention, have not been conclusive. For example, the observer can note that a person is looking at a specific advertisement, but he is unable to determine the amount of interest or desire which the advertisement has created. In the case of radio, Lucas reported that his survey of home listening habits tended to support the audience sizes for programs reported

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74 Lucas and Britt, op. cit., p. 437.
Diary Methods. Although these methods have been applied on a limited basis to magazines and other publications, the primary use of the methods has been with radio and television. The procedure is simple. An individual or a family unit, presumably selected on the basis of a probability sample, is asked to keep a diary of listening or viewing habits. Each time the radio or television set is turned on or a change made in program selection, a notation is entered in the diary. The diary is located adjacent to the set and in some cases even attached to it. One of the more advanced versions of the diary is that developed by George Gallup which provides a separate sheet for each day, the completion of which requires a simple blocking out of spaces on a recording form.76

Although the diary has proven to be a useful and inexpensive measurement tool for audience sizes and indirectly for advertising exposure, it has its problems and limitations. The first problem is associated with getting the sample group or individual to keep the diary and maintain it systematically. A second limitation arises because of the tendency of the keepers of the diary to let its presence distort their regular habits. Finally, there is the question of accuracy in the entries of the diary. Unless a person makes entries at the

75 Ibid., pp. 438-441.
76 Ibid., pp. 442-444.
time of the twist of the dial, the record is likely to be unreliable.\textsuperscript{77}

Factors favoring the use of the method, however, have also been noted by Lucas and Britt. To begin with, it provides a continuous record of radio and television operation, requires none of the expensive equipment used by some of the sophisticated mechanical devices, can be maintained by anyone who can read and write, can be used as a useful guide for station programming, and can be used in areas where other techniques are not available.\textsuperscript{78}

The nature of the technique and the fact that it has utility for a large number of advertisers suggests that it is more logically used by a rating service or by an agency representing a large number of advertisers in a specific community.

\textbf{Coincidental Telephone Methods.} The most frequently used, and probably the best known, of the concurrent methods is the coincidental telephone technique. Like other of the concurrent methods, it is primarily a determinant of audience attention and interest in specific radio and television programs and only secondarily a measurement tool for advertising. The name of the sponsoring company or product is asked, but even when the correct name is associated, about all that can be said for the advertising aspect is that the attention of a reasonably certain audience has been obtained. Nevertheless, the

\textsuperscript{77}\textit{Ibid.}, pp. 442-444.

\textsuperscript{78}\textit{Ibid.}, p. 444.
program measurements developed from these methods have attained an exalted position in both the entertainment and advertising worlds.

Frey has described the method as follows:

The coincidental telephone method consists in telephoning a sample of homes and inquiring whether, at the time of the call, anyone is listening to radio or looking at television. If an affirmative answer is received, additional questions regarding the number of listeners, the name of the program and the product advertised are asked.\textsuperscript{79}

Results of these-calls are translated into one or more of the following measurement indices:

1. Sets in use. This figure represents the percentage of homes called which are listening to radio. A similar percentage is obtained for television. If 100 homes are called and 25 are listening to radio, the sets in use figure is 25.

2. Rating. This figure is the percentage of total homes, including those with no answers, listening to a particular program. If 15 of the 100 homes were listening to a specific program, the rating would be 15.

3. Share of audience. This figure represents the percentage of sets in use listening to a particular program. Following the example introduced above, the share of audience figure for this specific program would be 60 (15 \( \div 25 \), or 60 per cent).

4. Total Audience. This figure is the projected number of total homes listening or viewing the program. Since the average number of people participating in each home is determinable, this total audience can also be stated in terms of people.

\textsuperscript{79}Frey, Advertising, p. 595; For a variant and more advanced version of this technique, which permits centrally located operators to listen to radio and television sets in individual homes and identify the program to which it is tuned, see Lucas and Britt, \textit{op. cit.}, p. 452.
5. **Audience composition.** These figures represent the percentage breakdown of the number of people viewing or listening by age, sex, education and other classification. The extent of this breakdown depends, obviously, on the questions asked in the telephone interview.

A number of firms now provide data such as those outlined above, but the names most commonly associated with the telephone method are Hooper, Neilsen and Trendex. This information is available not only on a national network basis, but also on an area and an individual station basis. The regular ratings are normally limited to the major metropolitan areas, but the method is adaptable to virtually any location. It should also be noted that similar information can be obtained from the diary methods or from some of the mechanical methods to be discussed later.

The method contains certain distinct advantages, such as its application to an individual advertiser, its relative accuracy since the memory factor is minimized, its speed, and its moderate expense.

On the contrary side, it is limited to telephone homes; its regular application is restricted to larger cities; it is assumed on a "busy-line" situation that the set is not-in-use or that it is typical of the balance of sample, either of which is questionable; it may not clearly reflect such things as partial listening and viewing; it is not useful for measurements of spot announcements; and finally it is a measure of exposure, not sales effectiveness. Thus, it is to be recognized that the method is not without bias and that its measurement is partial.
Mechanical Methods. These methods involve the use of mechanical devices to record listening, viewing and to a limited degree reading habits. They are essentially quantitative in nature. The best known of several such devices is the Nielsen Audimeter, which can be inserted inside the radio or television set and which records the time at which the set is turned on and the station to which the set is tuned. Thus it provides a running record of the listening and viewing patterns of the set, and as an extra feature, it can record any combination of four radio or television sets in the home. This technique permits a minute-by-minute tabulation of audience patterns. Since the devices are placed in carefully selected and identifiable homes, presumably comprising a representative sample of all television and radio homes, a significant amount of data on both the quality and quantity of the typical audience is available.

Lucas and Britt contend that "the audimeter, or instrument of that type, offers the best present-day approach to precision research in relation to advertising." They further argue that since measurement is continuous, it is possible to follow the flow of audiences from one program to another, to determine the degree to which tuning interferes with commercial messages and to determine the trends of listening and viewing habits in specific family situations. The system also permits a sponsor to estimate the extent of duplication of his audience and the total coverage by his combination of programs.

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80 Lucas and Britt, op. cit., p. 458.
81 Ibid., p. 461.
The same two observers, however, admit to limitations of the technique. Among the problems encountered are:

1. Technical questions created by the development of frequency modulation broadcasts which often duplicate regular broadcasts.

2. The growing number of radios and television sets in a single home.

3. The increasing use of car radios, portable radios, and portable television sets.

4. The possibility of a family's listening and viewing habits being subject to bias created by the presence of the monitoring device.

5. The nuisance problem associated with the installation and servicing of the equipment and the collection of the data. The recording tapes or records must either be picked up or mailed in at regular intervals.

Despite these limitations, these researchers have concluded that "the objectivity [italics in original] and the precision of the method in general represent high achievements in advertising research."^{82}

In addition to the devices similar to the Audimeter, *Printer's Ink* lists three other mechanical techniques used in radio and television measurements. These are: (1) Instantaneous Audience Measurement Service, based on the application of wartime radar principles, (2) Radox, an electronic technique, and (3) Teleflush, a check on the operations curve of the waterworks facility in the area. When high-pull programs have been running, people head for the bathroom between

^{82}Ibid., p. 465.
programs. This results in a sharp, extreme and abrupt increase in the amount of water drawn from the system. These abnormalities normally occur on the hour or the half hour and, by relating this surge to simultaneous television programs, a very unselective but significant indication can be obtained of the extent of the viewing audience.83

Even beyond the foregoing methods, Lucas and Britt report a number of techniques involving mechanical devices which are useful in laboratory situations but, for obvious reasons, have limitations in broad applications. Several of these are aimed at reading habits, a largely-ignored area for the concurrent method. They include:

1. Fingerprint tests applied to discarded copies of magazines. Time magazine is reported to have done one such test on a batch of its old copies. These tests showed that fingerprints were found on roughly ninety-six per cent of the pages and, based on separate thumb prints, it was concluded that 3.26 readers had looked at each copy.

2. Sensitizing of pages of a magazine in order to show varying amounts of exposure to light. The degree of exposure, in turn, could be translated into potential readers.

3. Use of psychogalvanometers or "lie detectors" to measure psychological reactions to advertisements through changes in pulse rate, blood pressure, respiration, and sweat-gland activity.

4. Eye cameras designed to provide a continuous record of eye movements while reading. These could reflect the degree of exposure to advertisements.

5. The use of tachistoscopes to determine the speed with which an advertising message can be grasped by the use of eye and mind. This device has been particularly applicable to research on billboard advertisements in determining size of print and amount of copy.\textsuperscript{84}

Another semi-mechanical process, also in the experimental state, is the subliminal technique. The latter has the potential, in certain situations, to accomplish what might be termed the classic measurement job in advertising; that is, to provide a tool which could within a space of a few hours reflect the complete effect of the advertisement.

Summary of the Concurrent Methods. These methods, in their total range of possibilities, have provided the tools for taking reasonably accurate measurements on the amount of attention that a specific advertisement has attracted. This is particularly true of those appearing on radio and television. To a degree, they can also suggest the amount of interest that an advertisement has created. From this point in the AIDA sequence, however, data delineating the effect of the advertisements are not available from these methods. Although many advertisers and agencies consider it axiomatic that advertisements attracting large audiences have a corresponding effect on sales, this effect is not provable through these methods.

It is pertinent to note, at this point, that concurrent methods are most effective in radio and television media, whereas the post-testing methods are aimed largely at the printed media. As will be noted later, the post-test is able to accomplish for printed media roughly what the concurrent test can do for television and radio. Neither, however, can

\textsuperscript{84} Lucas and Britt, \textit{op. cit.}, pp. 466-472.
go the final mile and predict the behavior of the desire and action variables. It is to this point that Ramond was addressing his case when he proposed the thesis of the intervening variable.

In this summary of concurrent methods, one further aspect is deserving of attention. This matter relates to side repercussions that can develop in the effort to solve the ever-pressing measurement problem. In the course of advertising history, literally hundreds of ideas on measurement methods and devices have been conceived. Many of these have been experimentally tested. These devices have ranged from simple coupon counting to complex mathematical models, from amusing "Teleflush" to the sublime Hooper and Neilsen audience ratings.

The subliminal tests on popcorn and the audience ratings serve to illustrate how advertising can create social and political problems far beyond the scope of measurement. These tests were first tried on an experimental basis in a northern New Jersey theater in the summer of 1957. Reputedly on the alternate nights when the subliminal image was flashed across the screen advertising popcorn and Coca Cola, theater purchases of popcorn jumped one-half and those of Coca Cola by one-sixth above the average on nights when the advertising was not used. The market researcher and developer of the tests, James Vicary, claimed that he had uncovered a new advertising technique which, in this simple case at least, provided a simultaneous measure of its total effectiveness. The publicity given to this project
immediately caused a storm of protest involving the ethical and social questions raised by the technique. 85

In a similar vein, the radio and television ratings, designed for assistance to advertisers, agencies, and media in measurement of audiences, have become prime targets for criticism, again on social grounds. The argument, which has been frequently voiced in hearings before the Federal Communications Commission in the summer of 1961, is that the high audience-ratings accorded shows featuring violence, westerns and "rock and roll" music have caused advertisers and networks to seek the lowest common denominator in the cultural level of its audience. This process, it is alleged, has driven the higher quality programs off the air and television screen. 86

The general social problem surrounding advertising was discussed in some depth in Chapter II and will not be pursued further at this point. The two examples just cited, however, show how the practical problem of measurement can become entangled in the broader aspects of the total advertising question.

Post-Testing Methods

These techniques are directed toward three broad types of measurement situations: (1) where data are needed to validate suppositions drawn from pre-tests or concurrent tests; for example, a magazine


advertisement on which a check-list had predicted the probability of high readership, (2) where data are simply unavailable except on a post-facto basis; for example, the degree to which a respondent can recall and recognize certain features of a recent publication, broadcast or telecast, and (3) where the aim of the test is the overall effectiveness of the advertisement. Whereas the concurrent tests were more applicable to radio and television media, the post-test can be applied to any media situation.

In applying it to different media, however, the life span of a program or a publication must be taken into consideration. In the case of radio and television programs, it has been determined that memory tests taken beyond a two-hour interval following the program are unreliable. Even within this period the validity of the test is questionable.87

Newspapers have a somewhat longer life than radio and television programs, but the useful span is probably less than twenty-four hours or no longer than the time when the respondent reads a newspaper with a later dateline. Magazines have a still longer span but also a less precise one. Tests in the latter case can be conducted with some degree of reliability within two weeks of the date of publication. Because of the time factor, most of the post-testing has involved printed media.

87 Lucas and Britt, op. cit., p. 481.
Confronted with the aforementioned situations where measurements are desired and working within the limitations of the life span of a specific advertisement, the practical post-testing methods have assumed the following forms:

1. Recall tests.
2. Recognition tests.
3. A variety of tests and checks designed to measure the total effectiveness of the advertising campaign.

Recall Tests. There are tests, based on memory, primarily designed to measure attention and interest among the four objectives of advertising. Thus, they too must be regarded as only partial tests of advertising's effectiveness. The recall tests are of two basic types, pure and aided.

The pure recall is based on sheer memory. The respondent is asked such questions as, "What radio or television programs did you see this morning?" or "What advertisements did you notice in this issue of Life?" According to Frey, the method is not practicable for printed advertisements because the unaided-recall of specific advertisements tends to be so small as to have little meaning. In the case of television and radio, it has some value if the test is conducted within a matter of hours after the program. Even in the latter case, however, the coincidental telephone and mechanical recorder have proven to be more reliable and have tended to replace it.

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88 Frey, Advertising, p. 612.
89 Ibid., p. 613.
The aided-recall technique is a more advanced and more useful device. Lucas and Britt describe it as follows:

The essence of the aided-recall is for the investigator to reconstruct part of the original impression for the respondent, and then to ask him to supply the missing part. To tell a magazine reader that there is a floor-wax advertisement in the issue gives the respondent a minimum of aid in identifying the product or describing the advertising display. If, instead, the investigator exposes a considerable part of the original advertisement to the respondent and asks him to name some major hidden feature, the aid to memory is considerable.90

A number of variations in the aided-recall method have developed. These include the device of masking out certain key words in the advertisement, such as the brand name or trademark and asking the respondent to fill in the missing links. Certain weaknesses in this variant have been noted. First, there is the difficulty of masking which in the case of certain products, such as Coca Cola, is virtually impossible. Another difficulty arises because of the dominant position held by certain firms in their respective fields; it has been pointed out, for example, that any soup advertisement is likely to get many Campbell votes because of this Company's close association with soups. This likelihood creates statistical errors in two directions. A soup advertisement, competitive to Campbell, is likely to suffer in recall percentages because of snap judgments, and a Campbell advertisement might, in terms of actual

90Lucas and Britt, op. cit., p. 485.
readers, develop a bias on the high side.\footnote{Ibid., pp. 485-490.}

A second variant of aided-recall is the Method of Triple Associates, which was developed by and is still associated with the name of Dr. H. C. Link. The name derives from the fact that the test seeks to determine the ability of the respondent to associate a firm's product or service, its specific advertising campaign theme and its brand name. The question is phrased in such a manner that this triple association can be established with a one-word answer. In effect, the interviewer states two associations and seeks the third.\footnote{H. C. Link, "A New Method For Measuring Advertising Effectiveness," Harvard Business Review, Vol. 11 (1933), pp. 165-177.} For example, "What firm in this area advertises a new financial service called 'Ready Banking'?"

The Method of Triple Associates is similar to the masking technique, except that it searches for the penetration effect of a total campaign rather than a single advertisement. It cannot, however, be interpreted as a reliable measure of the effectiveness of the advertising effort in terms of sales. Lucas and Britt cite the case of a particular advertising campaign on Lux soap where the percentage of respondents who could correctly identify the soap increased from fifty-four per cent to seventy-one per cent in five months while sales increased from only twenty-four per cent of the survey families to twenty-nine per cent.\footnote{Lucas and Britt, op. cit., p. 491.}
One of the more recent adaptations of aided-recall is Gallup and Robinson's "Proved Name Registration." This technique involves a step-wise process which seeks to determine the extent of penetration of the specific advertisement. The procedure works as follows:

1. The respondent is shown the cover of magazine and asked if he recalls some material in the issue.

2. If the description of at least one item is correct, the respondent is asked to state when he read the issue and the amount of time spent in reading it.

3. At this point the respondent is handed a deck of cards bearing the names of brands and advertisers appearing in the issue of the magazine and asked to state which advertisements he remembers.

4. Taking one of the selected advertisements, he is then asked to "play-back" every detail he can remember concerning the advertisement. These "play-backs" are recorded or taken down as near verbatim as possible. This phase of the interview is used for later analysis of the advertisement's strengths and weaknesses.

5. Finally, the magazine is opened to the advertisement which the respondent claims to have recalled, and the latter is asked to verify whether or not this is the advertisement about which he was thinking. If there is evidence of a correct association of the brand or advertiser with some specific feature or sales point in the advertisement, this is considered a "Proved Name Registration."

The foregoing procedure is continued for other advertisements in which the interviewer is interested and in which the respondent has shown some knowledge. For each advertisement the percentage of persons interviewed who make a correct association is the reported figure of "Proved Name Registrations." 94

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94 Sandage and Fryburger, op. cit., pp. 593-594.
Still other variants of the aided-recall method have been
developed. Among these are Broadcast-Sponsor Identification, Printed-Roster Method used in radio and television audience measurement, and other techniques which attempt to associate brands with products and brands with wants. In each of these optional methods, the basic principle prevails--giving the respondent some clue and asking for identification of a firm or brand name.95

In the way of appraisal, the recall techniques have furnished considerable insight on the questions of how much attention and interest an advertisement, or even an entire advertising campaign, has created. To a lesser degree, they have thrown some light on the matter of desire, particularly with the addition of such features as the Gallup and Robinson "playbacks." The methods, however, have not been able to satisfactorily relate recall of the advertisement to sales. If there is a high percentage of recall, and the association with the product or service is favorable in the mind of the respondent, it is believed that higher sales is a natural sequel. But favorable association might not be a concomitant of high recall. In fact, Sandage and Fryburger have suggested that the opposite might often be true. They cite the example of the cigarette which advertises, "Proof Positive." A high percentage of respondents, in this case, could possibly give the correct name of the cigarette, yet not believe in the claim. Such

95Lucas and Britt, op. cit., pp. 492-499.
advertising, they argue, "might become so repugnant as to drive consumers to some other brand."\(^{96}\)

In an overall perspective, the recall tests have aided advertisers in their search for effective themes, layouts, color treatment, copy, and other features of advertisements which attract attention and interest. Thus they have added another layer to the understanding of the advertising process, but they have not provided an answer to the advertising-sales relationship.

**Recognition Methods.** These tests are designed to measure the degree to which the public recognizes a specific advertisement and, if recognition is established, the extent of the reading, listening, and viewing. The method is adaptable to all types of media, although in practice it has been used largely with printed advertisements. In many respects recognition is similar to aided-recall; both rely on memory and both expose the respondent to the name of the publication or program at the beginning of the interview.

The originator of the recognition test, commonly called readership, is generally regarded as Dr. Daniel Starch, who first proposed the technique in 1923.\(^{97}\) Credit is frequently given, however, to Dr. George Gallup for having popularized the method; Gallup's work was published in 1931.\(^{98}\) It is interesting to note that these two

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\(^{96}\)Sandage and Fryburger, *op. cit.*, p. 595.


\(^{98}\)Sandage and Fryburger, *op. cit.*, p. 587.
developers formed advertising research firms which still occupy paramount positions in the field of testing. Starch has remained generally attached to the recognition or readership school, while Gallup has veered toward aided-recall with his "Proved Name Registration," which places emphasis on penetration and impact as contrasted to just the degree of readership. A friendly rivalry has developed as to which of the techniques is the more reliable. A research project conducted by the Advertising Research Foundation in 1955 tended to validate the reliability of both techniques, but suggested the Starch method might have a slight edge in validity.99

The literature on the recognition method and its variants is voluminous, thus extensive treatment on the fundamentals is not warranted. In brief, the steps in the Starch Readership Test are as follows:

1. Establish, by the respondent's inspection of a magazine issue, the fact that the issue of the publication has been possessed and read.

2. Make a page by page check seeking levels of recognition and reading.

3. Determine three levels of readership: noted, seen-associated with product or advertiser, and read-most. These figures are ultimately used to compute the cost of the advertisement in terms of readers-per-dollar.

4. Determine observation and reading of component parts—headline, pictures, subheadings, copy and signature.100

Utilizing the basic data, along with a host of auxiliary information gathered at the end of the interview, a broad series of reports and services are offered by the Starch Advertising Research Service. These include the Current Issue Reports, Ad Files, Consumer Magazine Reports, and Ad News.101

Starch has long held the view that a strong relationship existed between reading of advertisements and purchases of the product or service. He has granted, however, that evidence of readership was not enough to prove this relationship. Beginning in about 1945, he extended his research in an effort to provide more acceptable answers to this long-standing question of relationships. The essence of this effort is contained in a recent article in the Harvard Business Review.102 The basic approach has been to determine the cumulative effect of advertising impressions; his thinking on this point was expressed as follows:

The total user figure is not closely related to the immediate effects of current advertising. It is most likely to be controlled by the past build-up of


101 Frey, Advertising, pp. 606-609.

continuing and habitual users. It measures a brand's share within a medium's market and furnishes a base for evaluating trends in the use of a product by ad-readers. If the company sponsored other special promotions in addition to advertising, it can usually be assumed that they affected non-readers of the ad in the same way as readers.\(^3\)

Source data for determining this cumulative effect have been obtained by extending the regular interviews on readership to include questions concerning the products and services used by the respondents and the date of the most recent purchases. These questions are posed to both ad-readers and non-readers. From this additional information, he is able to compile "tonnage" figures on readers, purchases, and users over a period of one year. In turn, he comes up with ratios which compare the number of purchases of a particular product between ad-readers and non-readers. Based on the studies cited, a strong relationship is evidenced between advertising and sales response. Starch has summarized his own case along the following lines:

1. Caution must be exercised in interpreting data on ad-readers who buy the product.

2. Studies of reader buying clearly reveal the vast importance of sheer tonnage of ad-reading impressions in the business of building a high volume of current users. Advertisements of two brands may, ad for ad, be equally effective in selling power but if one brand is reaching twice as many as another, it has an enormous advantage.

\(^{103}\text{ibid.}, \text{p. 50.}\)
3. Particular caution must be exercised in reviewing long-term trend data because factors that influence buyers may change. For example, it is possible that the objective of a new brand may be to win new customers while that of an established brand may be to hold on to existing customers.

4. The studies defy the long-standing criticism that advertising does nothing. The data clearly show that when advertising is increased, reduced or dropped there are marked effects.

5. The studies indicate that the overall market for a product is composed of many smaller "promotional markets" and each can be most effectively reached through the single medium that defines that component market.

6. The data present challenging implications for the selection of promotional markets. The best policy would seem to be for the newcomer to use the media markets least used by the established competition. On the other hand, the established brand must never allow the newcomer to outadvertise it in any important promotional market.\textsuperscript{104}

The Starch studies have been limited in the main to general interest magazines in the consumer field and to a few newspapers and specialty publications. This has left a gap in other publication areas. The Advertising Research Foundation, with its continuing studies of readership in daily and weekly newspapers, farm publications, business journals and transportation advertising, has filled much of this gap.\textsuperscript{105} The readership surveys made by this organization follow the same general pattern as does Starch although they have not been pursued to the depth of some of the later Starch effort.

\textsuperscript{134}\textit{Ibid.}, pp. 57-58.

\textsuperscript{105}Frey, \textit{Advertising}, p. 606.
Beyond Starch and the Advertising Research Foundation, a number of variants in the recognition method have evolved, the most significant of which is the "Controlled Recognition Technique" developed by Dr. D. B. Lucas. Lucas, working on the hypothesis that there was no safeguard in the regular recognition test to prevent a respondent's erroneously claiming that he had seen an advertisement, has sought to correct this tendency toward an upward bias in readership percentages. His technique is to mix, in a kit or scrapbook, recently published advertisements with advance copies of advertisements to be published next week or next month. This collection is exposed to a sample audience in the same manner as in the case of the regular readership test, but the percentage of erroneous claims is noted. On the following test date, the preceding period's advance copies have now been published. Thus they become the published advertisements and are mixed with still more advanced copies. These pre-test scores serve two purposes; they are used to deflate future recognition scores or to correct the current ones. For details of this method and suggested formulas for application, see the cited references.106

Like recall, the recognition techniques have thrown considerable insight on the degree to which an advertisement can create attention and interest. With the extensions developed by Starch, it is possible

that the recognition or readership techniques may be able to provide relatively reliable data on the degree to which sales are related to readership. The Starch studies suggest a high degree of correlation but leave many questions unanswered. For example, is increased advertising effort only able to increase sales in the case of product or service that is young in its life cycle? Do magazine readers, among whom most of the tests were conducted, comprise a typical audience group or do they differ from the norm in such important factors as purchasing potential?

There are also questions concerning the reliability of the figures, among these is the possibility of inflation raised by Lucas. There is little doubt but that the Lucas controlled technique adds to the validity of the test, but at the same time, it adds cost and complexity to the procedure.

On balance, the recognition tests have provided advertisers with ad hoc evidence on current advertisements and with seminal material that is invaluable in planning the structure of future advertisements. As Wiseman put it, "As these patterns are reliably identified and repeatedly verified, they have provided scientific bases for both prediction and new hypotheses." 107

Tests Designed to Measure Overall Effectiveness. The final tests in the post-testing category are those which attempt to evaluate

the total effect of the advertisement. As has been suggested throughout this thesis, success in this area is the ultimate goal of all measurement. But it is also here where the most serious dilemmas are encountered, and where several of the newer theoretical efforts have sought a solution. As for existing approaches, Lucas and Britt have listed five techniques: (1) solicited responses, (2) the return coupon, (3) sales-area tests, (4) product-user evidence of sales effect, and (5) direct interviews.\footnote{Lucas and Britt, \textit{op. cit.}, p. 524.}

The first three techniques were discussed in the earlier section on Limited Market Testing. Since the full-scale post-test is in reality a magnification of the smaller pre-test, duplication of the discussion is not justified.\footnote{For more detailed treatment of these techniques see Lucas and Britt, \textit{op. cit.}, pp. 524-550; Sandage and Fryburger, \textit{op. cit.}, pp. 552-586.}

One example of the fourth technique, the product-user evidence of sales effect, is the Starch extension of the readership test in which he has tried to determine whether ad-readers are more likely to become users of a product or service than non-readers. Similar tests have been reported applicable to broadcast audiences and to readers of \textit{Life} magazine.

In the broadcast situation, the aim of the test was to measure both the sales effect and the product-user effect of a single radio program. Two test markets were selected with approximately a 100,000
population in each; the radio program was beamed into one market but not the other. Investigators checked beginning and ending dealer inventories in the two test markets. During a four-week test period, dealer sales in the radio market exceeded those in the non-radio market by eighty-eight per cent. To see how the sales effect was reflected in home usage, coincidental telephone interviews were conducted among a representative sample during the course of the program in the radio market. Personal interviews were then conducted to follow-up the calls. These included both listeners and non-listeners. Permission was asked to make an inventory of food shelves in the pantry of each home. This check showed a seventy-four per cent advantage for usage of the product in the listening home as compared to the non-listening home.110

The Life test, covering four issues of the magazine and involving over 1,600 interviews with housewives, also showed that advertised products were more likely to be found in the homes of Life readers than in those of non-readers. More significantly, the percentage of advertised goods in the possession of housewives increased as the number of exposures to the magazine during the period increased. Still further, the increase was larger among those readers who claimed to have seen more of the advertisements.111


111 From unpublished Life magazine data, as reported by Lucas and Britt, op. cit., p. 555.
Both of these case studies lend support to the Starch contention that readers of advertisements are more likely to be users, and the greater the reading exposure, the greater the likelihood of usage. In appraising this technique, Lucas and Britt had this to say:

Altogether, the applications of the product-user method of measurement of sales effects of advertising have generally shown both advertisements and media to be highly productive of sales. There have been tendencies, of course, for the sales results credited both to advertisements and to media to be exaggerated. Each new application of the product-user method should be challenged as to possible inaccuracies or inflation of results; but this relatively new approach is useful as a "rough" measuring tool in a field where copy research has been notably unproductive . . . .112

The final method listed in the post-testing category is the direct interview, the purpose of which is to determine why a consumer buys a particular product or service. The simplicity of the approach suggests the interview method as the most practical of all of the approaches. Thus logically, it would seem to be the initial choice in the search to establish a relationship between advertising and sales. The difficulty associated with the method, however, is equally simple although somewhat illogical; it is that consumers are unwilling or unable to give the actual reasons for their purchases and selections of particular products and services. Advertising, for example, is seldom mentioned as a factor in the decision-making process. The difficulties involved in getting dependable answers from direct questions

112 Lucas and Britt, op. cit., pp. 558-559.
on buying habits and patronage are recognized by both practitioners and theorists. In commenting on this point, one bank official told this investigator:

For years, we have asked persons who open new accounts with us to state their reasons for selection of our bank. Convenience and location come up repeatedly as the explanation. In many cases, this is probably the real reason, but we know of hundreds of instances where a person will walk or drive by one bank to patronize another. This is true in our bank and in the case of our competition. We have learned not to place too much reliance on this explanation.  

Summary of the Post-Testing Methods. All of the methods included in the post-testing category provide rough measures of the sales effects of advertising. None can make the claim, however, of having accounted for the totality of variables. Each of the specific tests mentioned has been made by a firm or an individual with a pecuniary interest in advertising, thus the possibility of exaggeration in the claims must be considered. Careless use of one of the tests could produce results that are useless, if not completely misleading. On the other hand, if the test is designed carefully and properly administered, it could serve a logical purpose in the measurement process, that of providing a rough indication of the effectiveness of the past advertising and an aid in the future decision-making process.

Appraisal of the Practical Methods of Testing. Brief appraisals of the pre-testing, concurrent, and post-testing categories were incorporated in the body of the discussion to permit reference to some of

113Confidential Interview.
the specific tests described. No further attempt at appraisal of individual methods is warranted.

As stated in the introduction to Section C of this chapter, the aim was to pull together some of the scattered and diverse viewpoints on the wide range of practical methods which have been employed in the testing process. In so doing, it was hoped to provide scope and, in a few instances, depth to the matter of practical measurement. In the course of this inquiry, the impression has been left with this investigator that the typical practitioner, particularly in the financial institution, is mired in confusion concerning the possibilities and problems surrounding measurement. The result, at least in many cases, appears to be a do-nothing policy.

In the total perspective, current methods leave much to be desired; they are aimed mainly at segments of the problem. On the other hand, many of the methods can provide useful guides for future advertising effort and rough yardsticks of accomplishment in prior advertising. The costs involved in learning something about the effects of advertising can be substantial, but the losses incurred from knowing nothing may be even more substantial. Despite limitations, measurement data strongly suggest that qualitative and quantitative differences exist. It is suggested, therefore, that the firm interested in profit maximization cannot afford to ignore the available measurement techniques. An exception to this generalization would be the firm in which the volume of advertising is of little consequence in the cost structure of the firm.
As far as the financial institution is concerned, it is obvious that most of the effort in this field of testing has been directed toward product-oriented situations. This fact aggravates the measurement problem in the service institution, but does not negate the possibility of application. Since the service institution, particularly the bank with operations restricted to a localized area, differs in certain respects from the product firm with nationwide operations, the succeeding chapter seeks to deal with specific advertising issues in the bank. The emphasis is to be on the measurement and budgeting problems.
CHAPTER VI

THE CURRENT STATUS OF BANK ADVERTISING AND A PROPOSAL

Advertising, following the "boom and bust" cycle with which it has long been characterized in financial institutions, was virtually dormant in the operations of banks from the 1929 crash to World War II. The depth of that particular cycle was probably exaggerated by the bank moratorium, the attendant failures and the general loss of confidence in banks. Although the war period witnessed a degree of emergence in selling effort, banks were spending on advertising only $20,000,000 on total deposits of $167,000,000,000 as late as 1945.\(^1\) This expenditure equalled $120 per million dollars of deposits.

In the post-war period, bank managements began to sense the fact that their dormancy had created a void. Rivals, such as personal and sales finance companies, credit unions, building and loan associations, and insurance companies had begun to take an increasing share of the total resources held by financial institutions. Absolute gains in bank assets tended to hide the extent of the relative loss of position. But the seriousness of this shift, both from the standpoint of banks and the general welfare of the economy, has been emphasized by Professor Ross Robertson. He claimed that in 1919, banks controlled 77 per cent of all assets held by banks, life insurance companies, savings and loan associations and mutual savings banks. By 1945 this percentage had

\(^{1}\)"Comparison of Largest Banks Deposit Totals," American Banker, Vol. CXXXI, No. 51 (March 16, 1961), p. 57; for advertising data see Banking (March, 1960), Cover.
dropped to 70 per cent, by 1950 to 62 per cent, and by 1960 to 52 per cent. Robertson attributed much of this decline to the multiplicity of controls exercised by federal and state regulatory agencies relative to operating policies, expansion, money supply and interest rates. In the way of remedial measures, he proposed less restrictive regulations and a Federal Reserve Board more responsive to public needs and sentiment.2

Still further inroads on the bank's traditional position as a savings and investment domicile and as a source of loans, have been made by personal and sales finance companies, credit unions, mutual investment trusts, pension funds, and stock brokerage firms. The net result suggests that the bank, despite its absolute gains, is playing a decreasing role in the financial structure of the nation's economy.

Few bankers would take exception to Robertson's contentions that restrictive controls have been important factors contributing to the relative decline in the position of banks in the financial structure of the nation. But many are frank to admit that other factors also contributed to this decline. Among those most frequently mentioned are the attitudes which prevailed in many banks during the 1930-1950 era. Frequently, it is argued, bank officials were content to sit back in obsolete buildings, at inconvenient locations, with tough policies regarding loans, and with little personal or mass selling effort. Much of the patronage they awaited went elsewhere. A number of bank officials

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2Robertson, op. cit., p. 12ff.
point to public opinion surveys which even today reflect a considerable
degree of discomfort, if not fear, on the part of many people in deal­
ing with banks, particularly with bank officers. The idea that bank
services, like most other products and services, had to be sold seemed
foreign, if not below the professional dignity of many bankers.

Corroboration of this weakness in selling effort is contained
in the following statement extracted from a study of bank stocks made
by a leading investment firm:

Most bank managements have no conception of how to
sell their services effectively . . . . Most of the
problems of the commercial banks are not due to govern­
ment control of interest notes but rather to the banks' own lethargy and failure to sell themselves in a force­
ful and aggressive manner.

At the same time, competitive institutions sensed this void
and adopted personal and mass selling policies with strong emotional
appeals to the potential customer. Among these were convenience,
speed, friendliness, and privacy. Perhaps even more important, these
rivals succeeded in conveying to the customer the idea that he was
important, and that his patronage was appreciated. The success of
some of the competing financial institutions tended also to dispel
the notion that the demand for financial services was relatively
inelastic and that aggressive selling tactics were of little avail.
An ironic feature of certain of these legendary success stories,
particularly those involving personal and sales finance companies, is

3As reported by Robert Lindquist, The Bank and Its Publics
that strong rational motives favoring banks had to be overcome. In many cases the customer patronizing the latter institutions, in lieu of banks, paid higher interest rates and perhaps incurred financial hardship from the lack of dependable financial counsel. But the crux of the matter was that the bank had either failed to gear itself to handle the rapidly expanding demand for consumer credit, personal loans, and other financial services during this era or had failed to convey its willingness and ability to supply these services to the public.

Particularly during the last decade, banks have begun a belated attempt to recoup their position. Magnificent bank structures have sprung up with great rapidity, and in many instances the buildings represent opposite extremes to those of two or three decades past. In many cities, Houston and Dallas, for example, new banks resemble exhibition halls which one might expect to see at a World's Fair. Gone are the cages and other evidences of coldness and awesomeness. Customer calling and business development, glamorous names for personal selling, have become bywords at banker conventions. New emphasis has been placed on the importance of each employee's actions in his contacts with the bank's publics; customers are often startled when smiling tellers greet them by name and show interest in their personal problems. Services were expanded and now are likened to a grocery supermarket. Loans for the "little guy" were made available and welcomed. And finally, banks embarked on a greatly expanded, for banks at least, mass selling effort. From Robertson's data, the declining trend has perhaps
slowed in the last decade, but it does not appear to have been halted. The over-riding question, then, is what can or should banks do at this point to improve their competitive position? Or, perhaps even more significantly, is the relative decline in banking's position in the economy of serious import? Obviously, both of these questions are so broad that they are beyond the scope of this inquiry. But an assessment of the advertising factor as an element in this competitive picture is pertinent and perhaps significant.

A. THE ADVERTISING FACTOR IN THE COMPETITIVE PROCESS

From the discussions in Chapters IV and V, it could be inferred that the effect of advertising in this competitive struggle cannot be easily assessed. It is generally granted, however, that many financial institutions have been devoting larger percentages of their resources to mass selling appeals than have banks. This is particularly true of the personal finance companies, investment brokers and investment counsellors. To a lesser extent, it seems to be true of savings and loan associations.

To suggest the degree of this competitive problem, several cases can be cited. The flood of stock market letters angling for the investor's dollar was mentioned in Chapter III. One firm operating in this field, Drew Odd Lot Studies, is reported to be spending about $150,000 on advertising out of an annual gross income of $350,000.4

This forty per cent of its annual gross income is comparable to a figure in banks of around one and one half per cent.

During the course of this inquiry, five savings and loan associations were contacted to get a rough yardstick for comparison. These institutions are currently spending around $2,000 per year for each million dollars of resources available. Again a comparable figure for banks, based on previously cited data, is roughly $700.

Coupled with relatively lower advertising expenditures is the problem of organizing and staffing the advertising and public relations function in the bank. In most larger banks, these functions are combined into a departmental activity usually called "Public Relations." A number of bank executives hold the opinion that the majority of banks have been competing with patchwork organizations and inadequately trained personnel in this field. Their competition, so it is often held, has been operating with skilled professionals and with managements oriented to the concept that selling is the key to their success. The nature of this problem has been stated by George Watts, Vice President of the Republic National Bank of Dallas:

Bank management, as a whole, recognizes that it takes time, ability, and hard work to produce a good credit man, a good bookkeeper, or a good investment man. But too often, it is content to leave the task of telling the public about its credit services, its loan facilities, its investment ability and bookkeeping accuracy, in the hands of persons who not only are unskilled in the arts and crafts of public relations, but who are openly antagonistic toward the
principles on which good public relations are based.\(^5\)

And Watts reached this basic conclusion:

> It is my conviction that banks have allowed their public relations programs to lag behind those of other segments of industry; and that bank public relations departments have not been allowed to match the progress shown by other departments in the banking industry.\(^6\)

The factor of organization in the public relations function of the bank could be a question of major significance and deserving of thorough investigation. But such an investigation is also beyond the defined scope of this inquiry. To note this matter, however, is pertinent since organizational weaknesses could contribute to the fact that banks have shown relatively little interest in logical, or semi-scientific, approaches to the problems of budgeting and measurement.

Succeeding sections of the chapter seek to consolidate the status of current bank thinking on the question of advertising, to review the results of a purposive survey conducted by this investigator, and to probe the applicability of new approaches to the measuring and budgeting segments of the advertising problem.

### B. THE STATUS OF CURRENT BANK THINKING ON ADVERTISING

Based on cited data compiled by the American Bankers Association,


\(^6\)Ibid.
The Financial Public Relations Association and the studies of researchers Tucker, Shumway, Blackmon, Watts and Lindquist, it seems clear to this investigator that bank advertising has undergone a metamorphosis during the last fifteen years. The changes that have taken place have been both quantitative, a 1,000 per cent increase in total expenditures during this period, and qualitative. The qualitative changes have followed two directions: (1) a trend toward improvement in the content of the advertisements, and (2) a shift from institutional emphasis to advertisements designed to sell specific services of the bank. These changes have resulted from both internal recognition of the possibilities inherent in advertising as a selling tool and external pressures from both competing banks and other financial institutions. Where the changes have resulted from external pressures, without accompanying acceptance, re-orientation and reorganization within the bank, there is a likelihood that illogic and waste have prevailed. This point was emphasized by Tucker and has been frequently re-emphasized in the course of discussions held with bankers.

It would, however, be quite inaccurate to conclude that all banks, or even a majority, are handling their advertising on an ineffective basis. Banks, like other institutions, incorporate a multitude of schools of thought. In looking for thought patterns on measurement and budgeting, three schools seem to emerge out of the potpourri. Since it appears to this investigator that some attempt at measurement is a logical first step to budgeting, the treatment of the schools of thought can be restricted, for practical purposes, to the area of measurement.
The argument for each school is apt to begin on a note of general agreement, that yardsticks are needed to measure the past effects of advertising and to serve as future guides for budgeting expenditures. There is virtually no bank that fails to recognize that advertising evaluation is a perplexing problem. Dissension, however, arises with the questions of when, where, how and at what level in the bank these yardsticks should be applied. The attitudes of banks might be categorized by the degree to which they pursue a policy of attempting specific measurement and budgeting techniques; using such a criterion, they could be described as minimal, occasional and continuous.

The Minimal School

This group holds one or a combination of two viewpoints: (1) that measurement is a practical impossibility, and/or (2) that measurement is beyond its capabilities.

Based on information gathered in interviews and correspondence with practitioners, the first viewpoint is held by both the "excuse seekers" and certain serious students of advertising. The "excuse seekers" have simply accepted the adage of practical impossibility with little logic to support their opinion. The serious students, however, have given the matter much thought and can present an argument with considerable logic as to why measurement in their particular case is difficult, if not impossible. In the main, the argument hinges on the practical impossibility of separating the advertising effect from
other factors in the marketing mix. Instead of tests, therefore, 
reliance is placed on experience and judgment. Illustrative of 
this point of view is the following excerpt from a banker's personal 
letter to this investigator:

Bank services are not mail order items and, aside from 
some isolated cases in which a highly merchantable and 
widely appealing service is offered on an exclusive basis, 
ad results defy most analyses.\(^7\)

The second viewpoint results from a frank admission of limita­
tions from the standpoint of confidence in testing, lack of know-how, 
and/or lack of funds. One banker is reported to have expressed his 
opinion in this manner:

I am ashamed to confess that our bank has never 
tested its advertising. Frankly, I always have been 
interested but I've never known which way to turn.

If Ford can pour hundreds of thousands of dollars 
into such studies and come up with a fiasco like the 
Edsel, can I afford to commit my bank to a $5, $10, or 
$15 thousand investment.\(^8\)

This minimal school appears to be most representative of 
banks. Based on one recent survey covering a cross section of fifty 
large, fifty medium and fifty small size banks, sixty per cent had 
done no testing. Even this group could be considered atypical since 
the researcher noted that he had made his selections from a group of 
the more active members of the Financial Public Relations Association.

\(^7\)Confidential letter dated May 29, 1961.

\(^8\)As reported by Clifton Blackmon, "Practical Methods to Test 
the Effectiveness of Financial Advertising," Bulletin--The Public Relations 
There was in this survey, however, a significant correlation between the size of the bank and the use of specific testing. Approximately seventy per cent of the banks with deposits over $100,000,000 had done specific testing but less than ten per cent of those with deposits of under $15,000,000.9

As of December 31, 1960, only 2,614 of the nation’s approximately 14,000 banks held more than $10,000,000 in deposits.10 Since Shumway's percentages probably deviated from the norm on the high side because of a purposive rather than representative sample, it is logical to assume that the vast majority of the nation's banks do not attempt to measure the effects of advertising beyond the realm of personal judgment. Thus the minimal school could be considered representative of banking, and the use of specific testing in this field is the exception.

Tucker's study suggested that minimal is also descriptive of the degree to which banks pursue a logical policy on budgeting. It is perhaps a corollary finding that Tucker also recognized measurement as a preliminary step in the budgeting process.11

The Occasional School

A second school of thought does not propose a continuous program of testing but suggests a policy of making occasional forays

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into the field. The typical bank is likely to try testing in those cases where the nature of the advertisement requires relatively quick action. Situations of this type are the most easily measured since many of the usual variables can either be isolated or do not have a sufficient amount of time to exert a significant influence. Advertising pursuing such techniques as direct mail, short-term promotions, coupon returns or premium give-aways generally fit into this category.

The relative ease with which one of the short campaigns is measured, at least in comparison to the majority of advertising, can be illustrated with two brief case histories. The Dime Savings Bank of Brooklyn, New York, is reported to have gained 99,000 new savings accounts in a one month's advertising campaign using newspapers, radio, billboards, car cards in transportation vehicles, and handbills. The Bank offered a choice of six premiums to any one opening an account with a minimum deposit. Since the above number of premiums were dispensed, it was assumed that the bulk of these new accounts came in response to the advertising.\textsuperscript{12}

In a similar, though less extensive, effort The Franklin National Bank, located on Long Island, claimed that it opened 5,600 new accounts at total cost of $3.00 per account. This included the cost of the advertising and the premiums associated with it.\textsuperscript{13}

\begin{footnotes}
\item[13]\textit{Ibid}.
\end{footnotes}
In contrast to the product-oriented firm, the bank is assumed to have limited opportunities to use these quick-action techniques. According to Shumway, however, the coupon is still the most commonly used testing device in banking.\(^{14}\)

This school is also likely to extend its testing on occasion to samplings of public attitudes, and to surveys attempting to determine readership, listener and viewer habits. There is interest but little evidence of pursuance of the more sophisticated techniques outlined in the theoretical discussions in Chapters IV and V. With a few notable exceptions, this school of thought probably typifies the bank with more than $50,000,000 deposits.\(^{15}\)

**The Continuous School**

Finally, there is a school which represents the other extreme in its attitude toward testing. This group holds the belief that advertising can be tested at any level in the spectrum, that measurement should be pursued on a continuing basis, and further that measurement should be considered an integral part of the budgeting process. Included in this group are those who: (1) subscribe to advertising research services such as those provided by Starch, Gallup and Neilsen, (2) have built or are planning to build marketing models for their firms into which all advertising data are fed, and (3) are interested

\(^{14}\)Shumway, *op. cit.*, p. 25.

\(^{15}\)Ibid.
in the whys, hows and wherefores of advertising, encompassed by the diverse efforts of psychologists, motivation researchers, physical scientists, economists and mathematicians who are able to offer hypotheses on measurement and budgeting devices. The range of these various possibilities has been suggested by preceding discussions. Thinking along these lines has become quite common among larger product-oriented advertisers.

Among banking institutions, pursuance of a continuous measurement policy as a part of the advertising program is, at the time of this investigation, an exception. The survey made by Shumway showed only fifteen per cent of the responding banks having a planned program for the use of tests in improving their advertising. Of these, only one had deposits of less than $50,000,000 and none with less than $15,000,000. Thus this school of thought could be considered a rarity among all banks and representative of the minority in the larger banks.16

The next section deals with an effort on the part of the investigator to examine the results and the details of programs being pursued by a selected group of banks which are broadly representative of the schools herein described as "occasional" and "continuous."

C. A PURPOSE SURVEY OF BANKS

Previous researchers have reported that the typical bank is using few tools, beyond personal judgment, to assist it in the

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16Shumway, op. cit., p. 23.
advertising decision-making process. Yet each study has suggested that there were certain institutions which were doing something beyond the normal. With this atypical situation in mind, a questionnaire was designed by this investigator: (1) to determine the attitudes held by a selected group of banks toward the overall institution of advertising and particularly its value as applied to banking operations, (2) to seek to ferret out patterns of action that might be indicative of successful use of advertising and particularly applications of measurement and budgeting techniques, and (3) to gather basic data to test an idea relative to a broad measurement technique that might be applied to banks. A sample of this questionnaire is incorporated in this study as Appendix A.

With the assistance of several bank executives, one of whom was a past president of the Financial Public Relations Association, 100 banks were selected which were considered representative of the more far-sighted institutions in the field of advertising. The selection was not restricted to banks of a particular size, although most of the banks chosen were in the $50,000,000 and over deposit category. The questionnaires were mailed to the bank officer judged by the bank advisors to be in the best position to supply the desired information. This officer, in the majority of cases, held a title of Vice President or higher in the bank.

Limitations in the Data

Replies in one form or another were received from seventy-one of the 100 banks. Of these, however, twenty-four represented
letters of explanation as to why the particular bank could not supply the requested information. In the main, the difficulty arose on question five, a key element in the quantitative portion of the questionnaire. This question involved a request for specific figures covering total advertising and public relations expenditures over a five-year period. The usual explanations involved accounting inadequacies, inconsistencies, or changes in operations during the period requested which the respondent believed would invalidate any data supplied. Prior deficiencies and inconsistencies in the allocation of advertising costs have been noted, and the investigator was warned of this problem during the preparation of the questionnaire. There was the additional problem of the confidential nature of the data. Thus the degree of negative response was not unexpected.

Forty-seven questionnaires were returned. Of the latter, however, data supplied on eleven were considered inadequate for processing. In the final analysis, only thirty-six of the 100 banks are represented in the data totals. Thus, it is to be noted that the findings are in no way representative of all banks, nor of larger banks, nor even of the 100 selected institutions. Since the intent of the survey, however, was strictly purposive and since the banks included in the sample are known to be leaders in their respective areas, it is the opinion of the investigator that a sufficiently large sample was obtained to accomplish the limited goals outlined. Collectively, the banks in the sample represent deposits of about thirty billion dollars, ten per cent of the total deposits of all banks.
The General Findings

With the exception of questions two through five, comment will follow the sequence of the questionnaire. Detailed analyses of the quantitative data are to be presented later.

Accounting Practices. In general the banks in this limited sample appeared to be following the generally recommended practices laid down by the Financial Public Relations Association and the National Association of Bank Auditors and Comptrollers with respect to allocations of advertising expenditures. White-Black-and-Gray list items were included in the check list in question 6; thirty-five of the banks included items 6a and 6b in their advertising accounts, but most excluded the balance of the items which were in fact of a debatable nature.

Organization. Questions 7 and 8 dealt with organization for the advertising and public relations function. It is obvious that these matters are getting the attention of the top officials in the responding banks. Twenty-seven of the banks are using personnel at the level of Vice President or higher for advertising planning, coordination and budget preparation. In three cases the President himself is performing this function. Likewise, budgets were approved in twenty-one cases by the President and in the balance by the Board of Directors, a Board committee or the Board Chairman.
Methods Used in Budget Preparation. Question 9 queried the banks on methods used in budget preparation. The majority, twenty-eight, claimed that they used 9i, the objective and task approach, as their primary method. But in virtually every case, it was indicated that more than one check point was used; for example, 9i, 9j, and 9k in combination, or 9i and 9e in combination. Actually all of the fifteen methods listed were used by at least one of the responding banks. The qualified nature of the replies in this area might be interpreted as confirmation of Tucker's finding that banks nominally follow the build-up approach to budgeting but in practice lean heavily on one or more of the break-down methods. But the degree of scatter in the various banks in the sample did not suggest blind adherence to any percentage method.

Measurement Techniques. Question 10 dealt with measurement devices. Thirty of the thirty-six banks had attempted to use one or more of the methods listed, and all of the methods had been tried by one or more of the banks. The more commonly used techniques were television and radio surveys, public opinion surveys, personal interviews, auditing direct mail results and coupons from newspapers, opening and closing account interviews, and limited market testing. Five of the banks had ventured into motivation research.

On the segment of the question asking if the tests were significant and useful, twenty-two banks gave a "yes" answer, eight "no." Among those saying "yes," however, only five left their answers
unqualified. Four banks incorporated comments stating that they had accepted testing as a continuing phase of their advertising programs. Two banks indicated that they were now equipped to perform surveys in the broad fields of marketing and advertising research. Several banks also commented that they were undertaking studies in the area of advertising research to determine what they should do.

The last segment of Question 10 asked for reasons why measurement had not been undertaken, if this happened to be the case. Not only the six banks which had done no testing, but a number of those which had tested, commented in this area. Eleven banks, for example, expressed doubts as to whether advertising effects could be separated from the total marketing effort; seven endorsed the "spill-over" effect as an explanation of the inadequacies of testing; and four banks simply considered measurement a practical impossibility.

Application of the Tucker Method. Question 11 sought to detect the degree of knowledge and application surrounding the Tucker proposal. Ten banks said they were familiar with this effort. Of these, however, only two had attempted application, and only one considered it workable. Even the latter qualified the answer by adding that it was workable only with automated equipment. Several banks commented on the mechanical aspects of the method. One banker, for example, had this to say:

In my opinion, you either know what you are doing or you don't. Most banks don't. Those who get the job
done are not preoccupied with analyses and mechanics. They are concentrating on their objectives.\textsuperscript{17}

It should be noted, as a post-script to this comment, that an examination of deposits, earnings, income and advertising expenditure patterns in this bank left some doubt as to what the particular objectives in this bank were.

**The Importance of Advertising in the Bank.** Question 12 sought to determine the judgment of bank officials regarding the contribution of advertising and public relations to the bank's profitable growth. The five factors listed were ranked by bankers as follows:

- **First.** Services rendered.
- **Second.** Location.
- **Third.** Advertising and public relations.
- **Fourth.** Influence and selling efforts of bank officials and board members.
- **Fifth.** Political influence. None of the responding banks considered this factor significant. This is somewhat surprising in the light of the furor that is frequently created over the granting of bank charters, the selection of depositories for governmental funds, and legal problems surrounding expansion such as the branch banking situation in New York State.

As for the particulars on the values placed on the advertising and public relations function, three banks ranked it first in importance, seven second, nineteen third, six fourth, and one failed to rank it.

\textsuperscript{17}Extracted from comments contained in returned questionnaire from Bank No. 14.
Attitudes Toward Advertising in the Economy. The last question attempted to determine prevailing attitudes among bankers on certain of the broader issues surrounding the advertising phenomenon. The replies in this area were vociferous and in several cases adamant. Twenty-five of the banks believed strongly in the positive effects of advertising for both their banks and the economy. Three took a mildly favorable position, one regarded the use of advertising as neutral, and seven failed to reply to this particular question. The overall positive endorsement should not suggest, however, that the responding bankers were unmindful of some of the excesses and undesirable features of current advertising. Many recognized these excesses and urged more rigid policing within the advertising profession and reasonable controls from governmental agencies. Two respondents suggested denial of licenses to radio and television stations where programming did not meet certain standards. All but one of the respondents, however, expressed the belief that severe restrictions on advertising would be crippling to their institutions and to the dynamic structure of the economy.

D. AN ANALYSIS AND A PROPOSAL ON A BROAD MEASUREMENT AND BUDGETING DEVICE

One of the principal purposes of the survey discussed in the preceding section was to gather the data incorporated in Questions 2 through 5. Through an analysis of the trends and relationships of total deposits, total operating earnings, net income after taxes and
total expenditures on advertising and public relations, it was hoped to test an hypothesis held by this investigator. The hypothesis is that the financial institution, particularly a bank, is in a favorable and perhaps unique position in the matter of advertising with respect to the control of variables in the marketing process. If this conjecture has merit, an analysis over a period of years should show some useful, though not necessarily precise, relationships between expenditures on advertising and total deposits, total operating earnings and/or net income.

In explaining the reasoning process leading up to this hypothesis, it should be noted that the investigator grants that difficulties surrounding the control of variables tend to invalidate conclusions drawn from advertising-sales relationships and advertising-income relationships. These difficulties are especially relevant with product-oriented situations where price, package, selling effort, channels of distribution, company policies, and the actions of competitors can and do change with startling rapidity. The pertinent and intriguing question, however, is whether these side variables are more stable in the service institution. Even more particularly, are they more stable in a bank when the analysis is extended over a long-run period of five to ten years?

An Analysis of the Variables in the Bank

A bank, like all other modern business institutions, has a multitude of variables acting on the marketing process. Probably the most significant are services rendered, prices charged for services and interest rates established on loans, interest rates paid on savings
deposits, the quantity of and methods pursued in personal selling effort, location, banking hours, bank atmosphere, attitudes of employees, actions of competitors in both the fields of banking and in other financial institutions, general economic conditions, and advertising. An analysis of the important variables follows.

Services Rendered. Services rendered by banks appear to become standardized within particular zones of competition. As indicated in Chapter IV, this tendency makes the use of advertising difficult because of the lack of emotional appeals around which to peg an advertising theme. On the other hand, this standardization tends to neutralize the service variable, at least among competing banks.

Prices and Interest. In a similar vein, the prices charged for services, and interest rates paid and charged, tend to become standard among banks. Between national banks in the same area the differences are minimal, if they exist at all. State banks frequently vary slightly, but the differentials seem to become static; a similar situation appears to have developed in the case of competing financial institutions; that is, there are differentials but the relative relationships are likely to remain the same. This general situation with respect to the price variable in banks differs considerably from that which is frequently encountered in a product-oriented firm.

Package. Package, an important factor in the product, is a minimal variable in the bank. Lest it be completely overlooked, however,
instances have been reported in which customers have listed personalized checks and/or the color of the checks as the reason for their choice of the bank.

**Personal Selling.** Personal selling effort and the influences exercised by bank officials are important variables. Again, however, the effect of these efforts is likely to be relatively stable since banks do not seem to employ the blitzkrieg type of selling effort that is often encountered with product firms. If, in the course of a particular year, several major accounts have been landed, these are normally under constant surveillance, and the effect could be spotted in an examination of income and balance sheet data.

**Location.** Location is a critical variable and one not easily handled. The surveyed banks considered it second only to services rendered as a factor in profitable growth. Somewhat like major new accounts, however, banks have fairly reliable information on the effect of new bank locations both in their own behalf and in the case of their competitors. This information is gathered through the device of the opening and closing account interviews, which provide leads on movements to and from banks. The effect of this variable would necessarily require judgment, but it is the belief of the investigator that a reasonable approximation on the influence of location could be ascertained, particularly in view of the relatively small geographic area in which the majority of banks operate.
Reactions of Competitors. Again these are important variables, but as suggested in the case of prices and interest, there appear to be strong tendencies among financial institutions to standardize on many of the normal competitive devices. Differentials exist, but they seem to become relatively static; for example, savings and loan associations maintain an interest rate on savings accounts that in most areas is one per cent or one and one-half per cent above that of national banks; interest rates charged by brokerage firms are normally set at a certain differential in relation to prime interest rates charged by banks, and service policies and rate structures of insurance companies are slow to change. In fact, other financial institutions frequently look to the bank as the bellwether and adjust their prices and policies accordingly. The most unpredictable reaction from a competitor is likely to be, oddly enough, advertising. About all that can be said here is that competing financial institutions have probably followed a rising trend on advertising expenditures comparable to the bank. As long as these competitive reactions maintain their relative positions, even granting the differentials, it would follow that the influence of the competitive variable would not be too damaging to the thesis. It is granted, however, that this assumption rests on shaky ground.

Advertising. The question can logically be raised as to whether or not advertising itself varies sufficiently between financial institutions to be anything more than a neutralizing factor. Among the banks in the sample, advertising expenditures, per million dollars of deposits,
ranged from as low as $300 to as high as $2,100. The mean average was $500, but both the mode and the median were $700. Several very large banks tended to reduce the mean average despite their seemingly large absolute expenditures. In three cities where competing banks submitted data, differences as high as $1,000 per million dollars of deposits were noted. The answer to the opening question, then, is that there is a tendency toward sameness when banks are considered as a whole, but there are also significant variations within specific zones of competition.

Other Variables. Banking hours, bank atmosphere, and the attitudes of employees toward customers are also variables which cannot be discounted. Once again, however, the force of the competitive element leads toward neutralization.

The trend of general business conditions in the area represents an uncontrollable variable that could negate the analysis in the short term period. A comparison, however, with competing institutions would suggest whether these conditions are having a widespread effect. Also the fact that the analysis is expected to cover at least a five year period would tend to iron out the effect of this variable.

Summary of the Analysis of Variables. From the foregoing analysis, it is the investigator's tentative thesis that the side variables in the bank are less critical than those in the majority of product-oriented firms. If this thesis has merit, it seems that linear regression analysis or simple correlation, should provide some leads as to the
effectiveness of advertising. On this point it should be noted that the investigator's preference, if circumstances favored its use, would be some form of multiple correlation analysis. But it is a considered opinion that this advanced technique is not economically feasible for banks at this time. If this more basic tool is useful, it has the additional advantage of being simple and easy to comprehend. Unfortunately, the Tucker method, despite its sound logic and basic simplicity, has created the impression among practitioners that the mechanics are beyond the practical limits of most banks.

Assemblage and Analysis of Basic Data

In order to get all banks as nearly as possible on the same reporting basis, income and balance sheet data submitted were checked in Moody's Banks and Financial Manual for the respective years. Since certain variances appeared in data submitted, all data were adjusted to agree with Moody's. This was particularly necessary in the case of deposits since several bases in deposit figures were reported. In every case total deposits were used. In a few of the smaller banks, earnings and income data were not available in Moody's, and it was necessary to accept data as reported. In every case, the data submitted on advertising were accepted since these were available only in bank records.

The data incorporated in Sections 2 through 5 were key-punched and programmed for an IBM 650 computer. From this computer run the following data were obtained:
1. Percentage of total operating earnings to deposits (by years).

2. Percentage of net income after taxes to deposits (by years).

3. Percentage of advertising and public relations costs to deposits (by years).

4. Percentage of advertising and public relations costs to total operating earnings (by years).

5. Percentage of net income, after taxes, to total operating earnings (by years).

6. Percentage of advertising and public relations costs to net income, after taxes, (by years).

7. Mean average percentages of all the foregoing ratios for each bank over the five-year period.

8. Percentage change in deposits (in each year from the 1957 base year).

9. Percentage change in total operating earnings (in each year from the 1957 base year).

10. Percentage change in advertising and public relations costs (in each year from the 1957 base year).

11. Totals of the foregoing data for all banks (by years).

12. Totals of the foregoing data for each bank (for all years).

A typical analysis for one bank is shown in Table V.

The Procedure Followed in the Application

The first three percentages listed above are the ones generally familiar to practitioners, and these were chosen as the basic indices to be used in the analysis. Charts were prepared, following the broad outlines of a scatter diagram common to correlation analysis, with
### TABLE V

**ANALYSIS OF RELATIONSHIPS OF ADVERTISING TO TOTAL DEPOSITS, TOTAL OPERATING EARNINGS AND NET INCOME IN A TYPICAL BANK (A.T.)**

#### Relationships Between Total Deposits and Other Factors

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#### Relationships Between Total Operating Earnings and Other Factors

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#### Relationships Between Net Income (After Taxes) and Other Factors

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<td>As % of Earnings</td>
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**Notes:**
1. All indexes based on 1957 = 100.
2. Source data from questionnaire for Bank No. 1.
changes in advertising and public relations expenditures from the base year (1957) shown on the horizontal axis, and changes in total deposits, total operating earnings, and net income (after taxes) on the vertical axis. It was reasoned that if perfect correlation existed between advertising and the other factors, every point on each of the curves would fall on a forty-five degree line starting from the origin and moving upward to the right. Such perfection is rare in any correlation analysis, and with the range of variables and the "lag" effect operating in the marketing process, it is next to impossible in advertising-output relationships. The five-year period gives time for the "lag" effect to wash out, at least to a degree, but ten years would have been even more desirable.

Three factors were selected for correlation with advertising; these were total deposits, total operating earnings, and net income (after taxes). The reasoning behind the choice of three, rather than a single factor, proceeded along the following lines:

1. Some banks may be located in areas of rapid economic growth and expanding population. In such cases, it is likely that the bank would place a great deal of advertising emphasis on new deposit accounts. This emphasis should be reflected on deposits, but a time lag may occur before the newer deposits will be reflected in gross earnings and net income. In this type of situation, the movement of deposits might be the most reliable index of the responsiveness of advertising. Among the banks in the sample, deposits increased during the five-year period in thirty-four banks and declined in two. The increases ranged to over 50 per cent and the declines in each case were about 4 per cent.

2. Other banks, particularly those in areas of less growth, may be attempting to increase their total earnings by shifting their resources from certain types of investments to others. For example, a number of wholesale banks are
reported to be moving into retailing of bank services. In some cases this is being accomplished through internal re-orientation and in others through the merger route. If advertising is used in this process, as frequently seems to be the case, changes in the ratio of total gross earnings to deposits may be indicative of the responsiveness of the advertising effort. Among the sample banks, percentages of total operating earnings to deposits ranged from as low as 1.53 per cent to as high as 6.04 per cent. The mean average for all banks over the entire period was 3.35 per cent. In absolute terms, all banks increased their total operations over the period studied, ranging from 4 per cent to as high as 81 per cent.

3. Still other banks may be reasonably satisfied with deposit levels, or even with gross earnings levels, but hold the belief that too small a percentage of deposits or earnings is being converted into net income. One bank, for example, was able to convert a 10 per cent gain in deposits and a 27 per cent gain in gross earnings over a four-year period into a 125 per cent gain in net income. Over this same time interval advertising expenditures increased by 52 per cent. It follows, then, that relating advertising expenditures to either deposits or earnings in this case would have suggested poor response. On the other hand, if advertising contributed to this growth in net income, it might have been quite worthwhile. Incidentally, in this particular case the absolute increase in dollars spent on advertising amounted to less than 10 per cent of the increase in net income. A number of bankers argue that advertising's greatest utility in banking lies in its ability to sell retail bank services using the so-called "rifled approach" in advertising rather than the "shotgun" or institutional approach. Examples of salable retail services are personal loans, installment loans, and safety deposit boxes. Such uses could have a substantial effect on net income without much effect on deposits. Banks in the survey were converting from as little as .28 per cent to as high as 1.29 per cent of total deposits into net income after taxes.

Having selected the three output factors for correlation with the input factor, advertising, and pursuing the line of thinking suggested in the preceding discussion, it was reasoned that the most desirable situation would have each of the three output factors showing positive relationships to advertising expenditures. Such a situation,
from a practical viewpoint, would be suggestive of profitable use of advertising. It would not be proof.

Also, if the advertising objectives during the period were aimed at a specific output factor, such as improvement in the ratio of net income to deposits, perhaps a positive correlation in the single advertising-income relationship would justify the advertising expenditure. If only one factor responded favorably, however, the case would be suggestive of careful analysis, or in popular jargon, advertising would be travelling on a yellow light of caution.

A third possible situation, however, is suggestive of even more caution, if not outright suspicion, as to the effectiveness of advertising. This would occur in cases in which all three output factors failed to respond to advertising. Such a situation would be suggestive, although again not proof, of unprofitable use. At the minimum, however, it would signal a condition that deserved careful analysis and investigation.

The three foregoing situations are predicated on cases where advertising expenditures are showing an increasing trend. Such was the case in thirty-five of the thirty-six banks analyzed; one bank, which specializes in trust services and wholesale banking operations, kept its expenditures constant throughout the five-year period. The increases ranged from 10 per cent to 175 per cent, with a mean average of 40 per cent for the thirty-six banks. There appears to be no basic reason why the technique could not be applied to a situation where advertising expenditures were trending downward. But again the
possibility of a residual, or "lag" effect, from past expenditures should be recognized. For this reason, the analysis should be extended over a period of several years, preferably five to ten.

The Hypothesis Applied to Specific Situations

The application of the technique to four sets of data are shown in Figures 11, 12, 13, and 14. Figure 11 incorporates the mean averages covering a four-year period for the thirty-six reporting banks. As a whole, there is evidence of response to advertising in this group of banks. Visually it can be estimated that the coefficient of correlation in the case of income and earnings is probably about .75 and that of deposits slightly less than .50.

The Normal Response. Figure 12 illustrates the case of a bank in which the responses follow a pattern that approaches the ideal or normal in terms of correlation; that is, each output factor is trending in the direction of the forty-five degree line. It is doubtful that a pattern with less diversion in the lines is likely to occur. This bank is located in a growing metropolitan area, but is subject to legal limitations with respect to areas of expansion and is subject to keen competition from both large and small banks in the area.

The High Response. Figure 13 illustrates the case of a bank in which the response is unusually high, almost too good to be true. The bank is firm in its belief, however, that advertising has contributed to the excellent results. Here is what the Vice President of this particular bank had to say on the subject:
PERCENTAGE INCREASES IN TOTAL DEPOSITS, TOTAL OPERATING EARNINGS, AND NET INCOME AFTER TAXES

PERCENTAGE INCREASES IN ADVERTISING EXPENDITURES

FIGURE 11

RELATIONSHIPS BETWEEN ADVERTISING AND SELECTED OUTPUT FACTORS
MEAN AVERAGES AMONG 36 BANKS
FOUR YEAR PERIOD: 1957-1960
1957 = BASE YEAR OF 100 FOR ALL INDICES
RELATIONSHIPS BETWEEN ADVERTISING AND SELECTED OUTPUT FACTORS
BANK NO. 29—NORMAL RESPONSE PATTERN
FOUR YEAR PERIOD 1957-1960
1957 = BASE YEAR OF 100 FOR ALL INDICES
PERCENTAGE INCREASES IN TOTAL DEPOSITS, TOTAL OPERATING EARNINGS, AND NET INCOME AFTER TAXES

PERCENTAGE INCREASES IN TOTAL DEPOSITS, TOTAL OPERATING EARNINGS, AND NET INCOME AFTER TAXES

PERCENTAGE INCREASES IN ADVERTISING

FIGURE 13

RELATIONSHIPS BETWEEN ADVERTISING AND SELECTED OUTPUT FACTORS

BANK NO. 4—HIGH RESPONSE PATTERN
FOUR YEAR PERIOD 1957-1960
1957 = BASE YEAR OF 100 FOR ALL INDICES
A sound advertising program is essential to the continued growth of this bank. We live in a rapidly expanding market where there is tremendous competition among the financial institutions. Because [state name withheld] does not have branch banking, the factor of convenience must be overcome by a bank located in the central business district. . . . we must also strive to create a favorable climate, through advertising, for our development efforts in the correspondent bank field, and in national and international business. Through advertising, we keep our name before those with whom we seek to do business outside our immediate trade area.\(^{18}\)

From the above statement, it is significant to note that this bank has accomplished these results despite the fact that it is restricted to a central business district amidst a sprawling suburbia. A number of downtown banks, an example of which is shown in the next illustration, are struggling to hold their own even though the metropolitan area is one of growth. Obviously, there are many other factors involved in this picture, but it is difficult to deny that advertising must have exerted some influence and probably a substantial amount. In terms of incremental theory, the conditions in this bank suggest that it is not approaching the point of diminishing returns on advertising.

The Poor Response. Figure 14 shows the case of a bank where the response to advertising has been poor, actually negative during 1958 and 1959. The year 1960 showed significant improvement. For 1961, first quarter results reflected the continuation of this odd pattern,

\(^{18}\)Extracted from comments contained in returned questionnaire from Bank No. 4.
PERCENTAGE INCREASES IN TOTAL DEPOSITS, TOTAL OPERATING EARNINGS, AND NET INCOME AFTER TAXES

FIGURE H

RELATIONSHIPS BETWEEN ADVERTISING AND SELECTED OUTPUT FACTORS
BANK NO. 21—POOR RESPONSE PATTERN
FOUR YEAR PERIOD 1957-1960
1957 = BASE YEAR OF 100 FOR ALL INDICES
a further decline of about three per cent in deposits but increases of about four per cent in total operating earnings and net income. The conditions indicated here suggest questions not only involving the use of advertising, but also involving major policy decisions in the bank.

This is a large bank located in a major industrial area. Although the metropolitan area is growing, there has been slackness in the industrial segment of the economy during the last several years. It is reported that this bank has been shifting from heavy concentration on wholesale operations to more emphasis on retail services. The bank has also undergone a change in advertising and public relations management during this period covered. A still further oddity in this bank is that it realized a return of only 1.84 per cent when relating total operating earnings to deposits, but managed to convert 1.10 per cent of its deposits to net income. From the preceding discussion, it will be noted that the initial figure is very low among banks, but, on the other hand, the latter is on the high side. This situation suggests the probability that a considerable portion of its net income is coming from sources other than retail banking operations; for example, interest and dividend income with which relatively little administrative expense is associated.

Admittedly this bank presents a dilemma. Surely, the results of the first two years raise doubts about the use of advertising. One of three possibilities are suggested: (1) expenditures were going into institutional type advertising which showed no response or were being made on services, such as deposits, where the point of diminishing
returns had been encountered, (2) advertising was of poor quality or was not aimed at the proper targets, or (3) advertising was of the type where a "lag" effect could be expected; for example, the introduction of new retail services where the bank had no previous experience or reputation. Responses in total earnings and net income in 1960 and to date in 1961 are somewhat indicative of the latter possibility. In any case, it is believed that the analysis may have accomplished a principal purpose; that is, to focus attention on problems of advertising response and allocation of money to advertising.

Appraisal of the General Analysis and Hypothesis

It is undoubtedly an anachronism that the investigator has considered and discussed a range of sophisticated techniques in the field of budgeting and measurement and has finally proposed a technique for financial institutions, particularly banks, which appears elemental, outmoded and considered by many researchers to be inapplicable. During the course of this investigation, only one current adherent to the general thesis of simple correlation has been encountered. This was Paul E. J. Gerhold of the Foote, Cone and Belding Advertising Agency. Even in his case, the technique differed and involved only a single correlative factor, sales.19

Several basic considerations entered into the decision:

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1. The majority of banks are operating in a state of indecision and uncertainty on the matters of measurement and budgeting and are in need of a simple device to lead them toward a course of logical thinking in these matters.

2. Although the $200,000,000 being spent by banks on advertising looks big in a lump sum, it boils down to a mean average expenditure of only $14,000 per bank for the 14,000 banks in the nation. In many cases the cost of one of the more sophisticated techniques could hardly be justified.

3. The existing situation in most banks with respect to personnel appears to prohibit the use for the immediate future of the more sophisticated techniques.

It is the general thesis of the investigator that a useful proposal should be geared to the proximity of the specific environment to which it is aimed. Holding this belief, the proposed device had to be simple and inexpensive. From these standpoints, the proposal is ideal.

The important question, then, is one of applicability. In this respect, it should be noted that nothing more is claimed for the technique than that it is a broad device that suggests the degree of response to advertising and offers rough guide lines for future budgeting. Perhaps, most important of all, it seems to focus attention on problems in the advertising area. In the case of Bank No. 21, Figure 14, the analysis does not say what is wrong, or necessarily that anything is wrong, but it very pointedly suggests that there are conditions which require study and explanation. Such a focusing tool would seem to be valuable not only to the advertising department but to the top management of the bank.
As for the discounting of the effect of side variables in the financial structure, this is, of course, a highly debatable question. If the hypothesis is only partially correct, however, it would suggest that the method is more applicable in this environment than in that of the product situation. And Gerhold argued that the general thesis still has application in the latter area. To support his contention, he has cited a number of concrete examples.\textsuperscript{20}

In the final analysis, it is the belief of the investigator that the proposal merits consideration by all banks, and possibly the majority of financial institutions. For smaller banks and financial institutions, it might suffice as a singular tool to supplement personal judgment. For the larger banks, it should be regarded as no more than a logical first step which will open up areas for further research and investigation. Where the expenditure warrants, it is not suggested that it preclude the use of more sophisticated techniques such as the Tucker proposals or multiple correlation. And finally, a warning should be noted. This simple device must be regarded as a rough yardstick, not as a precise tool nor as a panacea to the complex problems of measurement and budgeting.

\textsuperscript{20}Ibid.
E. SUMMARY

An attempt has been made in this Chapter to relate the
discussions of the five preceding chapters to the practical environment
of the financial institution, particularly that of the bank. For
example, it has been seen how:

1. Banks have been forced to assume more aggressive
   attitudes on selling by both internal and external pres­
sures. Much of this pressure has come from competing
   financial institutions as well as other banks.

2. Banks have attempted to adjust to this metamorphosis
   by quantitative and qualitative changes in personal and mass
   selling.

3. Advertising has become a distinct factor in the
   competitive process, and banks have encountered internal
   problems in trying to use this phenomenon effectively.

Out of this rapidly changing structure surrounding advertising,
it was pointed out that several schools of thought had developed with
respect to measurement and budgeting. But it was concluded that most
banks were pursuing a minimal policy with respect to the use of logical,
or semi-scientific, methods of decision-making on these matters.

Finally, a specific hypothesis was presented with respect to a

   technique that might assist the financial institution in both budgeting

   and measurement. An appraisal of this hypothesis was given in the pre­

   ceding section.

The next and final chapter embodies a summary of the entire
thesis and presents certain conclusions.
CHAPTER VII

SUMMARY AND CONCLUSIONS

In the course of this century, advertising has become a phenomenon of significant proportions. Its influence has been likened, by certain observers, to that of the home, the school, and the church.

A. GENERAL SUMMARY OF THE THESIS

This study has examined certain aspects of this important phenomenon. Its aim was threefold:

1. To take a broad view of the overall spectrum from the point of view of ethics or social implications, from the point of view of the economist, and from the point of view of the businessman.

2. To take a broad view of two particular problems, allocation of funds to advertising and the measurement of results from the subsequent expenditures. These problems are of primary concern to the businessman, are of secondary concern to the economist and are not devoid of social and ethical implications.

3. To take a narrow and specific look at one particular niche—that of the businessman in the financial institution who is trying to decide how much to spend on advertising and, in retrospect, to determine if his money was well spent.

Tying the foregoing aims into the sequence of presentation, it can be noted that the tendency, actually the intent, in the first five chapters was to give preference to scope over depth. It was the investigator's opinion that the literature was voluminous on miniature segments of the advertising problem, but disjointed and
oftentimes contradictory when it came to integration of appraisals, theories, and practical methods. For those readers interested in details of a specific area, however, extensive citations were provided.

In Chapter VI the breadth approach was abandoned and specifics of the measurement and budgeting problem in the financial institution were examined in depth. Lest it be inferred that the earlier material is of little concern to the financial institution, it is the investigator's observation that confusion regarding the advertising phenomenon is nowhere more prevalent than in the service firm, particularly that of a bank. This condition, it is believed, is due to:

1. The fact that virtually all of the literature has been written and practical methods developed with a product, as distinguished from a service, in mind.

2. The fact that advertising has become a significant factor in bank operations only in the last fifteen years, and more nearly in the last eight or ten years.

Thus it appears that the financial executive needs a broad understanding of advertising as well as help with its specific applications.

B. SPECIFIC SUMMARIES AND ATTENDANT CONCLUSIONS

Each of the five main areas of discussion in this thesis, Chapters II through VI, is briefly summarized and the attendant conclusions presented.

The Social, Economic, and Business Effects of Advertising

There is almost unanimous agreement among observers that advertising has become a significant influence in each of the above
subject areas. But beyond being significant, it is also a peculiar, if not unique phenomenon. It has been variously described as an "instrument of abundance," a "decadent influence," an "educational tool for the masses," a "form of inverted education," a "device which substitutes the motive force of desire for fear," a "contributor to psychological immaturity," and "the central mechanism for doing the essential part of the marketing job." The diverging inferences contained in these clichés suggest that they could not possibly be descriptive of the same phenomenon. Despite their divergence, however, there are elements of support for each contention, provided it is qualified as being applicable to a particular facet of advertising.

Unfortunately, the latter qualification is frequently missing. The critic or champion does not make it clear that he is talking about only one side of a many-sided thing. In such cases the viewpoint is likely to be a biased and emotionally charged treatment aimed at the whole of advertising, and the reader, listener, or viewer is left in a state of suspended exhilaration, depression or confusion. It was toward a more balanced viewpoint of the social, economic, and business aspects of advertising that Chapter II was particularly directed. The attendant conclusions from this section were as follows:

1. Advertising exposes many faces in its complete album. As a consequence, it exerts opposing as well as parallel forces. For example, where the total demand for a product or service is relatively inelastic, it may aid one businessman at the expense of another, but where the total demand for a product or service is expanding, it may aid all businessmen. It is a potent stimulant encouraging higher consumption, but it may also encourage the consumption of goods and services of debatable social and economic
values; it subsidizes communications media, and in so doing provides avenues for mass education, entertainment, and information that might not otherwise be available, but it also encourages dissemination of information and entertainment of questionable social significance.

2. The literature is replete with instances in which the observer has selected one side of one of the facets around which to build his case for or against advertising. Even with respect to the same facet, diametrically opposite positions can be frequently cited. Thus, caution is necessary before accepting a particular thesis on advertising.

3. Regarding the social, economic and business effects, it is probable that the strongest case against advertising can be constructed on social or ethical grounds while the most effective arguments for its use can be developed in the business area. The economic arguments approach a neutral position because of the dearth of empirical support for opposing positions. As for broad generalizations, however, the argument in none of the cases is conclusive.

4. Finally, a universal judgment applicable to advertising is difficult, if not impossible. A more logical position would be to judge each case on its merits, at the particular time and under a given set of circumstances. But since complete verdicts are currently being rendered on the basis of a single debit or credit item, it is incumbent that some comprehensive appraisal be made. In attempting to look at the total balance sheet, it is the investigator's opinion that advertising has and still is exerting a favorable influence on the American scene. The "affluent society" which has developed in the presence of advertising is far from perfect, but the "barren society," which frequently exists in its absence, could have been much less perfect.

Financial Advertising In Perspective

The third chapter contained an interim review of essentially historical data, the purpose of which was to provide a quantitative perspective on advertising. The financial segment was emphasized since it was the ultimate area selected for specific concentration. It was seen that:
1. Total advertising expenditures, although increasing in absolute amounts, have remained in the relative position of between two and three per cent of Gross National Product for the last thirty years, from 1930 to 1960.

2. Total advertising expenditures increased approximately 400 per cent in the 1945-1960 interim, but financial advertising increased even more significantly. Banks, for example, raised their spending on advertising about 1,000 per cent during this period.

3. Bank advertising has undergone not only quantitative changes but also qualitative and subjective changes. Historically, the bank used the "shotgun approach," which in the main consisted of occasional advertisements of an institutional type. Usually these were annual or semi-annual balance sheets and other general announcements designed to meet legal requirements and/or to keep the bank's name before the public. In more recent years, there has been a distinct shift in emphasis. The bank has become a literal supermarket of financial services and has begun to use the so-called "rifle approach" where specific bank services are advertised. Many banks now feature as many as 50 to 100 different services. On this point, it is noteworthy that the typical customer uses only two or three of these, and the bank has discovered that its own customers are often among the best prospects for additional services.

The Advertising Budget and Measurement of Effects

Chapter III should be viewed as a detour in the sense that its sole purpose was to provide an early perspective of the quantitative aspects of advertising so that the later discussions would be more meaningful. Chapters IV and V, then, actually represent a continuation of the effort, begun in Chapter II, to provide a balanced view of advertising. At this stage of the study, however, the subject matter had become limited to two particular problems of concern to the businessman, those of budgeting and the measurement of results. The two problems are treated simultaneously in the summary because they are so
interrelated in practice. In the body of the text, the items were handled separately because of the length of the subject matter and because of the tendency for them to appear as distinct areas in the literature. In each instance the approach was the same; an attempt was made to present and appraise both the underlying theoretical structure and practical approaches currently in use. It was concluded that:

1. Theories, in the case of both budgeting and measurement, are embryonic and fragmentary at the current stage of development. Nevertheless, a growing body of knowledge is evolving in these areas and certain experimental efforts now underway hold much more promise for the future.

2. In budgeting, the most promising outlook lies in the direction of marginal theory through the device of the marketing model; that is, the budget would be set at the point where marginal revenue accruing from a unit of advertising equals marginal cost resulting from that unit of advertising. A series of model possibilities were presented during the course of the discussion. The main difficulty surrounding the practical use of this theory lies in the problem of determining marginal revenue. Or stated in a more readily understandable fashion, the difficulty arises from severe limitations involved in the measurement of the results. It therefore becomes obvious that the problem of logical budgeting becomes inseparable from that of measurement.

3. Where the volume of advertising warrants it, the most promising outlook in the area of measurement lies in the direction of multiple correlation analysis, again through the device of the marketing model. This type of analysis provides a logical approach to the measurement problem which is complicated by the presence of dozens of variables intervening between the application of the input factor, advertising, and output factors, sales and/or profits. Multiple correlation analysis, which was considered by many as beyond the bounds of practicality as late as 1950, has become feasible with the more recent developments in electronic computers. Several marketing models were discussed in which this basic concept is employed.
4. Practical budgeting and measurement methods, except for unusual cases, have lagged behind developments in theory. Even with limitations, existing techniques can provide rough yardsticks of past accomplishments and general guides for future budgeting. Where the advertising is significant and where the firm holds the basic objective of profit maximization, it is difficult to understand the reluctance to pursue some of the more promising techniques. The cost of knowing something can be substantial, but the losses from knowing nothing might be even more so. There is enough empirical evidence to suggest strongly that significant quantitative and qualitative differences in advertising exist.

The Current Status of Bank Advertising and A Proposal

Chapter VI examined the current status of the advertising problem in the banking institution and attempted to relate this specific problem to the context of the earlier discussions, particularly those on budgeting and measurement. From this examination, the following initial conclusions were reached.

1. Banks have been forced to assume more aggressive attitudes on selling by both internal and external pressures. This pressure has come from not only other banks but also from competing financial institutions.

2. Banks have attempted to adjust to these pressures by quantitative and qualitative changes in personal and mass selling.

3. Advertising has become a distinct factor in the selling process, and banks have encountered problems in trying to use the phenomenon effectively.

4. Measurement of results and the budgeting of advertising are areas of critical concern in the advertising consideration. In this connection, it was concluded that the majority of banks are operating at this time on what could be termed a minimal policy with respect to logical methods to aid in the decision-making process. Reliance is placed largely on practical judgment.
5. The majority of banks are confronted with serious limitations in the selection of tools to aid in the decision-making process. These limitations are due to two principal factors: (1) the typical size of the advertising budget is relatively low, the mean average for all banks being about $14,000 per year, and (2) the lack of personnel equipped to handle the more sophisticated budgeting and measurement techniques.

In the light of the latter conclusion, it did not appear feasible to recommend the device deemed most logical and most promising in the more typical product advertising situation. This was particularly true if the proposal was to bear some approximation to the practicalities of the environment.

The factor of practicality plus a second important consideration led to a specific measurement and budgeting proposal for use in financial institutions. The second consideration involved an hypothesis which the investigator held that the financial institution, particularly the bank, is in a favorable and perhaps unique position with respect to the control of variables in the marketing process.

If this conjecture has merit, it was concluded that a technique, employing the general outlines of a scatter diagram familiar to linear regression analysis, or simple correlation, should show some useful, though not necessarily precise, relationships between the input factor advertising and one or more output factors, namely, total deposits, total operating earnings or net income after taxes.

Such a technique was developed and applied to series of actual case situations developed in conjunction with a questionnaire used in the survey. It was concluded that the proposed technique does provide
a useful device which suggests the degree of response to advertising and offers rough guide-lines for future budgeting. Perhaps more significantly, it focuses attention on problems in the advertising area.

Additional costs associated with the technique should be insignificant provided the bank is following recommended accounting practices in the allocation of advertising expenses. On the matter of costs, the question arises as to how much a firm can afford to spend to improve its advertising decision-making. This question warrants further investigation. Certain observers have noted, however, that a ten per cent improvement in the results of advertising is a normal expectation from the pursuit of logical measurement and budgeting methods. If this criterion is accepted, it would seem reasonable to conclude that the typical firm could afford to dedicate up to five per cent of its advertising budget to research and measurement effort.

As a broad appraisal it is the belief of the investigator that the proposal merits consideration by all banks. With minor modification, it could be adapted for use in other financial institutions. For smaller concerns, it might suffice as a singular tool to supplement personal judgment. In the larger firms it could serve as a logical first step in the measurement and budgeting process. In the final analysis, however, it is no more than an inexpensive, rough yardstick and is not to be construed as a panacea to the complex problems of measurement and budgeting.


Culliton, James William. The Management of Marketing Costs. Boston: Division of Research, Harvard Graduate School of Business Administra-
tion, 1948. 166 pages.


Kallet, Arthur, and F. J. Schlink. *100,000,000 Guinea Pigs.* New York: Grosset and Dunlap, 1933. 312 pages.


Tucker, W. T. Advertising Appropriation Methods In Banking. Bureau of Business and Economic Research, School of Business Administration, Bulletin No. 3. Atlanta, Georgia: Georgia State College of Business Administration, April, 1959, 52 pages.


B. PERIODICALS


C. NEWSPAPERS


"Banks Increase Advertising Expenditures," Morning Advocate, Baton Rouge, Louisiana (February 29, 1960), p. 6A.


"Dupont Puts 1% of $40,000,000 Ad Fund Into Effectiveness Study, ABP Told," Advertising Age, Vol. 32, No. 10 (March 6, 1961), p. 3ff.


"Gallup Poll Disclosed 75% of Americans Over 18 Like Advertising; Said Greatest Reliance on Advertising Was in Middle, Upper Economic Strata, Among Younger Adults," Wall Street Journal (October 19, 1959), p. 5.


McDonald, K. R. "Sells Loans Like Cigarettes; Bank of America's $5,000,000 Ad Money Pushes Loans For the Little Guy," Advertising Age, Vol. 32, No. 17 (April 24, 1961), p. 3.


D. U. S. GOVERNMENT PUBLICATIONS


E. OTHER SOURCES


APPENDIX
APPENDIX A

SURVEY OF BANK ADVERTISING AND PUBLIC RELATIONS POLICIES AND EXPENDITURES

Note: This survey is being conducted among approximately 100 banks which are known to be thought leaders in the advertising and public relations area of operations. Information supplied will be used in mass data only; the particular bank will not be identified. Your cooperation will be most appreciated.

1. Name and Location of Bank

The following information will be used in an effort to determine (1) if there are positive relationships between these data and (2) if there are certain ratios of advertising spending that are more indicative of success than others. Please report all data for the year as of Dec. 31.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Deposits to nearest $m</th>
<th>Total Operating Earnings to nearest $m</th>
<th>Net Income after taxes to nearest $m</th>
<th>P.R.&amp;Adv. Expenditures to nearest $m</th>
</tr>
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<tbody>
<tr>
<td>1957</td>
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<td>1961</td>
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</tbody>
</table>

6. The figures in question 5 above include the following types of costs incurred by these functions. Check if applicable.

   a. All media costs, including newspaper, radio, television, outdoor displays, magazines, motion pictures, etc.
   b. Agency costs, including retained and consulting
   c. Salaries and administrative expenses
   d. House organs and internal publications
   e. Donations and charitable contributions
   f. Bank overhead applicable to subject functions
   g. Other major costs (please list)

7. Who in your organization is responsible for planning, coordination and budget preparation in your advertising and public relations program? Check if applicable.

   a. Public Relations V.P.  e. Cashier  g. Agency
   b. Asst. Vice President  d. Asst. Cashier  f. Other

8. Who in organization is responsible for final approval of the advertising and public relations budget? Check if applicable.

   a. Board of Directors  e. President
   b. Board Committee  d. Vice President  f. No approved budget

9. Numerous methods are used in determining advertising and public relations budgets. Do you use any of the following methods? Check if applicable.

   a. Per cent of previous year's gross income
   b. Per cent of current year's estimated gross income
   c. Per cent of previous year's net profit

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d. Per cent of current year's estimated net profit  ____________________________

e. Specific amount per $100 demand deposits  ____________________________

f. Estimated return on investment (P.R. & Institutional Advertising)  ____________________________

g. Competitive parity (equal to competition or average bank in your size classification)  ____________________________

h. As one item in an integrated selling program  ____________________________

i. Objective and task approach (establishing an objective and designing an advertising program to meet these objectives)  ____________________________

j. Agency Recommendations  ____________________________

k. Decision based on personal judgment  ____________________________

l. Other method (Please describe)  ____________________________

10. The measurement of the effects of advertising is difficult for tangible goods; it is
more difficult for the type of services provided by financial institutions. Nevertheless,
good business practice suggests that there should be some justification for all expenditures.
The following is a list of some of the more commonly used techniques to try to measure
results. Check the applicable blank if you have attempted to use.

a. Readership surveys  ____________________________

b. T.V. and radio surveys  ____________________________

c. Telephone surveys  ____________________________

d. Public Opinion surveys  ____________________________

e. Mailing questionnaires  ____________________________

f. Personal interviews  ____________________________

g. Auditing direct mail results  ____________________________

h. Opening and closing account interviews  ____________________________

i. Motivation Research  ____________________________

j. Copy testing  ____________________________

k. Market testing on small scale  ____________________________

l. Customer Jury  ____________________________

If you have tried to measure results by one of the methods indicated above, do you believe
that the results were significant and useful? Would you please state why or why not.

If you have obtained significant results from measurement procedures other than those
listed above, would you briefly outline the approach which you used.

If you have not tried to measure the effects of your advertising, check one of the following
which best expresses your thinking on the matter.

a. Budget of insufficient size  ____________________________

b. Lack of sufficient data for measurement  ____________________________

c. Effects of advertising cannot be separated from the total selling effort  ____________________________

d. Advertising of one service is apt to "spill-over" and affect the use of another, e.g., personal loans, requested or granted, may result in the opening of a new
checking account  ____________________________

e. Measurement represents a practical impossibility  ____________________________

f. Other explanation (please note)  ____________________________

11. In 1958, Dr. W. T. Tucker, then at Georgia State College of Business Administration in
Atlanta and now at the University of Texas, published a booklet entitled "Advertising
Appropriation Methods in Banking." This study was based on data collected by the
Financial Public Relations Association. Dr. Tucker outlined a specific method for setting
advertising appropriations in banks. In general, he based his method on what the economist
calls "marginal or incremental analysis." Are you familiar with this effort? If you have attempted to apply the method suggested? Did you find it to be a
workable approach? Would you please explain why or why not?

__________________________

__________________________
If not workable in your case, could you suggest any refinements that would make it more applicable?

12. The question is often discussed as to whether advertising and its related function, public relations, are key factors in the success and growth of the American business enterprise. If you were asked to rank the factors most responsible for profitable growth in your particular institution, how would you rank the following? (1, 2, 3, etc.) Please be frank and attempt to eliminate any personal bias.

   a. Services rendered by the bank
   b. Location
   c. Influence of bank officials and board members
   d. Political connections
   e. Advertising and Public Relations

13. As you undoubtedly know, advertising in this country has come under rather severe attack in recent years. The criticisms have appeared in numerous publications and speeches. They have come from economists, politicians, and a wide range of social scientists. At least three of President Kennedy's close advisers are on record as being critical of the institution of advertising.

   A number of proposals have been made by certain of the critics, such as (1) the elimination of advertising as a business expense deductible for income tax purposes, (2) restrictions on the use of commercials on regular radio and television programs, (3) the institution of a national sales tax to divert spending from the private to the public sector of the economy and (4) divestiture of the advertiser and/or his agency from any control over the content of radio or television programs.

   The supporters of advertising, on the other hand, have not been silent. Their arguments dwell heavily on the major points—that advertising is only one means of selling and that it is in many cases the cheapest and most efficient that man has devised, and that the competitive economy will strangle to death without the means to sell its goods and services on a mass basis. From the standpoint of your bank, the area which you serve and the nation, would you comment on the use of advertising from the point of view of:

   Your bank

   The General Economy
VITA

Benjamin Barnes Graves, son of Thomas Cannon and Velma Barnes Graves, was born on the fifth day of November, 1920, in Jones County, Mississippi. He attended public schools in Laurel and Ellisville, Mississippi and received his Bachelor of Arts Degree from the University of Mississippi in August, 1942.

From December, 1942, to August, 1946, he was on active duty with the U. S. Navy, serving as supply and disbursing officer at one shore establishment and aboard three naval vessels in the Atlantic and Pacific theaters. He resigned from the U. S. Naval Reserve in 1955 as Lieutenant Commander. Following his release from active duty, he resumed his education and received the Master of Business Administration from Harvard Graduate School of Business Administration in June, 1947.

In the latter year, he was employed by Humble Oil and Refining Company and held a number of staff and supervisory positions at Baton Rouge, Louisiana and New York, New York in the fields of personnel management, employee relations, purchasing, cost analysis, and public relations. During this same period, he taught evening classes as a Special Lecturer at Louisiana State University and pursued courses leading to a terminal degree.

He was granted a leave of absence from Humble in 1960 in order to complete requirements for the Ph.D. Degree, for which degree he is a candidate at the present time. Upon receipt of the degree, he plans to remain in the academic field.
Candidate: Benjamin Barnes Graves

Major Field: Business Administration

Title of Thesis: An Inquiry Into the Social, Economic, and Business Effects of Financial Advertising

Approved:

Stanley W. Crooks
Major Professor and Chairman

Max Goodrich
Dean of the Graduate School

EXAMINING COMMITTEE:

M. F. Price

B. F. Seger

L. Ray Marshall

James W. Reddor

Date of Examination:

October 13, 1961