The adequacy and relevance of advertising budget for private higher educational institutions in Uganda.

CASE STUDY:
Kampala International University

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BMC/0505/21/DF

A research dissertation submitted to the faculty of social science in partial fulfilment for the award of Bachelors Degree of Mass Communication of Kampala International University

Date: 1st august, 2005.

DECLARATION

I **Mbuya Willim** declare that this research is of my own doing and no one has over done it before on this University for any academic award.

Signature.....

Date.....

Supervisor: **Dr. Jerome Ongora**

Signature .....

Date.....

DEDICATION

I would like to dedicate this book to my lovely parents **Mr.** and **Mrs. Mbuya** for their support and guidance throughout my entire life from the day I was born till today. I would also like to dedicate this book to my lovely friends **nieco, jan, mica**,and all those who contributed in one way or another in the preparation of this work especially my superviser **Dr Ongora Jerome.**

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I would like to express my sincere thanks to this institution. KAMPALA INTERNATIONAL UNIVERSITY for its support and cooperation throughout my entire research, my lecturer who was also my supervisor **Dr Jerome Ongora** of Kampala International University for his support, guidance and cooperation throughout my research.

Further more I would like to thank my special friends **Nicholas Muthemba, George Gichuri, Simon Parsoloi,** for being there for me anytime I needed their help.

ABSTRACT

The aim of the study was to identify which methods are the most effective for setting and managing advertising budget for private educational institutions in existing competitive environment of business management and operation. The study focused on Kampala International University. This institution was chosen because it is among of many private educational institutions in Uganda providing the population with high education service under competitive environment.

The sample was selected purposively to include those who appear to have adequate information about advertising budgeting and administrating. It included; the executive management of institution, marketing personnel and Public Relations officers of an institution. There were specific questionnaires for each sample identified. From each section, the members were questioned according to the roles they play in their positions.

Types of data collected during the research were both qualitative and quantitative ones and sources were from both primary and secondary sources. Data quality was controlled by involving the reliable sources and achieved by the type of sampling strategy undertaken. The qualities of data were determined by its potential significance in relation to the study.

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CHAPTER ONE

BACKGROUND/INTRODUCTION

The many definitions of advertising you can find in books all stress one point; it have to be paid for (by a firm, sponsor, or some other body such as the government). The American marketing association defines advertising as any paid form of non-personal presentation of ideas, goods, or services by an identified sponsor. The British code of advertising practice talks of ".....paid for communications, addressed to the public, or part of it, with the purpose of influencing the opinions or behaviors of those to whom they area addressed.

In recent years Uganda had witnessed the tremendous growth of both lower and higher government and private educational institutions partly because of change of populations' attitude towards education as now many people regard it as a key to success. Also the number of government owned educational institutions are not much enough to satisfy the fast growing population. To solve the problem the government decided to privatize the educational sector to individuals, groups, organizations or any institution that is able and willing to provide education service to the public.

These individuals, groups, organizations or institutions operate under the set of rules posed by the government of Uganda. In a competitive environment, how can these institutions manage to control their operations? Advertising and other kinds of communication mix like Public Relations seem to be the answer to such questions. Also this means that, the answers to such critical questions lies on the institution's ability to build clear environments for the market place. This will be successful if the institution would win the favor from the customers whom normally deliver the same service from different institutions.

While the new markets bring new opportunities, they also bring new competition. The communication revolutions also mean competition can move into new market quickly and new competitors and the markets meet the customers expectations continue to grow. Business (i.e. private educational institutions) must be able to maintain and improve communication with their customers as well as different types of partners. They must provide their customers with the service that satisfy their soul and physical need.

These institutions were encouraged and supported by the government of Uganda as one way of maximazing the opportunity of the fast growing population to access to education as the government owned educational institutions were and are still not enough to satisfy the fast growing population.

It should be noted that, these institution which are responsible for providing the public with education, operate under free market condition (i.e. compete with each other or one another to get customers for their services). Therefore looking deeply at these institutions, they are faced with business challenges in country level and internationally level. In a competitive global environment, how can these institutons manage to control their operations? Advertising and kinds of communication mix like the Public Relation strategies seem to be the answer to such kind of question. Also this mean that, the answers to such critical question lies on the institution ability to build a crear environment for the market place. This will be successful if the institution would win the favour from the customers whom normally deliver with the same service from different institutions.

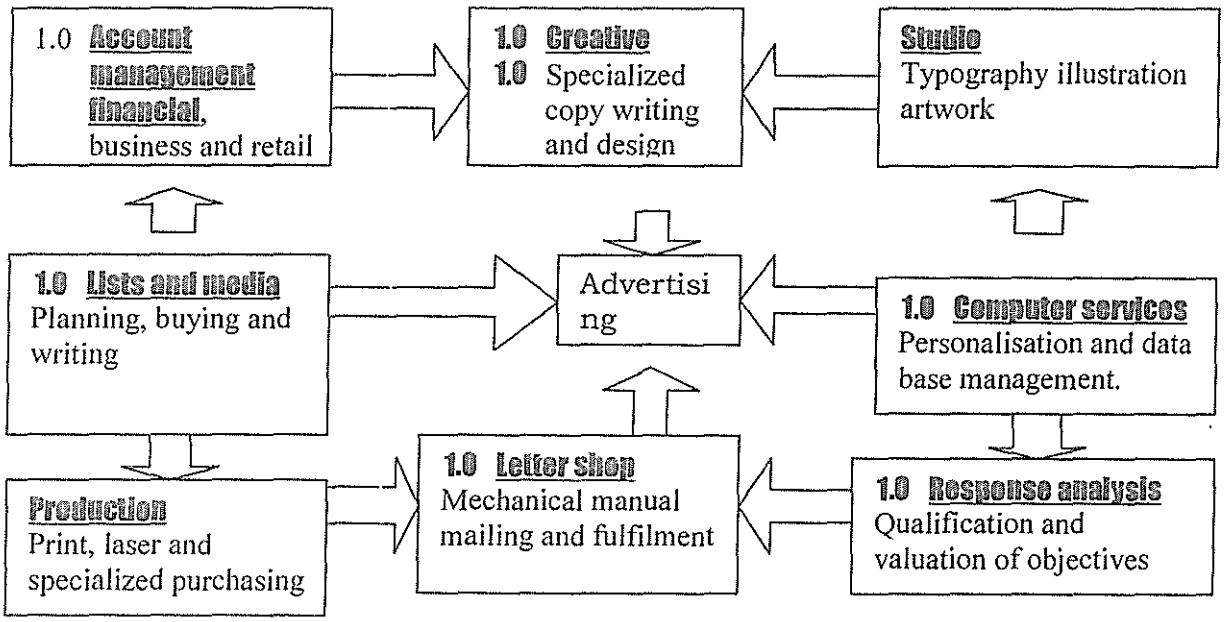
While the new markets bring new opportunities, they also bring new competition. The communication revolution also means competition can move into new market quickl y and new competitors and new markets meet the customers' expectations and continue to grow. Business (private educational institutions) must be able to maintain and improve communication with its customers, emproyees as well as other partiners. They are to provide the customers with the service that satisfy their need.

An increased competition means the customers have more choice and will naturally choose the supplier offering more satisfaction. Marketing activities now has become evangelical for the customers cause. This is being motivated by the access to services on market areas being provided by different institutions. The customers are now free to choose services on which they give their characteristics priority. Therefore private educational institutions should focus on what customers want, also some other kind of strategies are to be made available in capturing customers choice

As said, in a competitive environment of business management and operation, it is very easy for an institution (private educational institution) to be expelled from the business arena if basic communication strategies are not well planned and applied. One of the communication strategy identified for this case then should be advertising programs management and control. As mentioned earlier the need for this is for various objectives s.. by an institution (e.g. advertising the service provided by an institution)

If an advertising program or campaign is to be successful, there are basic aspects that are to consider. The aspect is advertising budget. Advertising budget is the sum or amount of money that will be spend on advertising programs. It is important to consider the advertising budget aspect because as we have seen that different kind of adverting is for different purpose, in that case, there is a need of careful calculated and evaluated advertising budget.

Advertising budget is used to allocate money to various activities that are likely to be carried out in an advertising program. Some small firms (institutions) that advertise on a limited scale do indeed deal direct with adverting media (i.e. with the providers of the means of advertising, such as newspapers, magazines, radio, or television). But most organisations (incl. Private educational institutions) rely heavi' upon advertising agencies.
-the structure below, clearly describe the work of an advertising agency.



The list and media staff plan the booking, and purchase the space(or time in the case of television) in appropriate media (and check that advertisements appear exactly as ordered). Most agencies if not all, have a response analysis service which research into how effective the advertising has been in achieving the objectives set for it.

For television or cinema advertising, some agencies will have their own production facilities, while others will contract out this work to specialist agencies.

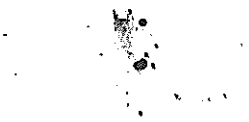
1.2 HOW AGENCIES ARE PAID

Many years ago, the forerunners of advertising agencies were sellers of advertising, acting on behalf of newspapers. They worked on commission basis (that is they were paid a percentage of the advertising revenue they generate). From what we have leant so far we can see that the role of the agencies have changed greatly; there are new activities such as suggesting advertising objectives, preparing advertising campaign, producing the advertising and doing post campaign research. How ever, agencies still receive commission on the advertising they place with the media.

Commission alone (even at 10-15 percent) is not enough to yield a worth while profit where the clients require services other than the purchase of the media space. Thus such work as copy preparation (preparation of the text of an advertising), art work and campaign advice will definitely be charged to the agencies client (so diverse are those extra services that some agencies could be better described as marketing agencies).

1.3 THE LEGAL STATUS OF AGENCIES

The status of advertising agency is often misunderstood. The term agency itself is not strictly correct: an advertising agency is not the legal agent of an advertiser, but is business on its own right. Thus an agency is responsible for setting accounts rendered by the media owners for space purchased.



Selecting an agency to do your advertising is rather like selecting a firm to build an extension to your house. You would need to get quotations from several different builders, but none of them could quote until they have visited the proposed site and got a clear understating of what you want them to do. After this, technical representative would want to discuss with you, the style and quality of material to be used. A very crucial question would be how much you would be prepared to spend on the work.

In some way you would approach a number of agencies (either from past experience, recommendations from business contacts, or by going to advertising association or the institute of practitioners in advertising).and get an idea of what they offered. They would first need to know how you see your institution image and style; what you want to achieve with you advertising; and how your intended campaign would fit with your other marketing activities. They would also need to have an indication of the annual budget (i.e. the amount of money set aside for advertising).

It is essential to explain to the agency all that they need to know about you and you institution. At meeting with them you would be looking for that group of people who seem best understood your problems; who have experienced staff, and with whom you get on well.

A normal practice is for competing agencies to put formal presentations for prospective clients, during which the main proposals are outlined. At such presentations you would need to question agency's preventatives very closely to find out how well they have understood your needs. The final thing would also involve talking to other clients of the agencies considered, and evaluating the quality of the work done for them.

1.4 ESTABRISHING THE SIZE OF ADVERTISING BUDGET/APPROPRIATION

There is no guaranteed system for setting the advertising budget, but there several common methods outlined in points 1-5 below

1.4.0 Percentage of the previous year's sales/profits/revenue

This method encourages marketing managers in the institution to allocate a percentage of the previous year's sales revenue or incomes or profitability to next year's advertising. It is regarded as being affordable since the expenditure should not exceed earnings achieved, and it is also very simple to administer

Affordability and simplicity may seen attractive but this method tend to ignore or under-estimate the dynamic nature of marketing environment, new services launches, market opportunities, changes in advertising tastes, changes in competitors` activities, new market entries, economical or technical developments and changes in consumers expectations can not be accommodated effectively if one lets the past decide the future. In addition, it tends to rely on advertising needs and effectiveness.

1.4.1 Percentage of future sales/revenue/profits

With this method an estimate of future revenues is used to determine adverting expenditure. The method relies heavily on revenue forecasting, but the forecast itself may be little more than a subjective assessment. In many cases, revenue forecasting is unfortunately used to justify preconceived attitudes or courses of an action.

It may lead to over spending in markets, which are expanding well and under spending in markets, which are under competitive pressure. The method tends to treat advertising as a constant factor, but in reality new provision of services require a higher promotion of advertising in order to reach and encourage a market to accept something new. Similarly, to increase market share of a current service a disproportionate increase in advertising may be necessary.

Limitation of the previous method apply equally well to this approach because revenue is directly linked to advertising expenditure. The previous method relied on revenue already achieved whi.. this method relies on the revenue, which may or ought to be achieved.

1.4.2 Affordable method

This is a common method used by small institutions where the basics of advertising are not understood or not appreciated as prime promotional tool. It ignores competition and demand only evaluates what the institution considers affordable which may itself simply be a subjective judgement.

Such an approach tends to curtail the institutions` willingness to evaluate what is needed before looking at what can be afforded. It is impossible to justify this method by the use of theories or empirical evidence.

1.4.3 Competitor's parity method

This method uses competitor's expenditure on advertising as the criterion for setting the advertising budget. The planned expenditure allows for competitors` activities but the following problems are likely to be encountered;

(a) Estimates of competitors` levels of advertising are very difficult to determine.

(b) It takes long time to respond to different levels of competitors spending. An increase in the rate of competitors spending may not be noticed for several months, and after analysis of reasonable response may take several more months to develop and implement. By this time the competitor may have develop new, totally different, advertising campaigns or have concentrated on other promotional methods, such as meeting direct with the customers or Public Relation for influencing the market

(c) Following competitors` advertising tactics implies that similar or identical marketing objectives are being pursued. Bearing in mind the fact that corporate and marketing objectives are not easily identifiable, how can one justify direct imitation of a competitors` tactics.

1.4.4 Objectives and task method.

The name of this method summarises the approach perfectly. The basic idea is to set the promotional objectives to be pursued in a clear, precise and sequential order and then to select the tactic that will best serve the attainment of the objectives.

This budget method evaluates the level of expenditure needed for a given plan of action to achieve a given objectives. If it is not affordable, the production (provision of services) and marketing objectives set must be revised until the necessary tactics become affordable or perhaps a loan will have to be raised to achieve the objectives. It emphasises the need for the objectives to guide the plan of action and encourages marketers to utilize the ideas on advertising campaigns.

This method is the one most favoured by the experts but it is also the one, which is most difficult to quantify. Two major problems exist with this method;

(a) The nature of objectives themselves causes problems. It is difficult always to relate specific advertising objectives directly with possible revenue so other measures may have to be used, such as increase institution awareness or image, or increasing level of penetration into the target public.

(b) The second problem lies in estimating the methods needed to reach the objectives.

-What is the attention attracting power of the campaign as opposed to its persuasive power?

-Can we be certain that the advertising mix selected will reach the spread of the target publics as frequently as required?

-Do we need similar objectives for the whole of the country or region (as in the case of East Africa) or must the campaign be weighted area-by-area or public-by-public?

All methods offer advantages but also suffer from major limitations. Solid theory and judgement, possibly backed by research findings, seem the answer to effective advertising budget setting within the promotional mix, and the sum spent upon it usually attract most of the attention, so that advertising is some time taken as metaphor for the whole of promotions.

There is an easy explanation for this, which is that advertising is the most vivid, most visible and most noticed aspect of marketing. It is therefore, the marketing director's role to ensure that, effective as an advertising campaign may appear, it only forms part of the total promotion mix needed for success.

1.5 RESEARCH PROBLEM/STATEMENT OF THE PROBLEM

Setting an advertising budget for advertising program or campaign is not an easy task. Business directors in most private educational institutions suffer with this phenomenon as mentioned in the introduction. To deal with the problem several methods for setting advertising budget had been inverted by marketing managers or specialists. These methods had been outlined and described in the introduction; these are; percentage of previous years` sales or revenue, percentage of future sales or revenue, affordable method, competitors` parity method and objective and task method. All these methods offer advantages for setting advertising budget for private educational institutions` advertising programs or campaign as we have seen, but they also suffer from major limitations. Solid theory and judgement, possibly backed by research findings seem to be the answer for setting advertising budget for effective advertising campaign or program.

1.6 GENERAL OBJECTIVE

The general objective of the study or research was to identify which method is the most effective for setting advertising budget for private educational institutions in existing competitive environment of business management and operation.

1.7 SPECIFIC OBJECTIVES

The following were the specific objectives of the study

- -To find out whether it is the proper setting/planning and management of advertising budget responsible for eliminating competition facing the institution management and operation.

- -To identify the procedures for setting budget size of institution's advertising programs and campaigns.

- -To identify how is the advertising budget managed.
- To find out the advertising expenditures for various institutions advertising programs and campaigns.

- -To find out whether the advertising expenditures bring in the profits and not loss.

1.8 RESEARCH QUESTIONS

- Do proper/careful setting/planning and management of advertising budget eliminate the competition facing an institution?
- What are the procedures used by an institution's marketing department for setting/planning advertising budget?
- How is the advertising budget managed so as to bring positive results?
- What is the advertising expenditure for the advertising programs and campaigns of an institution?
- Is the advertising expenditures bring in profits and not loss to an institution?

1.9 SIGNIFINCE OF THE STUDY

The importance of setting advertising budget using careful analysis, rather than institutions rules of thumb or "gut feel", can not be overemphasis. Various studies have repeatedly showed that the average advertising elasticity-the expected percentage change in volume profits or revenue when the amount spent on advertising raises 1percent – is small, about only 0.22 percent. Clearly, this only an average across private higher educational institutions, that ignores the long term effects on consumers and effect on the business, and has other various shot comings as a measure of the value of advertising spending. However, it does suggest that at least some institutions may be spending to much on advertising (where as others may need to spend even more than they do now) when you combine this observation with the fact that for the many institutions the advertising budget is the single largest discretionary expense, running into tens of millions shillings, it should therefore be
Realized that "fine tuning" the advertising budget is an activity that is worth a fair amount of private educational institutions` manager's time.

Since advertising is an investment, it should be budgeted like any other investment. The preparation of an advertising budget generally determines the size of advertising expenditure. How much should be spent on advertising? To determine this is the purpose of advertising budget. However, this is grossly misleading, for there is no scientific method of determining the size of any advertising budget. There is indeed no simple method preparing budgets. Only customary, arbitrary, and convectional practices can be followed; but these do not make the process of budgeting. A "budget" is a forward plan of an activity expressed in rupees and budgeting is the process of this planning. Therefore advertising budget is the translation of an advertising plan into rupees; and this fact informs the top management of the amount of the proposed advertising expenditure and its apportionment on various advertising activities of the institution. The advertising budget thus serves as a decision making tool for the top management, in addition to its control function of such expenses.

CHAPTER TWO

2.0 LITERATURE REVIEW

Because adverting budget is a plan for the company's future advertising, it can make a useful contribution to a profitable operation. It provides a programme of the best assortment of types of advertising to be undertaken along with its timetable and frequency. In addition of it as planning function, the budget also serves as a control of advertising expenditure.

Advertising expenditure is no longer expenditure; it is now widely considered as an investment because of the great returns that are likely to result in the future from increased profits through advertising. Like any in a capital asset, an affective advertising campaign may increase the future profits (revenue), though, in a concept of accounting, it is still considered to be a business expense. That advertising is a capital investment rather than a current expenditure-this has been argued by Joel Dean in his work, does Adverting belong in the Capital Budget? He considers adverting as an out lay today for benefits in the future.

That it is current expense is contrary to this concept, for it is an outlay whose benefits are immediate.

(S.A.Chinuwalla, K.C.Sethia, Foundation of Advertising Theory and Practice, page 207)

To the extent that planning the details derived the budget and the cost advertising program deemed necessary to achieve specific objectives, the budget becomes the key instrumental for managing the flow of funds. Knowing the size of bills to be paid and when the due permits are a more efficiency cash flow.

(Sandage, Fryburger, Rotzoll, Advertising Theory and Practice, Eleventh edition, page 355)

A model of adaptive control is the model that uses data as an explicit input to the budget decision was developed by John D.C. Little, a professor at MIT*. It recognized that the relationship between advertising and revenue changes overtime with changing market conditions. As result, advertising budget decision should be updated accordingly.

It is not the high advertising budget that produces the high profits level. It is the high profits level that produces the advertising budget. By marketing executive, Kenneth Mason. (Sandage, Fryburger, Rotzoll, Advertising Theory and Practice, page 34

*JohnD.C.Little, "a model of adaptive control of promotional spending", Operation research, 14, November-Desember 1966, pp. 175-92.

CHAPTER THREE

METHODOLOGY

3.0 RESEARCH DESIGN

The research design of the study was a descriptive one; this was due to the nature of the study, which aimed at identifying and describing the relationship between the independent variable (the advertising budget) and its adequacy and relevance to the dependent variable (the institution in the competitive environment). In this case the qualitative and quantitative methods were employed because they were likely to reveal real experiences necessary in providing more profound understanding and analysis of all related aspect. In addition to this design, the study focused on the institution performance in related to other institution providing the same service.

3.1 AREA OF THE STUDY

The study focused on Kampala International University due to the fact that it operates under the competitive environment. The competition is brought by the emergence of a number of institutions providing the same service (high education service) to the public. The selected institution seems to be a most representative due to the fact that it provides the public with the same services which are also provided by other institution. The institution selected is located at the capital city of Uganda (Kampala). The institution caters for nationals and non-nationals (Tanzanians, Kenyans, Rwandans, Sudanese e.t.c)

3.2 SELECTION OF THE PARTCIPANTS

The large percent of the participants were the top management, i.e. top officials and marketing personnel from Kampala International University

3.3 THE SAMPLING STRATEGIES

The study used non-probability sampling strategy on which the purposive non-sampling method was employed. The sample was selected purposively to include those who appear to have adequate information about advertising budgeting and administrating. It included; the executive management of the institution, marketing personnel and Public Relations

officers. There were specific questionnaires for top managements marketing and Public Relations practitioners.

From each section, the members were questioned according to the roles they play in their positions. Also the executives questioned were those who in one way or another are connected to the Public Relations and marketing department

3.4.0 DATA COLLECTION METHOD

3.4.1 TYPES OF DATA

The types of data collected during the research were both qualitative and quantitative.

3.4.2 SOURCES OF DATA

The data were obtained from both primary and secondary sources.

3.4.3 PRIMARY DATA

Here data were obtained through questionnaires that were given to both management and the Public Relations and marketing department personnel. Also interviews were conducted with the preferable top management and the P/R and marketing personnel. The researcher also undertook physical observation.

3.4.4 SECONDARY SOURCES

Data were obtained from relevant textbooks, Internet sources and relevant information and statistics of Kampala International University.

3.4.5 DATA QUALITY CONTROL

Involving the reliable sources controlled the data. This was achieved by the type of sampling strategy that was undertaken by the researcher (i.e. non-probability sampling design). Here the researcher used purposive method that used both qualitative and quantitative methods in the determination of the participants. In that case the above methods and the sampling method chosen provided the reliable information. The qualities of data were determined by its potential significance in relation to the study.

3.4.6 DATA ANALYSIS PROCESS

The qualitative and quantitative data were to be analysed according to the objectives identified in the study. All emerging themes using the thematic analysis approach were clearly identified. The analysis was done during ar ' after data collection process. This was done under two major themes of the adequacy and relevance of advertising budget in private higher educational institutions in Uganda.

All the questionnaires were transcribed and the researcher was note common ideas, for they are likely to portray the real information needed. The information obtained was later be cut and pasted, i.e. they were assigned to different answers to a specific theme and unwanted information was left out.

The information gathered was later edited, coded and level of intensity was determined on the basis of frequency of the issue appearing.

3.5.0 LIMITATIONS OF THE STUDY

3.5.1 THE LIMITED FUND

This affected the sample size of the study. Despite this, careful purposeful selection was made for the qualitative and quantitative data; this was to ensure the findings are representative body of knowledge.

3.5.2 INSUFICIENT TIME

The study was limited by time, on which it took two months to collect the required information. This also affected the choice of sample and the scope of the study. For the effective of the study it would be better if large area would be targeted. Inline with this the researcher was not able to deal with many institutions apart of Kampala International University and little supportive information from its competitors on the market place.

CHAPTER FOUR

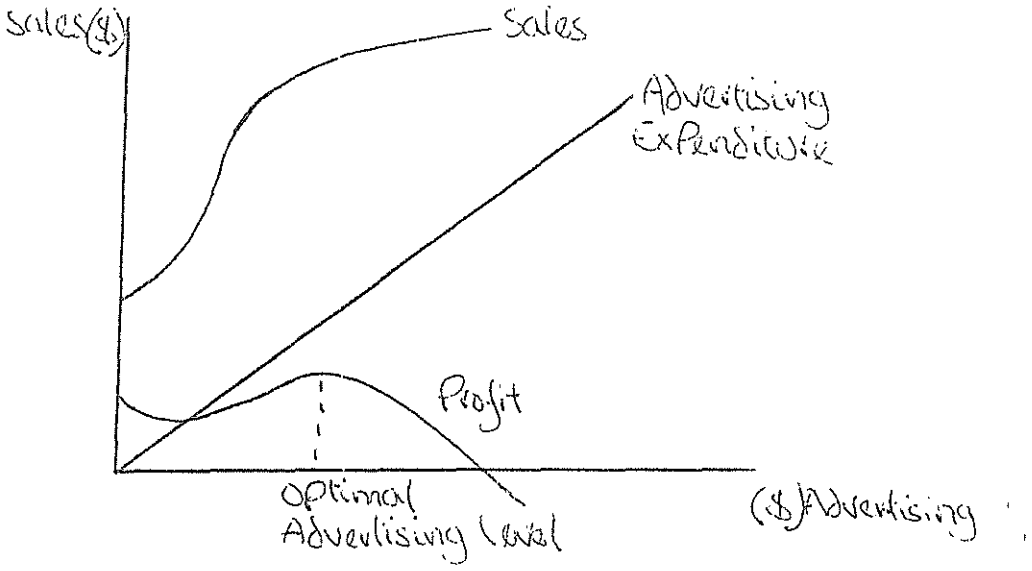
4.0 FINDINGS

During the conduct of the research the following were found, the amount of money spent on advertising varies widely among the institutions which are responsible for proving the public with higher education. Further more it was found that, these institutions often change their advertising expenditures radically from year to year. What generates this variation in advertising expenditures among these higher educational institutions within the same institution and over time for the same institution? How do these institutions (selected Kampala International University) go about setting advertising budgets? How they should be setting or establishing their budgets? What set of models and techniques can be employed to improve their decision making? Were the key aspects that were considered during the conduction of research.

It was found that, there is a need of setting advertising budgets using careful analysis, rather than institution rule of thumb or "gut feel," should not overemphasized as various studies have repeatedly shown that the average advertising elasticity-the expected percentage change in volume revenue when the amount spent on adverting rises one percent-is small, about only 0.22 percent. Clearly, this is only average across institutions that ignore long term effects on consumers of the service provided and effects on the business operation and management, and has various other shortcomings as a measure of the value of adverting spending. However, it does suggest that at least some institutions may be spending too much on advertising (where as other may need to spend even more than they do now). When you combine this observation with the fact that for many institutions, the advertising budget is the single largest discretionary expense, running into millions of shillings, you should realize that "fine tuning" the advertising budget is an activity that is worth a fair amount of a manager's time

4.1 ECONOMICAL ANALYSIS IN SETTING AND ALLOCATING BUDGETS

One of the theoretical underpinning of an adverting budget decision that was used during the research is based on economic marginal analysis and is easily expressed. An institution should continue to add to the advertising budget for a specific geographical market or specific advertising medium as long as the incremental expenditures there are exceeded by the marginal revenue they generate. Similarly, if institutions advertising mature services provided find that the revenue potential (and actual sales revenue) per account are increasing, then the budgets for ad ertising should go up too. On the other hand, if very high levels of competitive spending reduce the revenue impact of the institution's promotional spending, its budget should go down



Graph of revenue, profit, and advertising curves used in marginal analysis.

It was found empirically that, for instance, that the elasticity of revenue response to price cuts is, on average, about twenty times the elasticity of revenue to increases in advertising (this elasticity ratio is higher for mature services provided than for services provided early in their life cycles). This suggests that revenue discounting may be a more appropriate investment of the marketing dollar than advertising increase, until the point is reached where advertising begins to have the bigger effect.

4.2 SOME DIFFICULTIES FOUND IN APPLYING MARGINAL ANALYSIS

There are, unfortunately, some difficulties in applying marginal analysis in practice, as is the case with many other concepts from microeconomic theory. The assumption in the foregoing has been that it is appropriate to consider revenue as a function of advertising expenditures, with advertising as the only and immediate revenue as the output. Such an assumption may be reasonable in some direct response advertising. However, in other situations, it is more tenuous. Even when it does seem reasonable, the

Determination of the shape and parameters of the response function is no easy task. Further more, even when a certain response curve does accurately represent a certain situation, there is no guarantee that it will continue to be valid in the future. The condition of the market, including the competitive environment, change. As a result, the nature shape of the response function also can change.

The assumption that revenue is determined solely by advertising expenditures is obviously faulty in practically all situations. The nature of advertising campaign, the copy used, and the media selected will usually influence the shape of response curve. A strong creative effort will evoke a different response than a tasteless, misdirected campaign, even if the same expenditure levels are involved. Indeed, the research conducted have shown that the biggest revenue-response changes can come not from varying how much money the institution spend on advertising, but rather from where it spend it-the selection of target markets and media-and what it is said in advertisements (the message strategy). Further more, it was found difficult to sort out the effect of advertising from the effect of other forces that influence revenue. Revenue is, after all, a result of an institution's total marketing and promotional effort as well as a number of environmental conditions, such as competitive actions and a host of economic, climate, social and cultural factors. If all factors including competitive activity remained constant except for advertising, it would be reasonable to consider advertising to be the only determinant of revenue.

There are several decision rules on which an institution draw in making budget decisions. The rules are basically justified by arguing that budgets based on them are unlikely to be far from the actual optimal budget if a marginal analysis could be performed. In many cases, the rules are used in combination, the net budget being a compromise among several of the rules.

One rule used insetting advertising budgets is the percentage of sale. Past sales or a forecast of future sales can be used as the base. An institution may have devoted 5 percent of its budget to advertise in the past. Thus, if the plan calls for doing Ugshs 20 million worth of business next year, a Ugshs 1 million might be proposed. A similar decision could be based upon market share, or unit volume. It has been found that the percentage-of-sale is the most common approach used by an institution for setting advertising budget.

If an institution has been successful over several years using the percentage-of-sales approach, it might be assumed that the decision rule yielded budgets reasonably close to the optimal, so there is little incentive to change to another approach in setting budgets. The rule does tend to make explicit the marketing mix decision, the allocation of the budget to the various elements of the marketing program. Furthermore it provides comfort to a prudent financial executive who likes to know that her or his institution can afford advertising. Finally, it was found that, if competitors also use such a rule, it leads to a certain stability of advertising within the business, which may be useful. If there is a ceiling on the size of market, it is wise to avoid precipitating a war over advertising expenditures.

The major flaw in the method is that it does not rest on the premise that advertising can influence profit or revenue. In fact profit or revenue estimate determine advertising expenditures.

Also it was found that the second flaw in this method is that, it ignores institution profitability, by looking only at institution revenue. A more logical rule would be to use a percentage not of revenue, but of an institution's gross margin or contribution-to-overhead. This imply that more profitable institutions get more advertising support, compared to less profitable institutions, even if their revenue figures are identical.

4.3 ALL YOU CAN AFFORD

The findings have shown that an institution does not depend on only one method in determination budget for advertising. When an institution has limited resources may decide to spend all that it can reasonably allocate to advertising after other unavoidable expenditures have been allocated. This rule usually ensures that they are not advertising too heavily, that advertising monies are not being wasted. It thus does have some logic. Of course, if the value of more advertising could be demonstrated, extra money could usually be raised, so the limitation may be somewhat artificial

Some larger institutions also use this rule. They start with the revenue forecast and budget all expenditures, including profit, except advertising. The advertising budget is what is left over. About all that can be said such a rule, which is actually used in too many situations, is that it generates a financial plan that usually looks neat and attractive in an accounting sense. However, it rests on assumption that revenue is independent of the advertising expenditures. There is no realization that advertising may influence revenue. The only reason advertising is included is that its absence would be difficult to justify.

4.4 COMPETITIVE PARITY METHOD

This is another common guide for adjusting the advertising budget so that it is comparable to those of competitors. The logic is that the collective minds of the institutions that provide the same service in business will probably generate advertising budgets that are somewhat close to the optimal. Furthermore, any departure from the business norms could precipitate a spending war.

The problem here is that there is no guarantee that a group of institutions is spending at an optimal level. Insofar as their spending habits are constant over time, and assuming that market conditions change over time, they are probably not spending at the optimal level.

Even if they are, it is likely that the situations of individual institutions are sufficiently unique so that the practices of the competitors should not be followed. In particular, a new small institution in the field might not receive the proportionate amount of impact for its advertising that a large established institution receives. The success of the large institution may be due to many other factors in addition to advertising. Furthermore, the method does not consider such questions as differences in effectiveness of various campaigns or the efficiency of media placement. Following the competition might offer the satisfaction of knowing you are not taking a big competitive risk, and be politically safe within an institution's managerial ranks, but might turn out to be a case of the blind following the blind. Academic "game theorists" have developed models of how different competitors might end up responding to each other over time.

Findings have shown that, a very commonly used variant of the competitive parity approach is to set a institution's share of total category advertising (measured over a period such as a year), called share of voice (SOV), close to its share of market (SOM). If every institution in the category did this, it would probably ensure that the business's market share situation stayed at equilibrium, with no changes, assuming all other marketing mix elements were at parity across institutions. Also the findings indicate that, in practice, market leaders often have a SOV a little less than their SOM, reflecting their advertising economies of scale, while market challengers need a SOV higher than their SOM, in order to gain market share. It often argued that a new institution, being "built up for the future," needs an SOV about twice its targeted SOM, at least for a while. In contrast, an old and established institution being "milked" to support such newer institutions (as the case of Kampala International University with its sub campus in Busheni, Mbarara), might see a SOV substantially below its SOM, and that is very frequently a sure way to lose market share in the long term (the old institution equity may support the provision of service for a while, but equity that is not replenished does get used up!). Market leaders can maintain their leadership by keeping their SOV at much higher levels than those of competitors, while market followers ought to boost their SOV significantly (at least 30 to 40 percent) higher in those geographical markets where the market leader has allowed its SOV to fall dangerously low. Obviously, institutions with lower cost structures can more easily afford disproportionately higher SOVs.

4.5 OBJECTIVE AND TASK

Objective and task, more an optimal approach to budgeting than a simple decision rule, is used by two-thirds of the largest advertisers. An advertising objective is first established in specific terms. For example, an institution may decide to attempt to increase the : vareness of its services in certain population segment to 50%. The tasks that are required to accomplish this objective are then detailed. They might involve the development of a particular advertising campaign exposing the relevant clients an average of five times. The cost of obtaining these exposures then becomes the advertising budget. This approach is logical in that it assumes that there is a causal flow from advertising to sales. In effect, it represents an effort to introduce intervening variables such as awareness or attitude, which will presumably be indicators of future sales well as of immediate sales

The major problem with this approach is that the link between the objective and immediate and future sales is often not spelled out. Many advertising and new services researchers, however, have managed to develop proprietary estimates of how different levels of advertising response objectives particularly institution awareness correspond to typical levels

CHAPTER FIVE

RECOMMENDATIONS

5.1 PRACTICAL BUDGET-SETTING ANALYSIS

There are, in general, two ways in which the institution can react to the difficult of determining the type of marginal analysis recommended by the research conducted. It can, essentially, admit that the task is so formidable, at least given their expertise, that it is not worthwhile to pursue it and rely instead on other types of decision rules-or no rules at all. There are doubtless many institutions that base their advertising budgets very simply on what they have always spent, historically (possibly adjusted upward with some kind of media cost inflation multiplier). Such inertia is inexcusable, especially in today's extremely competitive environment when it is essential to try very hard to squeeze waste out of small marketing budgets. When used, the rules employed may or may not reflect a marginal analysis

A second reaction is to attempt to determine a data- based response function (or graphical curve) relating advertising expenditure to revenue, despite the difficulties. Once the shape of this curve is known, it can be used to determine the level of advertising that maximizes revenue or profit. The argument is that, even if the result is imperfect it might indeed provide some guidance, and the method at least has a theoretical basis. Furthermore, the exercise does not necessarily to be expensive, so the risk is not excessive. The primary tools used in estimating such a response function are split-cable testing, field experimentation, regression analysis, and laboratory or field studies of the effects of increasing advertising frequency level. Another way of developing such a response function simply to use managerial judgment, perhaps extracted with the assistance of a computer. Such techniques are some times labelled decision calculus techniques.

Percentage-of-margin approaches obviously need to be modified in dynamic situations such as; when an institution is making a major repositioning move or reacting to one, when an institution becomes established and dominant, and when the institution is just being introduced.

When an institution decides to make a move, substantial increase advertising is necessary, an increase that should not be justified by the percentage of revenue logic.

When the institution become established and dominant, it can usually start reducing the percentage of fund allocated to advertising. As institutions name awareness becomes very high and the institution's image becomes very set, it is not usually necessary to advertise as heavily. Conversely, if an institution is struggling to become known and is concerned about advertising at the minimal threshold level, it will often have to spend at an artificially high percentage of revenue level. A new service, concept, or institution will have special task of generating awareness and provision from a zero level. As a result, it is usually necessary to make heavy investments in advertising during the first year or two of the institution's life. When providing service, the guide is to base the advertising expenditures on the total gross profit, which is the total revenue less the service cost, as follows: advertising in first year equals twice the gross profit. Advertising in second year equals half the gross profit. Advertising in third and succeeding years equals 30 percent of the gross profit.

Sales in the preceding period provide a measure of the existing market position that has probably been caused by the marketing program over a long period. Advertising nearly was always has an impact in future periods, representing future purchase cycles. The inclusion of previous advertising expenditures thus provides an attempt to measure this carryover effect of advertising. The advertising response would be the sum of the current impact and the carryover effect. There are many statistical methods that attempt to capture this carryover effect, notably the use of the koyck model (descriptions of which can be found in textbooks of econometric methods). Other methods make current sales depend on current advertising plus some declining percentage of previous spending levels, called a brand's adstock. There is considerable controversy, however, on what the carryover or adstock really means: to what extent is it the delayed effect of advertising itself, instead of simply a current purchase reinforcement effect from a satisfactory trial purchase affected by earlier advertising.

To isolate the impact of advertising spending it is necessary to include other marketing variables. First, it is useful (when possible) to try to separate the effect of advertising spending from the effect of copy quality. Second, it is important to include other marketing variables in the predictive model. Suppose, for example, sales change.

Unless such promotion was included in the model the apparent advertising effect might really represent a promotion effect. Third, unless some measure of competitor advertising is also used, the apparent advertising impact may be distorted. Research has clearly shown that competitor advertising reduces the effectiveness of a brand's own advertising. An increase in advertising may have no impact on sales because competitor advertising increased dramatically. Without knowledge of competitor advertising response might erroneously be thought to be low. One way of including competitive effects is obtained the actual figure for competitive advertising and includes it as another independent (predictive) variable in the regression model. Another is to this brand's market share as being dependent on its share of total category advertising (called share of voice, as discussed e..lier).

One of the key problems facing the regression model is how best to model the shape of the relationship between advertising and sales-while typical regression computer programs assume a straight-line relationship between advertising and sales, this relationship is most often a curved, or curvilinear, one .For instance the responsiveness of sales to advertising may begin to declined after some level of advertising spending. This diminishing-returns phenomenon is then better represented by a downward-sloping curve, in a graph in which advertising levels are related to sales results. Alternatively, some modeller prefer to assume that the relationship is actually S-shaped: in the beginning, when advertising budgets are low, sales do not respond at all to advertising. It supposedly takes time (because it needs several exposures) for advertising to "wear-in." Then we see a point of increased returns, as sales really begin to respond to increased advertising, as the ad budgets exceeds some minimum critical-level threshold. Finally, it begins to slop downward again, as once again the diminishing-returns phase appears. Figure 16-7depicts these kinds of relationships. Statistical analysts attempts to capture these nonlinear (curve) possibilities in their regression models by predicting the log (or some other transformations) of the sales figures by the log (or some other transformation) of the advertising spending figure. Most study of the shape of the actual advertising sales relationship concludes that it is of diminishing returns, although a few claim to find evidence of S-shaped relationships.

5.2 PROBLEMS WITH REGRESSION ANALYSIS

Regression analysis is some times useful, but on the whole it has been disappointing. There are many problems associated with its use, so that this technique can either not be used at all, or require the assistance of statistically skilled analysts. Perhaps the most difficult problem is to measure the carryover effect (which is also advertising's contribution to the institution's long-term equity or good will). The impact of over one, two, or more periods simply gets swamped by all the other sources of sales variation.

There are several other difficult associated with regression analysis modelling in general and with problems of measuring the carry over effect in particular. Among them are the following

1. There is often little variation in advertising except that due to seasonable factors. With out variation in advertising it is not possible to detect the impact of changes in advertising on sales. This problems is severe when an institution is over advertising it is so far out on the advertising response curve that there is no responses to any change in advertising. In that case an extreme drop in advertising would be needed to detect any response , and such a variation is simply not in the data
2. The data may be faulty. For example, accounting sales data will represent shipments to retailer and consumer purchases in responses to advertising, syndicated store movement data overcome this problem but are expensive and available only to consumer product firms. Accounting advertising data similarly represent billing by an agency and not exposure to advertising. in fact, it is difficult to get any accurate measures of advertising exposure .Note further that any analysis of sales and advertising data covering a time period spanning several years needs somehow to adjust for inflation in media costs over time, as well as the changing population sizes that led to the sale figures. This some times leads to regressions in which capita sales figure are predicted by inflation adjusted Medias dollars.
3. Data describing other marketing variables are often not available or are expensive to obtain. Data describing competitor activities are rarely available.

4. Annual data really are a inadequate since the immediate and carryover effects of advertising usually occur in month, not years. In fact , statisticians have found that if the product is one that is bought frequently, say, every few weeks , then regressions using annual sales and advertising data can yield very misleading results. It is usually better to perform the analyses on "disaggregated" data, covering small units of time (such as months or quarter) and to do them separately for geographical markets that might show different relationships between advertising and sales. Then this can be very useful in allocating the national advertising budget for an institution across those geographical areas.
5. If a business uses the percentage of sales method of establishing the budget, a sales change could cause a change in advertising expenditure instead of the reverse (at least at the annual level). The nature of the causal relationship advertising causing sales, or anticipated sales causing budget-simply can not be adequately disentangled by most regression analyses.

Despite these many limitations, such regression analyses have frequently been performed often found to be quite insightful. As mentioned near the beginning of this chapter, "the average " elasticity of short term sales response to advertising (the percentage change of sales caused by a one percent change in advertising spending) Has been found to be low (about 0.1 to 0.3).

5.3 STUDIES OF OPTIMAL REPETITION FREQUENCY.

Yet another way to arriving at an advertising budget is to figure how many advertising exposures might be required per consumer to achieve the communications of advertising objective (The frequency needed per planning period-such as five exposure per four week cycle). This can then be multiplied by the total number of consumers on whom that objective is sought to be achieved (the reach necessary- e .g . ten million woman age 25 to 54) The product of these two numbers yields the total number of exposures necessary (in this case, five times ten million, or fifty million exposures, per four weeks cycle).This desires numbers of exposures can then be "costed out," given a tentative media mix .for example if it costs 25$ to reach 1000 target women aged 25 to 54 on prime time network television (or about 2.5 cents per exposure),then a campaign splits evenly between daytime and prime time TV would cost 1.55 cents per target

exposure. For 50 million exposures every four weeks, this would translate into $775,000 (50 million times 1.55 cents) every four weeks, or a little over $10 million in media costs for a year of thirteen such four-week cycles.

It should be immediately apparent that this is an extension of the "objective and task" method of setting advertising budgets outlined earlier in this chapter. In the paragraphs that follows, we will describe further some research that is useful in the answering the question of "what should be the appropriate frequency level?" As far as the target reach figures are concerned, these should be derived by working backward from marketing objectives incremental sales.

The question that we are then faced, of course, is: How many exposures do we need to create (and maintain) such top-of-mind awareness, per four – week cycle or some other time frame, such as the purchasing cycle for that product? (In some other time situation, we might be dealing with creating favourable attitudes rather than top-of –mind awareness, but the principal is the same.) We thus need to know something about how many exposures are necessary to lead to creating or maintaining awareness or favourable attitudes.

5.4 HOW MANY EXPOSURES?

It is recommended that, in general, around three exposures within a purchase cycle are about adequate to lead to or maintain the desired level of institution attitudes. It was found that simply delivering one exposure to a target consumer within a purchase cycle usually was not enough; more than three exposures, on the other hand, usually led to diminishing results, at least as far as recall was concerned. While this was an average tendency, small institutions appear to require (and benefit from) higher frequency more than larger institutions did.

Also it is suggested that, a level of about three exposures is needed. The insights into the needed of repetition can be gained by considering the difference between the first, second, and third exposures. In this conceptualization, there is no such thing as a fourth exposure.

The first exposure elicits a "what is it?" type of response. The audience member tries to understand the nature of communication and, if possible, categorizes it as being of no further interest.

The second exposure, if not blocked out, produces several effects. One, particularly in television or radio advertising, is the continuation of the "what is it" response. The first exposure may not have been adequate to gain an understanding of what it was. (In fact, some television copy-testing systems require at least two exposures for this very reason.) Another response is an evaluative "what of it?" response. The audience member will attempt to determine if it is relevant and convincing. The message will be evaluated. Associated with all responses could be an "Aha, I've seen this before" reaction.

The third exposure is basically a reminder in case the audience member has not yet acted on the message. Any addition exposure is just an other third exposure, replicating the third-exposure experience. Thus it implies that only three exposures are required. However, it is not quite that simple, because some audience segments may, after the first exposure,

Screen the advertisement out until they are ready to process another exposure. This phenomenon is particularly prevalent in television a' ertising, where there is low involvement. A potential purchase or use-experience may stimulate an audience member to be receptive to a second exposure experience. As a result, several actual exposures might be needed before a "second-exposure" experience occurs. The effect of multiple exposures is not to generate a cumulative impact on an individual audience member, but to capture more second-and-third-exposure experiences.

As a practical suggestion to marketing managers, it is advised that they start with an objective of exposing two-thirds of their target audience at least twice and not more than four times per month. This advice is compatible with the concept that at least two exposures are needed and that any exposure over four is wasted since the second exposure experience will have occurred for most of the audience.

A third source for recommendation of using three of exposures per planning cycle is the fact that this is the most frequently used level of the effective frequency used by the advertising a encies. The concept of effective exposure was also put forth in 1977 by an advertising researcher Alvin Achenbaum.

In essence, the idea is that there is a minimum threshold of necessary exposure, below which the connection between the message and the consumers simply not established strongly enough. Below this effective-frequency level, therefore, exposures are wasted; people reached with less than this number of exposures-typically, but not always, three or four exposures per purchase cycle-have not been effectively reached. Advertising agencies make widespread use of effective frequency concept.

5.5 WEAR-OUT.

While the concept of effective frequency is concerned most about minimum level of exposures necessary, the concept of wear out is concerned with the maximum number of exposures that should be used for any particular advertising execution in a certain period of time. (wear-in in contrast, is concerned with how soon a message makes its initial impact). Wear out occurs when successive exposures no longer have a positive impact on audience. Indeed, the marginal impact can turn negative.

The determined of the optimal frequency thus involves an understanding and an ability to predict when wear-in and wear-out will occur.
One of the first psychologists to study wear-out empirically was Hermann ebbinghaus. In a series of experiments reported in 1902, he related retention to reputation. He had a single subject (himself) learn a series of nonsense syllables by oral reputation. He found that diminishing returns set in as the number of repetitions increased. Since that time, wear-out has been documented in a variety of fields and laboratory studies by psychologists and advertising researchers. As reputation build, advertising researchers have found that attention to the commercial, recall of the copy points, awareness of the advertised brand, brand attitude, and purchase intention will build, then level off, and ultimately decline.

One explanation of wear-out is that excessive exposure generates irritation. The audience, which accepts advertisements as a necessary part of print or broadcast media, may resent being exposed to the same advertisement many times. Psychologists' john cacioppo and Richard petty monitored people's verbalized response to a persuasive written communication. They found that production of support arguments increased and then decreased with exposures. The number of negative thoughts, however, declined after the first few exposures but then increased as repetitions mounted.

To combat wear-out, then, it is necessary to attempt to reduce inattention, boredom, and irritation and/or to maximize the degree of "learning" from the advertising that continues to occur despite repeated exposure. One approach to fight wear-out is to provide advertisements that reward the audience in some way. Information that is valued (features of a personal computer) could be provided. Humor can stimulate attention and liking (but it should be noted that humorous advertisements can wear-out even faster than straight advertisements, if consumers get tired of jokes). Entertainment value can also come from creative approaches using music, dancing, action, or drama, and any of these can forestall wear-out. In fact, the research suggest that "emotional" advertisement wear-out less quickly than more "rational" advertisements, and that more "complex" advertisements wear-out more slowly than the simpler advertisements that are "learned" very quickly. If the advertising is difficult to process, it can be run for more exposures without wear-out than an easy-to-process advertising (which the audience "learns" faster and thus gets bored with the faster). An implication of this last statement is that an advertising being run frequently ought to be created to be relatively difficult to learn and process (more complex). The exact pattern of wear-out is complex, depending on the measure being tracked (recall? attitudes?), the type of advertisement, the spacing (timing and distribution) of the exposures, and so on.

Wear-out can also be combated by spacing commercial exposures overtime and running multiple executions of the same campaign theme. Another one of findings is that spaced repetitions are more effective than the same number massed together. When multiple media are used, variety is naturally introduced, which again will allow a higher level of repetition.

5.6 WHEN IS MORE FREQUENCY NEEDED?

Cleary, the research-based recommendation just made-that three or four exposures per one week cycle is often appropriate-is an average; some situations call for more, others for less. The research on wear-out and wear-in provides some insights into the nature of the situations when higher levels of frequency may be justified. Higher levels of frequency may be warranted when the message is more interesting, such as institution's services launches, new messages, new advertisements; when the message is more complex; and when the message is more reliant on moods or imagery for its effectiveness. The level of frequency should be less when nothing new was being said, when a simple message was being put across, and so on.

In particular, advertising that aims to develop associations between the institution and feelings, activities, or people will require more repetition than advertising that is designed to communicate information. Research also shows that messages that are better at generating recall, or more persuasive, are "received" by clients faster, thus necessitating lower advertising spending.

The research showed that both wear-in and wear-out occur faster when the consumer extract information from the ad in the earlier exposures, so that later exposure is essentially waste as far as the advertiser is concerned.

More exposure does not lead to more favourable attitudes-in fact, it may even lead to a downturn in such attitudes, since the highly involved consumers, having already learned what the ad has to say, may now find it irritating and tiresome. When the consumer is less involved or less involved or less knowledgeable, however, higher levels of repetition are warranted, since they do lead to increasing attitudes and purchase intentions. A graph from their study is represented in figure.

The complexity and size of the communication and persuasion task will also affect the repetitions needed. For example, a task that involves establishing a new brand name and communicating a complex new service will undoubtedly require heavy repetition as well as multiple executions. Another of the classic ebbinghaus findings was that as the number of items to be communicated increased, the number of repetitions necessary to attain a certain level of learning also increased.

It is suggested that heavier repetition would be required when

- A new institution's services are involved.
- A smaller, less well-known institution is involved. A dominant institution will need less frequency because it will already have a high level of recognition and acceptance.
- A low level of institution loyalty has been achieved. An institution with a high level of purchase loyalty and attitude commitment will require less repetition.
- When the target audience is less involved and less motivated to process the information or when it has less ability to process it (because of lack of background information or because of lack of mental skills)
- When there exists a great deal of clutter to break though of particular importance is the level of competitive advertising. It may be necessary to increase repetition to break through the presence of competitor advertising.

In defining what the optical frequency level should be for a particular brand, it makes most sense to perform analysis on the sales history for that brand, perhaps using-source scanner data. One such recent analysis in Britain found, across fifteen frequently purchased packaged goods (such as coffee, tea, detergents, and cereals) that a frequency of four or more exposures per four weeks seemed to make sense. It should always be remembered in such analyses that if diminishing results set in after the consumer has viewed four exposures, the advertiser may need to actually schedule and run two times that many-many studies have found a 50 percent fall-off between *opportunities-to-see* (what advertisers actually pay for) and actual viewing can determine what an appropriate level of target reach that makes sense from a marketing point of view, this can lead to a "bottom-up" estimate of the advertising budget required. Ether this method, or the use of split-cable or field experiments, or of regression, should yield an estimate of an ad budget that makes more logical sense than the other decision rules discussed earlier in the chapter-although the latter are clearly easier to use, and thus are used more frequently.

5.7CONCLUSION

The theoretical underpinning of the advertising budget is based on economic marginal analysis and is easily expressed. A firm should continue to add to its advertising budget as long as the incremental expenditures are exceeded by the marginal revenue they generate. The determination of the functional relationship between advertising expenditures and sales, which is at the heart of marginal analysis, is most difficult for several reasons. First, the assumption that advertising expenditures affect immediate sales is often faulty. Second, the determination of the shape and parameters of the relationship is no easy task. Finally, the relationship changes through time.

Practical decision makers, in response to the problems of marginal analysis, have used several decision rules. The most widely used approach, which bases the advertising budget on some percentage of sales, can lead to excessive expenditures for well-established institutions and inadequate expenditures for new and promising institutions.

Setting ad budgets requires determination of the sales response to advertising. One approach is to conduct field experiments by varying advertising levels in different test cities, or areas.