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PROMOTION OF PRIMARY PRODUCTS — A VIEW FROM THE CLOISTER*

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This paper is a discourse on how promotion may contribute to the efficiency of consumption. The view is taken that, through its addition to the quantity of search with respect to product characteristics, promotion may enable consumers to allocate their expenditures more efficiently and yield additional revenue to producers of the promoted product. The central plea is for consistency in the identification of promotion objectives, the implementation of the promotion program and monitoring of the outcome. In an idiosyncratic way, the promotion objectives are framed as being related to price and income elasticities and it is argued that promotional outcomes should be monitored in terms of these elasticities. Supply shifts may complement promotion strategies to the advantage or disadvantage of producers and the outcomes in terms of producer surplus are examined for particular promotion strategies and shifts in linear supply functions.

In this address I propose an institutional framework for investigating promotion. The institutions include marketing bodies and their members, the markets in which the promotion takes place, and the rules which govern the behaviour of participants in the marketing and promotion processes.

I define promotion and set down the well-known simplistic rules for optimal promotion. Ways are suggested by which these rules might be modified to reflect more closely some of the complexities in the market-place. I urge the application of objective decision rules and the monitoring of promotional outcomes and propose the bases on which promotional activity and its assessment may be carried out. Where supply is likely to shift, determination of promotion strategy becomes somewhat hazardous and choices which might be made in positioning products in the market require careful examination.

Primary producer groups or organisations which undertake marketing and promotion of their members' products are essentially communication networks. These networks involve the acquisition and dissemination of information, the assessment of markets, the development of marketing and promotion strategies, the selection of tactics to implement the chosen strategies and the monitoring of performance in the achievement of the goals of the organisation.

Indeed, I think that the role of promotion is clarified if all market participants are seen to exhibit this organisational form. Producers, marketing firms and organisations, and consumers are all, in a sense, policy makers: all have a set of objectives, all are constrained by the resources at their command, the market environment in which they

* Presidential Address to the 28th Annual Conference of the Australian Agricultural Economics Society, University of Sydney, 7–9 February 1984. I have removed as much of the humour as I could find in the original paper. What remains is unintentional. I am grateful to John Longworth, John Freebairn, Bob Richardson and Brian Fisher for their comments.

operate and the market instruments available and suitable to the pursuit of their objectives.

For marketing organisations and other market participants, the relevant environment in which they plan, decide and act has fundamental and structural components.[1] Fundamental elements of the market environment include social values, beliefs, rights and obligations, and the extent of functional specialisation. The fundamental elements thus constrain the scope and freedom of action for market participants.

The structural elements of the market environment are of two kinds, qualitative and quantitative. The qualitative factors concern the mode of mechanisms for exchange and distribution, and the level, incidence, and array of taxes. Quantitative structural elements of the environment include those characteristics which make it possible to distinguish among social groups and socio-economic institutions. These characteristics are embodied in their behaviour and are expressed as demand or supply elasticities, propensities to save, search and substitute, and generally to respond to market stimuli. The structural elements both impose constraints and enable the establishment of feasible market objectives which can be defined in terms of these behavioural characteristics.

Strategies to account for or modify market behaviour are identifiable and have analytical meaning only when they are formulated in a consistent conceptual framework. Strategies for promotion of primary products, particular market tactics, and their consequences, can all be expressed in terms of the parameters of supply and demand functions for the promoted products. Hence, the criteria against which the performance of tactical measures employed to implement market strategies is assessed are meaningful to the task of performance monitoring only if they too can be expressed in terms of the same set of market parameters which define the strategy.

Within this framework I propose to re-emphasise the role of prices and incomes and their interrelationship as explanators of how one class of marketing strategy, namely promotion, works. Under the term 'promotion' I include all kinds of offer variation.

Most non-economists and many economists seek to explain consumer expenditures on promoted products in terms of variables other than prices and incomes. Such endeavours are, in my view, misdirected and counter-productive in the search for an explanation of how promotion works, if and when it does, and an explanation of why it fails.

The debate on the effects of promotion on product sales has much in common with the debate on the genesis and maintenance of economic development or its failure to emerge. The protagonists of two schools of thought face their opponents with the blunted weapons of assertions and counter-assertions that prices and incomes do or do not matter as explanators of behaviour.

[1] This form of market environment is described by Leeflang (1974). Conceptually, Leeflang's approach has much in common with the social anthropological view of markets and the development of agricultural policies which underlies the writing and lectures of K. O. Campbell in the 1950s and 1960s.

Those who would diminish the role of prices and incomes in consumption decisions resort to the argument that many objects of choice are unpriced or are provided jointly with other products and decisions about them must be made without reference to price or that the pricing decision is blurred. It is argued too that the income constraint is not effective with respect to many consumption decisions.

The prevalence of oligopoly as the principal form of market structure for manufactured products and the increasing dominance of non-price weapons in the armouries of rival firms have edged some economists into compromise with the marketers who play down the influence of price on consumer decisions. An 'observed' association between corporate success or size and promotion has been parlayed into an 'irrefutable causal' relation.

Kaldor's (1950) paper on the economic aspects of advertising was written in 1943 as a preliminary statement of the economic issues connected with advertising, for an investigation of the effects of advertising on welfare which was to be undertaken by the National Institute of Economic and Social Research. In view of the magnitude of the task which was found to be involved, this project was later abandoned. My reluctance to engage in a discussion of the broader issues of the welfare effects of promotion (under which advertising is subsumed) can, therefore, be understood. Nevertheless the question of advertising and market power has taken up so much space in the literature that it would be cavalier treatment not to administer the *coup de grâce* which the argument merits.

Supporters of the view that there are disproportionate rewards to large advertising expenditure compared with other activities or that there are increasing returns to advertising after a threshold level of advertising come from two sources, the advertising media and advertising agents. The first wishes to sell more space or time, while the second has a convenient, and it hopes, lucrative plea that returns to an existing program are frustrated by an inadequate budget.

Some economists, in the past, perhaps inadvertently, have supported this view. Traditionally, advertising has been regarded as waste, but this physiocratic notion has been tempered by dividing 'the enemy', which did not fall easily into the category of productive activity, into two classes — informative and persuasive advertising. The most strongly promulgated view has been that advertising can and does result in adverse economic performance through increased concentration of market power.

The argument has recently intensified and the traditional stance held with commendable vigour by Comanor and Wilson (1967, 1974, 1979) has come under fire principally from Bloch (1980) and Simon (1980). It seems to me that the evidence on the effects of advertising on economic performance is inconclusive. There is some evidence of a positive association between advertising intensity and seller concentration. However, this may reveal more about the structure of markets than about economies of size and advertising. It may tell us which size of firm chooses products which they advertise heavily and which size of firm stresses advertising rather than price in the marketing mix.

Porter (1976) indicates that the advertising–sales ratio is positively related to profits for convenience goods industries but not for shopping goods industries and that the relationship between profitability and advertising intensity is not homogeneous across industry groups or even across firms. Bass, Cattin and Wittink (1976) found that the relationship between advertising intensity and profits was not substantiated when firms were clustered into homogeneous groups. On balance, one tends to agree with Simon (1980) that the weight of past and likely future evidence is that there are not increasing returns to advertising nor is there a threshold level. Comanor and Wilson (1980) concede that 'it is time to turn to a more systematic, normative analysis of social costs and benefits of different levels of advertising expenditure'.

It would be myopic to ignore the necessity for modification of simple price theory to provide an adequate explanation of the behaviour of firms and consumers in oligopolistic markets. However, we may be misled by the presumption that variations in non-price characteristics of products have so obscured the influence of prices that prices cease to function as significant arbiters of market decisions. It may well be that prices under these conditions take on more subtle forms.

I hope in this review to throw some light on which half of the promotion dollar pays and to suggest that there is some virtue and profit to the promoter in the joint prior determination of promotion strategies, the criteria against which success is to be measured, and the process by which promotional outcomes may be appropriately monitored.

The conceptual framework for my approach to promotion is derived principally from the work of Scitovsky (1951, 1976), Stigler (1961), Nerlove and Waugh (1961), Parish (1963), Leeflang (1974) and Stigler and Becker (1977). For Lancaster (1966) and Stigler and Becker (1977) consumer theory is recast in such a way that the household no longer passively maximises utility directly from products purchased in the market. Instead households are actively engaged in production and investment activities. The focus of these activities is the transformation of raw market products into 'fundamental commodities' by the use of other household inputs such as time, household capital (including human capital) and information services.

I propose in this paper a set of more or less general and satisfactory rules governing a profitable promotion strategy. According to these rules it is necessary to identify promotion targets, to set clear-cut objectives for the promotion program, and to establish tests of the attainment of the objectives.

For either a firm or an industry, the establishment of profit-maximising rules, market objectives, and tests of their achievement require not only a consistent conceptual framework but also good data and estimation techniques.

A Definition of Promotion

I define 'promotion' as the provision by an organisation of information to consumers about the qualities and prices of a product or product class. The objective of the provision of this information, at some cost, is an increase in the net revenue of the organisation's members. The increase in net revenue is expected to be derived from increased consumer expenditure on the product at existing, higher or lower prices and an increase in the proportion of consumers' expenditure which is directed to the purchase of the product at each level of consumers' incomes.

Promotion is a reward-seeking activity which yields a particular class of quasi-rent derived from the surplus generated by improved consumer efficiency. The existence of this rent implies that there are barriers to the conduct of effective search by consumers with respect to the characteristics which consumers demand in new products or which are present in existing products, the prices of these products and the characteristics which they possess. Consumers gain from promotion when they know more, after promotion, about how to acquire 'fundamental commodities' from promoted market products. They then make more efficient choices among available products.

There are also implied impediments to the search by consumers for knowledge of the methods by which they can transform products with identifiable characteristics into the 'fundamental commodities' which are the objects of their satisfaction seeking. A further implication is that consumers do not have available or are impeded from acquiring information on the available and potential selection of products and their prices.

Entrepreneurs who are able to identify such gaps between the actual and potential characteristics of marketable products, in their pricing or in the range of possible transformation processes for these products, achieve a marketing edge. They are thus able to identify market segments with respect to product and consumer as targets for their profit-seeking and rent-seeking activity.

The aim and effect of promotion, according to this theory of entrepreneurial and consumer behaviour, is through prices and incomes. Consumption is altered through the effect of changes in the perception of product prices arising from variations in 'the shadow prices' of fundamental commodities. Consumption changes too because consumer incomes are augmented, according to the theory, to 'full' consumer incomes through altered productivity of household resources, including time.

Full incomes embrace the whole resource base of the consumption unit both manufactured and human and include time and intellectual capacity and skills of consumers. The marginal cost of an additional unit of commodity output is the shadow price of the commodity.

Due to promotion, consumers perceive that relative prices of commodities and real full incomes have changed, and therefore modify their market behaviour. The information made available to consumers is thus an argument in their utility function or rather their household production function for commodities.

This analogy between household and factory may perhaps be clarified when promotion directed at processors of primary products is considered. In that context, it is more obvious how identification of product characteristics through promotion may enhance the operational and pricing efficiency of the marketing chain. For marketing intermediaries (processors, storers) the shadow prices become directly comparable with market prices. It is then more apparent that the real budget for marketing and processing firms is augmented by enhanced managerial and technical skills and the quality of the resources employed.

In the long run, if it is assumed that consumers have adjusted to available information, the post-advertising price and income elasticities of demand for products are of a 'full-information' kind. Adjustments in consumer expenditures take place in response to new information. These adjustments take the form of changes in own-price elasticities, cross-price elasticities, budget shares and income elasticities. The improvement in consumer efficiency from additional information has been explored by Scitovsky (1976), Stigler and Becker (1977) and, in the context of a grading scheme, by Freebairn (1967). According to this scheme of things, it should be feasible to identify the ways in which, a priori, the availability of characteristics in products and information about their use in the household production process can be identified in a promotion program. It should thus be possible to deduce the consequences of promotion in terms of changes in budget shares and changes in price and income elasticities which can be expected to flow from a promotion campaign. Testable hypotheses about the outcome of the promotion can then be formulated.

Promotion Rules for Optimal Industry Performance

Primary industries are mainly, but not solely, interested in co-operative promotion. Certainly they have an interest in an improved flow of information about what consumers want from their products and in the characteristics which are present in the various forms in which their products are presented to consumers for different end uses.

There are simple rules which govern a profitable promotion strategy. The rules become less tractable but remain operational as an attempt is made to account more nearly for market complexity. These rules are expressed in terms of market elasticities. They are static propositions and incomplete. I propose to restate these rules to augment them marginally by some propositions which account for changing elasticities and to ask some questions which arise as a result of a relaxation of the assumptions of static supply conditions.

Where an industry engages in co-operative promotion, the market relationships of interest are those which identify the degree of control over supply or prices, the trading pattern of the product among alternative locations and end uses (including domestic and export markets), the nature of the product and the stage in the marketing chain.

Prescription for maximum net revenue from promotion for an industry with some degree of control over price, quality or allocation of supplies among markets is a straightforward matter for a simplified market specification.

For a single product, the profit-maximising decision rules for a price maker with respect to price, promotion and quality may be presented serially as follows:

The pricing decision

(1) $(P\text{–}MC)/P = 1/\eta$

The promotion decision

(2) $A/R = \lambda[(P-MC)/P]$

The quality-variation decision

(3) $V/R = \phi[(P-MC)/P]$

where $(P-MC)/P$ is the mark-up at the relevant market level.

The marketing-mix decision

(4) $A/V = \lambda/\phi$

Where supply control is absent, as it is with most co-operative industry advertising, promotional strategy must take account of supply to determine optimal industry promotional levels so that:

(5) $A/R = [\lambda/(\gamma + \eta)]\,[1/(1+\rho)]$

In the five equations, price, P, promotion expenditure, A, and quality-variation expenditure, V, are optimal with respect to revenue, R, given the values of the elasticities. The other variables and elasticities are:

η = price elasticity of demand (defined as positive);
MC = marginal opportunity cost of supplying the product at the chosen market level;
λ = promotion elasticity of demand;
ϕ = quality-variation elasticity of demand;
γ = price elasticity of supply; and
ρ = opportunity cost of resources used for promotion.

The rules enable identification of the parameters which are required knowledge before the decision can be taken to vary price, to vary quality or to promote. These rules can be modified to account for sales-maximising rather than profit-maximising objectives and to allow for external economies or diseconomies in the industry. Most of the relevant literature is reviewed by Koutsoyiannis (1982).

These static prescriptions are based on the simplistic assumption that the advertising elasticity of demand is constant and modifications need to be made to account for changes in the elasticity as the level of advertising and sales changes and that, beyond a certain level of advertising and sales, demand increases at a decreasing rate. The advertising elasticity is likely to vary with the type of product (luxury or necessity, novel or traditional), degree of objective description, level of product price, the share of the market in the product class, the range of substitutes and the level of advertising for them, and the general economic conditions which prevail. In addition, the response to advertising will not be uniform across all market segments nor will its incidence be uniform throughout all market levels. Similar reservations must be held with respect to the other elasticities. The attenuated effects of advertising over time also require attention. Additionally, the quite modest success which has attended estimation of advertising response leads me to reframe the problem.

Promotion Objectives

From the previous ideas it is possible to specify more closely the classes of promotional instruments which are consistent with the objective of increased net revenues from product sales. Two general classes of promotion relating to price elasticities of demand can be defined as follows:

(a) promotion which seeks to impart knowledge about characteristics which the product possesses or about how they can be released for use and which actually or in consumers' perceptions renders the product unique or narrows the range of potential substitutes; and
(b) promotion which seeks to extend the range of end uses or types of satisfaction provided by the product and increases the possibility of its substitution for other products.

These classes of promotion have the respective effects of decreasing and increasing the price elasticity of demand for the product. Similarly, two general classes of promotion relating to income elasticities of demand can be defined as follows:

(a) promotion which seeks to maintain or improve the productivity of co-operating resources employed by consumers to transform the product into basic commodities as income changes; the increases in demand which the product can be expected to experience as incomes increase is thus maintained or accelerated by promotion and favourable effects of promotion are evidenced by the size of and changes in income elasticities of demand for the product; and
(b) promotion which seeks to maintain the productivity of household resources in transforming the product into the desired commodity mix when the product may be expected to experience a decline in consumption as income alters or as income elasticities evolve unfavourably.

These forms of promotion may have the effect of changing the sign of the income elasticity or increasing its positive size in the face of a prospective decline.

In terms of standard indifference curve analysis of consumer demand, the two general classes of promotion have the respective effects of altering the price–consumption path of the product, and the income–consumption path for individual consumers and the position and slope of market demand curves for the product. It is possible from these classes to specify a combination of promotion objectives which are not inconsistent, to search for the most efficient instruments to achieve the objectives, and to monitor the outcomes in terms of testable hypotheses about the sizes and signs of price and income elasticities. It is in this way that it is possible to make theoretical and empirical sense of the plausible proposition that promotion may consist of exploiting differences between short-run and long-run elasticities. As noted by Parish (1963), it can then be said that promotion consists of getting people to do what they would do in any case, if they had the information embodied in the promotion.

Both price and income elasticities for raw products are likely to evolve as substitutes for the product in the provision of particular characteristics diminish or increase, and as consumers pass relevant income thresholds and acquire, improve or fail to maintain the skills and domestic and human capital necessary to search for and 'process' the product.

The evolutionary nature of product markets presents organisations with expanding or diminishing opportunities for promotion and an intimate knowledge of household behaviour is essential to the identification of what is the appropriate content of promotion messages, the target audiences, and the product characteristics favourable to promotional effort.

Promotion Targets

Promotion targets may be selected according to consumer classifications, their income levels, stage in the life cycle, life style, household capital composition, occupation, employment status, location, shopping habits, education, ethnic background, age and sex, community function, eating habits, and all the characteristics which make up the modern psychograph. Similarly, discriminants of a different kind need to be employed to identify institutional consumers such as restaurants, hotels, hospitals, gaols and private and public canteens.

The selection may best be geared to the estimation of long-run income elasticities of demand for the various subsets in the market to ascertain potential gaps in consumers' information about how to meet their requirements for product quality characteristics and how to identify and implement methods of fulfilling their nutritional, culinary, social and other goals.[2]

Whatever the discriminants employed to identify market segments, differences in the income elasticities and differences in the evolution of income elasticities as income changes may be useful guides to directing and monitoring promotional effort. For simplicity, the most useful discriminant for income elasticities and the evolution of them may well be income itself. Similarly, a whole set of discriminants is appropriate when looking at response to price changes and, again, the simplest and most effective discriminant to segment the market may be price.

Monitoring Promotion

One reason for the difficulty encountered by researchers in detecting meaningful estimates of sales response to advertising is the difficulty of disassociating the effects of advertising from the effects of changing incomes and prices. It may be that this provides an insight into how, in some circumstances, appraisal of advertising success might be conducted. It might be plausibly argued that the focus of our attention is consumers' expenditure patterns and the response of this pattern to advertising, and that this response is given effect, and is observable only, in the income-consumption or price-consumption relationships

[2] Scitovsky (1976) has proposed the view that consumers seek a level of psychic homeostasis between stimulus and comfort from the consumption of goods and services and that the equilibrium mix of these is conditioned by cultural heritage and the industrial and social environment. Creative producers of some forms of advertising are well aware of the competing requirements of stimulus and comfort by consumers. What often repels is the crassness of the '*lunge at the jugular*' of the target market through sexual stimulus and the comfort of peer group approval.

taking account of the effects of changes in shadow prices and full incomes.

The knowledge of households which is required to identify the way in which households with a myriad of characteristics seek out their satisfaction in terms of psychic homeostasis constrained by their budget (of income, capital and time) is intimate, extensive and likely to be costly. The translation of these data into market demand functions at appropriate levels of aggregation and detailed specification is no mean feat. Since time series of cross sections are likely to be the instrument for data acquisition, the expense of empirical economic research is likely to escalate to heights not contemplated by the scientists and administrators who appraise projects and dispense research funds.

Analysis of Supply Shift

The rules, as specified, relate to price makers but even where they are modified to take account of oligopolistic behaviour and rivalrous reaction they take no account (quite properly) of supply. For price-taking primary producers, supply and opportunity cost assume some greater prominence.

Nerlove and Waugh (1961) and subsequent researchers have modelled supply in the system as static and long run. They take no account of shifts in supply which may seriously modify the outcomes of promotion for producers. It may be illuminating to pursue briefly some thoughts on how such changes might be of moment.

Positioning the product in the market is no simple matter for primary producers since, given the range of possible transformations of the raw material, both the 'product' and the 'market' are ill-defined.[3] Nevertheless, it is possible with respect to particular end uses of the product to identify market segments to which specific promotional messages may be directed.

The type of promotional messages which are directed to the target audience will depend on the promotional goals and the expected outcomes in terms of changes in consumers' expenditures. The outcomes are thus observable as changes in price and income elasticities of demand. Indeed, I have argued earlier in this paper that promotional goals should be set explicitly in terms of elasticities and that changes in them are to be expected as a result of promotion.

However, it would be a mistake for an industry to concentrate exclusively on the demand side of the market when establishing its promotional policy. Consideration must be given to the prospect that supply conditions are not static and that shifts in supply may alter the expected outcomes from a particular product and market segmentation strategy. When elasticities of demand are altered by promotion, the relative sizes of producer surplus will depend on supply conditions in the markets for primary products as well as on the demand conditions which prevail.

This analysis is restricted to those occasions when the demand curve (affected by promotion) 'rotates' about the current market price.

[3] Positioning the product may take a number of forms. One form of the phenomenon in the retail meat market is examined theoretically by Parish (1967) and is extended and subjected to empirical investigation by Naughtin and Quilkey (1979).

Different outcomes may be expected when the demand curve shifts. Suppose that the promotion strategy chosen is to stress the unique characteristics of the product such that the expected outcome would be to reduce the range of its competitors. The strategy would be considered successful, if as predicted, demand for the product (around the going market price) became less elastic following the promotion. Such an outcome is depicted in Figure 1. Initially, market equilibrium for a primary product occurs at the intersection of the initial demand and supply curves (D and S) such the Q_0 is sold at price P_0. Following 'successful' promotion, derived demand for the primary product becomes less elastic as indicated by the post-promotion demand curve D*.

Let us now suppose that the supply curve shifts to the left as a result of some set of exogenous forces as indicated by S*. Without promotion, the equilibrium price, P_u, would prevail as opposed to an equilibrium price, P*, with promotion. The gain from promotion in terms of producer surplus, is indicated by the cross-hatched area.

If, however, supply shifts to the right, with P_d and P** as equilibrium prices in the absence and presence of promotion, producers lose the surplus indicated by the lower hatched area in Figure 1.

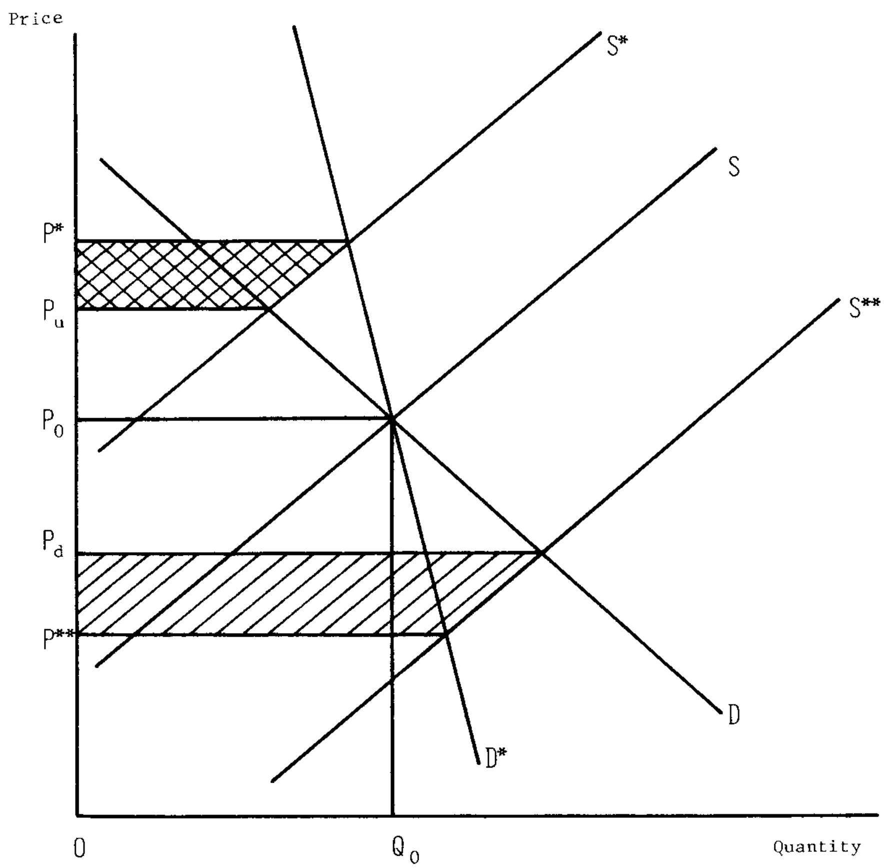

FIGURE 1—Effects on Producer Surplus of Supply Shifts in Markets where Demand Becomes Less Elastic as a Result of Promotion.

If S* and S** are equi-probable events and represent symmetrical shifts in supply, the expected outcome of the promotion strategy is a loss to producers.

Similarly, when the promotion strategy is geared to increasing the range of end uses of the product or otherwise increasing its substitutability for others, the expected outcome is that the price elasticity of demand for the product will increase. Such an outcome is depicted in Figure 2. Should supply shift exogenously, as indicated by S* or S**, producer surplus is modified and, along the lines of the argument with respect to Figure 1, producers will on average gain from the selected strategy.

When the market is segmented as in Figure 3 (that is, made more elastic below the current price and less elastic for prices above the current price), producers always gain. Where the reverse elasticities apply, as in Figure 4, producers always lose regardless of the direction of the supply shift.

Accounting for the incidence of supply changes, given the selected promotion strategy and its effect on demand elasticity, becomes a complex problem when the assumption of a single market is relaxed. Similarly, specification of the source of the supply change is necessary to

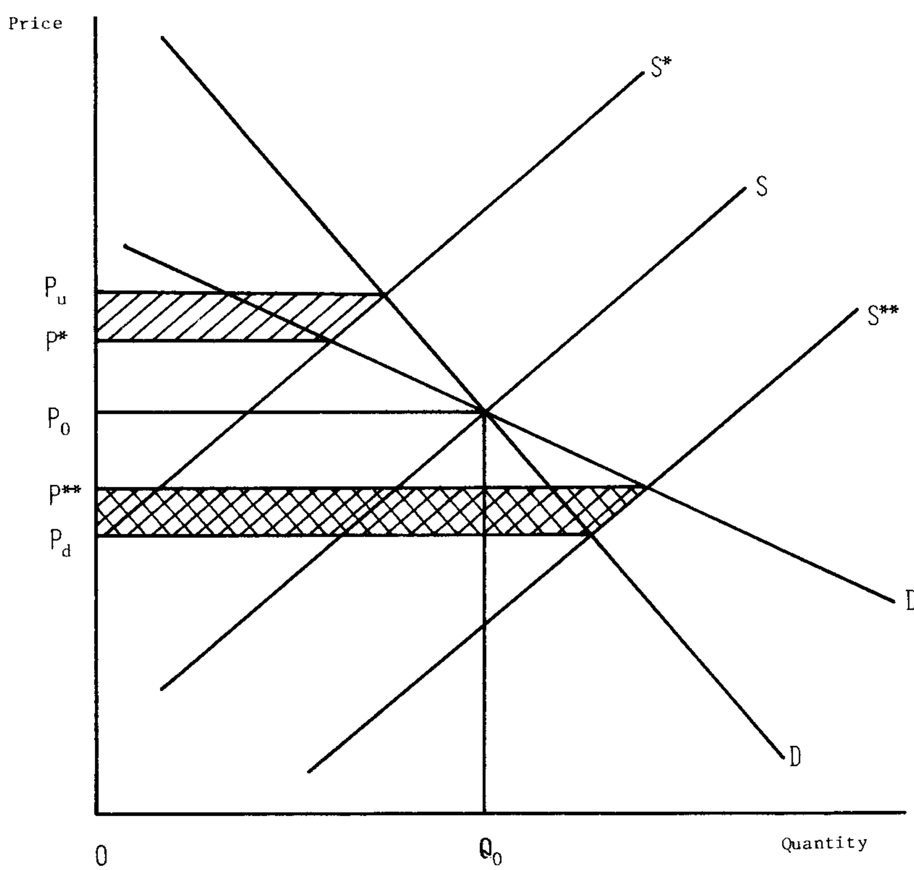

FIGURE 2—Effects on Producer Surplus of Supply Shifts in Markets where Demand Becomes More Elastic as a Result of Promotion.

identify the impact of the joint outcomes of promotion and supply changes. The incidence of producer gains or losses is not confined to the source of the supply change.

Further complications ensue when account is taken of the heterogeneity of agricultural products and the consequent multiplicity of end uses for which the outcomes of particular promotion strategies will have different consequences. The effects of relative changes in supply of different grades and types of the product are similarly convoluted.

The ways in which higher cost regimes, technology, or weather find expression in the supply function will amplify or mitigate the effects shown in these simple diagrams. The problems encountered here are similar to those treated by Lindner and Jarrett (1978). To the problems which they raise of convergence and divergence of supply functions can be added those on the demand side.

Concluding Remarks

It is possible to discern from the foregoing that a consistent conceptual framework in which promotion might be fruitfully considered is one which lays emphasis on price and income elasticities

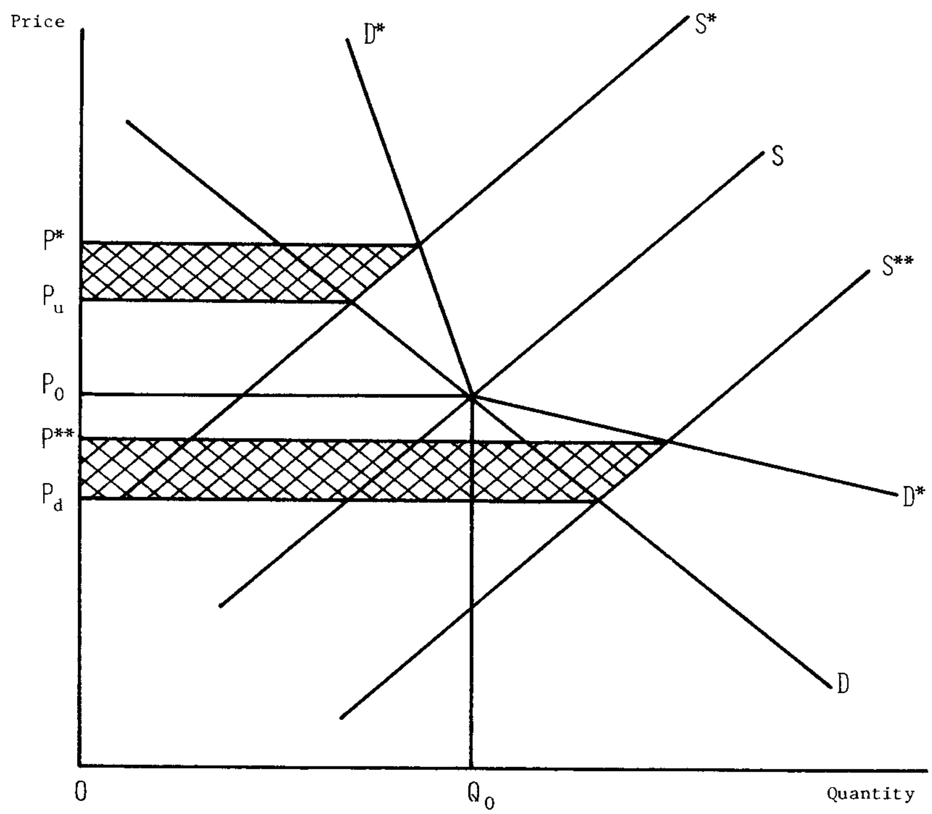

FIGURE 3—Effects of Supply Shifts on Producer Surplus in Markets where the Effects of Promotion on Demand are Segmented (more elastic at lower prices and less elastic at higher prices).

and the ways in which they change. My plea is straightforward in that I ask that identification of objectives and implementation and appraisal of promotion be in terms of these market concepts. An implication is that the relationship between sales and advertising may not be directly observable and can only be extracted from information about price and income elasticities.

It would appear to be plausible that long-term income elasticities (estimated from cross sections) at 'equilibrium' prices will indicate expenditure patterns of a full information kind. Hence the effects of advertising will be embodied in these elasticities as will the passage from one level of elasticity to another. Consequently, I argue, the income elasticities determined in this fashion signal the effects of purposefully directed promotion and are suitable indices of promotional success. Similarly, one might expect that promotion which stresses uniqueness of the product or alternatively its substitutability for other products in its end uses should display, respectively, less elastic and more elastic demands of quantity with respect to price as an outcome of the advertising which is directed to achieve these ends.

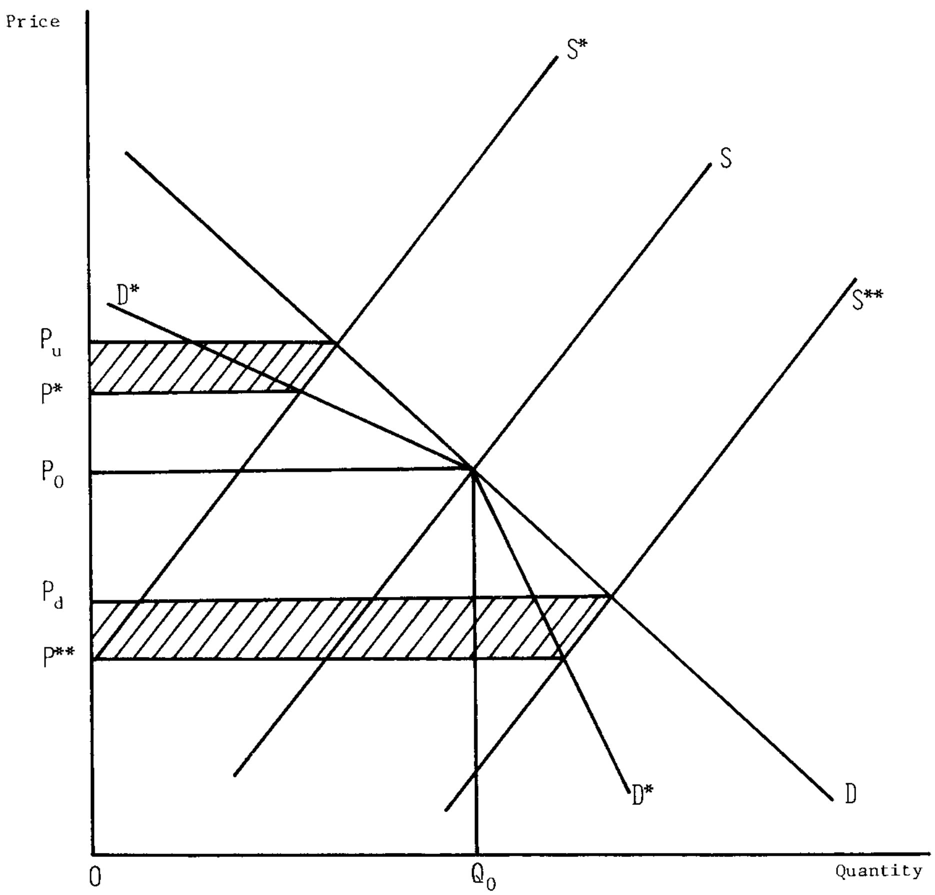

FIGURE 4—Effects of Supply Shifts on Producer Surplus in Markets where the Effects of Promotion on Demand are Segmented (more elastic at higher prices and less elastic at lower prices).

I am not arguing that promotion may not be directed to achieve these goals but rather that, once established, the outcomes should be evaluated in terms of the stated objectives and that the outcomes of advertising should not be regarded as stochastic events resulting from ill-defined phenomena. Promoters should not be pleased or disappointed with market outcomes merely because sales increase or prices rise and ascribe them willy-nilly to promotion. Instead the technical characteristics (elasticities) of the market in its purposefully altered state reflects the objectives which are set for advertising and which incidentally provide us with additional surplus that is as large as possible taking account of opportunity costs.

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