Summer 7-5-2020

Trade-off Between Two Advertising Strategies: Coverage or Penetration

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Abstract: Advertising has always been an important way for companies to promote their products and carry out product publicity. With the advent of the information age and the convenience of the Internet, the spread and dissemination of advertising are becoming widespread. There are two different basic advertising strategies, namely expanding market coverage and increasing market penetration. Expanding market coverage is a common advertising strategy for company managers. Through this strategy, they focus on the size of the market. Increasing market penetration is another way to increase demand. Company managers focus on the current market, but gain and maintain greater penetration by improving the quality of products or services. The first (coverage) strategy can be seen as distributing flyers, advertising boards and mass acquisitions. The efforts of the second (penetration) strategy can be seen as improving product quality, service environment and positive reputation. Which one is more effective, coverage or penetration? Under what conditions is it better for the company manager? These problems have not been found in the literature. By establishing a two-stage model, this article discusses the optimal advertising levels of these two strategies. Specifically, this article compares the optimal profits of the two strategies in various market environments and finds more effective advertising strategies. Management insights are generated for decision-making of firm managers.
Keywords: advertising; market coverage; market penetration.

1. Research Questions

Advertising can directly or indirectly increase the visibility and influence of corporate products in various ways, thereby increasing the market's expected profit. Fundamentally speaking, market profit comes from the total size of the market multiplied by the market share. Basically, there are two kinds of advertising strategies. One is focusing on enlarging total market size. We call it market coverage strategy. Handing out leaflets for one restaurant is a common example. Other examples can be easily found in TV and Internet advertising. The other one is to improve penetration level within the current market area by positive word-of-mouth, high product quality, and good services. Rather than handing out leaflets, restaurant managers can also improve food quality, service attitude and eating environment. That can be treated as a strategy to earn customers' hearts and then use the positive effect of word-of-mouth (increasing penetration level in a certain market).

As the increasingly fierce market competition, it is difficult for firms to obtain and maintain long-term competitive advantage. How to choose the two advertising strategies, coverage or penetration, is an important but overlooked question in the literature. This paper investigates the market coverage and penetration strategies in the setting of a two-stage model. After a comparison of the two strategies, this paper provides a choice between coverage and penetration in various market settings.

2. The Theoretical Contributions and Results

Most of the previous literature study the penetration strategy of advertising and coverage advertising strategy separately[1-3]. Few literatures combine the two strategies comparative analysis. We explore the optimal advertising levels for the two strategies, respectively. After that, we compares the optimal profits under the two strategies in various market settings and finds the more efficient advertising strategy by establishing two-stage

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models.

2.1 The impact of the initial market on optimal profits

In both the first and second phases, the price and cost levels are under moderate conditions, and the profits generated by both coverage and penetration advertising increase as the initial market increases. When the initial market is small, the optimal profit of the coverage advertising strategy is higher than the penetration advertising strategy. At this time, the enterprise should choose to make efforts in the direction of advertising coverage. When the initial market becomes larger, the optimal profit of the penetration advertising strategy exceeds the coverage advertising strategy. At this time, the enterprise should choose to make efforts in the direction of market penetration.

When the product price and cost increase, we can intuitively see that the optimal profit size is consistent with the initial market change trend. The difference is that the intersection of the two advertising strategies shifts to the right, and the optimal profit value also decreases. This shows that when the product price is close to the people and the initial market increases to a certain extent, the enterprise should switch from the coverage advertising strategy to the permeable advertising strategy; when the product price is higher, the enterprise's focus should be on improving the market coverage rate, and the initial In a large market, it is wise for companies to choose permeable advertising.

2.2 The impact of the initial word of mouth on optimal profits

Whether it is an overlay advertising strategy or a permeable advertising strategy, with the increase of initial word-of-mouth, its optimal profit has increased. In the case of a complete market (the initial market value is 1), when the initial reputation is small, the optimal profit of the permeable advertising strategy is higher than the coverage advertising strategy. At this time, the enterprise should adopt the permeable advertising strategy. When the initial word of mouth exceeds a certain threshold, the optimal profit of the coverage advertising strategy is higher than the penetration advertising strategy, then the enterprise should adopt the coverage advertising strategy.

When the size of the initial market is reduced by half, compared with the complete market, the trend of the size of the optimal profit with the initial word of mouth is consistent with the previous example. But what is interesting is that at this time, as the initial word of mouth becomes smaller, the intersection of the two advertising strategies moves to the left. This shows that when the market size is large, the market coverage conditions are relatively complete at this time, and enterprises should make efforts in the direction of advertising penetration, improve word-of-mouth, and grab more market share. When the market size is small, after reaching a certain initial word-of-mouth, the optimal profit of an enterprise depends on the coverage advertising strategy. At this time, the focus is on expanding the market and finding more customers.

ACKNOWLEDGEMENT

This research was supported by the National Natural Science Foundation of China under Grant 71701073 and 71901091. This research was also supported by the Special Soft Science Research Projects of Technological Innovation in Hubei Province under grant 2019ADC042.

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