Measuring Success in Marketing: Advertising Returns on Sunsweet's *Ones* Prunes Brand

ACCC Fact Sheet Series – Paper #3

Executive Summary and Implications of the Journal Article:
Boland, M.A., J.M. Crespi, J. Silva and T. Xia. "Measuring the Benefits to Advertising under Monopolistic Competition," Journal of Agricultural & Resource Economics, 37(2012):144-155.

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Marketing is often the key to higher profitability in a retail business. Consumer food marketing cooperatives are no different because their industry is filled with rivals with similar products and stiff competition. So, a great deal of time and effort is spent on marketing campaigns to acquire market share, primarily through costly advertising campaigns. As a result, executives want to know that they are getting an adequate return on those advertising dollars.

Increased sales and profits are typically viewed as the metric to gauge whether or not the advertising campaign yielded an adequate return. Yet, how do you know that the increase in sales is because of the advertising campaign? Could the rise in sales be due to your competitor's strategies and not your own? What about your business's other product lines impact? How's the economy doing? Is it having an impact on sales? Sifting through all of these questions as well as many others is necessary to truly identify the impact of advertising on sales.

The research described here demonstrates how to identify the benefits and costs of firm-level advertising. While all of the details of the theory and statistical model are left in the journal article, this fact sheet conveys the key takeaways for a business considering the questions posed above. In particular, the research developed an original model to measure the benefit-cost of advertising, and applied it to Sunsweet's new product line called, *Ones* prunes.

In the case of Sunsweet Growers, a dried-fruits cooperative headquartered in California, the product the researchers examined was a new line of prune snacks called *Sunsweet's Ones*®. These snacks are individually wrapped prunes marketed as a healthy snack food that can be taken on the go. The *Ones* product was introduced late in the 2000s against competition from other prune brands as well as other portable snack foods. Sunsweet Growers spent a considerable amount of time and money advertising and promoting the new product.

To identify whether or not these added advertising and promotion costs were worthwhile, a unique benefit-costs model was developed. The nature of the prune industry dictated much of the nuances of the model. For example, while there are a number of businesses in the prune industry, each business has its own differentiated product. In this case, businesses will market their products aggressively against their competitors to maintain market share. As a result, these businesses can be thought of as "monopolies" over their own brands.

Having this kind of market power over their brand, does give a business in the prune industry some ability to raise prices. Consumers have preferences for particular brands and, as long as prices do not get too high, consumers will remain loyal to their preferred brand…but only up to a point. When prices get too high, consumers will seek out substitutes for their now too expensive brand. Given the prune industry is highly competitive, other businesses are more than willing to develop a substitute product, price it slightly lower and take market share. Therefore, businesses in the prune industry are constantly looking for ways to be able to induce consumers to pay higher prices for their "branded" products, driving up profits.

Sunsweet's introduction of *Ones* is no different. Sunsweet developed *Ones* to get consumers to pay a higher price for a better and differentiated product, which in turn should lift Sunsweet's short-run profits above their average costs. The "short-run" is important because competitors will eventually develop similar products, which drives down prices and eliminates those short-run profits. However, if Sunsweet can capture these profits, especially if they are sizable, then introducing *Ones* into the marketplace would be very worthwhile.

An effective advertising campaign is paramount to getting consumers to pay a higher price for a new product. To convince consumers that *Ones* is truly a product worthy of paying a higher price, Sunsweet embarked on an advertising and promotional campaign. Based on economic theory and a data set of U.S. prune sales by Sunsweet and its competitors between 2008 and 2010, the authors looked for exactly the type of increases in Sunsweet's sales of *Ones* that were correlated with and directly attributable to the increases in advertising.

The research developed and implemented a complex benefit-cost model that found Sunsweet's advertising *did* work. Between 2008 and 2010, the average benefits of the advertising, in terms of increased sales, outweighed the costs of the advertising by somewhere between 1.26:1 and 4.35:1. In other words for every dollar spent advertising its new product line over these two years, Sunsweet earned between $1.26 and $4.35 in additional revenue from those expenditures than if it had done no advertising. That is not a bad return at all.

Identifying the impact of advertising on sales is important for a business. Advertising is expensive and often the difference in successfully marketing a new product. Applying the presented method above to other branded products is not only possible, it is necessary.