I propose a model in which consumers base their purchasing decisions upon their recollections of product quality and in which firms can use advertising to change these recollections. Although consumers are aware that such advertising has occurred, they cannot prevent their memories from being affected. I show that this type of advertising does not necessarily signal high-quality products.

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a wedding cake that was neither tiered nor formal, and no wedding party. Following the rating task, participants completed an ostensibly unrelated consumption task in which they decided to purchase a fleece blanket or not. As predicted, participants who rated traditional wedding photos prior to the consumption task were significantly more likely to buy the fleece than participants who rated the nontraditional photos.

In sum, across three studies we show that culture congruence influences consumption in a variety of contexts via subtle feelings of fluency/disfluency. Theoretical and managerial implications are also discussed, including applications for brand cultures.

**Persuasive Advertising with Sophisticated but Impressionable Consumers**

**EXTENDED ABSTRACT**

The goals of advertising campaigns are diverse; they vary from creating awareness for a new product to affecting repeated purchases. To achieve these goals, firms decide not only how much to advertise but also how to advertise their products. Firms may select the content of their advertisements to convey information about their product quality directly to consumers. Firms may also choose uninformative advertisements. One explanation behind uninformative advertising is that product quality is communicated by “burning money.” The message contents of advertisements are, in that case, irrelevant and their only effect is to reveal information indirectly to consumers. However, the content of uninformative advertisements may have a direct effect on consumers in itself, through persuasion for example. A vast literature documents and uses cognitive psychology to analyze persuasion in advertising. Firms may therefore select uninformative advertising because of its direct effect on consumers through the persuasive elements of its message. This strategic decision may also convey information to consumers indirectly and signal the product quality. The focus of this paper is to address the following questions about persuasive advertising. When consumers understand how persuasion works, will persuasive advertising ever be optimal for a firm? If the answer to the previous question is yes, will persuasive advertising always be associated with high-quality products? Finally, when firms can select persuasive or informative advertising, does one type of advertising dominate the other one?

I propose a model in which consumers are uncertain about the quality of a product sold by a monopolist. At the time of purchase, consumers do not know the exact product quality but try to assess it using their beliefs about quality. These beliefs could be, for instance, the recollections that consumers have of the product, which are generated by all past interactions between consumers and the product, including past personal experiences, word-of-mouth, official consumer reports, and of course advertisements. Some consumers having positive recollections and some consumers having negative recollections generate different beliefs about quality. The likelihood of having a positive recollection is an increasing function of quality thus recollections reveal some information about product quality. Furthermore, the firm may engage in persuasive advertising to increase the number of positive recollections. Specifically, in this paper, persuasive advertising is assumed to change the distribution of prior beliefs that consumers have about product quality. After being exposed to an advertisement, consumers might be more likely to remember the positive aspects of their last experience with the product than they would have remembered without the advertisement. In addition, consumers are sophisticated as they are fully aware that the firm can choose to engage in persuasive advertising, which increases the likelihood of positive recollections. They know whether they have seen persuasive advertisements and that they might be affected by them. However, they do not know if a positive recollection is the consequence of persuasive advertising or true experience as, of course, they do not know the recollection they would have had without persuasive advertising.

This paper shows that consumers cannot fully undo the effects of advertising, and engaging in persuasive advertising might be optimal even with sophisticated consumers. In addition, I show that persuasive advertising is not necessarily a signal of high quality. Under some market conditions, the fact that consumers fully understand the effects of advertising allows firms to signal a high quality by choosing a high price and by not engaging in advertising. If a firm chooses not to engage in persuasive advertising, consumers with positive signals know that their signals come only from the intrinsic product quality and were not artificially improved by a marketing campaign. As consumers with negative signals do not buy, the product quality has to be high enough to generate substantial positive signals and make choosing a high price profitable. As a result, choosing a high price and not engaging in advertising can help signal a high-quality product.

Depending on market conditions and the degree of advertising persuasion, persuasive advertising can signal an intermediate-quality range, a high-quality range, or even a low-quality range. Similarly, persuasive advertising is not naturally associated with high prices. Two factors drive the relationship between persuasive advertising and prices. First, firms use both price and advertising to signal their quality. Therefore, when advertising does not signal high quality, it is not associated with high prices. Second, keeping everything else constant, exposure to persuasive advertising lowers the expectation of product quality, which reflects the consumers’ willingness to pay. Indeed, a positive signal with persuasive advertising does not carry as much good news as a positive signal without persuasive advertising. The latter signal was generated only through the intrinsic product quality while the former could be spurious and could have been negative without persuasive advertising.

Finally, I introduce informative advertising to study how firms use different types of advertising strategically. Informative advertising is based on a claim that is a hard/verifiable piece of information about the product. The monopolist chooses now between persuasive advertising, informative advertising, or no advertising. I show that the effect of engaging in persuasive advertising might block the full unraveling of information in equilibrium. Some firms, instead of releasing some information in informative advertisements, choose persuasive advertising. Moreover, high-quality products are not always promoted with the same type of advertising. Specifically, persuasive advertising could signal a higher or lower quality product than a product promoted with informative advertising.

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