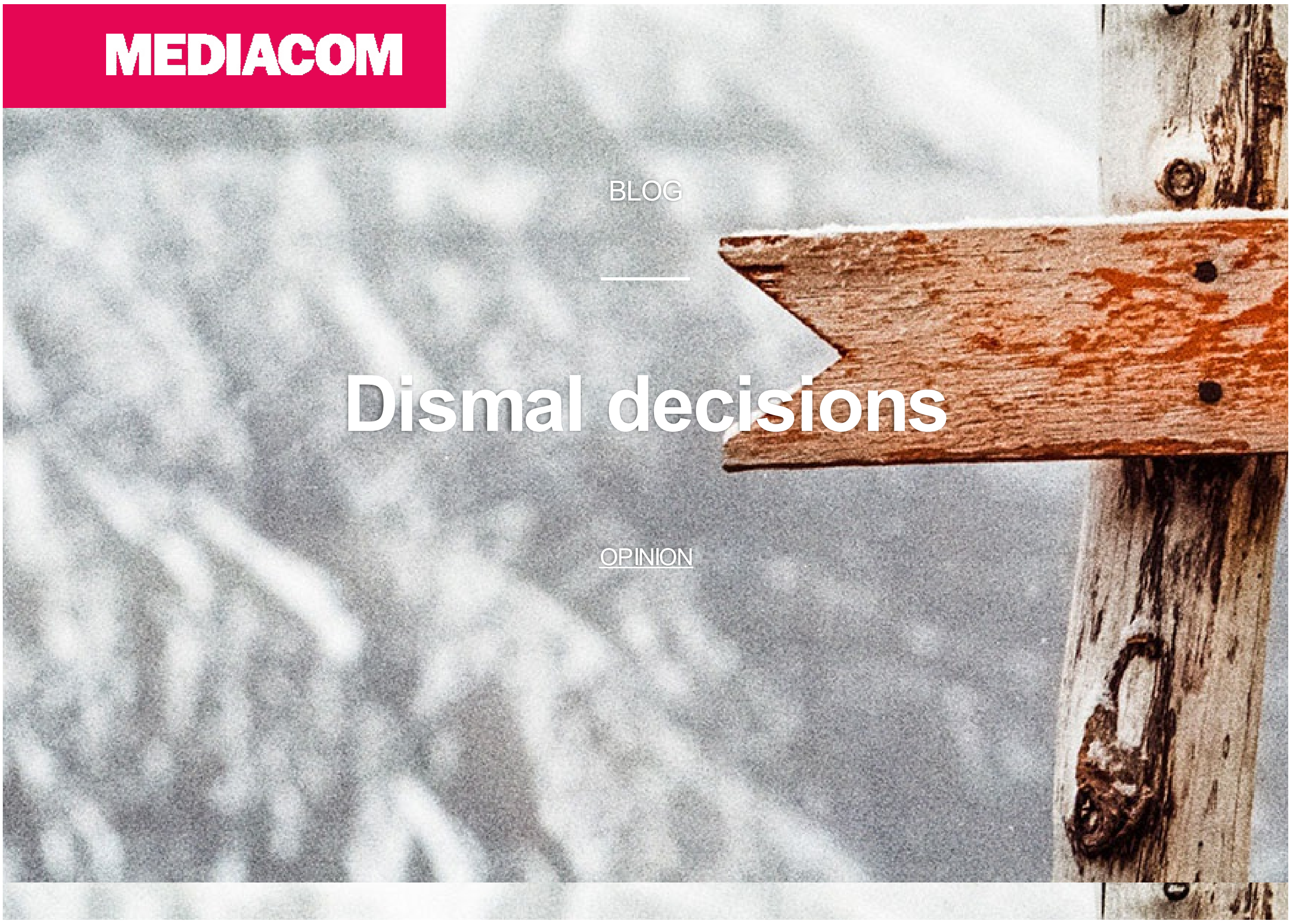

MEDIACOM

BLOG

# Dismal decisions

OPINION

ANDY WALSH, CHIEF STRATEGY OFFICER GROUPMW & GLOBAL CPG PRACTICE AT MEDIACOM 11 JUN 2020

## MediaCom's Andy Walsh explains what classical economics can teach us about better media decision making.

In recent years marketing and advertising have sought to learn much from economics. Some might say a dismal industry learning from the dismal science. It is the emergent field of behavioural economics rather than classical economics that has been mined and copied to consider its application to marketing theory. ‘Thinking Fast & Slow, ‘Nudge’ Predictably Irrational’ and others have been added to the must-read lists of marketing and agency libraries. But classical economics can teach us just as much about how to make better decisions.

By definition, economics is about the efficient use of scarce resources. It is all about trade-offs. Media too is about trade-offs. As the Ehrenberg Bass Institute put it “In an idealistic sense, the media objective is to reach every category buyer immediately before every purchasing opportunity… Given that we don’t know when an individual will buy, that would mean 100% reach every day. Even brands with enormous budgets cannot afford this, so all media plans involve trade-offs.”

At MediaCom, we have always been guided by the idea that we are a media agency and what we do is offer investment advice to our clients. When asked what I do to people not in our bubble, I have learnt to say, ‘help advertisers make decisions about where to spend their money’ rather than ‘work in a media agency’.

In helping our partners make decisions, I often come back to classical economics. And some of the basics that can help just as much as an understanding of our biases and irrationality. Three fundamental concepts in classical economics 101 are the first place to start when thinking about how to make better media decisions.

## Cost / Benefit Analysis

“A method of reaching economic decisions by comparing the costs of doing something with its benefits. Sounds simple and common-sense, but in practice can be easily complicated and much abused.”

The simplest form of media cost/benefit analysis is the Reach/Cost/Quality equation. Where we inform media decisions between channels and plans based on how many people they reach, how much that costs and crucially, what we know about the quality and effectiveness of that contact. Popularised by Mckinsey, it is a heuristic often forgotten in media decision making. As Reach based planning has enjoyed a renaissance in recent years we have been reminded of its usefulness. Its effectiveness is determined by how much we know about the ‘Q’, the effectiveness of a channel rather than its efficiency.

## Opportunity Cost

“The true cost of something is what you give up getting it. This includes not only the money spent on buying but also the economic benefits that you did without". The benefit that you forgo in not choosing the next best alternative.

Not considering the full opportunity cost of a media decision is still all too common. Cost is more than price alone. For example, we know the true cost of a media decision should take into account the non-working as well as working media. And simple multi-media planning needs to just the opportunity cost of those few extra reach points on TV rather than investing in another channel.

## Externalities

"Is an economic side effect. Externalities are costs or benefits arising from an economic activity that affects somebody other than the people engaged in economic activity and is not reflected fully in price".

Media externalities are everywhere. Outdoor advertising and visual pollution it can create are often cited as a negative externality. This idea justified the banning of OOH in some South American cities. The early days of social media saw 'earned media' presented as a positive externality. As something free and good for marketing. As platform and usage have matured, as that myth has been bust, we are increasingly seeing some of the negative externalities of advertising funding these platforms and the impact it is having on society. In economic theory, externalities are a market failure and the main intervention to correct that failure is government regulation. Watch this space.

Three fundamentals of economics that should be a nudge to you to use next time you need to make a media trade-off decision.

*This article was originally published on [LinkedIn] and definitions derive from 'Economics An A_Z guide' by Matthew Bishop.*