Advertising Impact Generalizations In a Marketing Mix Context

DOMINIQUE M. HANSSENS
Anderson School of Management
University of California, Los Angeles
dominique.hanssens@anderson.ucla.edu

What has academic research revealed about the quantifiable impact of advertising on business performance? This article summarizes the advertising-related findings in a recent Marketing Science Institute book on empirical generalizations about marketing impact.

THE MARKETING SCIENCE INSTITUTE (MSI) recently released *Empirical Generalizations about Marketing Impact*, the eighth volume in its Relevant Knowledge Series. The book contains more than 80 empirical generalizations (EGs), contributed by about 60 academics from around the world. Each EG is summarized and documented in a standard one-page format. To the extent possible, the EGs are quantified using a response metric that allows comparisons across business settings, for example, elasticity (i.e., the percent change in a performance variable Y, as a result of a percent change in a marketing driver X).

As Editor of the MSI volume, I welcome this opportunity to comment on our knowledge of advertising impact in the broader marketing-mix context that is the subject of the MSI book. In what follows, I will refer to the two sets of EG collections as "JAR EGs" and "MSI EGs" (see overview in Table 1). I will use the term "products" to refer to either physical goods or services.

Thanks to the diligence of numerous academic researchers and the increased availability of good data, we have learned a fair amount about advertising's role and impact on customer behavior. Specifically, several MSI EGs contributed by Robert Leone, Leonard Lodish, Gerard Tellis, and Demetrios Vakratsas—some of whom also contributed to the JAR EGs—teach us that advertising campaigns work fast, decay more slowly, and are subject to diminishing returns and competitive clutter.

An MSI EG by Robert Leone establishes a typical impact duration interval of several months, not years. Another EG by Gerard Tellis puts the overall sales-advertising elasticity around 0.1, with new products enjoying higher response than established products. An MSI EG by Leonard Lodish reports a wide elasticity range for TV in consumer product categories: from −0.05 to 0.5.

Demetrios Vakratsas contributed the following EGs: advertising impact differs for durables versus nondurables (up to 50 percent higher for durables), search versus experience products (higher for experience), and concentrated versus diffuse spending (higher for concentrated). The average advertising elasticity of 0.1 is small compared to that of other marketing levers, such as sales calls (average elasticity 0.35, as reported in an MSI EG by Sönke Albers, Murali Mantrala, and Shrihari Sridhar) and price (average elasticity −2.6 for consumer packaged goods, as per an MSI EG by Harald van Heerde). This modest average elasticity does not imply that advertising is ineffective, but rather demonstrates that substantial change is needed to create a visible economic impact. The variability in advertising elasticities also implies that execution matters a great deal, and this involves choosing which products to advertise at what point in time, pretesting advertising's sales power before engaging in substantial spending, carefully choosing media that fit the advertising task at hand, and investing in high-quality creative.

At the broader marketing-mix level, the MSI EGs also reveal that advertising contributes economic value, not as an isolated activity, but rather as an amplifier of other activity in the marketing mix. For example, an MSI EG by Koen Pauwels

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TABLE 1
MSI EGs Related to Advertising

Subject	Empirical Generalization	Author
1. Overall advertising impact	The average sales-to-advertising elasticity is 0.1. It is higher for new products than established products, for Europe than the United States, for durables than nondurables, and for print than TV. The advertising-to-sales elasticity is also lower in models that use disaggregate data and include advertising carryover, quality, or promotion.	Gerard J. Tellis
2. Long-term TV advertising impact	In cases where increased TV advertising has a significant impact on sales during the year of the weight increases, in the following two years, this sales impact is approximately doubled. On average, that doubling effect comes from an increase in buying rate in the test group. If TV advertising weight increases had no significant impact on sales during the first year, they had no impact in the two following years either.	Leonard M. Lodish
3. Determinants of advertising impact	Advertising impact depends on the product category. Specifically, advertising elasticities are as much as 50% higher for durables as for nondurables. In addition, advertising is more effective for experience than for search products.	Demetrios Vakratsas
4. Advertising impact and competition	Higher competitive intensity (clutter) will result in lower advertising effectiveness. Competitive advertising may reduce elasticities by as much as 50%.	Demetrios Vakratsas
5. Advertising weight	The size and distribution of media weight is an important determinant of advertising effectiveness. The bigger the change in the media weight and the more concentrated it is, the greater the advertising effectiveness.	Demetrios Vakratsas
6. Advertising reference price	The presence of an advertised reference in a price offer enhances consumers' internal reference price ($n = 0.26$) and their perceptions of value ($n = 0.21$) and lowers their intention to search for a lower price ($n = 0.17$). The level of the advertised reference in the price offer enhances consumers' internal reference price ($n = 0.29$) and their perceptions of value ($n = 0.25$) and lowers their intentions to search for a lower price ($n = 0.21$).	Dhruv Grewal and Larry D. Compeau
7. Advertising impact duration	The average advertising duration interval on sales is brief—typically between six and nine months.	Robert P. Leone
8. TV advertising effect	The average TV advertising to sales elasticity is 0.11 for established consumer products. It is higher for tests after 1995 than those before. There is a high variability in effects around these average elasticities. Some tests had elasticities over 0.5 and others were below −0.05.	Leonard M. Lodish
9. Advertising and business cycles	Advertising is more sensitive to business-cycle fluctuations than the economy as a whole, with an average co-movement elasticity of 1.4. Hence, a 1% increase (reduction) in the cyclical component of GDP (obtained after filtering out both the very short-run fluctuations and the long-run trend) translates, on average, into a 1.4% increase (reduction) in the cyclical component of the demand for advertising. The extent of this sensitivity varies systematically across countries depending on cultural and socioeconomic factors. When companies tie their advertising spending too tightly to business cycles, managerial and social losses are incurred. These losses extend far beyond the recession period and are reflected in (1) a lower long-term growth of the advertising industry, (2) a higher private-label share, and (3) lower stock prices.	Barbara Deleersnyder, Marnik G. Dekimpe, and Jan-Benedict Steenkamp

**Source: Hanssens (2009).*

reveals that about 80 percent of the net long-term impact of a marketing action—an advertising campaign, for example—is derived from its synergy with other actions (such as sustaining the initial action or supporting it with other marketing-mix investments).

Two synergies stand out in that regard. First, product innovation substantially increases advertising impact, as Gerard Tellis discusses in an MSI EG. Innovation also has a long-term positive effect on firm value, as Alina Sorescu reports in another MSI EG. Second, distribution has a predominant market-share elasticity that is greater than 1, as per an MSI EG by Paul Farris, David Reibstein, and Kenneth Wilbur. Distribution is also the only marketing-mix element that explains a substantial part of the variation in new-brand performance, as reported in an MSI EG by Carl Mela. Thus, inasfar as advertising facilitates the growth of retail distribution, it has an indirect effect on long-term market-share building. Both of these synergy examples illustrate that, in order to fully appreciate advertising's economic impact, we need to consider not only consumer response, but also channel partner response and investor response.

Finally, at the strategic level, several MSI EGs reveal that long-term results from advertising may be obtained from sustained investments, even under difficult economic conditions. For example, Barbara Deleersnyder, Marnik Dekimpe, and Jan-Benedict Steenkamp report that the cyclical component in GDP has a disproportionate effect on advertising spending, with an elasticity around 1.4. When firms tie their advertising spending too tightly to the business cycle, managerial losses may be incurred. Similarly, Bart Bronnenberg and Jean-Pierre Dubé contribute an MSI EG on the remarkable persistence of market leadership in consumer product categories across markets, and how that is related to firms' sustained advertising investments.

These comments could not do justice to all the MSI EGs that relate to advertising. Nevertheless, I hope that they provide some scientifically derived insights into the strategic role of advertising in the firm. I conclude with the recommendation that we not treat advertising as an intransitive verb, i.e., an activity in and of itself. Advertising is transitive, i.e., you must advertise something, usually a brand or a product, and the market and marketing-mix conditions surrounding that something determine most of the advertising's impact.

Dominique M. Hanssens is the Bud Knapp Professor of Marketing at the UCLA Anderson School of Management. From 2005 to 2007, he served as executive director of the Marketing Science Institute in Cambridge, Massachusetts. His papers have appeared in the leading academic and professional journals in marketing, economics, and statistics. Four of these articles have won Best Paper awards, in *Marketing Science* (1995, 2001, 2002) and the *Journal of Marketing Research* (1999, 2007), and five were award finalists.

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