How Ads for Big Brands Could Benefit Rivals Instead

Author : Matt Palmquist

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In late 2007, **Miller** and **Coors** — the second- and third-largest breweries, respectively, in the U.S. — announced their intentions to merge. Although analysts might have cheered the move with a hearty clink of their beer mugs, the venture had less to do with the potential for sales growth than it did with simple logistics. Prior to the merger, **Coors** operated only two plants, one in Colorado and a smaller one in Virginia. **Miller** owned six manufacturing locations across the country. By joining forces, the two firms could cut down significantly on shipping costs — and that's exactly the argument they made to the Department of Justice, which approved the plan.

But the merger had ramifications far beyond the firms' distribution departments. Whenever an industry becomes dominated by a few major players, the long-running debate over the true purpose and value of **advertising** reignites. Way back in 1890, eminent economist **Alfred Marshall** argued that **advertising** is essentially a competitive exercise that becomes less necessary as firms gain more market share. The opposite view holds that firms vying for market dominance in an extremely competitive sector have no choice but to differentiate themselves through intense **advertising** campaigns.

For the **University of Toronto's Ambarish Chandra** and **Drexel University's Matthew Weinberg**, the huge merger in the U.S. brewing industry provided the perfect platform to settle the question. Anyone who's watched a football game on TV, weighed in on the "tastes great, less filling" debate, or pined for the era of Spuds **MacKenzie** knows that beer ads are everywhere. Indeed, relative to their revenue intake, beer companies spend more on **advertising** than firms in other industries with high **marketing**-to-sales ratios, such as automobiles, pharmaceuticals, and soft drinks.

According to the authors' findings, managers in competitive industries might spend even more on **advertising** campaigns, but they must carefully weigh the impact of this investment — because **marketing** in tightly contested sectors can have spillover effects that also raise consumers' awareness of and interest in competing **brands**.

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Combining two databases — one that uses barcode scanners to track monthly beer sales at supermarkets across the U.S. and another that monitors major **brands**' **advertising** expenditures on billboards, print, radio, and television — the authors analyzed local **advertising** and sales for the country's major beer makers. (**Anheuser-Busch, Heineken**, and **Miller** and **Coors** [now **MillerCoors**] account for more than 75 percent of sales and 80 percent of **marketing** expenditures. Despite the much-talked-about rise of import and microbrew **brands**, their popularity is mostly limited to the West Coast and Northwest regions, the authors note, and they don't make much of a dent on national **advertising** or sales numbers.)

Between 2007 and 2011 — from shortly before the **Miller**–**Coors** merger until several years afterward — the authors analyzed monthly **advertising** and sales data generated in 46 metropolitan areas in 26 states. The geographic dispersion is important, the authors observe, because beer consumption is seasonal and varies wildly from market to market, and **advertising** expenditures mirror these trends. Local **advertising**, therefore, must be carefully strategized and managed — as with any intensely competitive industry that sees regional and cyclical trends in consumer engagement.

But unlike other studies that have examined **advertising** in different industries, the authors' focus on one particular segment allowed them to carefully weigh how the concentration of market shares affected firms' **marketing** expenditures. They found that the spending on beer **advertising** per capita in a metropolitan area increased the more **MillerCoors** gained a foothold in the area, showing that a greater concentration of dominant firms led to an increase in **marketing** costs for the companies competing for control of the sector. Rather than cutting back on **advertising** costs because the pie was being divided among fewer players, companies seemed to up the ante in order to curry consumers' favor.

Moreover, the escalation in **advertising** costs paradoxically resulted in increases to rivals' profits, the analysis showed. All major companies competing in the region appeared to receive a small positive bump in sales from the increase of their competitors' **marketing** investment. The findings jibe with a recent study of display ads on **Yahoo**. Although the ads led to a 30 to 45 percent increase in searches for the advertised **brands**, the researchers found, they also caused a 23 percent uptick in searches for competing products.

Most research on **advertising** has focused on how consumers react to **marketing** efforts, the authors note; comparatively few studies have examined the issue from the business side. But this study provides ample evidence that firms in highly competitive sectors could actually gain an advantage by cutting back on their **advertising** budget — and letting their rivals do the promoting for them.

Source: "How Does **Advertising** Depend on Competition? Evidence from U.S. Brewing," by **Ambarish Chandra** (University of Toronto) and Matthew Weinberg (Drexel University), **Social** Science Research Network, June 2015, Rotman School of Management Working Paper No. 2621899

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