Out of Sight...

What Happens to Brand Share, Penetration, and Loyalty When Advertising Stops?

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by

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Abstract

Despite widespread appreciation for the importance of advertising, brands are often observed to stop their advertising. Some publicly listed companies even cease advertising for an entire year[1] (Chemmanur and Yan, 2019). Scholarly attention to extended advertising cessation is new, with only one study empirically documenting brand sales change after extended periods of advertising cessation of a year and longer (i.e., Hartnett et al., 2021).

This thesis provides evidence on the value of advertising by extensively quantifying the impact of its absence. It examines Nielsen's Ad Intel and Consumer Panel data (2010 to 2015) in the United States. Matched advertising expenditure and consumer purchases are used to quantify market share, brand penetration, and loyalties for 365 brands over six years where advertising ceased at some point, for different lengths of time. This research uses a Many Sets of Data (MSoD) approach (see Lindsay and Ehrenberg, 1993, Uncles and Wright, 2004) across 22 consumer package goods (CPG) product categories to seek Empirical Generalisations (EGs) (see Ehrenberg, 1995). This thesis tests if prior findings hold (EGs) by investigating a different market, additional categories, and different cessation periods. Statistical tests and effect sizes are also provided. This thesis comprises four studies exploring different aspects of advertising cessation. A summary of the four studies is now described.

Study One is a replication and extension of Hartnett et al. (2021). This study tracks annual market share changes of brands that stop advertising for a year or more, accounting for brand size and prior trajectory. The overall findings are consistent with the initial research.

- On average, market share drops without advertising. Relative to the last advertised year, market share drops by 10% after a year without advertising, 20% after two years, 28% after three, and 30% after four years.

[1] It is expected to be far common across a broader spectrum of firm types and sizes but is not well documented.

- About half of the brands decline substantively (losing >10% relative market share) after one year without advertising, which increases to about 70% in the third unadvertised year.
- Brand size and prior market share trajectory have moderate effects on market share changes. Small brands typically decline, regardless of prior trajectory. Large brands that are growing or stable are less likely to suffer substantive decline following advertising stops (compared to large, already falling brands).
- The commonality of market share decline over time when advertising stops holds in most categories (17 out of 22), with decline varying in rate and depth across categories.

Study Two extends Study One by exploring the data with *quarterly* intervals, which are more common than annual stops. Two new category conditions are introduced: category penetration and category purchase frequency. This study aims to understand how *quickly* market share changes without advertising, and further explore how category conditions might shape the rate and magnitude of the decline.

- On average, compared to the last advertised quarter, market share drops by 5% after a quarter without advertising[2] and stays about the same level up to the fourth quarter.
- Forty per cent of cases substantively decline (losing >10% of share relative to last advertised quarter) after one quarter without advertising. This proportion increases to almost 50% in the fourth unadvertised quarter.
- Independently, brand size and prior trajectory have limited influence on quarterly stops, but combined, they provide a meaningful classification of groupings that are likely to be disproportionately affected when advertising is removed.
- Category penetration and purchase frequency have smaller influence than brand conditions. However, systematic category variances are found. The onset of substantial declines for brands in more frequently purchased categories is delayed.

[2] Noting a large variance across the cases (e.g., index market share ranging from 243 and 1.5 in quarter one).

Study Three deep dives into how penetration and loyalty change when brands cease advertising for extended periods. Two additional category conditions are explored: category promotion prevalence and advertising intensity.

- When advertising is stopped, penetration is the primary metric that changes with market share, with loyalty metrics changing to a lesser extent (e.g., in the first unadvertised year, purchase frequency and share of category requirements change by +/-1% and penetration changes by -12%). This relationship is observed in 21 out of the 22 categories.
- Brand size is the only condition where apparent differences in metrics are observed. Small brands suffer greater penetration decline than large brands, but brand loyalty remains largely unchanged for *all* brands over the dark years.

Study Four aims to identify the source of market share decay by examining changes in the composition of buyers (non, light, and heavy brand buyers) of those brands that stopped advertising for four consecutive years.

- Dark brands lose *all* types of buyers, having distribution of purchase rates that consistently follow an NBD reverse J-shape.
- The NBD model predicts dark brands' purchase frequency distributions very well.
- In terms of quantity change, dark brands lose light buyers the most because this cohort comprises most of the brands' customer base (in quantity). However, weighted index measurement shows that dark brands lose light and heavy buyers equally.

This research delivers several ***original contributions***, including:

(1) Provides robust benchmarks for market share declines for CPG brands that stop advertising for extended periods (a quarter, a year, or more).

(2) Identifies influential conditions at brand and category level on brand performance after stopping advertising.

(3) Provides evidence of penetration as the primary driver for market share change, rather than loyalty, for unadvertised brands.

(4) Offers evidence of brand size moderating penetration loss, but not loyalty loss, for unadvertised brands.

(5) Provides evidence of the robustness of the Negative Binomial Distribution (NBD) model predictions for prolonged advertising cessation.

Discoveries from this research offer ***important managerial implications***. Practitioners can utilise findings from this research to guide their advertising budgets. This research suggests **(1) some level of advertising spend is required** for long-term share maintenance (or growth), as brands that stop advertising generally decline with time. It also suggests that managers should **(2) aim for a continual advertising presence where possible**. Brands that switch off advertising for as short (or long) as three-months risk harming their market position. However, where advertising cuts are required, companies with portfolios of brands (and categories) can **(3) refer to the conditions identified (i.e., brand and category conditions) for scenario planning to determine the likely impact of ceasing advertising**. Such as, what category or brand in their portfolio are more or less likely to resist losses (and for how long) to help minimise total losses. Finally, **(4) knowledge from this thesis can help managers plan realistic goals going forward.** Understanding that the potential pool of customers (who are essential to sustain market share) is greatly reduced with time without advertising. This is a practical reason to consider lowering sales targets and avoid relying on short-lived strategies (e.g., price promotions) to compensate for losses in sales (or meet an 'outdated' sales target). More importantly, managers should keep their brand's identity consistent when advertising is removed. If/when advertising restarts, managers can recycle previous campaigns to maximise consumers' familiarity with the brand.