TV Advertising Effectiveness and Profitability: Generalizable Results from 288 Brands*

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Abstract

We estimate the distribution of television advertising elasticities and the distribution of the advertising return on investment (ROI) for a large number of products in many categories. Our results reveal substantially smaller advertising elasticities compared to the results documented in the literature, as well as a sizable percentage of statistically insignificant or negative estimates. The results are robust to functional form assumptions and are not driven by insufficient statistical power or measurement error. The ROI analysis shows negative ROIs at the margin for more than 80% of brands, implying over-investment in advertising by most firms. Further, the overall ROI of the observed advertising schedule is only positive for one third of all brands.

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1 Introduction

We estimate the effect of television advertising on sales using data across 288 consumer packaged goods (CPG) in different categories. Our goal is to provide economists and industry practitioners with a general understanding of the effectiveness and economic value of TV advertising. Knowledge on the effect of advertising is important to the economic analysis of advertising, including work on the impact of advertising on market structure, competition, and concentration. A particularly relevant example is the long-run viability of the current media market model. Advertising is a large industry, with total U.S. spending of $256 billion and TV advertising spending of $66 billion in 2019 (The Winterberry Group (2020)). In traditional broadcast markets, content and advertising are bundled, and advertising acts as an implicit price that consumers pay to subsidize the cost of producing content. The survival of this business model depends on the effectiveness of advertising and firms' willingness to purchase advertising.

Our first set of results pertains to advertising elasticities. We estimate advertising stock elasticities, which are a form of long-run elasticity that represents the total current and future change in sales volume resulting from a one-percent increase in current advertising. In general, advertising is not randomly assigned, and thus, in the presence of unmeasured confounders, the estimated advertising effects do not have a causal interpretation. In order to obtain causal estimates, we employ an identification strategy that relies on the specific institutions of the ad buying process.

We find that the mean and median of the distribution of estimated long-run own-advertising elasticities are 0.023 and 0.014, respectively, and two thirds of the elasticity estimates are not statistically different from zero. These magnitudes are considerably smaller than the results in the extant literature. The results are robust to controls for own and competitor prices and feature and display advertising, and the advertising effect distributions are similar whether a carryover parameter is assumed or estimated. The estimates are also robust if we allow for a flexible functional form for the advertising effect, and they do not appear to be driven by measurement error. As we are not able to include all sensitivity checks in the paper, we created an interactive web application that allows the reader to explore all model specifications. The web application is available at https://advertising-effects.chicagobooth.edu.

Our second set of results relates to the profitability of advertising. Using the elasticity estimates and data on the cost of advertising, we compute the implied return on investment of advertising. The results show that the ROI of advertising in a given week, holding advertising in all other weeks constant, is negative for more than 80% of the brands in our sample. The implication is that many firms make systematic mistakes and over-invest in advertising at the margin. Further, we predict that the ROI of the observed advertising schedule, compared to not advertising at all, is positive only for one third of all brands.

Our results imply a misallocation of resources by firms. There are multiple potential explanations for these systematic mistakes. Agency problems may be present, such that managers expect a negative impact on their careers if advertising is shown to be unprofitable, or because optimizing advertising strategies requires costly private efforts from the managers. Alternatively, managers may have incorrect priors on the effectiveness of advertising. Such incorrect priors could originate from analyses that insufficiently adjust for confounding factors, or from published meta-analyses that suffer from selection issues, for example due to publication bias affecting the original estimates. Our discussions with managers suggest that all these explanations may be relevant contributing factors to the documented sub-optimal advertising levels.

Our results on the ineffectiveness of television advertising are especially threatening to the long run viability of television advertising as a means of sustaining content markets. Ultimately, together with research documenting ineffective advertising in digital advertising markets (Blake et al. 2015, Lewis and Rao (2015)), our work should motivate economists to further study the managerial and agency issues in advertising markets. Our work also suggests that a prior of minimal advertising effectiveness should be maintained when conducting economic research. To the extent that advertising effectiveness is an important element in a model, our results suggest that the burden of proof should be placed on the researcher to show an economically important effect. Further, we hope that our results will motivate managers to critically assess the status quo and encourage firms and researchers to invest in new data and measurement techniques that can improve the efficiency of TV advertising spending.

The rest of the paper is organized as follows. In Section 2 we survey the literature on the economics of advertising and the measurement of advertising effectiveness. In Section 3 we describe our research design. We describe the data and identifying variation in Section 4. In Sections 5 and 6 we provide our elasticity and ROI results, respectively. Finally, in Section 7, we conclude.

2 Literature review

Our work adds to the literature on the economics of advertising. One strand of that literature has investigated the effect of advertising on market structure, competition, and concentration. Sutton's (1991) endogenous sunk cost theory of market structure and concentration, applied to the case when advertising creates vertical product differentiation, assumes that advertising affects consumer demand. The degree to which advertising is effective and has a long-run impact on demand or "brand equity" determines if entry deterrence is possible (Borkovsky et al. 2017, Ellison and Ellison 2011, Bar and Haviv 2019). Our results imply that many brands' advertising may not be sufficiently effective to generate such entry deterrence. Second, a long line of research in economics investigates if advertising is primarily persuasive, informative, or effectively a complement to product consumption (see the survey by Bagwell 2007). This study of the mechanism by which advertising affects demand would be moot if advertising were ineffective.

Our work is also related to a set of papers that perform meta-analyses of published advertising elasticities with the objective of drawing generalizable conclusions about advertising effectiveness (Assmus et al. (1984a), Sethuraman et al. (2011), Henningsen et al. (2011)). These studies report meta-analytic means on long-run elasticities in excess of 0.15. This type of work has two main limitations. It relies on published estimates of advertising effectiveness, and differences in the analytic approach may create spurious differences across studies of ad effectiveness. We overcome these limitations by using a single source of data and the same model for all brands in our sample.

Most closely related to our study is the seminal work by Lodish et al. (1995), which summarizes advertising elasticity estimates for 141 brands. The estimates are based on split-cable experiments conducted between 1982 and 1988 in which advertising treatments were randomized across households. Lodish et al. (1995) documents an average advertising elasticity of 0.05 for established products. These results provide a relevant comparison to our work because (i) the Lodish et al. (1995) results were almost certainly not selected based on size, sign or statistical significance, (ii) robustness is ensured given the split-cable RCT design, and (iii) the population of consumer packaged goods is likely similar to our population. Compared to Lodish et al. (1995), our study covers a longer time series and many more markets, through which we obtain better statistical power and greater external validity.[1]

3 Research design

3.1 Basic model structure

Our goal is to measure the effect of advertising on sales. For each product or brand, we specify a constant elasticity model with advertising carryover:

[1]The maximum sample size in each test was about 3,000 households (Abraham and Lodish (1990)).

$$\log(Q_{st}) = \boldsymbol{\beta}^T \log(1 + \boldsymbol{A}_{d(s)t}) + \boldsymbol{\alpha}^T \log(\boldsymbol{p}_{st}) + \gamma_s + \gamma_{\mathcal{S}(t)} + \gamma_{\mathcal{T}(t)} + \boldsymbol{\eta}^T \boldsymbol{x}_{st} + \epsilon_{st}. \quad (1)$$

Q_{st} is the quantity (measured in equivalent units) of the product sold in store s in week t. $\boldsymbol{A}_{d(s)t}$ is a vector of own and competitor advertising stocks in DMA $d(s)$ in week t. $\boldsymbol{p}_{st}$ is a corresponding vector of own and competitor prices. We specify the advertising stock as:

$$\boldsymbol{A}_{d(s)t} = \sum_{\tau=t-L}^{t} \delta^{t-\tau} \boldsymbol{a}_{d(s)\tau}. \quad (2)$$

$\boldsymbol{a}_{d(s)t}$, also a vector, is the flow of own and competitor advertising in DMA $d(s)$ in week t, and δ is the advertising carryover parameter. L indicates the number of lags or past periods in which advertising has an impact on current demand. In our empirical specification we set $L = 52$. This stock formulation is frequently used in the literature as a parsimonious way to capture dynamic advertising effects. We assume that $\boldsymbol{A}_{d(s)t}$ captures all dynamics associated with advertising, including the standard carryover effect (current advertising causes future purchases) and structural state dependence (current purchases caused by current advertising cause future purchases). Variation in current advertising that affects future sales will be captured via the distributed lag structure in equation (2), regardless of the specific mechanism.

In addition, we include various fixed effects and other controls to adjust for confounding factors. γ_s is a store fixed effect that subsumes persistent regional differences in demand, $\gamma_{\mathcal{S}(t)}$ is a week-of-year fixed effect that captures seasonal effects, and $\gamma_{\mathcal{T}(t)}$ captures aggregate changes or trends in demand. In our preferred specification, $\gamma_{\mathcal{T}(t)}$ is a month fixed effect corresponding to week t, but we also estimate specifications with quarter or week fixed effects and a specification where $\gamma_{\mathcal{T}(t)}$ represents a linear time trend. $\boldsymbol{x}_{st}$ is a vector of other controls, including feature and display advertising, that is included in some of the model specifications.

We measure own advertising using two separate variables. The first own advertising variable captures advertising messages that are specific to the focal product. Such advertising is likely to have a non-negative effect on sales. The second own advertising variable captures advertising messages for affiliated products that, ex ante, could have either a positive effect through brand-spillovers or a negative effect through business stealing. For example, an increase in advertising for Coca-Cola soft drinks could increase demand for regular Coca-Cola, but it could also decrease demand for regular Coca-Cola if sufficiently many consumers substitute to Coke Zero or Diet Coke. We also separately include advertising from the top competitor. We will discuss the corresponding data construction more thoroughly in Section 4.

We include prices for up to three competitors in the model. The competing brands are selected based on total revenue. Some stores do not carry all brands. If a competing brand that is included in the model is not sold at a store, all observations for that store need to be excluded from the analysis. Therefore, for each brand we determine the number of competitors to be included in the model based on the percentage of observations that would be lost if we added one additional competitor.

As the demand function is specified as a log-log model, $\boldsymbol{\alpha}$ includes the own and cross-price elasticities of demand. If, for simplicity, we drop the store and market indices and focus on one component of $\boldsymbol{A}_t$, the advertising stock elasticity is given by

$$\frac{\partial Q_t}{\partial A_t}\frac{A_t}{Q_t} = \beta\frac{A_t}{1+A_t} \approx \beta. \tag{3}$$

Thus, β is an approximation of the advertising stock elasticity. As shown in Appendix A, the advertising stock elasticity captures the long-run effect of a change in advertising on demand, and in particular measures the total change in current and future demand resulting from a one-percent increase in current advertising.

The log-linear demand model allows us to obtain the estimates across a large number of brands and a large number of different model specifications. Absent computational constraints, we would ideally estimate the relationship between advertising and sales using a micro-founded, structural demand model, such as Berry et al. (1995). Indeed, for the purpose of specific policy evaluations, such as the effect of a merger on equilibrium prices (e.g., Nevo 2000) and advertising levels, or to assess the welfare effect of new product introductions (e.g., Petrin 2002), a structural demand model would be indispensable. Our goal is to document the distribution of the overall effectiveness of TV advertising across many brands, and we do not conduct policy evaluations that require a prediction of the change in equilibrium advertising. We consider our demand specification to be a log-linear approximation to a micro-founded, structural demand model. To assess the robustness of our results to the specific functional form, we also present flexible semi-parametric estimates that are regularized using the Lasso. Our main results are unchanged by the additional flexibility.

3.2 Identification strategy

The main challenge when estimating advertising elasticities using observational data is that advertising is not randomly assigned. Larger brands may advertise more than smaller brands, and firms may target their advertising in DMAs and periods when they believe that advertising will be most effective. As a result, depending on their strategies, firms may advertise more in markets and periods where consumers are positively or negatively disposed towards the product even in the absence of advertising.[2] Such forms of targeted advertising will lead to a spurious relationship between advertising and sales unless we account for the unobserved factors on which advertising is based. We address the problem of larger brands advertising more than smaller brands by estimating equation (1) separately brand by brand. We solve the problem of brands coordinating advertising with variation in baseline demand by leveraging the institutional details of the ad buying process to isolate quasi-random variation in the observed advertising schedule.

3.2.1 Institutions of the ad buying process

Our identification strategy is based on the institutions of the ad buying process. Television ads are purchased through negotiations between advertisers (or advertising agencies) and television stations. As much as 80% of advertising is purchased in an upfront market well in advance of the ads being aired. In addition to being purchased in advance, there is considerable bulk buying. That is, an agency will buy a large quantity of advertising to be divided between many clients in exchange for discounts from the stations. The remaining advertising inventory is sold throughout the year. The scatter market allows for last minute purchases of individual ads, typically sold at higher rates than upfronts (Hristakeva and Mortimer 2020). Additionally, local networks sometimes sell unsold remnant advertising space to the national networks or other aggregators, which bundle the ads and sell them to advertisers at a discount.

These institutions of the ad buying process make precise targeting difficult. In the upfront market, advertisers may target demand based on differences across local markets, seasonal factors, and trends in demand that can be predicted in advance. Advertisers may also attempt to target demand based on more concrete information about local demand factors that becomes available over time. However, as the majority of inventory is sold upfront, ad buys in the scatter and bundled remnant markets close to a target date are constrained by slot availability. Hence, if ad slots in a given week are unavailable in some local markets, the advertiser may buy air time in a previous or subsequent week or not buy additional ad slots in these local markets at all. Even if ad slots are available, the cost of advertising may differ across local markets. In particular, in some local markets

[2] If firms believe advertising will generate a fixed percent increase in sales, they would prefer to advertise more in markets or time periods with high demand. Alternatively, if a manager hopes to use advertising to "right a sinking ship" or to achieve a short-run sales target, they may advertise more in markets or periods with naturally low demand.

advertising inventory may be available in the relatively cheap bundled remnant market, whereas in other markets ad slots may only be available in the relatively expensive scatter market. Because of these cost differences, ad buys may occur in the cheaper markets but not in the more expensive markets. Further, when purchasing in the bundled remnant market, an advertiser may incidentally purchase an ad slot that was of little interest due to the fact that it was bundled with a more desired ad slot.

Our baseline specification in equation (1) includes various fixed effects and controls to isolate quasi-random variation that is a by-product of the institutions of the ad buying process outlined above. Advertisers are likely to choose different levels of advertising across markets and seasons based on systematic, predictable differences in demand. In particular, we assume that firms can observe a signal of expected local demand at the time advertising is purchased. We control for that signal in our model using store fixed effects, γ_s.[3] Additionally, we assume that firms can predict seasonal differences in demand, which we capture with week-of-year fixed effects, $\gamma_{\mathcal{S}(t)}$, and predict how future demand will evolve differently from previous years, which we capture with time fixed effects, $\gamma_{\mathcal{T}(t)}$. In our preferred specification, $\gamma_{\mathcal{T}(t)}$ is a month fixed effect corresponding to week t, but we also estimate specifications with quarter or week fixed effects and a specification where $\gamma_{\mathcal{T}(t)}$ represents a linear time trend. Further, firms may condition their advertising on own and competitor prices $\boldsymbol{p}_{st}$. Finally, we assume that firms can observe and target based on $\boldsymbol{x}_{st}$, which is a vector of other controls, including feature and display advertising, that is included in some of the model specifications. We assume that brands cannot observe ϵ_{st} at the time of purchasing an ad spot, which means that advertisers are assumed not to engage in more sophisticated targeting of high frequency, transient demand shocks at the local market level. Given the institutions of the ad buying process, this assumption is plausible. In particular, there are two sources of quasi-random residual variation in advertising in our baseline specification. First, differences in the cost of advertising across markets cause quasi-random variation in advertising across markets in weeks for which no demand differences were predicted upfront. Second, since a large majority of ads are purchased upfront, when purchasing closer to the air date, quasi-random variation in advertising is induced by severely limited slot availability in some but not all markets.

Under the assumptions and institutions of the ad buying process discussed above, conditional on all fixed effects and controls, advertising elasticities will be consistently estimated

[3]For causal identification, DMA-level fixed effects would be sufficient to account for localized targeting since firms buy TV advertising at the DMA level. We include the more granular store fixed effects to also adjust for confounding factors that may bias the price elasticities and to increase the precision of the estimates.

in the baseline specification.[4]

4 Data

To estimate the effect of advertising on sales we use data on purchase volumes, advertising intensities, and other components of marketing, in particular prices. We construct a data set by merging market (DMA) level TV advertising data with retail sales and price data at the brand level. The data and our matching procedure are described in more detail below. Detailed information on how we construct the data is available in Online Appendix D.

4.1 RMS retail scanner data

The Nielsen RMS (Retail Measurement Services) data include weekly UPC-store-level prices and quantities sold from approximately 40,000 stores, including grocery stores, drug stores, mass merchandisers, and convenience stores. The data cover more than 50% of all market-level spending in grocery and drug stores and one-third of all spending at mass merchandisers.

The sample used in our analysis includes data from 2010 to 2014. We focus our analysis on the top 500 brands in terms of dollar sales. These brands account for 45.3% of the total observed RMS revenue, out of the more than 300,000 brands observed in the data. We define a brand as all forms of the same consumable end product, as indicated by the brand code or brand name in the RMS data. That is, Coca-Cola Classic includes any UPC that was composed entirely of Coca-Cola Classic, including twelve ounce cans, two-liter bottles, or otherwise. Of these 500 brands, we are able to match 288 to brands in the advertising data.[5] We aggregate across UPCs for a brand, calculating total volume sold in equivalent units and average price per equivalent unit. We have 12,671 stores in the final estimation sample.

The price of a UPC is only recorded in weeks when at least one unit of the UPC

[4]We employ an alternative strategy for additional robustness based on changes in advertising at TV market borders (Shapiro, 2018, Tuchman, 2019, Spenkuch and Toniatti, 2018, Huber and Arceneaux 2007). This strategy allows for more sophisticated targeting to market-week specific demand shocks. The border strategy also requires that consumers who are exposed to advertising do not cross the border and purchase in the neighboring DMA. If this assumption is violated, the advertising effect estimate will be biased towards zero. We find results using the border strategy to be nearly identical to results using the baseline strategy. Details are available at https://advertising-effects.chicagobooth.edu.

[5]We are able to match 358 of the top 500 brands in RMS with corresponding brands in the Ad Intel data. Of these 358, we drop 70 brands that either have positive GRPs in less than 5% of observations or that average less than 10 GRPs per market-week in market-weeks in which advertising occurs.

was sold. To impute these prices that are missing from the data, we follow the approach detailed in Hitsch et al. (2019). This approach uses an algorithm to infer the base price, i.e., regular, non-promoted shelf price of a product, and assumes that weeks with zero sales occur in the absence of a promotion, such that the unobserved price corresponds to the base price. We then construct price per brand by dividing each UPC's price by its equivalent units and computing the weighted average across UPCs, using each UPC's average weekly revenue as weights.[6]

4.2 Homescan household panel data

The policy experiments and ROI calculations in Section 6 make use of the Nielsen Homescan household panel data as an additional source of purchase information. The Homescan data capture household-level transactions, including purchase quantities and prices paid. Data for more than 60,000 households are available each year. Nielsen provides weights called projection factors for each household. Using these weights, transactions can be aggregated across all households to be representative at the national level and estimate a product's total purchase volume for in-home use. We utilize these estimates of total sales for the policy experiments and ROI calculations because the RMS data do not capture all transactions and would hence underestimate the incremental value of advertising.

4.3 Advertising data

Product-level television advertising data for 2010–2014 come from the Nielsen Ad Intel database. The advertising information is recorded at the occurrence level, where an occurrence is the placement of an ad for a specific brand on a given channel, in a specific market, at a given day and time. Four different TV media types are covered in the data: Cable, Network, Syndicated, and Spot. Occurrences for each of these different media types can be matched with viewership data, which then yields an estimate of the number of impressions, or eyeballs, that viewed each ad. In the top 25 DMAs, impressions are measured by set-top box recording devices. For all other DMAs, impressions are measured using diaries filled out by Nielsen households. These diary data are only recorded in the four "sweeps months," February, May, July, and November. We impute the impressions for all other months using a weighted average of the recorded impressions in the two closest sweeps months.

For Cable ads, which are aired nationally, viewership data are available only at the

[6] For example, for Coca-Cola Regular we compute each UPC's price per ounce and then calculate the weighted average across UPCs.

national level. Spot ads are bought locally, and viewership measures are recorded locally, separately for each DMA. Network and Syndicated ads are recorded in national occurrence files that can be matched with local measures of viewership in each DMA. Thus, in our data, variation in a brand's aggregate ad viewership across markets is due to both variation in occurrences across markets (more Spot ads were aired in market A than in market B) and variation in impressions (eyeballs) across markets (a Network or Syndicated ad aired in both markets A and B, but more people saw the ad in market A than in market B).

Using the occurrence and impressions data, we calculate gross rating points (GRPs), a widely used measure of advertising exposure or intensity in the industry. We first calculate the GRPs for a specific ad occurrence, defined as the number of impressions for the ad as a percentage of all TV-viewing households in a DMA (measured on a scale from 0 to 100). To obtain the aggregate, weekly GRPs in a given DMA, we obtain the sum of all occurrence-level GRPs for a brand in a given week in the DMA.

4.4 Matching advertising and retail sales data

We merge the advertising and sales data sets at the store-brand-week level. Our merging procedure warrants discussion because the brand variables in the Ad Intel and RMS data sets are not always specified at the same level. We include three types of advertising variables in our models. First, we include advertising that directly corresponds to the RMS product in question. Second, we create a variable that captures advertising for affiliated brands, including potential substitutes, that may affect the focal RMS product. Third, we include advertising for the top competitor. For example, for the Diet Coke brand, own advertising includes ads for Diet Coke, whereas affiliated advertising includes advertising for Coca-Cola soft drinks, Coke Zero, Coca-Cola Classic, and Cherry Coke. Furthermore, we include advertising for Diet Pepsi, the top competitor of Diet Coke.

We separately estimate the effect of own brand and affiliated brand advertising because own brand advertising is likely to have a positive effect on sales, whereas the sign of the effect of affiliated brands' advertising is ambiguous. Hence, lumping own and affiliated brand advertising together might result in small and uninterpretable elasticity estimates.

Full details of the matching approach are provided in Online Appendix D, and the estimated affiliated brand and competitor ad effects are reported in Appendix B.

4.5 Brand-level summary statistics

Using the process described in Section 4.4, we match 288 of the top 500 brands in the RMS data to TV advertising records in the Ad Intel database.

Table 1: Brand Level Summary Statistics

	Median	Mean	Percentiles			
			5%	**25%**	**75%**	**95%**
RMS revenue	113.1	170.8	51.2	75.4	190	522.4
Homescan revenue	341	546.3	119.7	220	647.7	1544.6
Advertising spending	10.5	18.6	2.2	5.9	22.2	61.3
Mean weekly GRPs	35.5	59.4	4.7	19	71.8	184.8
Adv./sales ratio (%)	2.8	5.3	0.5	1.4	5.6	17.8
% of Adv. Spending						
Cable	50.9	52.8	20.9	38.4	65.6	88.2
Network	34.5	34.1	4.2	19.6	47.5	66.6
Spot	3.7	8.7	0.4	1.5	8.6	37.8
Syndicated	5.3	6.6	0	1.6	9.8	19.1

Note: The sample includes 288 brands. Revenue and advertising spending are expressed in millions of dollars. The advertising/sales ratio is calculated using Homescan revenue.

In Table 1, we provide brand-level summary statistics. Total yearly revenue is larger when based on the spending records in the Homescan data compared to the measured revenue in the RMS retail sales data because the reported RMS revenue is calculated using the subset of stores used in our estimation sample. The Homescan revenue, on the other hand, is predicted using the transaction records and household projection factors supplied in the Nielsen data, and is thus designed to be representative of total national spending.

The data reveal a large degree of heterogeneity in both advertising and advertising/sales ratios. In Table 1, we document that total yearly TV advertising spending for the median brand is 10.5 million dollars, with a 90% range of 2.2 to 61.3 million dollars. A similar degree of cross-brand heterogeneity is evident in the advertising/sales ratios, with a median of 2.8 and a 90% range from 0.5 to 17.8. The median of average weekly GRPs across brands is 35.5, with a 90% range from 4.7 to 184.8.

4.6 Temporal and cross-sectional variation at the brand level

The degree of temporal and cross-sectional variation in brand-level advertising is of particular relevance for the goal of estimating advertising effects on demand. We document the extent of this variation in the data. First, separately for each brand, we regress weekly

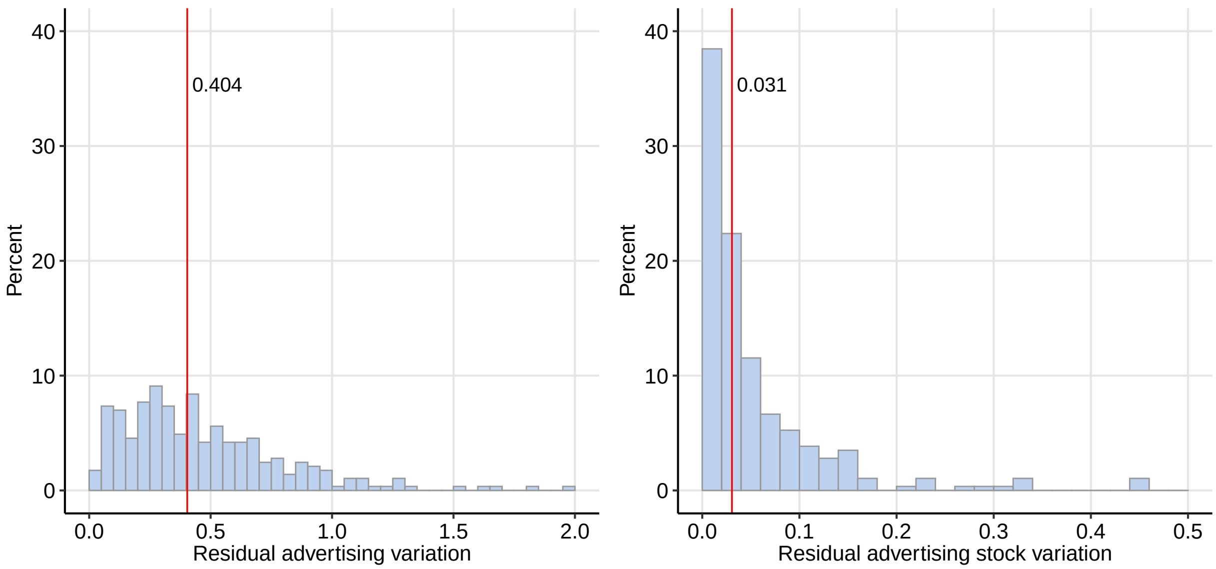


Figure 1: Residual Variation in Advertising

Note: The residual variation measures are based on the residuals from a regression of advertising or advertising stock ($\delta = 0.9$) on DMA, time (month), and seasonal (week-of-year) fixed effects, own and competitor prices, and competitor advertising. The residual variation is the ratio of the standard deviation of these residuals relative to the mean advertising or advertising stock. The measure is calculated separately for each brand, and these graphs show the distribution across brands. The vertical line represents the median brand.

DMA-level advertising, measured in GRPs, on a set of DMA, week-of-year (season), and month fixed effects. Additional covariates included in this regression are own and competitor prices, and competitor advertising. We then calculate the ratio of the residual standard deviation from this regression relative to average DMA/week advertising. This measure is similar to a coefficient of variation and serves as a parsimonious way of quantifying the degree of variation in advertising that is not explained by the fixed effects and the other covariates.

In Figure 1, we present a histogram of the measure across brands and also show a similar measure of the residual variation in advertising stock relative to the average DMA/week advertising stock. The advertising stock is calculated assuming a carryover parameter of $\delta = 0.9$. The "coefficient of variation" of advertising flows is 0.41 for the median brand. I.e., for the median brand, the standard deviation of the residuals is substantial, at 41% of average weekly advertising. For advertising stocks the relative residual variation is substantially smaller, 0.03 for the median brand. As the advertising stock is the relevant variable for estimating the advertising stock elasticity, that there is a relatively small amount of residual variation may be cause for concern, particularly as it pertains to null effects. However, we show in Section 5.1 that when we limit our analysis to brands with high ex ante statistical power, we estimate even smaller advertising stock elasticities.

5 Results

We first present the results of the baseline specification discussed in Section 3.2 and then analyze the robustness of these results. The baseline specification includes store, week-of-year (season) fixed effects, and common time fixed effects. The estimation results are initially obtained assuming a carryover parameter $\delta = 0.9$, which is similar to other specifications in the literature (Dubé et al. (2005), Assmus et al. (1984b)).[7]

5.1 Main results

We present the estimation results for the own-advertising stock elasticities, i.e., the coefficients for the focal brand in the vector $\boldsymbol{\beta}$.[8] As discussed in Section 3.1, the advertising

[7]As the best value at which to calibrate δ is uncertain and could vary across brands, we conduct sensitivity analysis around our choice, as well as estimate δ brand-by-brand. The results are reported in Online Appendix A.

[8]We discuss the estimated affiliated brand and cross-advertising elasticities in Appendix B. We also find no systematic pattern in elasticities by product category or grocery aisle.

stock elasticities can be interpreted as long-run advertising elasticities. For the sake of brevity, from now on we refer to the own-advertising stock elasticities as advertising elasticities or advertising effects. We provide summary statistics for the model estimates in Table 2, and we display the distribution of brand-level advertising elasticities, arranged from smallest to largest elasticity together with 95% confidence intervals, in Figure 2.

First, the advertising elasticity estimates in the baseline specification are small. The median elasticity is 0.0140, and the mean is 0.0233. These averages are substantially smaller than the average elasticities reported in extant meta-analyses of published case studies (Assmus et al. (1984b); Sethuraman et al. (2011)). Second, two thirds of the estimates are not statistically distinguishable from zero. We show in Figure 2 that the most precise estimates are those closest to the mean and the least precise estimates are in the extremes.

A naive specification which does not include the fixed effects or controls from the baseline model produces considerably larger estimates. As we incrementally add fixed effects to adjust for confounding factors, the distribution shifts to the left and the variance across brands decreases. These shifts in the distribution are consistent with firms advertising more during periods of high demand and in markets with higher sales. The estimated advertising elasticities stabilize once store and season fixed effects are included. Hence, there is little evidence that firms target advertising to more specific temporal demand shocks. These results bolster our confidence in the assumptions underlying the baseline identification strategy.

We performed an extensive analysis to ensure that the main results are robust to different model specifications, with all details available in Online Appendix A and through the interactive web application, https://advertising-effects.chicagobooth.edu. We provide a concise summary of the main results and report the corresponding summary statistics in the Robustness panel of Table 2.

Semi-parametric functional form To ensure that our estimates are not driven by the functional form of the model, we explore a semi-parametric, flexible functional relationship between the advertising stock and sales. We use a linear basis expansion with a basis that includes polynomials of A_j and $\log(1 + A_j)$, and basis B-splines. To prevent over-fitting, we estimate the model using a cross-validated Lasso. For each brand we calculate a summary measure of the advertising elasticity that can be compared to the estimates from the parametric model specification. Full details are provided in Online Appendix B.

The advertising elasticity estimates from the flexible and parametric model specifications are highly correlated (see Figure 8 in Online Appendix B), and the overall summary

Table 2: Own-Advertising Stock Elasticity Estimates

	Median	**Mean**	**% p $\geq$ 0.05**	**% p $<$ 0.05**		**Percentiles**			
				> 0	≤ 0	**10%**	**25%**	**75%**	**90%**
Main Results									
Naive	0.0299	0.0415	38.89	41.67	19.44	-0.0713	-0.0178	0.0833	0.1827
+ Store FE	0.0218	0.0467	33.68	50.69	15.62	-0.0349	-0.0051	0.0682	0.1494
+ Season FE	0.0152	0.0251	28.82	51.04	20.14	-0.0454	-0.0107	0.0534	0.1051
+ Time trend	0.0110	0.0171	41.67	42.36	15.97	-0.0360	-0.0053	0.0381	0.0772
Baseline specification	0.0140	0.0233	66.32	26.39	7.29	-0.0406	-0.0082	0.0426	0.0919
Robustness									
Semi-parametric	0.0140	0.0261	-	-	-	-0.0755	-0.0195	0.0670	0.1409
Estimated δ	0.0090	0.0116	51.04	35.42	13.54	-0.1102	-0.0149	0.0530	0.1733
Prices excluded	0.0118	0.0221	70.83	21.88	7.29	-0.0607	-0.0168	0.0522	0.1359
+ Own price	0.0130	0.0231	66.67	26.39	6.94	-0.0397	-0.0082	0.0458	0.0983
+ Top 1 competitors	0.0132	0.0234	65.97	26.04	7.99	-0.0420	-0.0084	0.0449	0.0984
+ Up to top 2 competitors	0.0142	0.0232	66.32	25.69	7.99	-0.0406	-0.0084	0.0450	0.0931
Feature & display included	0.0086	0.0221	70.14	23.61	6.25	-0.0307	-0.0068	0.0352	0.0809
50% power to detect 0.05	0.0085	0.0098	64.97	26.11	8.92	-0.0237	-0.0067	0.0266	0.0428

Note: Descriptive statistics of estimated advertising elasticities reported for 288 brands. The naive model includes own and competitor advertising stocks and prices but no additional controls. The baseline model includes store, week-of-year (season), and month fixed effects. All robustness results are obtained using the baseline strategy. Standard errors are two-way clustered at the DMA and week level in the naive and baseline specifications. We do not conduct inference on the semi-parametric model elasticity estimates.

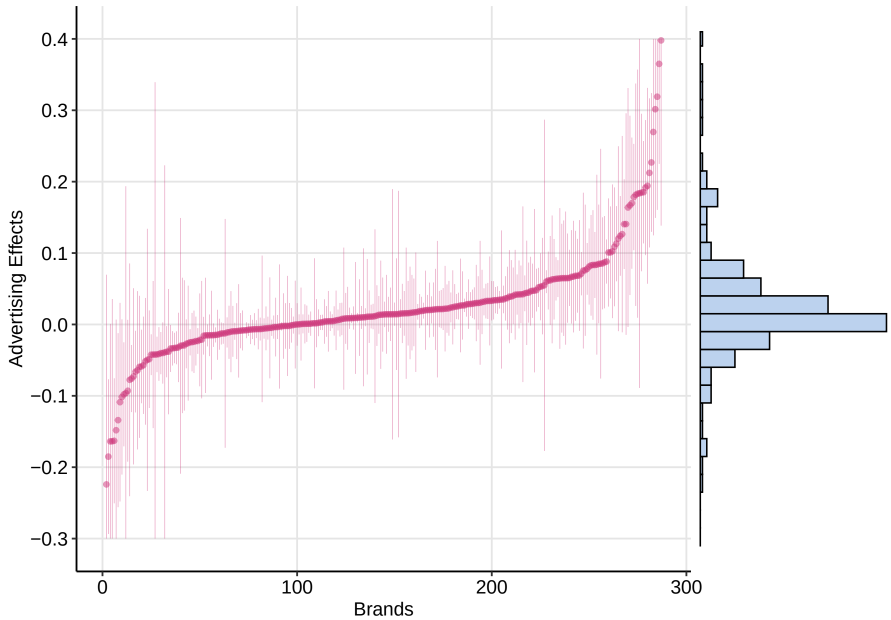


Figure 2: Advertising Effects and Confidence Intervals using Baseline Strategy

Note: Brands are arranged on the horizontal axis in increasing order of their estimated ad effects. For each brand, a dot plots the point estimate of the ad effect and a vertical bar represents the 95% confidence interval. Results are from the baseline strategy model with $\delta = 0.9$ (equation (1)).

statistics of the flexible model estimates are similar to the baseline specification.

Estimation of the carryover parameter The baseline specification results are obtained assuming a carryover parameter, $\delta = 0.9$. When we estimate δ jointly with the other parameters to minimize the sum of squared errors, we obtain a similar median and mean as in the baseline specification, although the percentage of positive and negative statistically significant estimates is somewhat larger.

Prices and promotions The results remain robust irrespective of the inclusion of own prices or competitor prices. The results also remain unchanged if we include two types of promotions, feature and in-store display advertising, in the model. This rules out confounding if feature and display advertising were coordinated with the TV advertising campaigns. For details on how prices, promotions, feature, and display are correlated with advertising, see Online Appendix C.

Statistical power and measurement error If we restrict the analysis to brands with 50% power to detect an elasticity of 0.05, the distribution of the advertising elasticity estimates tightens around zero, implying that low statistical power is not the reason for the large share of insignificant estimates. In Online Appendix A, we detail evidence against the hypothesis that attenuation due to classical measurement error is driving our small estimates.

6 Economic implications

We now discuss the implications of the reported advertising elasticities for the economic value of advertising. For each brand we conduct two policy experiments to evaluate the change in profits that results from a change in advertising. We report the impact on profitability as the return on investment (ROI) that results from a modification of the brand manufacturer's advertising policy.[9]

The results reported below are based on the estimated elasticities from the baseline specification with carryover parameter $\delta = 0.9$. To predict total national sales volumes, we scale the RMS sales quantities to the total national level using the Nielsen Homescan data.[10] Because we do not have wholesale price and production cost data, we report the results for manufacturer margins between 20% and 40% (the margins are defined as the difference between the wholesale price and the marginal production cost expressed as a percentage of the retail price). This range of margins is consistent with industry reports. In all ROI calculations we hold constant observed prices, as well as advertising for affiliated and competitor brands.

Standard errors are computed using the delta method. A full description of the data and the approach used to compute the ROIs is presented in Appendix C.

6.1 Average ROI of advertising in a given week

In the first policy experiment we measure the ROI of the observed advertising levels (in all DMAs) in a given week t relative to not advertising in week t. For each brand, we compute the corresponding ROI for all weeks with positive advertising, and then average the ROIs across all weeks to compute the average ROI of weekly advertising. This metric reveals if, on the margin, firms choose the (approximately) correct advertising level or could increase profits by either increasing or decreasing advertising.

[9] We do not attempt to address by how much advertising should be reduced or how the overall advertising schedule should change. Answering these questions requires solving for the dynamically optimal advertising schedule, such as in Dubé et al. (2005), which is beyond the scope of this paper.

[10] For products where on-site purchase and consumption are commonplace, for example at a fast food restaurant or at a sporting event, the Homescan data will understate total quantities. Beer and soft drinks are particularly likely to be affected by this issue. Separating out the 24 beer and soft drink brands does not significantly alter the distribution of ROIs. The results are available by request.

Table 3: Advertising ROI

	Median	Mean	% ROI > 0	% $\mathbf{p} \geq \mathbf{0.05}$	% $\mathbf{p} < \mathbf{0.05}$	
					ROI > 0	ROI < 0
Average ROI of Weekly Advertising						
20% Margin	-92.10	-77.15	7.72	19.65	2.11	78.25
30% Margin	-88.15	-65.72	11.93	29.12	2.81	68.07
40% Margin	-84.20	-54.30	17.19	35.09	3.86	61.05
ROI of All Observed Advertising						
20% Margin	-71.56	-81.24	24.21	48.07	8.07	43.86
30% Margin	-57.34	-71.85	33.68	57.89	11.93	30.18
40% Margin	-43.13	-62.47	40.00	60.00	15.44	24.56

Note: The estimates are obtained using the baseline strategy and assuming a carryover parameter $\delta = 0.9$.

We provide key summary statistics in the top panel of Table 3, and we show the distribution of the predicted ROIs in Figure 3(a). The average ROI of weekly advertising is negative for most brands over the whole range of assumed manufacturer margins. At a 30% margin, the median ROI is -88.15%, and only 12% of brands have positive ROI. Further, for only 3% of brands the ROI is positive and statistically different from zero, whereas for 68% of brands the ROI is negative and statistically different from zero.

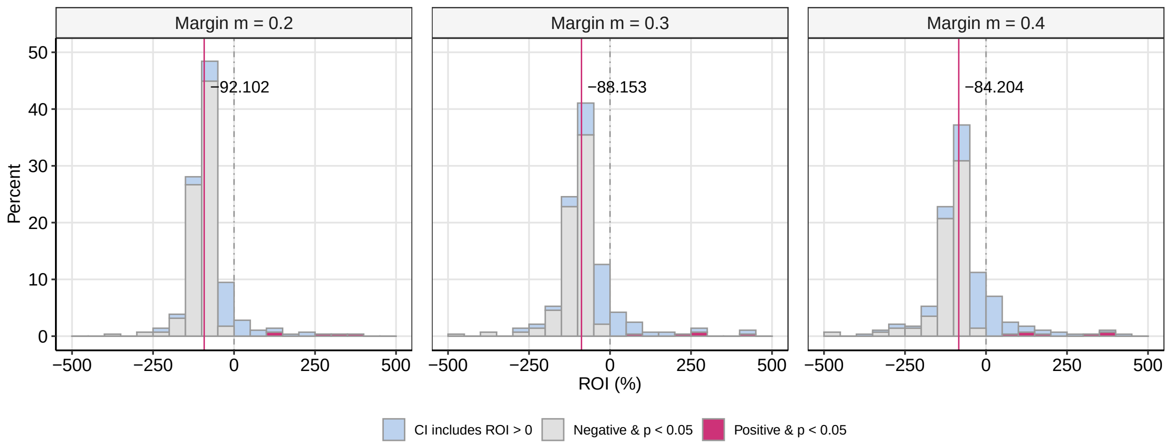
These results provide strong evidence for over-investment in advertising at the margin.[11]

6.2 Overall ROI of the observed advertising schedule

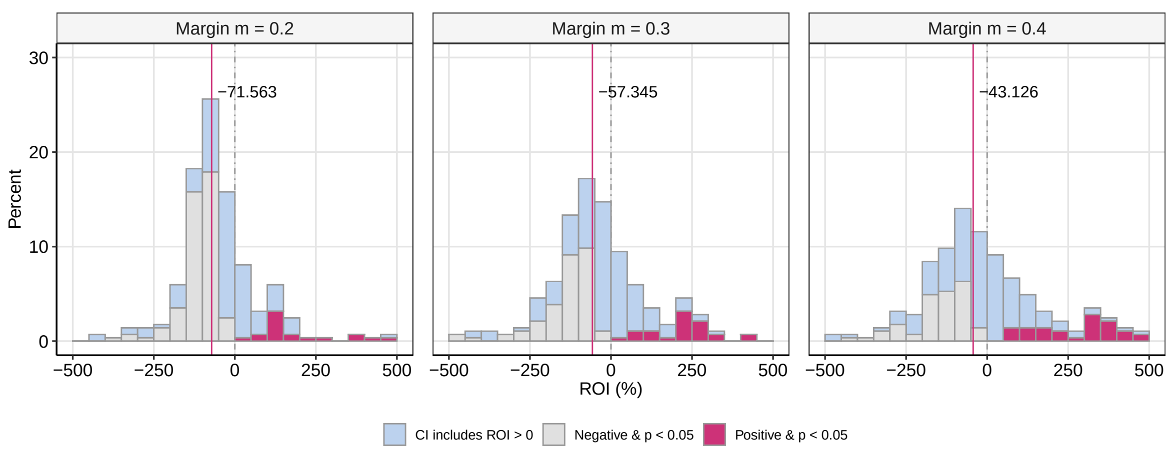
In the second policy experiment we investigate if firms are better off when advertising at the observed levels versus not advertising at all. Hence, we calculate the ROI of the observed advertising schedule relative to a counterfactual baseline with zero advertising in *all* periods.

We present the results in the bottom panel of Table 3 and in Figure 3(b). At a 30% margin, the median ROI is -57.34%, and 34% of brands have a positive return from the observed advertising schedule versus not advertising a all. Whereas 12% of brands only have positive and 30% of brands only negative values in their confidence intervals, there

[11] In Appendix C.3, we assess how much larger the TV advertising effects would need to be for the observed level of weekly advertising to be profitable. For the median brand with a positive estimated ad elasticity, the advertising effect would have to be 5.37 times larger for the observed level of weekly advertising to yield a positive ROI (assuming a 30% margin).



(a) Average ROI of Weekly Advertising



(b) ROI of all Observed Advertising

Figure 3: Predicted ROIs

Note: Panel (a) provides the distribution of the estimated ROI of weekly advertising and panel (b) provides the distribution of the overall ROI of the observed advertising schedule. Each is provided for three margin factors, $m = 0.2$, $m = 0.3$, and $m = 0.4$. The median is denoted by a solid vertical line and zero is denoted with a vertical dashed line. Gray indicates brands with negative ROI that is statistically different from zero. Red indicates brands with positive ROI that is statistically different from zero. Blue indicates brands with ROI not statistically different from zero.

is more uncertainty about the sign of the ROI for the remaining 58% of brands. This evidence leaves open the possibility that advertising may be valuable for a substantial number of brands, especially if they reduce advertising on the margin.

7 Conclusions

In this paper, we provide a distribution of television advertising elasticities for established products based on a sample of 288 large, national CPG brands that are selected using a clear research protocol. We find that the median of the distribution of estimated long-run advertising elasticities is between 0.0085 and 0.0142, and the corresponding mean is between 0.0098 and 0.0261.

The estimated advertising elasticities are small, and two thirds of the estimates are not statistically distinguishable from zero. The estimates are also economically small, in the sense that more than 80% of all brands have a negative ROI of advertising at the margin. The estimates are roughly half the size of the most comparable prior study, Lodish et al. (1995), which used data from the 1980s. This difference is consistent with an overall decline in TV advertising effectiveness over the last three decades.

Our results have important positive and normative implications. Why do firms spend billions of dollars on TV advertising each year if the return is negative? There are several possible explanations. First, agency issues, in particular career concerns, may lead managers (or consultants) to overstate the effectiveness of advertising if they expect to lose their jobs if their advertising campaigns are revealed to be unprofitable. Second, an incorrect prior (i.e. conventional wisdom that advertising is typically effective) may lead a decision maker to rationally shrink the estimated advertising effect from their data to an incorrect, inflated prior mean. These proposed explanations are not mutually exclusive. In particular, agency issues may be exacerbated if the general effectiveness of advertising or a specific advertising effect estimate is overstated.[12] While we cannot conclusively point to these explanations as the source of the documented over-investment in advertising, our discussions with managers and industry insiders suggest that these may be contributing factors.

This brings us back to a key motivating question for this research, the long-run viability of traditional media markets. The documented over-investment in advertising suggests a threat to the survival of media markets in their current form, once knowledge about the small degree of TV advertising effectiveness becomes common knowledge. But our results

[12] Another explanation is that many brands have objectives for advertising other than stimulating sales. This is a nonstandard objective in economic analysis, but nonetheless, we cannot rule it out.

also indicate that for a substantial number of brands (34% based on the point estimates), the observed advertising schedules are valuable compared to the counterfactual of no advertising. There is a large degree of statistical uncertainty about the exact ROIs, and only for 12% of brands the predicted ROIs from the observed advertising schedules are positive and statistically different from zero. This suggests a large option value from adopting improved methods or research designs, such as A/B tests, to estimate the causal effect and ROI of advertising. Our results also do not foreclose the possibility that advertising can be profitable with alternative scheduling, targeting, or advertising copy strategies. The rise of addressable television, in particular, should allow advertisers and researchers to experiment with individual level targeting in the future. These approaches for improving advertising measurement, scheduling, and targeting may well ensure the long-run viability of media markets.

While improvements in targeting technology may theoretically increase the potential for higher advertising returns, they do not solve the underlying agency problems that allow sub-optimal advertising decisions to persist in the traditional TV advertising model we evaluate in this paper. Together with past research documenting similar results in digital advertising markets (Blake et al. 2015; Lewis and Rao 2015), our work should motivate economists to further study the managerial and agency issues in advertising markets.

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Appendix

A Advertising elasticities

To illustrate the possible interpretations of β, we drop the store and market indices and focus on one specific advertising component, a_t, with corresponding coefficient β. The elasticity of demand in period t with respect to advertising in period $\tau \in \{t-L, \ldots, t\}$ is given by

$$\frac{\partial Q_t}{\partial a_\tau}\frac{a_\tau}{Q_t} = \beta\delta^{t-\tau}\frac{a_\tau}{1+A_t}.$$

Furthermore, the advertising stock elasticity is equivalent to the total sum of the advertising elasticities:

$$\frac{\partial Q_t}{\partial A_t}\frac{A_t}{Q_t} = \beta\frac{A_t}{1+A_t} = \sum_{\tau=t-L}^{t}\frac{\partial Q_t}{\partial a_\tau}\frac{a_\tau}{Q_t}.$$

To further clarify the difference between the short-run and long-run effect of advertising, suppose that advertising is constant at the level $a_t \equiv a$, such that $A_t = \rho a$ in all periods t, where $\rho = (1-\delta)^{-1}(1-\delta^{L+1})$. Then the elasticity of per-period demand with respect to the constant advertising flow a is

$$\frac{dQ_t}{da}\frac{a}{Q_t} = \beta\frac{\rho a}{1+\rho a}. \tag{4}$$

This elasticity measures the effect of a permanent percentage increase in advertising. Similarly, assuming again that $a_t = a$ in all periods t, and also that all other factors affecting demand (prices, etc.) are constant, we can derive the effect of a current increase in advertising at time t on total or long-run demand in periods $t, \ldots, t+L$:

$$\left(\frac{\partial}{\partial a_t}\sum_{\tau=t}^{t+L} Q_\tau\right)\frac{a_t}{Q_t} = \beta\frac{\rho a}{1+\rho a}. \tag{5}$$

The effect of a permanent percentage increase in advertising (4) is equivalent to the cumulative, long-run increase in demand (5).

The short-run advertising elasticity is

$$\frac{\partial Q_t}{\partial a_t}\frac{a_t}{Q_t} = \beta\frac{a_t}{1+A_t}.$$

If $a_t = a$ in all periods t and if the advertising stock is large, then

$$\frac{\partial Q_t}{\partial a_t}\frac{a_t}{Q_t} = \beta\frac{a}{1+\rho a} \approx \beta\frac{a}{\rho a}.$$

Hence, the ratio of the long-run effect to the short-run effect of advertising is ρ, which is approximately equal to $1/(1-\delta)$ if δ^L is small.

B Affiliated brand and competitor advertising elasticities

In the main text, all model specifications also control for "affiliated brand" advertising and top competitor advertising.[13] Ex ante, the direction of the affiliated brand and competitive advertising effects are both ambiguous. For affiliated brand products, the ad is relevant both to the focal product and other products that are potentially substitutes. If the partial ad effect on the substitutes is of equal or greater magnitude than the partial ad effect on the focal product, the net ad effect on the focal product could be negative. With regard to competitor ad effects, the previous literature has similarly found mixed results. Some papers have shown positive spillovers of advertising (e.g., Sahni 2016, Shapiro 2018, and Lewis and Nguyen 2015), while others have shown negative, business stealing effects (Sinkinson and Starc 2019).

We show summary statistics for the estimated affiliated brand and top competitor advertising elasticities in Table 4 and histograms of the corresponding distributions of advertising effects in Figure 4. We also report own price elasticities and top competitor price elasticities in Table 4.

The distributions of both the affiliated brand and competitor advertising elasticities are centered at zero and the competitor advertising elasticity distribution is relatively disperse. That is, the particulars of what causes affiliated and competitor advertising to help or hurt own demand is likely case dependent.

Own price elasticities are centered around -1.6, with almost all of the mass less than zero, as expected. Top competitor price elasticities are centered around 0.1 in each strategy. These results largely replicate those in Hitsch et al. (2019).

[13]The top competitor is the competitor brand with the largest market share in the same product module.

Table 4: Affiliated Brand, Top Competitor Advertising Stock Elasticities and Other Controls

	Median	**Mean**	**% Brands**	**% p $\geq$ 0.05**	**% p < 0.05**		**Percentiles**			
					> 0	**$\leq$ 0**	**10%**	**25%**	**75%**	**90%**
Baseline										
Affiliated Brand Advertising	-0.0010	0.0050	58.68	70.41	14.79	14.79	-0.051	-0.019	0.016	0.050
Top Competitor Advertising	0.0028	-0.0025	66.67	79.17	10.42	10.42	-0.125	-0.036	0.035	0.109
Own Price Elasticity	-1.5760	-1.6447	100.00	2.08	3.82	94.10	-3.040	-2.327	-1.061	-0.422
Top Competitor Price Elasticity	0.1025	0.1372	87.85	37.15	45.45	17.39	-0.254	-0.052	0.335	0.623

Note: The estimates are obtained using the baseline strategy and assuming a carryover parameter $\delta = 0.9$. Standard errors are two-way clustered at the DMA level and the week level.

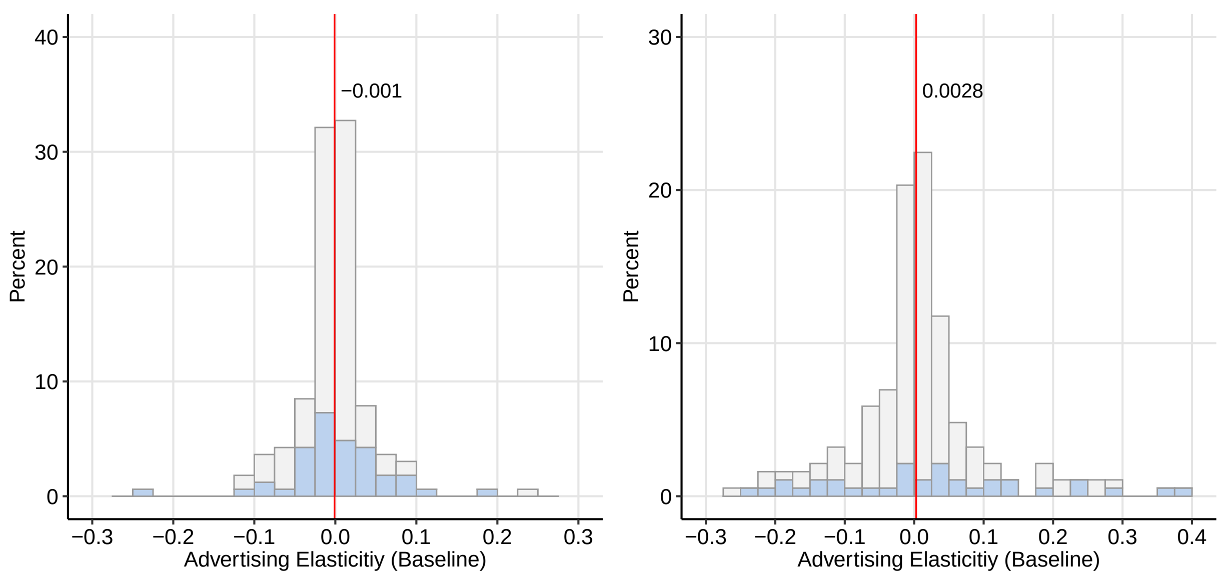

Figure 4: Affiliated Brand and Competitor Advertising Stock Elasticities

Note: The estimates are obtained assuming a carryover parameter $\delta = 0.9$. The left panel shows the distribution of affiliated brand advertising stock elasticities. The right panel shows the distribution of top competitor advertising stock elasticities. Bars highlighted in blue indicate statistically significant estimates. The vertical red line denotes the median of the distribution.

C ROI calculation details and break-even ad effects

C.1 ROI derivation

Consider the impact of changing brand j's advertising by the amount Δa_d in period t. The baseline advertising stock in DMA d in period t is A_{dt}, and the advertising stock resulting from the change in advertising is $A'_{dt} = A_{dt} + \Delta a_d$. Q_{st} denotes the quantity of brand j sold at store s under the baseline advertising stock, A_{dt}. Consistent with our demand specification, Q_{st} can be written as:

$$\log(Q_{st}) = z_{st} + \beta \log(1 + A_{dt}),$$
$$Q_{st} = e^{z_{st}}(1 + A_{dt})^{\beta}.$$

Here, z_{st} contains all other factors besides advertising that affect quantity sales, including prices, competitor advertising, store, season and time intercepts, etc. For any period $\tau \in \{t, ..., t + L\}$, the sales lift that results from the change in advertising in period t is:

$$\lambda_{s\tau} \equiv \frac{Q'_{s\tau}}{Q_{s\tau}} = \frac{(1 + A'_{d\tau})^{\beta}}{(1 + A_{d\tau})^{\beta}} = \left(\frac{1 + A_{d\tau} + \delta^{\tau-t}\Delta a_d}{1 + A_{d\tau}}\right)^{\beta}. \tag{6}$$

Notably, all store, season and time-specific components cancel out, and thus equation (6) provides the relative increase in overall sales in DMA d that results from the change in advertising. That is, $\lambda_{s\tau} = \lambda_{d\tau}$ for all stores s in DMA d. Hence, the DMA-level change in profits in period τ that results from the increase in advertising in period t is:

$$\Delta\pi_{d\tau} = \sum_{s \in \mathcal{S}_d} (\lambda_{d\tau} - 1) Q_{s\tau} \cdot m \cdot p_{s\tau}, \tag{7}$$

where $\mathcal{S}_d$ includes all stores in DMA d, $Q_{s\tau}$ is the baseline sales quantity in store s, $p_{s\tau}$ is the retail price in the store, and m represents the manufacturer's dollar margin as a percentage of the retail price.[14] Summing across all DMAs and all periods $\tau \in \{t, ..., t+L\}$ yields the total increase in profits that results from the advertising increase Δa_d in period t:

$$\Delta\pi = \sum_{\tau=t}^{t+L} \sum_{d=1}^{D} \Delta\pi_{d\tau}.$$

[14] $m = p^{-1}(w - mc)$, where w is the wholesale price and mc is the marginal cost of production.

We denote the cost of buying Δa_d GRPs in DMA d by c_{dt}, such that the total cost of the additional advertising is:

$$C = \sum_{d=1}^{D} c_{dt} \Delta a_d.$$

Finally, the ROI resulting from the change in advertising is:

$$ROI = \frac{\Delta \pi - C}{C}.$$

C.2 Data sources for ROI calculations

We calculate $\lambda_{d\tau}$, the sales lift that results from changing advertising by Δa_d, using the estimated advertising elasticities from the baseline strategy with the carryover parameter $\delta = 0.9$.[15] In order to calculate incremental profits using equation (7), we need an estimate of the sales quantities in DMA d in week t (at the observed advertising level, A_{dt}).

The total sales volume from the RMS data under-estimates total market-level sales, because the data available to us do not contain information on all retailers in the market. We correct for this problem as follows. Using the Homescan household panel data and the projection factors provided by Nielsen, we predict market-level quantities, Q_{dt}^H (see Section 4.2).[16] We then calculate the weekly average of the Homescan quantities in market d, $\bar{Q}_d^H$. Similarly, we calculate the weekly average of the market-level sales quantities observed in the RMS data, $\bar{Q}_d^R$.[17] We use the ratio $\bar{Q}_d^H / \bar{Q}_d^R$ to scale the weekly store-level RMS sales quantities such that the aggregate quantity across stores predicts the total sales volume at the market level:

$$Q_{st} = \frac{\bar{Q}_d^H}{\bar{Q}_d^R} Q_{st}^R.$$

We use this hybrid of the RMS and Homescan data because the RMS data are likely to provide more accurate information on sales quantity differences across weeks than the Homescan data, whereas the average Homescan volume provides more accurate informa-

[15] We also calculated the ROIs using different model specifications and carryover parameters. As the estimates of the advertising elasticities are quite robust to the different assumptions, we choose to focus on a single specification here.

[16] For products where on-site purchase and consumption are commonplace, for example at a fast food restaurant or at a sporting event, the Homescan data will understate total quantity. Beer and soft drinks are particularly likely to be affected by this. Separating out the 24 beer and soft drink brands does not significantly alter the distribution of ROIs. Additionally, assuming that all beer and soft drink brands have sales volumes that are twice the volumes that we predict does not significantly alter the distribution of ROIs.

[17] The weekly averages are re-calculated for each year in the data.

tion on total market-level sales quantities.

To estimate the dollar margin that a manufacturer earns from an incremental sales unit, we use the observed retail prices in the RMS data and multiply by a margin-factor m that represents the manufacturer's dollar margin as a percentage of the retail price. Because we do not observe wholesale prices and manufacturing costs, we consider a range of likely values for the manufacturer margin, $m = 0.2, 0.3, 0.4$. This range corresponds to a range of manufacturer gross margins between 25% and 55% and retail gross margins between 20% and 30%.[18] In Table 3, we show how the distribution of estimated ROIs changes under different assumptions about margins.

Finally, we need data on c_{dt}, the cost of buying an incremental advertising GRP in DMA d in week t. The exact marginal advertising cost is not observed by us. Hence, we use data on advertising expenditures in the Nielsen Ad Intel data and proxy for c_{dt} using the average cost of a GRP in each DMA-year. We calculate the advertising cost separately for each brand and thus capture differences in the campaign costs across brands.[19] We assess the sensitivity of the ROI predictions to this specific advertising cost calculation to ensure that measurement error in the advertising costs does not substantially change the conclusions.

In Figure 5, we summarize the distribution of advertising costs. Each observation in the histogram is the average cost of a GRP calculated for a brand, DMA, and year combination. The median cost of buying one additional GRP in a DMA is \$26.21, although there is significant variation in the cost of advertising across brands, media markets, and years.

C.3 Break-even ad effects

In this section, we analyze how much larger TV ad effects would need to be in order for the observed level of advertising to be profitable. To this end, for different assumed values of margin factors and advertising costs, we compute the "break-even" ad elasticity for each brand. That is, we solve for the elasticity at which the observed level of weekly advertising would yield an ROI of 0. We calculate the break-even ad effect separately

[18] To see this, note that m can be expressed as the product of the manufacturer margin and 1 minus the retail margin

$$m = \left(\frac{w - mc}{w}\right)\left(1 - \frac{p - w}{p}\right) = \frac{w - mc}{p}.$$

The range of manufacturer gross margins that we consider aligns with industry reports of median manufacturer gross margins of 34% for food companies, 44% for beverage companies, and 50% for companies selling household goods and personal care products (Grocery Manufacturers Association and PricewaterhouseCoopers 2006).

[19] Online Appendix D provides more detail about the advertising expenditure data.

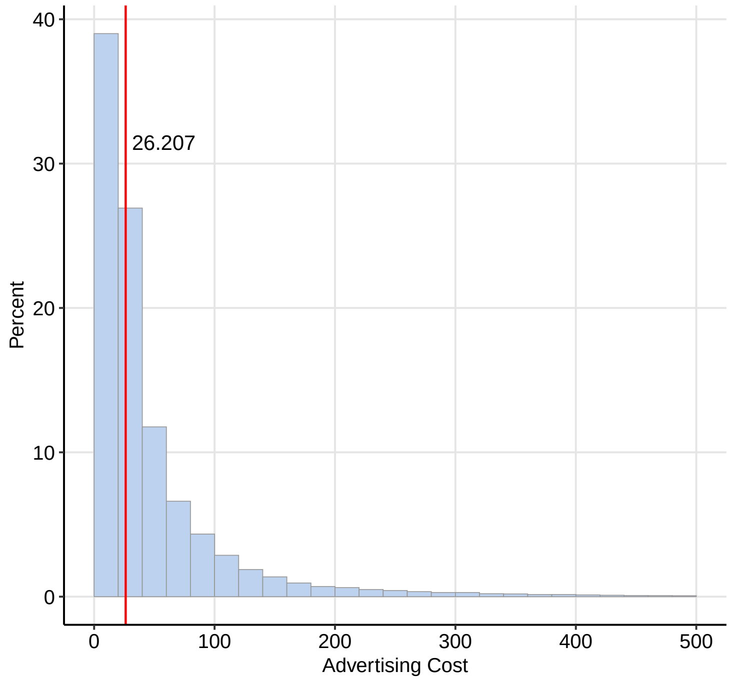

Figure 5: Distribution of Cost per GRP across DMA-Brand-Years

Note: The vertical red line denotes the median of the distribution.

for the average weekly ROI and the overall ROI. Using Chobani as an example, we show how the break-even ad effect varies as a function of the assumed margin factor m and the chosen ROI metric in Figure 6.

For each brand, we compare the break-even ad elasticity to the estimated ad elasticity. To summarize the results across brands, we calculate the ratio of the break-even ad effect to the estimated ad effect.[20] In Figure 7, we show the distribution of this multiplier across brands for both the weekly break-even ROI and the overall break-even ROI. The left panel shows that for the median brand in our data with a positive estimated ad elasticity, the estimated ad effect would need to be 5.368 times larger in order for the observed level of weekly advertising to be profitable (assuming a margin factor of $m = 0.3$). In contrast, in the right panel of Figure 7, we show the results when considering the ROI of all observed advertising.

[20]Note that we compute this multiplier for the subset of brands with a positive ad elasticity estimate.

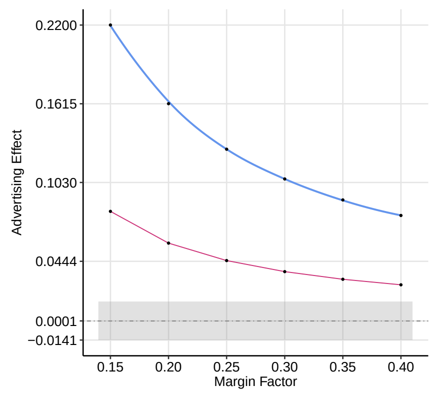

Figure 6: Break-Even Advertising Effect (Chobani)

Note: The blue line is the break-even ad effect for the average weekly ROI, while the red line is for the overall ROI. For Chobani, our estimated advertising effect is about 0.0001 (gray dashed line) and the shaded area marks the 95% confidence interval.

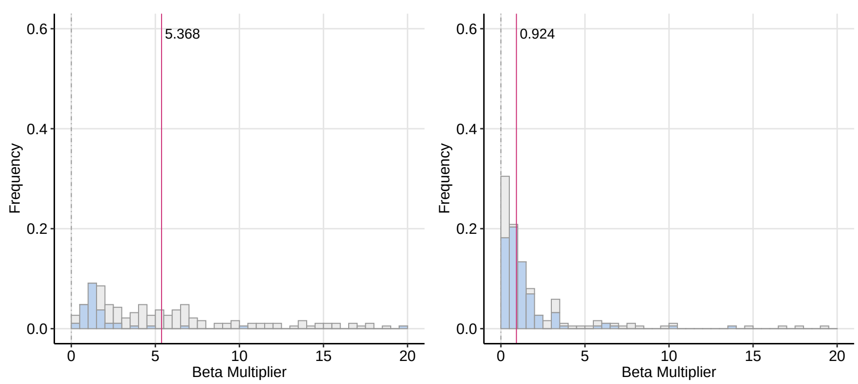

Figure 7: Ratio of Break-Even Ad Effect to the Estimated Ad Effect

Note: The left panel shows the distribution of the ratio of the break-even ad effect to the estimated ad effect (multiplier) for weekly break-even ROIs. The right panel shows the multiplier for overall break-even ROIs. The histograms only include the 187 brands with a positive estimated ad effect.