

Brands and Economics – Friends or foes?



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Introduction

- Fascinating topic; Hoping to learn lots during the day. Amelia has covered lots of ground already.
- My approach is mainly to take the line of a simple empirical economist trying to understand the issue – perhaps relate issues a little to what we know how to do
- Aside: I do want to make sure the debate avoids the silly straw man: Economics as a discipline is not defined by the very special case of homogeneous product industries where firms compete only in prices, consumers and firms have perfect information and all industry dynamics happen instantaneously. It wouldn't be very interesting if it were.

The conference hypotheses

The conference hypotheses about branding

- “brands are used to indicate far more than source and/or quality...Brands allow business to reach consumers directly with messages regarding emotion, identity, self-worth such that consumers are no-longer buying a product but buying a brand.” UCL Brands Conference Brochure/Desai and Waller 2010 (D&W,2010)
- Hypothesis: Branding delivers ‘messages’ to consumers which leads to consumers taking actions – i.e., ‘buy the brand’

Baseline Empirical Predictions	Evidence?
1. Demand will respond to advertising/marketing	Yes – to varying degrees
2. Product characteristics don’t matter for sales volumes [This is too literal an interpretation of hypothesis of ‘no longer buying a product’]	No – in every dataset I’ve ever looked at
3. Brain scans will show emotional reactions to brands [‘neuro marketing’]	Yes – presumably (ask an expert)
4. Brands.... ‘create a durable identity’ (D&W, 2010)	Depends
5.and ‘loyalty with their customers’ (D&W, 2010)	Depends

Implications of branding

“Branding explicitly contemplates reducing or eliminating price competition as the brand personality cannot be duplicated. In addition this practice can be understood as a product differentiating tactic which allows a branded good to turn a commodity into a special category that sees higher margins compared to others in the market place.”

UCL Brands Conference Brochure/Desai and Waller (2010)

Brands result in	Evidence
Product differentiation	Sometimes – but can also be opposite. McDonalds franchises (intra-brand)
Reduced or eliminated price competition (brand can't be duplicated)	Sometimes – but can also be opposite.
Higher margins	Sometimes –but can also be opposite

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Empirical work in Antitrust/IO/Marketing

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Empirical models with differentiated products - eg used in merger analysis

- 'Recent' econometric analysis in merger cases has involved estimating demand systems using data on shares/prices/product characteristics
 - Roots in 1970's academia – now lots in both economics and marketing departments
 - Applications in recent practice:
 - EU: Cadbury/Kraft, Universal/Sarah Lee
 - UK: CC Groceries market – help understand product differentiation [Closely related: Eg UK CC PPI investigation – for remedies evaluation (stated preference)]
- Economic/Econometric models relate sales to observed characteristics but modellers had to introduce unobserved product characteristics to explain the cross-sectional variation in the data
- Dynamic versions of these choice models attempt to capture time series variation in market shares – experience, learning, advertising effects

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Example: Film Choices

- Suppose we see data on movies showing in cinemas and attendance (from a few years ago) and observe high sales for Arnold Schwarzenegger movies
- Empirical models can explain high observed market shares in two ways
 - infer the product is high quality
 - infer movie is of a 'type' where lots of people like it – Eg., action movies
- 'Arnie' the 'brand' : empirical models would be trying to distinguish why an Arnie movie had a high sales given various possible explanations:
 - Quality of film
 - Popularity of action films, and/or
 - Popularity of action films with Arnie in
- Classical 'brand' stories:
 - Information is conveyed by Arnie's presence about the 'type' of movie
 - Information is conveyed by the fact studio advertises Arnie movie
 - Arnie brand differentiates - Arnie-action movies are different from other action movies – all else equal

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Some observations on ‘typical’ data variation in market shares

- At a given point in time some products have high product level market shares
- Many products may be under same brand – so observe high brand market share
- Often lots of variation in market shares across products ‘within brand’ – so other things (eg product design) must also matter. Brand alone can’t explain the variation in market shares across products within brand.
- Observed product characteristics (and presence/absence of apparently similar products) don’t explain all the variation in sales – models fit with errors
- Durability of ‘brand’ - should it show up as persistence in product and/or brand level market shares?

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The challenge for good empirical work

- Understand the role the business believes brands are playing
 - Case specific
 - Documents
 - Discussion with clients
- Develop evidence base to help distinguish the various stories
 - Eg., the story ‘brands are bad’ – brands mean high entry barriers and lots of product differentiation
 - Eg., the story for ‘brands are good’ – effectiveness of advertising mean entrants can attract customers from poor quality incumbent brands
- Some examples
 - 1) Information and price competition – a natural experiment
 - 2) Advertising in an experience good industry – informative or ‘persuasive’?

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Some Examples

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Eg 1. Advertising, Information and Prices

Milyo and Waldfogel: 'The Effect of Advertising on Prices: Evidence in the wake of 44 Liquormart?'
American Economic Review, 1999.

- Collect pricing data from liquor stores near the border of two states RI and MA before and after supreme Court of US overturns RI ban on advertising prices of alcoholic drinks (can advertise in MA)
- Examine what happens to prices over time and in particular how the experience over time is different in RI and MA
 - RI - stores/products are affected by the change in RI advertising rules 'treatment'
 - MA - stores/products not affected by the change in RI advertising rules 'control'
- Data shows that prices in both markets go up by 2-3%
 - close local markets so similar demand/cost conditions
- Difference between 'before and after' change between RI and MA is that
 - Prices clearly go up **less** in RI than in MA
- Consistent with idea that advertising is conveying information and driving DOWN prices in RI compared to the 'control' - MA's prices

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Eg 2. Does Information provided by advertising drive consumer choice?

Akerberg, D. "Empirically Distinguishing Informative and Prestige Effects of Advertising" RAND, 2001

- If advertising is informing consumers about a product's characteristics then:
 - customers with experience wont respond - ie those who've made past purchases will know, for example, what a yogurt 'tastes' like and will either buy or not – advertising wont matter, while
 - customers without experience – will respond. Advertising will drive new sales.
- Can use panel data from eg supermarket scanners to examine whether ad. exposures leads to a different outcome for two consumer groups (experienced, inexperienced) in the way the information story suggests
- Akerberg looks at a new brand of yogurt – finds inexperienced customers respond to advertising expenditures but those who've purchased once already do not increase purchases with increased advertising exposures

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Conclusions

- Economic models need to capture reality
- No room for dogma in evidence led economic, or marketing, science (neoclassical or otherwise)
- Challenge when developing evidence that can be influential to policy makers is to find convincing ways to tell apart the various stories. No less true for issues around brands.
- Session question: Neoclassical economics – friend or foe of brands?
- Answer is simple - good economics is always a friend to market reality
 - Economic models need to be challenged by the available data
 - Where they don't fit the data we must make improvements/generalizations
 - Then look for new failures – to test between possible extensions
 - But, be warned, there's no chance of developing a 'universal' model

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