

Advertising Incentives of National Brands against Private Labels: The Case of OTC Heartburn Drugs

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Abstract : The worldwide expansion of private labels over the past two decades not only transformed the choice sets of consumers but also forced manufacturers of national brands to design new marketing strategies to maintain their market positions. This paper empirically analyzes the impact of private labels on advertising incentives of national brands. The paper first develops a consumer demand model that incorporates spillover effects of advertising and finds positive spillovers of national brands' advertising on demand for private label products. With the demand estimates, the researcher simulates the equilibrium prices and advertising levels for leading national brands in a counterfactual where private labels are eliminated to quantify the changes in national brands' advertising incentives in response to the rise of private labels.

Keywords : advertising, demand estimation, spillover effect, structural model

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