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Full Length Article

Advertising non-premium products as if they were premium: The impact of advertising up on advertising elasticity and brand equity☆

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ABSTRACT

Non-premium brands occasionally emulate their premium counterparts by using ads that emphasize premium characteristics such as superior performance and exclusivity. We define this practice as "advertising up" and develop hypotheses about its short- and long-term impact on advertising elasticity and brand equity respectively. We test the hypotheses in two large-scale empirical studies using a comprehensive dataset from the automotive industry that includes, among others, the content of 2317 television ads broadcast over a period of 45 months. The results indicate that advertising up increases (decreases) short-term advertising elasticity for non-premium products with a low (high) market share. The results also show that an intensive use of advertising up over time leads to long-term improvements (reductions) in brand equity for expensive (cheap) non-premium products. Furthermore, an inconsistent use of advertising up leads to reductions in brand equity. The results imply that managers of non-premium products with a low market share can use advertising up to increase advertising effectiveness in the short run. However, advertising up will only generate long-term improvements in brand equity for expensive non-premium products. Finally, to avoid long-term reductions in brand equity, advertising up should be consistently used over time.

1. Introduction

Many product categories contain vertically differentiated brands at different price points. In the automotive market, premium brands,[1] such as BMW or Mercedes, position themselves above non-premium brands, such as Hyundai or Skoda. Similarly, in fashion, Ralph Lauren positions itself above Zara; in mobile devices, Apple positions itself above Huawei; in the hotel industry, Ritz-Carlton positions itself above Holiday Inn. The consequences of vertical differentiation can be observed in numerous marketing decision areas, such as price, channel, and product design. Premium brands are routinely higher priced, retailed through more exclusive channels, and better designed than non-premium brands. In this paper, we focus on the effects of a marketing decision that is frequently overlooked, namely the decision that a brand makes regarding the content of its advertising. Specifically, we investigate how mimicking the content of premium brand ads affects the effectiveness of non-premium brand ads.

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[1] In this paper, we define a premium brand as a brand that delivers superior functional and symbolic value at a higher price compared to other brands in the category.

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Advertising by premium brands routinely includes elements such as exclusivity, superior quality, and exceptional design. For example, BMW's ad campaigns under the tagline "The Ultimate Driving Machine" consistently stress the performance and exclusivity of its cars. Non-premium brands typically emphasize other elements, such as price discounts and reliability, which tend to be more relevant for value conscious consumers. However, sometimes non-premium brands try to emulate premium brand advertising by including symbolic and functional elements that are commonly used by their premium counterparts. We refer to this tactic as "*advertising up*". Recent examples (2015) include Hyundai's ads that have emphasized the steering precision of its Sonata[2] and Kia's ads that have emphasized how the design of its Sorento helps "unleash consumers' confidence".[3]

Formally, we define "advertising up" as the degree to which an ad broadcast by a non-premium brand resembles the ads generally used by premium brands. Managers may decide to use advertising up with the goals of increasing the effectiveness of their ads in the short run and enhancing the brand equity of their products in the long run. However, it is not clear from a theoretical point of view whether advertising up actually helps achieving these goals. On the one hand, literature on hedonic consumption (Bagwell & Bernheim, 1996; Hirschman & Holbrook, 1982) supports the notion that advertising up should be effective because it contributes to building and fortifying the functional and symbolic value of the product. On the other hand, persuasion knowledge (Darke & Ritchie, 2007; Kirmani & Zhu, 2007) and the functional theory of attitudes (Katz, 1960) support the notion that advertising up may not be effective, and may even backfire, because advertising up may not match the attitudes that consumers hold about non-premium brands and might even be perceived as deceptive. Hence, despite the extended use of advertising up in some product categories, it is not clear, a priori, which of these effects dominate or under what conditions advertising up may be effective.

This paper has two main objectives. First, we study the short-term impact of advertising up on advertising elasticity, identifying contextual boundaries that may act as moderators of the impact. Specifically, we consider the product's price, market share, and quality ratings as moderators because these characteristics may influence the attitudes that consumers hold about products and, thus, the extent to which advertising up could be perceived as deceptive. Second, we assess the long-term consequences of the use of advertising up over time on the brand equity of products. Specifically, we focus on how the *intensity* (i.e., the average level) and the *inconsistency* (i.e., the variation) in the use of advertising up affect brand equity because these two variables summarize how advertising up is used over time.

In our empirical application, we use a comprehensive dataset from the automotive industry. First, we operationalize advertising up using the content of 2317 television ads broadcast from January 2007 through September 2010. The ads used to create the advertising up metric represented a total expenditure of US$11.3B and accounted for 87.7% of the advertising expenditures of 85 different non-premium products. Subsequently, we use the sales, advertising expenditures, features, and quality ratings of these 85 products to conduct two field studies. In the first study, we specify a sales model that allows us to examine how advertising up impacts advertising elasticity and how product characteristics moderate this impact. In the second study, we elicit brand equity for three periods and then assess how the use of advertising up during the second period is related to changes in brand equity between the first and the third periods.

We find that the short-term effect of advertising up on advertising elasticity is positive for non-premium products with a low market share and negative for non-premium products with a high market share. We do not find any moderating effect of price or of quality. Additionally, we find that the intensity in the use of advertising up is associated with positive long-term changes in brand equity for expensive non-premium products but negative changes in brand equity for cheap non-premium products. Finally, we find that inconsistency in the use of advertising up over time leads to reductions in brand equity.

Our study makes the following contributions to the literature. First, we contribute to the literature on advertising content (Bass, Bruce, Majumdar, & Murthi, 2007; Bruce, 2008; Chandrasekaran, Srinivasan, & Sihi, 2017; Chandy, Tellis, MacInnis, & Thaivanich, 2001; Kopalle, Fisher, Sud, & Antia, 2017; Liaukonyte, Teixeira, & Wilbur, 2015; Xu, Wilbur, Siddarth, & Silva-Risso, 2014) by defining a new type of ad content (advertising up), developing new theory about its effect on advertising effectiveness, and empirically studying its impact in a large-scale study. Second, we contribute to the literature on brand equity (Ailawadi, Lehmann, & Neslin, 2003; Buil, de Chernatony, & Martínez, 2013; Sriram, Balachander, & Kalwani, 2007; Yoo, Donthu, & Lee, 2000) by documenting the impact that the intensity and inconsistency in the use of advertising up have on a product's long-term brand equity. To our knowledge, this study is the first to empirically demonstrate that consistency in advertising communications is key to improve brand equity in the long run.

2. Theory and hypotheses

2.1. Advertising up

We define advertising up as the degree to which an ad broadcast by a non-premium brand resembles the ads generally used by premium brands. This definition contains three important notions that differentiate advertising up from other theoretical constructs used in marketing (e.g., comparative advertising, deceptive advertising). First, advertising up refers to the similarity between a focal ad and a prototype from a different segment. Second, the focal ad is for a non-premium product whereas the prototype belongs to the premium segment. Finally, the definition implies that advertising up should be operationalized as a continuous measure (i.e., the "degree" of similarity), which is driven by the characteristics of the ad. The degree of similarity with the

[2] https://www.youtube.com/watch?v=JPHVwT5DUvM
[3] https://www.youtube.com/watch?v=RcLehEP2z5s

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