Push-Me Pull-You: Comparative Advertising in the OTC Analgesics Industry*

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Abstract

We model comparative advertising as brands pushing up own brand perception and pulling down the brand image of targeted rivals. We watched all TV advertisements for OTC analgesics 2001-2005 to construct matrices of rival targeting and estimate the structural model. These attack matrices identify diversion ratios and hence comparative advertising damage measures. We find that outgoing comparative advertising attacks are half as powerful as self-promotion in raising own perceived quality and cause more damage to the targeted rival than benefit to the advertiser. Comparative advertising causes most damage through the pull-down effect and has substantial benefits to other rivals.

Keywords: Comparative advertising, advertising targets, diversion ratios, attack matrix, push and pull effects, analgesics.

JEL Classification:

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1 Introduction

Comparative advertising targets a specific rival. This unique feature enables us to use supply side (advertising) decisions to find demand-side relations in the form of diversion ratios. This would not be possible with purely self-promotional advertising or equilibrium pricing relations that conflate all effects into a single variable (advertising or price). Comparative advertising may directly hurt the brand that is targeted as well as help the brand that is advertised. This sets it apart from self-promoting advertising. It may also benefit rivals that are not targeted, thanks to the adverse impact on the target. These distinctive properties of comparative advertising underscore the importance of coding the content of advertising by attack subject (and not just using aggregate advertising expenditures). We propose a model of rival targeting to determine brands' self-promotion and comparative advertising choices. Comparative advertising pushes up own brand perception along with pulling down the brand image of the targeted rival.[1] We use a novel dataset from the Over-The-Counter (OTC) analgesics industry in the US to estimate the model and the diversion ratios between brands. We then find how profits of a targeted brands are affected by comparative advertising, and the comparative advertising spillovers onto other (non-targeted) rivals.

Our push-pull model is based on a discrete choice approach to demand, in which brands' perceived qualities are shifted by advertising. The way in which advertising enters the model is most simply thought of as persuasive advertising that shifts demand up.[2] Promoting one's own product increases demand directly, whether through self-promotion advertising or comparative advertising, while denigrating a rival helps a brand indirectly by decreasing perceived rival quality.[3] By hurting the rival product, some consumers are diverted, and the comparative advertiser succeeds in attracting some portion of those consumers.

[1] The Pushmi-Pullyu is a fictitious two-headed llama befriended by Dr Doolittle. The heads are pointed in different directions. When one pushes forward, it pulls the other end back from its preferred direction.

[2] This is consistent with "hype" in the Johnson and Myatt (2006) taxonomy of demand shifts and with complementary advertising of the type propounded by Stigler-Becker (1977) and Becker and Murphy (1993).

[3] A somewhat similar approach is expounded in Harrington and Hess (1996). These authors treat positive and negative advertising by 2 politicians with given locations in a policy space. Negative advertising shifts a rival candidate away from the median voter, while positive advertising shifts a candidate closer. This framework would provide an interesting base to develop a product market model.

We use the model to derive the advertising first order conditions that predict oligopoly equilibrium relations between advertising levels (for different types of advertising) and market shares. Equilibrium pricing conditions eliminate prices from the relation between advertising and sales. Then, we relate ad levels of the different ad types to other observable market variables, like market shares.[4]

Our approach is broadly consistent with advertising as a demand shifter (as in Dixit and Norman, 1978) and the complementary view of Stigler and Becker (1977) and Becker and Murphy (1993) (see Bagwell, 2007, for a comprehensive survey of the literature on advertising). The theoretical economics literature on comparative advertising is quite scarce. Anderson and Renault (2009) model it as directly informative revelation of horizontal match characteristics of products.[5] Barigozzi, Garella, and Peitz (2009) and Emons and Fluet (2011) apply the signaling model of advertising (which goes back to insights in Nelson, 1974, and was formalized in Kihlstrom and Riordan, 1984, and Milgrom and Roberts, 1986). Our theory engages the complementary view with the added element of pulling down the rival.

There are three key ways in which we contribute to the empirical literature on advertising. First, previous papers have used total ad expenditures as the sole advertising explanatory variable (see Nevo, 2000 and 2001, and Sovinsky Goeree, 2008). Here, because we have data on content, we break down the ad expenditures into comparative and self-promotion expenditures, and the comparative expenditures are further broken down into attacker-target pairs. Second, we estimate a full equilibrium static model of firm behavior, where firms jointly choose product prices and advertising levels. The choice of a static model is driven by practical considerations.[6] One could model only one side of the market in a dynamic setting and relinquish analyzing a full equilibrium model (Hendel and Nevo, 2006, and Gowrisankaran

[4] Firms with a lot of advertising are typically those with large market shares. They also tend to set high prices. This does *not* say that high prices drive high market shares, nor that advertising creates high prices, nor indeed is it the high prices that create the desire to advertise.

[5] Anderson and Renault (2006) show that a firm may be hurt by information disclosure about its own product, so there might be incentives for competitors to provide that information through comparative ads.

[6] The problem with dynamic model is both computational complexity and multiplicity of solutions. One would have to solve for rational expectations that consumers and producers have on the future values of the state variables, which means finding a fixed point. There might be multiple future values of the state values for which such consistency requirements hold.

and Rysman, 2009, Roberts and Samuelson, 1988, and Dubé, Hitsch, Manchanda, 2005, Erdem and Keane, 1996, Ackerberg, 2001 and 2003) or else analyze an equilibrium static model (Gasmi, Laffont, and Vuong, 1992, and Sovinsky Goeree, 2008). Our demand (like Sovinsky Goeree, 2008) is derived from a discrete choice model, while Gasmi, Laffont, and Vuong (1992) postulate a set of residual demand functions. Third, we use a combination of exogenous shocks and brand-specific generic prices to construct sources of exogenous variation in the data. By contrast, Gasmi, Laffont, and Vuong (1992) use aggregate variables (e.g. the price of sugar).[7]

To estimate the model we need to find out how much is spent on comparative advertising. Advertising spending by brands, even when the data are available, is not broken down into comparative and self-promotion advertising.[8] Ideally, we should analyze an industry for which comparative advertising is prevalent and represents a large fraction of industry sales, for which data on advertising expenditures is available for a full sample of brands and for a reasonably long period of time. Video files (or audio files for radio ads or photographic files for newspaper/magazine ads) need to be available and their content readily coded to determine targets. Fortunately, all these criteria are met with the US OTC industry (medicine for minor pain relief, involving as major brands Advil, Aleve, Bayer Aspirin, and Tylenol).[9] We watched over four thousand individual video files of all TV advertisements in the US OTC analgesics industry for 2001-2005 and recorded which brand(s) (or class of drugs) were compared (e.g. to Advil or Aleve; or to Ibuprofen-based drugs).

There are two main concerns to address when estimating the advertising first order conditions: left-censoring of advertising (in some periods some brands do not engage in some types of advertising - there are corner solutions) and endogeneity of market shares and advertising expenditures. We control for left-censoring by running Tobit regressions. We control for

[7] Sovinsky Goeree (2008) uses the type of instrumental variables introduced by Bresnahan (1987). This is infeasible here because there is no entry of new products.

[8] See Liaukonyte (2011) for a paper that estimates demand-side parameters using the same dataset.

[9] While explicit comparative advertising has flourished in the US over the past 20 years (with the blessing of the FTC), it varies widely across industries. The US OTC analgesics industry exhibits high advertising levels in general, and extraordinary levels of explicit comparative claims. Most of advertising expenditures (around 90%) are for TV ads.

endogeneity with brand fixed effects and two sources of exogenous variation: medical news shocks that hit the OTC analgesic markets in the time period,[10] and the prices of generic products, which are instrumental variables for the shares of the branded products.

We find that higher shares, ceteris paribus, are associated with higher self-promotion advertising. An extra consumer in the market raises self-promotion advertising expenditure by 55 cents.

Second, outgoing attacks are more than half as powerful as direct self-promotion ads in raising perceived quality. The marginal effect of a one dollar increase in incoming attacks would increase self-promotion advertising by 45 cents, conditional on shares remaining constant. This gives a rough measure of the response to incoming attacks.

Third, the attack matrix identifies diversion ratios between brand pairs. For any brand, the sum of diversion ratios is less than one, as expected. Diversion ratios are used to find damage measures of comparative advertising.

Fourth, the damage that a comparative ad causes to the target is substantial and heterogeneous across attacker-target pairs. For example, a marginal dollar of comparative advertising spent by Tylenol against Bayer reduces Bayer's profit by $2, but a marginal dollar spent by Advil against Tylenol reduces Tylenol's profit by $3. These large numbers underscore the harm inflicted by comparative advertising: outgoing attacks cause much more damage to the target than benefit to the attacker.

Fifth, most of the damage is caused through the pull-down effect rather than the push-up effect.

Sixth, comparative advertising has substantial positive spillovers to other rivals, indicating substantial "free-riding" in attacking any given target. For example, a marginal dollar's comparative attack by Tylenol on Aleve increases Advil's profit by 20 cents.

Seventh, despite the positive spill-overs, the total damage to the industry (i.e., hurt to target minus the benefits to other industry members) remains substantial. For example ... [put in some numbers for total damage, from damages section?] These large numbers concur

[10] The idea of using a natural experiment to study the effect of advertising (on prices) is the crucial insight in Milyo and Waldfogel (1999).

with the idea that comparative advertising can be very damaging overall, as suggested by the fact that they are used in few industries, and by commentators on the harmful effects of negative campaign ads in the political sphere.

2 The Model

2.1 Core Concepts

Using our coded advertising data we construct *attack matrices* of how much is spent by each advertiser against each rival target every month. These attacks allow us to identify *diversion ratios* that measure the substitutability between products. These diversion ratios are then used to find *damage measures* to a brand's profit from comparative advertising directed at that brand by different rivals. We now provide the intuition behind the use of diversion ratios, and link them to damage measures.

Let $\delta_j = Q_j - p_j$ be Brand j's attractiveness when it has quality Q_j and sets price p_j, and assume that market shares depend on j's attractiveness relative to its competitors. The *diversion ratio* from good j to k is the fraction of the market share lost by Brand j (due to a decrease in j's attractiveness) that is captured by Brand k.[11] It is defined as

$$d_{jk} = -\frac{ds_k/d\delta_j}{ds_j/d\delta_j} \in (0,1)\,, \tag{1}$$

where s_j is the market share of Brand j. One way to think of d_{jk} is in terms of consumers' second preferences: some consumers switch to their next preferred option when the first choice gets less attractive. For substitute differentiated products, d_{jk} is positive, and $\sum_k d_{jk} < 1$ because some customers no longer purchase at all when j gets less attractive.

It is useful to interpret the diversion ratio as the *neutralizing price change* that keeps j's market share the same after a drop of \$1 in k's attractiveness (e.g., following a rise in k's price by \$1). Such a lower rival attractiveness causes a $(-ds_j/d\delta_k)$ increase in j's market share. Now, this is exactly the market share picked up by k if j's attractiveness went down

[11] The diversion ratio has been proposed as a useful statistic for analyzing the price effects of mergers (see for example Shapiro, 1996, and recent development by Jaffe and Weyl, 2011).

\$1, because the switching consumers are those broadly indifferent between j and k as first choice. This symmetry property implies that the increase in j's market share is equivalently $(-ds_k/d\delta_j)$.[12] On the other hand, a rise in j's price of Δp_j will cause j's market share to drop by $\Delta p_j\,(ds_j/d\delta_j)$. Equating these expressions gives the neutralizing price change as[13]

$$\Delta p_j = \frac{-ds_k/d\delta_j}{ds_j/d\delta_j} = d_{jk}. \tag{2}$$

The importance of the neutralizing price change is that we can measure the change in j's profit from a decrease in k's attractiveness as simply the price change applied to j's market, or $\Delta\pi_j = \Delta p_j M s_j = M s_j d_{jk}$, where M is the market base of potential consumers. This underscores why it is the outbound diversion ratio, d_{jk}, that matters in determining the worth of inbound customers. It also suggests that the diversion ratio should enter the marginal benefit for Brand j of targeting Brand k through comparative advertising, which adversely impacts Q_k. Indeed, let \$1 spent by j on comparative advertising against target k reduce Q_k by ΔQ_k (which is a positive number because it is defined as a reduction): this negative impact on k's attractiveness we call the "pull effect". The neutralizing price change argument above gives the marginal benefit for Brand j from the pull effect as $M s_j d_{jk} \Delta Q_k$.

Because comparative advertising is also advertising for Brand j, there is also a "push" effect from an increase in Brand j's attractiveness. This is the amount of pure self promotion spending that would result in the same change in j's attractiveness as a \$1 increase in comparative advertising, and is therefore the marginal rate of substitution between them. We assume it is constant at rate λ. Because the push effect of a comparative ad returns λ per dollar, optimal arrangement of the ad portfolio implies the pull effect must return $1-\lambda$ per dollar (whenever comparative advertising is used against a target). Hence the optimal comparative advertising strategy of Brand j is characterized by $M s_j d_{jk} \Delta Q_k = 1 - \lambda$ for any rival k it chooses to target. Diversion ratios may then be identified from the condition that comparative advertising expenditures should equate the marginal benefit to the marginal

[12] See Anderson, de Palma, and Thisse (1992), Ch.3, p. 67.

[13] If a \$1 price rise by k allows j to pick up 10 of the customers shed by k, and a \$1 price rise by j loses it 50 consumers (10 of which would go to j, incidentally, by the symmetry property), then the neutralizing price hike for j is 20 cents. The diversion ratio from j to k is 1/5.

advertising cost (which is \$1).

The above condition also indicates that once we know the diversion ratios, we can write the drop in Brand k's attractiveness induced by one more dollar of comparative advertising by j targeted at k as $\Delta Q_k = \frac{1-\lambda}{Ms_j d_{jk}}$. This is therefore also the amount by which k must reduce its price to neutralize the hit to Q_k. Similarly, using the neutralizing price change interpretation of d_{kj}, it is readily shown that $\frac{d_{kj}}{Ms_j}$ is the drop in price that Brand k must incur in order to maintain its market share if Brand j were to raise Q_j by increasing its self promotion by \$1 from its equilibrium level: a \$1 comparative ad only raises Q_j by a fraction λ of what \$1 self-promotion does. Pulling all this together, the hurt to k's equilibrium profit of one more dollar of comparative advertising by j is:[14]

$$Ms_k \left(\frac{1-\lambda}{Ms_j d_{jk}} + \lambda \frac{d_{kj}}{Ms_j} \right), \tag{3}$$

where the first term in parentheses is the price drop that neutralizes the pull-down to Q_k and the second one is the price drop that neutralizes the push-up to Q_j.

2.2 Demand

Suppose that Brand $j = 1, ...n$ charges price p_j and has perceived quality $Q_j(.)$, $j = 1, ...n$. We retain the subscript j on $Q_j(.)$ because when we get to the estimation, exogenous variables such as medical news shocks and random variables summarizing the unobserved determinants of perceived quality will enter the errors in the equations to be estimated.

Brands can increase own perceived quality through both types of advertising, and degrade competitors' quality through comparative advertising. Comparative advertising, by its very nature of comparing, both raises own perceived quality and reduces the perceived quality of rival brands. The corresponding arguments of $Q_j(.)$ are advertising expenditure by Brand j which directly promotes its own product, denoted by A_{jj}; "outgoing" advertising by Brand j targeted against Brand k, A_{jk}, $k \neq j$, which has a direct positive effect; and "incoming" comparative advertising by Brand k targeting Brand j, A_{kj}, $k \neq j$, which has a negative (detraction) effect on Brand j's perceived quality. Thus, we write j's perceived quality as

[14] Our analysis below derives this using the envelope theorem.

$Q_j(A_{jj}, \{A_{jk}\}_{k\neq j}, \{A_{kj}\}_{k\neq j})$, $j = 1, ..., n$, which is increasing in the first argument, increasing in each component of the second (outgoing) group, and decreasing in each component of the third (incoming) group, with $\frac{\partial^2 Q_j}{\partial A_{jj}^2} < 0$ and $\frac{\partial^2 Q_j}{\partial A_{kj}^2} > 0$ for $k \neq j$.[15]

The demand side is generated by a discrete choice model of individual behavior where each consumer buys one unit of her most preferred good. We will not estimate this demand model from (aggregate) choice data; we simply use it to frame the structure of the demand system. Preferences are described by a (conditional indirect) utility function:

$$U_j = \delta_j + \varepsilon_j, \qquad j = 0, 1, ..., n, \tag{4}$$

in standard fashion, where ε_j is a brand-idiosyncratic match value and

$$\delta_j = Q_j\left(.\right) - p_j \tag{5}$$

is the "objective" utility, and where we let the "outside option" (of not buying an OTC pain remedy) be associated to an objective utility $\delta_0 = V_0$.

The distribution of the random terms determines the form of the market shares, s_j, $j = 0, ..., n$, and each s_j is increasing in its own objective utility, and decreasing in rivals' objective utilities.[16] Assume that there are M consumers in the market, so that the total demand for Brand j is Ms_j, $j = 0, ..., n$.

2.3 Equilibrium Relations

Assume that product j is produced by Brand j at constant marginal cost, c_j. Brand $j's$ profit-maximizing problem is:

$$\underset{\{p_j, A_j\}}{Max}\, \pi_j = M(p_j - c_j)s_j - A_{jj} - \sum_{k\neq j} A_{jk} \qquad j = 1, ...n. \tag{6}$$

where the advertising quantities (the A's) are dollar expenditures.

[15] Throughout, we assume sufficient concavity that the relevant second order conditions hold.

[16] For example, $s_j = \frac{\exp[\delta_j/\mu]}{\sum_{k=0}^{n} \exp[\delta_k/\mu]}$, $j = 0, ..., n$ in the standard multinomial logit model.

Prices and advertising levels are determined simultaneously in a Nash equilibrium.

The price condition is determined in the standard manner by:

$$\frac{d\pi_j}{dp_j} = Ms_j - M(p_j - c_j)\frac{ds_j}{d\delta_j} = 0, \qquad j = 1, ...n, \tag{7}$$

which yields a solution $p_j > c_j$: brands always select strictly positive mark-ups.

Self-promotion advertising expenditures are determined by:

$$\frac{d\pi_j}{dA_{jj}} = \frac{d\pi_j}{d\delta_j}.\frac{\partial Q_j}{\partial A_{jj}} - 1 = M(p_j - c_j)\frac{ds_j}{d\delta_j}\frac{\partial Q_j}{\partial A_{jj}} - 1 \leq 0, \text{ with equality if } A_{jj} > 0 \quad j = 1, ..., n, \tag{8}$$

where the partial derivative function $\frac{\partial Q_j}{\partial A_{jj}}$ may depend on any or all of the arguments of Q_j. Substituting the pricing first-order condition (7) into the advertising one (8) gives[17]

$$Ms_j\frac{\partial Q_j}{\partial A_{jj}} \leq 1, \text{ with equality if } A_{jj} > 0, \qquad j = 1, ..., n.^{18} \tag{9}$$

The interpretation is that raising A_{jj} by \$1 and raising price by $\$\frac{\partial Q_j}{\partial A_{jj}}$ too leaves δ_j unchanged. This change therefore increases revenue by $\$\frac{\partial Q_j}{\partial A_{jj}}$ on the existing consumer base (i.e., Ms_j consumers). This extra revenue is equated to the \$1 cost of the change, the RHS of (9). The relation in (9) implicitly determines self-promotion as a function of whatever advertising variables are in Q_j (these all involve brand j as either sender or target), along with j's share.

Recalling our assumption that $\frac{\partial^2 Q_j}{\partial A_{jj}^2} < 0$, from (9), brands with larger s_j will advertise more (choose a higher value of A_{jj}) than those with smaller market shares, ceteris paribus. The intuition is that the advertising cost per customer is lower for larger brands. The other relations in the following proposition follow similarly from the implicit function theorem through the dependence of perceived quality on self-promotion, and incoming and outgoing attacks. Through the next series of Propositions, we emphasize the various second derivatives of the Q function because these correspond to the parameters we estimate.

[17] The advertising-size relation is also consistent with a representative consumer model with $\delta_j = Q_j - p_j$ replacing $-p_j$ in the corresponding indirect utility function.

[18] Below we (implicitly) invoke sufficient concavity of Q_j for interior solutions to (9): if $\frac{\partial Q_j}{\partial A_{jj}}$ were constant (if ads entered perceived quality linearly), then this is unlikely.

Proposition 1 *(**Self-promotion Advertising levels**) Brand j's choice of self-promotion advertising level is determined by* $Ms_j \frac{\partial Q_j}{\partial A_{jj}} \leq 1$*, with equality if* $A_{jj} > 0$*. For* $A_{jj} > 0$*,* A_{jj} *is an increasing function of* s_j*;* A_{jj} *is a decreasing function of* A_{jk} *if and only if* $\frac{\partial^2 Q_j}{\partial A_{jj} \partial A_{jk}} < 0$*;* A_{jj} *is an increasing function of* A_{kj} *if and only if* $\frac{\partial Q_j}{\partial A_{jj} \partial A_{kj}} > 0$*.*

The advertising relationships in the Proposition hold for brands with large enough market shares.[19] They will be estimated below using a simple Q_j specification for which A_{jj} is written as a linear function of s_j and the other relevant advertising quantities.

We now turn to comparative advertising levels. An attack raises own perceived quality and decreases that of the targeted rival. We can determine the advertising spending against rivals by differentiating (6) to get (for $k \neq j$):

$$\begin{aligned} \frac{d\pi_j}{dA_{jk}} &= \frac{d\pi_j}{d\delta_j}.\frac{\partial Q_j}{\partial A_{jk}} + \frac{d\pi_j}{d\delta_k}.\frac{\partial Q_k}{\partial A_{jk}} - 1 \\ &= \underbrace{M(p_j - c_j)\frac{ds_j}{d\delta_j}\frac{\partial Q_j}{\partial A_{jk}}}_{\text{own Q enhancement}} + \underbrace{M(p_j - c_j)(\frac{ds_j}{d\delta_k})\frac{\partial Q_k}{\partial A_{jk}}}_{\text{competitor's Q denigration}} - 1 \leq 0, \end{aligned}$$

with equality if $A_{jk} > 0$. We proceed by substituting the attacker pricing condition and its self-promotion condition to rewrite this comparative advertising condition in a form to be estimated. First, inserting the price first-order conditions (7) gives (for $k \neq j$):

$$\frac{d\pi_j}{dA_{jk}} = Ms_j \frac{\partial Q_j}{\partial A_{jk}} - Ms_j d_{jk} \frac{\partial Q_k}{\partial A_{jk}} \leq 1, \quad \text{with equality if } A_{jk} > 0, \tag{10}$$

where $d_{jk} > 0$ is the diversion ratio discussed in sub-section 2.1 above. Loosely, the diversion ratio measures how much custom is picked up from a rival per customer it sheds. The restriction on the diversion ratios ($d_{jk} \in [0, 1]$) motivates restrictions below in the estimation.

The comparative advertising derivative, (10), provides a bound on the size of the marginal rate of substitution between *outgoing* comparative advertising and self-promotion ($\frac{\partial Q_j}{\partial A_{jk}} / \frac{\partial Q_j}{\partial A_{jj}}$). Assume for the present argument that the solution for self-promotion spending

[19] Otherwise, from (7) the term $(p_j - c_j)\frac{ds_j}{d\delta_j}$ is small enough that the derivative $\frac{d\pi_j}{d\delta_j}$ in (8) is negative when $\frac{\partial Q_j}{\partial A_{jj}}$ is evaluated at $A_{jj} = 0$.

(see (9)) is interior. Then, substituting the self-promotion condition ($Ms_j \frac{\partial Q_j}{\partial A_{jj}} = 1$) into (10) implies that

$$\frac{\partial Q_j}{\partial A_{jk}} / \frac{\partial Q_j}{\partial A_{jj}} \leq 1 + Ms_j d_{jk} \frac{\partial Q_k}{\partial A_{jk}} \tag{11}$$

where the LHS is less than one because $\frac{\partial Q_k}{\partial A_{jk}} < 0$ on the RHS. In summary:

Proposition 2 *(**Self-promotion and outgoing comparative advertising**) If Brand j uses a strictly positive amount of self-promotion, then the marginal rate of substitution between outgoing comparative advertising against Brand k and self-promotion ($\frac{\partial Q_j}{\partial A_{jk}} / \frac{\partial Q_j}{\partial A_{jj}}$) is strictly below 1.*

If this were not the case, then comparative advertising would drive out self-promotion since it would give a direct own-quality benefit per dollar greater than self-promotion, while additionally helping the attacker by denigrating a rival. We will assume in the estimation that the marginal rate of substitution between outgoing comparative advertising and self-promotion in (11) is constant, at rate λ, so that the testable implication of Proposition 2 is that $\lambda < 1$. Then we can write from (11):

$$(0 <) \quad -Ms_j d_{jk} \frac{\partial Q_k}{\partial A_{jk}} \leq 1 - \lambda, \qquad \text{with equality if } A_{jk} > 0. \tag{12}$$

The intuition is as follows for $A_{jk} > 0$. The term $1 - \lambda$ on the RHS of (12) is the marginal cost of the pull effect once we subtract the value of the push component of the comparative attack. Hence the LHS should be the marginal benefit of the pull effect. To see that this is so, first note that the pull effect of raising A_{jk} by \$1 is equivalent to brand k raising its price by \$$\frac{-\partial Q_k}{\partial A_{jk}}$ (since the same δ_k is attained). The neutralizing price change for j that just keeps s_j intact per dollar increment in p_k is given by (2) as d_{jk}, and this benefit is reaped on j's market base of Ms_j. The LHS of (12) then follows directly.

To determine predictions for how A_{jk} depends on the other relevant advertising levels, we apply the implicit function theorem to (12) and recall that $\frac{\partial^2 Q_k}{\partial A_{jk}^2} > 0$.

Proposition 3 *(**Comparative Advertising levels**) The choice of comparative advertising level by Brand j against Brand k is determined by $-Ms_j d_{jk} \frac{\partial Q_k}{\partial A_{jk}} \leq 1 - \lambda$, with equality if*

$A_{jk} > 0$. *For* $A_{jk} > 0$, A_{jk} *is an increasing function of* s_j *and* d_{jk}*; an increasing function of* A_{kk} *if and only if* $\frac{\partial^2 Q_k}{\partial A_{kk}\partial A_{jk}} < 0$*; an increasing function of* A_{kl} *if and only if* $\frac{\partial^2 Q_k}{\partial A_{kl}\partial A_{jk}} < 0$*; a decreasing function of* A_{lk} *if and only if* $\frac{\partial^2 Q_k}{\partial A_{jk}\partial A_{lk}} > 0$.

We deal first with the comparative statics of the advertising levels in Q_k. The sign of the cross-partial $\frac{\partial^2 Q_k}{\partial A_{kk}\partial A_{jk}}$ is already accomplished from the estimation of the Self-Promotion equation. That is, from Proposition 1, if self-promotion increases with incoming comparative advertising, then comparative advertising decreases with target self-promotion.

The cross-partial $\frac{\partial^2 Q_k}{\partial A_{kl}\partial A_{jk}}$ has the same sign as that of the cross partial $\frac{\partial^2 Q_k}{\partial A_{kk}\partial A_{jk}}$ because we assume that λ is constant and $\frac{\partial Q_k}{\partial A_{kl}} = \lambda\frac{\partial Q_k}{\partial A_{kk}}$, where both Q_k derivatives are positive by assumption (hence $\lambda > 0$, which implies the two cross-partials have the same sign). Hence estimating the self-promotion equation will also indicate that comparative advertising decreases with target out-going comparative ads if and only if self-promotion increases with incoming comparative advertising.

The intuition for the two comparative static results above is that a brand is attacked less when it advertises more if the increase in outgoing ads decreases the negative impact of attacks (i.e., $\frac{\partial^2 Q_k}{\partial A_{kk}\partial A_{jk}} > 0$). Notice too that for both of them it is not the choice of a specific functional form for Q that restricts cross comparative static properties. Rather, these are implied by the model. Attacks against k by j increase with attacks on k by others if $\frac{\partial^2 Q_k}{\partial A_{jk}\partial A_{lk}} < 0$. This cross-partial sign implies that more hurt is inflicted with a marginal attack by j because the others' attacks have rendered k's quality more susceptible.[20]

From Proposition 3, there are more attacks for given diversion ratio d_{jk} the higher the attacker market share. This is roughly borne out in the raw data insofar as Advil and Aleve are the largest attackers of Tylenol. Likewise, for a given attacker share, attacks are larger for a bigger diversion ratio.[21] We shall proceed for the estimation by estimating d_{jk} for each pair. Thus we are implicitly constraining the diversion ratios to be constant over time.

[20] In our empirical specification below the sign of $\frac{\partial^2 Q_k}{\partial A_{jk}\partial A_{lk}}$ is negative as long as self-promotion has a positive effect.

[21] Alternatively, we can write $s_j d_{jk} = s_k D_{jk}$ where $D_{jk} = \frac{s_j}{s_k} d_{jk}$ is the ratio of cross elasticity of demand to own elasticity. In this case, for a given value of D_{jk}, a bigger target is attacked more. This roughly concurs with the data that the largest firm, Tylenol, is attacked most.

We next show how the measure of the damage of an extra dollar of comparative advertising from Brand j against target k is a weighted average of push and pull effects, both of which can be written in terms of diversion ratios.

The full effect (of a marginal dollar of comparative advertising from j) on $k's$ profits, $\pi_k^* = M(p_k^* - c_k) s_k^* - A_{kk}^* - \sum_{l \neq k} A_{kl}^*$ (where the stars denote equilibrium values), holding constant all other brands' actions (except the best reply of k) is determined by the envelope theorem as

$$\frac{d\pi_k^*}{dA_{jk}} = M(p_k^* - c_k)\left(\frac{ds_k}{d\delta_k}\frac{\partial Q_k}{\partial A_{jk}} + \frac{ds_k}{d\delta_j}\frac{\partial Q_j}{\partial A_{jk}}\right).$$

Substituting in k's pricing condition (see (7)) implies

$$\begin{aligned}\frac{d\pi_k^*}{dA_{jk}} &= Ms_k\left(\frac{\partial Q_k}{\partial A_{jk}} - d_{kj}\frac{\partial Q_j}{\partial A_{jk}}\right)\\ &= -\frac{s_k}{s_j}\left(\frac{1-\lambda}{d_{jk}} + \lambda d_{kj}\right) \qquad (13)\end{aligned}$$

where we have substituted in the equality versions of conditions (12) and (9) at the second step.[22] The interpretation of (13) in terms of neutralizing prices was given in 2.1 (see (3)). Basically, the first term here is the amount of self-promotion required to restore Q_k and the second term is the hurt inflicted by the rival's increased self-promotion component of the comparative advertising (hence the λ weight corresponding to the push effect). Note that the effect on profit here and below is measured in dollars: equivalently (by the target's optimality condition that the \$1 marginal cost of an extra dollar's advertising equals its marginal benefit), it is the amount of self-promotion advertising that would have to be spent to offset the hurt. The empirical analysis will provide parameter estimates so the marginal hurt can be estimated.

Proposition 4 ***(Damage Measure)*** *Assume that the target, k, engages in a strictly positive level of self-promotion, and assume that outgoing comparative ads are perfectly substitutable with self-promotion at rate λ. Then the profit lost by target k after an additional dollar of comparative advertising attack by Brand j is the sum of a pull damage, $\frac{1-\lambda}{d_{jk}}\frac{s_k}{s_j}$, and*

[22] Equivalently, we can write this as $\frac{d\pi_k^*}{dA_{jk}} = (1-\lambda) Pull_{jk} + \lambda Push_{jk} = \frac{(1-\lambda)}{D_{jk}} + \lambda D_{kj}$.

a push damage, $\lambda d_{kj}\frac{s_k}{s_j}$ *where* $\lambda \in (0,1)$ *is the strength of a comparative ad's self-promotion component.*

In like manner we can determine the spill-over benefit (related to free riding in comparative advertising) to l of an attack by j on k as

$$\frac{d\pi_l^*}{dA_{jk}} = \frac{s_l}{s_j}\left(d_{lk}\frac{(1-\lambda)}{d_{jk}} - \lambda d_{lj}\right). \tag{14}$$

The first term here is the direct benefit to l from the hurt inflicted on k (pull); the second is (as above) the damage incurred by l from j improving its quality through the comparative advertising channel (push). This expression can readily be interpreted in terms of neutralizing price changes.

3 Description of Industry and Data

The OTC analgesics market is worth approximately $2 billion in retail sales per year (including generics) and covers pain-relief medications with four major active chemical ingredients. These are Aspirin (ASP), Acetaminophen (ACT), Ibuprofen (IB), and Naproxen Sodium (NS). The nationally advertised brands are such familiar brand names as Tylenol (ACT), Advil and Motrin (IB), Aleve (NS), Bayer (ASP or combination), and Excedrin (ACT or combination). Table 1 summarizes market shares, ownership, prices and advertising levels in this industry.

3.1 Sales Data

The sales data, collected by AC Nielsen, consist of prices and dollar total revenues of all OTC oral analgesics products sold in the U.S. national market from March of 2001 through December of 2005 (58 monthly observations).

We construct a measure of a *serving* of pain medication, or a *pain episode*, so that we can aggregate across different package sizes and across different medication strengths.[23] We define the *market size, M,* for OTC analgesic products as the US population 18 years or

[23] A detailed description of how we construct the dataset is provided in Appendix A.

older minus the number of people who buy pain medication at Wal-Mart, a store that does not provide information on the sales of products. We then express each product's sales as the number of people whose pain could be relieved by that product for a period of three days, which is the average number of pain days per month in the population.[24]. To this end we assigned to each analgesic product in the sales dataset the strength of its active ingredient in milligrams and derived the maximum number of pills that a consumer can take for OTC analgesics consumption over 72 hours as defined by the FDA and required to be listed on the labels (e.g. 9 in the case of Aleve, and from 18 to 36 for Tylenol, depending on the ACT formulation). This we refer to as an episode of pain.

TABLE 1. Market Shares and Advertising Levels of OTC Analgesics Brands

Brand	Active Ing.	Price / serving	Inside Market Share	Max Pills	TA/ Revenue	CA/ Revenue	CA/ TA	Owner-ship
Tylenol	ACT	$2.15	30.51%	7.2	17.4%	3.3%	19.3%	McNeil
Advil	IB	$1.60	24.21%	5.9	20.0%	13.3%	66.4%	Wyeth
Aleve	NS	$0.83	22.40%	3.0	26.0%	20.0%	75.7%	Bayer
Excedrin	ACT	$2.40	8.28%	9.2	26.4%	3.4%	13.2%	Novartis
Bayer	ASP	$1.85	6.98%	10.1	28.8%	6.4%	22.4%	Bayer
Motrin	IB	$1.71	7.68%	5.9	20.4%	8.1%	39.6%	McNeil
Generic	ACT	$1.17						
Generic	IB	$0.66						
Generic	ASP	$0.82						
Generic	NS	$0.57						

Then, we compute each brand's market share as the fraction of total number of episodes of pain sold by the brand over market size. The average price of a pain episode is computed as the ratio of the total sales revenue of a brand in a month to the total number of episodes of pain sold in that month. We do the same calculation for the generic products, which differ from each other only by their active ingredient. The resulting output is the time series of average prices of episodes of pain relief for each of the four active ingredients for the generic

[24]This information is from the Morbidity and Mortality Weekly Report, Centers for Disease Control and Prevention, Feb 27, 1998/47(07); 134-140.

products. We maintain that the generic products are provided by a competitive fringe and that the generic prices are set equal to their marginal cost.

3.2 Advertising Data

Our advertising dataset is from TNS-Media Intelligence. The data include video files of all TV advertisements for 2001-2005 for each brand advertised in the OTC analgesics category and monthly advertising expenditures on each ad. The unit of observation in the raw dataset is a single ad. There are $4,506$ unique ads (346 of which are missing videos).

We watched all the ads and coded their content. We recorded whether the product was explicitly compared to any other products. If a commercial was comparative, we recorded which brand (or class of drugs) it was compared to (e.g., to Advil or Aleve). If an ad had multiple targets, the ad was assigned equally among them.

If an ad had no comparative claims, it was classified as a self-promotion ad. In the data we observe situations when brands made indirect attacks on their competitors. An indirect attack occurs when one brand makes a claim against "all other regular" brands. We code such indirect attacks as self-promotion. We discuss other coding scheme alternatives in Appendix E.

Table 2 presents the complete picture of cross targeting and advertising expenditures on each of the rival brands targeted. This table shows that *every* nationally advertised brand used comparative advertising during the sample period. However, only four (of the six) brands were targeted: Tylenol, Advil, Aleve, and Excedrin.[25] These data provide some informal support that larger brands both used more comparative advertising and were targeted more. Entries on the diagonal are self promotion expenditures.

[25] Motrin does not attack Tylenol because the parent company is the same; likewise, Bayer does not attack Aleve for the same reason.

TABLE 2. Advertising and Comparative Advertising Target Pairs

Adver-tiser ⇓	TARGET:							
	Advil	Aleve	Bayer	Excedrin	Motrin	Tylenol	Total CA	Total
Advil	92.1 [50]	17.8 [27]	-	4.3 [20]	-	160.2 [58]	182.2	274.3
Aleve	-	42.5 [45]	0.0 [3]	0.5 [7]	-	131.7 [58]	132.1	174.7
Bayer	13.8 [25]	-	104.9 [58]	-	-	15.7 [37]	29.5	131.8
Excedrin	-	1.9 [7]	2.2 [7]	158.4 [47]	-	19.9 [15]	24.1	182.5
Motrin	18.9 [27]	18.8 [27]	-	-	57.3 [54]	-	37.6	94.9
Tylenol	9.6 [16]	31.7 [31]	36.6 [27]	-	-	359.0 [58]	77.8	404.0
Total	42.6 [68]	70.2 [92]	38.7 [34]	4.7 [27]	-	327.5	483.4	

Notes: Row j indicates the advertiser brand and Column k indicates $j's$ comparative advertising target k. The left part of cell jk is comparative ad expenditure in \$m.; the right part denotes how many time periods [out of 58] the attack pair jk happened. The diagonal entries are expenditures on self-promotional advertising. The totals on the right are presented separately for comparative only and overall advertising levels.

3.3 News Shocks

The OTC analgesics market endured several major medical news shocks over the analyzed time period. Following the approach presented by Chintagunta, Jiang, and Jin (2009) we utilized Lexis-Nexis to search over all articles published between 2001 and 2005 on relevant topics. We recorded the article name, source, and date to construct a dataset of news shocks. Multiple articles reporting the same event were assigned to a unique shock ID. Additionally, we checked whether a news shock was associated with any new medical findings that were published in major scientific journals. Finally, we focused only on the events that were reported in a major national newspaper (USA Today, Washington Post, Wall Street Journal, New York Times). After this data cleaning, our news shock dataset includes 8 major news shocks between March of 2001 and December of 2005. Table 3 reports the news shocks by their title, date, and the original scientific publication.

After some experimentation, we determined that the effects of the news shocks fade out after three months. Still we consider two possibilities for the duration of each news shock in consumer memory. We construct a dummy variable for a short-term shock variant that takes value 1 at time t when the shock occurred, and for the next three months (i.e., t through $t+3$). Then, to check the robustness of our analysis, we construct another variable, which captures the possibility that consumers have a long-term memory. The dummy variable for the long-term shock takes value 1 at time t till the end of the sample period.

TABLE 3. Medical News Shocks

No	News Shock Description	Date	Source
1	Risk of Cardiovascular Events Associated With Selective COX-2 Inhibitors	8/21/2001	Journal of the American Medical Assoc (JAMA); 2001,286:954-959
2	Ibuprofen Interferes with Aspirin	12/20/2001	New England Journal of Medicine, 2001, 345:1809-1817
3	FDA Panel Calls for Stronger Warnings on Aspirin and Related Painkillers	9/21/2002	FDA Public Health Advisory
4	Aspirin Could Reduce Breast Cancer Risk/ NSAIDs Protect Against Alzheimer's	4/8/2003/ 4/2/2003	JAMA 2004; 291:2433-2440 American Academy Of Neurology
5	Anti-Inflammatory Pain Relievers Inhibit Cardioprotective Benefits of Aspirin	9/9/2003	Circulation, 9/9/2003
6	Vioxx Withdrawn From the Market	9/30/2004	
7	Long Term Naproxen (Aleve) Use may Increased Cardiovascular Risk	12/23/2004	FDA Public Health Advisory
8	Bextra Withdrawn	4/7/2005	

4 The Econometric Model

4.1 A Quality Function

After *extensive* experimentation, we implement the following functional form for perceived quality:

$$Q_j(.) = \alpha \ln\left(A_{jj} + \lambda \sum\nolimits_{k\neq j} A_{jk} - \beta \sum\nolimits_{k\neq j} A_{kj} + \bar{A}_{jj}\right) - \varphi \sum\nolimits_{k\neq j} \ln\left(\bar{A}_{kj} + A_{kj}\right) + \bar{Q}_j. \quad (15)$$

Variables other than advertising levels pertaining to j's perceived quality enter through $\bar{A}_{jj}$, $\bar{A}_{kj}$, and $\bar{Q}_j$. They include observed factors such as j's product characteristics or news shocks as well as unobserved factors that determine the realization of random shocks. They enter the equations to be estimated only if they interact with advertising levels, that is only if they enter $\bar{A}_{jj}$ or $\bar{A}_{jk}$ for some k. Here, we interpret $\bar{Q}_j$ as the product differentiation from product characteristics and the remaining part of $Q_j(.)$ as the differentiation induced by advertising. This distinction is important when we discuss the identification strategy and we look into the nature of the structural unobservables because anything that enters into $\bar{Q}_j$ can be used as an instrumental variable in the advertising first order conditions.

The push effect is incorporated through the weighted sum of self-promotion and outgoing comparative ads $(A_{jj} + \lambda \sum_{k \neq j} A_{jk})$, where λ is the marginal rate of substitution between outgoing comparative and self-promotion ads, which is assumed to be constant. In order for self-promotion to favorably impact perceived quality, α should be positive. Recall from Proposition 2 that we should expect $\lambda < 1$. Whether there is a push effect for Brand j associated with its comparative advertising activity against rivals depends on whether λ is strictly positive or not.[26]

The pull effect from incoming comparative ads (A_{kj}) impacts the quality function in two ways. First, it enters the "net persuasion" term inside the first logarithm. The sign of β gives the sign of the cross effect between incoming attacks and outgoing ads. Second, incoming ads enter in a separable way with associated parameter ϕ. This additional term allows for disassociating the intensity of the overall pull effect from the intensity of the cross effect between incoming attacks and outgoing ads as measured by β.[27] Through this separable term, we also allow the A_{kj} to be imperfect substitutes with one another. Since attacks on target k constitute a public good for all the brands other than k, if expenditures attacking k were perfect substitutes, then there would be only one attacker in equilibrium in each period. The data show that this is not the case.

The comparative statics properties in Propositions 1 and 3 that link self-promotion expenditures and comparative advertising expenditures by Brand j to other advertising expenditures, are determined by the signs of parameters β and λ (provided that α is found to be positive). Note that this specification of Q imposes that the sign of the cross effect between attacks by k on j and attacks by some other Brand l on j has the sign of $-\alpha\beta^2$ so it is negative. Then from Proposition 3, more attacks by other brands on j should induce more comparative advertising by k against j.

[26] $\lambda < 0$ would mean that j's brand image is hurt by the use of comparative advertising, in line with conventional wisdom among marketers in continental Europe.

[27] With ϕ large enough, it also ensures that $\frac{\partial^2 Q_k}{\partial A_{jk}^2} > 0$ locally.

4.2 The Equations To Be Estimated

The first order condition for self-promotion ads, corresponding to equation (9) above may be written as

$$\left\{ \begin{array}{c} A^*_{jjt} = \alpha M s_{jt} - \lambda \sum_{k \neq j} A_{jkt} + \beta \sum_{k \neq j} A_{kjt} - \bar{A}_{jjt}, \\ \bar{A}_{jjt} \sim N\left(\mu_{jjt}, \sigma^2_{SP}\right), \ A_{jjt} = \max\left(A^*_{jjt}, 0\right), \qquad j = 1, ..., n. \end{array} \right. \tag{16}$$

A very attractive feature of our modeling strategy is that $\bar{A}_{jjt}$ incorporates the structural unobservable component of perceived quality that interacts with A_{jjt}. Subscripts j and t on the mean term reflect some possible brand fixed effect as well as the possible impact of some observable shocks such as news shocks. The equation above is a Tobit regression that is linear in the parameters.

The first order condition for comparative ads follows from first writing (12) for the specification of quality (15) above. This gives

$$-M s_{jt} d_{jkt} \left(\frac{-\alpha\beta}{A_{kkt} + \lambda \sum_{l \neq k} A_{klt} - \beta \sum_{l \neq k} A_{lkt} + \bar{A}_{kkt}} - \frac{\phi}{\left(\bar{A}_{jkt} + A_{jkt}\right)} \right) \leq 1 - \lambda,$$

with equality if $A_{jkt} > 0$. Second, using the target k's self-promotion equation (9) when $A_{kkt} > 0$ (namely $A_{kkt} + \lambda \sum_{l \neq k} A_{klt} - \beta \sum_{l \neq k} A_{lkt} + \bar{A}_{kkt} = \alpha M s_{kt}$), we obtain the following econometric specification:

$$\left\{ \begin{array}{c} A^*_{jkt} = \varphi M s_{jt} \frac{s_{kt} d_{jk}}{(1-\lambda) s_{kt} - \beta s_{jt} d_{jk}} - \bar{A}_{jkt}, \\ \bar{A}_{jkt} \sim N\left(\mu_{jkt}, \sigma^2_{CA}\right), \ A_{jkt} = \max\left(A^*_{jkt}, 0\right), \qquad j = 1, ..., n. \end{array} \right. \tag{17}$$

as long as $A_{kkt} > 0$. Here again, the structural unobservable is in $\bar{A}_{jkt}$. In our estimation strategy, we assume that diversion ratios are constant over time, and given by $d_{jkt} = d_{jk}$. Equation (17) is a Tobit regression that is nonlinear in the parameters.

4.3 Identification Strategy

In both the Tobit specifications above, the unobservables are correlated with the explanatory advertising and share variables because the brands take them into consideration when making their advertising and pricing decisions. The first, most straightforward, step to address the endogeneity of these variables is to exploit the panel structure of our data to account for time-constant differences across brands. Essentially, for the self-promotion equation, we set $\bar{A}_{jjt} = \bar{A}_{jj} + \Delta\bar{A}_{jjt}$, where $\bar{A}_{jj}$ is a brand fixed effect, while $\Delta\bar{A}_{jjt}$ are time-specific idiosyncratic shocks. We do not follow the same approach for the comparative ad equation since this would require estimating many pair specific dummy variables $\bar{A}_{jk}$, which cannot be achieved with much precision, given our limited number of observations. Hence the endogeneity of shares in the comparative ad equation (17) is only dealt with using instrumental variables, as described below. The dummy variables in the self promotion equation (16) control for a brand's advertising base allure advantage, which picks up any persistent component of such an advantage. The remaining source of endogeneity in our regressions then comes from any potential correlation of temporary shocks, here picked up by $\Delta\bar{A}_{jjt}$ and $\bar{A}_{jkt}$, with advertising expenditures and shares.

The second step is to explore whether the data we have collected on news shocks can help explain some of the correlation of $\Delta\bar{A}_{jjt}$ and $\bar{A}_{jkt}$ with advertising expenditures and shares. That is, brands observe the shocks, which affect their shares, and which affect their advertising and pricing decisions. Thus, if we include the news shocks as being part of $\Delta\bar{A}_{jjt}$, then we deal with some of the correlation between the the temporary shocks on perceived quality and the advertising expenditures and shares. News shocks are clearly exogenous because they require new medical discoveries, which "surprise" both consumers and brands, and alter the perception of the health properties of the products [28]

Finally and alternatively, we use an instrumental variable approach. Rather than assuming that news shocks contribute to the advertising base allure terms, $\bar{A}_{jjt}$ and $\bar{A}_{kj6}$, we consider that, although they enter the brand's perceived quality, their impact is separable from that of advertising expenditures. In other words they enter the $\bar{Q}_j$ term. They are therefore proper candidates for instrumental variables. In addition, generic prices and various functions of them can be used as instrumental variables as long as the marginal cost

[28] This works better for consumers than firms, since firms are more likely to know beforehand that findings are in the offing.

of production of a generic product does not depend on the quantity produced. Pricing at constant marginal cost for mature generic pharmaceutical products seems to be a reasonable assumption (Grabowski and Vernon, 1992).[29]

To implement the estimation in our non-linear models, we use control functions (Heckman and Robb 1985, 1986). Our methodology follows Blundell and Smith (1986) and Rivers and Vuong (1988). Consider the self-promotion equation. Using control functions consists of rewriting the unobservable $\bar{A}_{jjt}$ as a linear function of v, the unobservable of the first stage reduced form regression, and of ϵ, a white noise term. For example, say that only shares are suspected to be endogenous. Then, v is the unobservable of a reduced form regression of the shares on all the exogenous variables, including the instrumental variables. We can then use the residuals from that reduced form regression, $\hat{v}$, and plug them in the regression (16) as follows: $A^*_{jjt} = \alpha M s_{jt} - \lambda \sum_{k \neq j} A_{jkt} + \beta \sum_{k \neq j} A_{kjt} + \theta \hat{v} + \epsilon$, where ϵ is now the unobservable that generates the Tobit model. The nice feature of this approach is that we can test the exogeneity of the shares by testing whether $\theta = 0$. With three endogenous variables, we have three control functions, but the problem is conceptually identical. The only econometric difficulty in the application of this methodology is created by the fact that two of the explanatory variables in the self-promotion equation, $\sum_{k \neq j} A_{jkt}$ and $\sum_{k \neq j} A_{kjt}$, are left-censored, and thus the estimated residuals that are required to construct the control functions would be biased whenever the variables are zero. To address this econometric problem, we derive the generalized residuals, as proposed by Gourieroux et al. (1987). We describe the econometric approach in detail in Appendix B. Because of the nonlinear nature of all these problems we estimate the system of the two equations (16) and (17) separately rather than with the generalized method of moments (as in Sovinsky Goeree, 2008).

[29] Notice that we can allow generic brands to charge prices that are higher than marginal costs as long as this is explained by local conditions that national brands do not take into account when they set their prices.

5 Empirical Analysis

5.1 Self-Promotion

Each column in Table 4 presents the results for the parameters α, β, and λ for various specifications of Equation (16). Across all specifications, α, β, and λ are positive and statistically significant. The results in Proposition 1 that larger shares are associated with more self-promotion advertising is reflected in the positive sign of α. Outgoing attacks have a push-up self-promotion impact measured by $\lambda > 0$. However, because $\lambda < 1$, comparative advertising does not drive out self-promotion, as per Proposition 2. The direct own-quality benefit per dollar is smaller than the benefit from self-promotion. Finally, $\beta > 0$ means that self-promotion increases with incoming advertising. This reflects a positive cross effect, which, by Proposition 3, implies that comparative advertising decreases with target self-promotion. None of these empirical results reject the theoretical model. Next, we investigate the economic significance of the results in Table 4.

Column 1 of Table 4 shows the results from a straightforward Tobit regression, where self-promotion ad expenditures are regressed on sales, outgoing attacks and incoming attacks. We estimate $\alpha = 0.123$, which means that a brand would spend 12 cents a month more in self-promotion per additional customer. The marginal rate of substitution between outgoing attacks and self-promotion ads is $\lambda = 0.768$, meaning that the self-promotion value of \$1 of outgoing comparative ads is the same as .77 cents of pure self-promotion. The value $\beta = 0.429$ provides a lower bound to how much additional self-promotion expenditures will offset by one more dollar of attacks on the brand.[30]

[30] It is not the full extent of the negative impact of attacks on the brand's perceived quality. This requires knowing ϕ, which is identified from estimating the comparative advertising equations (17).

TABLE 4. Self-Promotion Equation and Net Persuasion

Version	Baseline	Brand Dummy	News Shocks Short term	News Shocks Long Term	IV (Generics)	IV (Generics & Short Term Shocks	IV (Generics & Long Term Shocks)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Alpha	0.123	0.432	0.513	0.515	0.551	0.552	0.570
	(0.027)	(0.076)	(0.078)	(0.074)	(0.045)	(0.046)	(0.046)
Lambda	0.768	0.660	0.643	0.631	0.616	0.616	0.629
	(0.072)	(0.074)	(0.073)	(0.071)	(0.087)	(0.062)	(0.075)
Beta	0.429	0.297	0.251	0.258	0.447	0.446	0.430
	(0.063)	(0.068)	(0.070)	(0.066)	(0.037)	(0.038)	(0.032)
Control: Out. Ads					−0.018	−0.025	−0.014
					(0.071)	(0.053)	(0.059)
Control: Inc. Ads					−0.164	−0.165	−0.151
					(0.035)	(0.032)	(0.031)
Control: Shares					−0.309	−0.314	−0.332
					(0.043)	(0.039)	(0.043)
Brand dummy		−0.353	−0.440	−0.439	−0.525	−0.527	−0.541
		(0.081)	(0.085)	(0.079)	(0.054)	(0.051)	(0.054)
/sigma	0.195	0.189	0.181	0.175	0.185	0.185	0.185
	(0.008)	(0.008)	(0.007)	(0.007)	(0.004)	(0.003)	(0.003)
Log likelihood	47.955	57.082	75.089	83.085	63.680	63.807	64.039
F-tests Shocks In			$F(8,336)$ $= 3.70$	$F(8,336)$ $= 6.94$			
F-test: Outg. Ads					$F(6,341)$ $= 6.27$	$F(14,333)$ $= 3.92$	$F(14,333)$ $= 4.08$
F-test: Inc. Ads					$F(6,341)$ $= 22.58$	$F(14,333)$ $= 11.09$	$F(14,333)$ $= 11.05$
F-test: Shares					$F(6,340)$ $= 40.09$	$F(14,332)$ $= 18.46$	$F(14,332)$ $= 17.68$
Obs	348	348	348	348	348	348	348

Note: Coefficient estimates of the constant (included in all the specifications) and of the news shocks are available from the authors. Bootstrapped standard errors are computed in columns 5-7.

In particular, for each dollar spent attacking target j, Brand j would react by spending 42.9 cents in self-promotion advertising, conditional on market shares remaining constant. We now investigate how the results change when we address the endogeneity of the explanatory variables.

In Column 2 we run the Tobit regression including a dummy variable that is equal to 1 if the observation is for one of the top brands (Advil, Aleve, Tylenol), and zero otherwise.[31] Thus, we have $\mu_{jjt} = \mu^{TB}$ for a top brand and $\mu_{jjt} = \mu^{OB}$ otherwise. Using this specification, the coefficient estimate of λ drops from 0.768 to 0.660 and the coefficient estimate of β drops from 0.429 to 0.297. In contrast, the coefficient estimate of α increases from 0.123 to 0.432. The contrasting direction of the bias between the advertising explanatory variables and the shares reflects the relationship between the unobserved component of perceived quality and the explanatory variables. In particular, it is reasonable to think that products with a higher unobserved component of perceived quality will have a larger market share, *ceteris paribus*. Then, the downwards bias on α when the fixed effect is omitted means that brands with a stronger unobserved component of perceived quality do less self-promotion advertising, *ceteris paribus*. Similarly, the upwards bias on the estimates for λ and β means that brands with a higher perceived quality are attacked less and attack rivals less than brands with a lower perceived quality. These predictions are consistent with our specification of perceived quality, which assumes a negative cross partial between $\bar{A}_{jj}$ and outgoing ads and a positive cross partial between $\bar{A}_{jj}$ and incoming attacks. This discussion is mirrored by the result on the coefficient estimate of the Top Brand dummy. The Top Brand fixed effect, $\bar{A}_{jj}^{TB}$ is equal to -0.353. It has a negative sign, which means that the larger brands, Aleve, Tylenol, and Advil have inherently higher advertising base allure than the other brands.

In Column 3 we add the variables that measure the occurrence of a news shock using the short term memory definition. With the exception of the estimate of α that increases from 0.432 to 0.513, the results in Column 3 are remarkably similar to those in Column 2, suggesting that adding the short-term memory news shocks as control variables does not

[31] More discussion on the use of a top brand dummy variable is available in Appendix C.

change the way the model fits the data. This is consistent with the low values of the F statistic associated with the test that all the coefficients of the news shocks are equal to zero. The results in Column 4 show that adding the long-term memory news shocks as control variables does not change the way the model fits the data either.

To investigate whether the we should still be concerned about any remaining endogeneity of s_j, $\sum_{k\neq j} A_{jkt}$, and $\sum_{k\neq j} A_{kjt}$, we run three instrumental variable regressions. In Column 5 the instrumental variables are the generic prices of the product that shares the same active ingredient and the sum of the generic prices over all the competing active ingredients. In Column 6 we add the short-term memory news shocks, which are then excluded from the second stage regression. In Column 7 we instead add long-term memory news shocks. We find that the instrumental variables do a fair job at explaining the first stage variation in outgoing comparative advertising and in incoming attacks. [Régis to Fede: *what about shares?*] The first-stage F tests reject the null hypotheses that generic prices do not explain any of the first stage variation, and the F statistics are quite large, except for the one associated with the first stage regression for $\sum_{k\neq j} A_{jkt}$.

Columns 5-7 show that α is approximately equal to 0.55, which means that for each additional consumer brand j spends 55 cents per month in self-promotion advertising per additional consumer. We also find λ approximately equal to 0.6 which means that each dollar spent in outgoing comparative advertising is worth approximately 60 cents in raising own perceived quality and the remaining 40 cents are gained from pulling down a competitor. β equal to 0.44 means that the brands react to incoming attacks by increasing self promotion in a strong fashion. The results in Column 5 shows that the variation in generic prices controls for the endogeneity of the variable $\sum_{k\neq j} A_{kjt}$ and of the variable s_j. Notice that the estimate of α is the same in Columns 3-5, suggesting that the instrumental variable approach controls for the endogeneity of s_j to the same extent as adding news shocks does. The control function for $\sum_{k\neq j} A_{jkt}$ is not statistically significant, suggesting (from Blundell and Smith, 1986) that the endogeneity of $\sum_{k\neq j} A_{jkt}$ is not empirically significant. Columns 6 and 7 show the coefficient estimates do not change when we add short or long term memory shocks to the generic prices, but in some cases the estimates become slightly more precise.

5.2 Comparative Advertising and Diversion Ratios

Table 5 presents the estimation results for the parameter φ and for the diversion ratios d_{jk}. The diversion ratios are treated as parameters to be estimated from the data and are restricted to be between 0 and 1. The attractive feature of treating the diversion ratios as parameters is that we do not impose any functional form assumptions on the demand (although we are implicitly using a linear approximation). The disadvantage of this approach is that the diversion ratios might change over time, and here we only estimate their mean value.[32] We can use a result in Berry [1994] to argue that this limitation is largely offset by the fact that market shares for all brands were remarkably constant over time. Berry (1994) shows that a unique vector of mean utilities (hence, of diversion ratios) exists that can be written as a function of the market shares of all brands. But then, if the market shares are largely unchanged over the period of study, then the diversion ratios were also mostly unchanged over the same period.[33] Because we know that the diversion ratios are functions of the market shares, then we conclude that our approach is appropriate in this industry.[34]

Recall that we use a two-step approach. We first estimate (16). Then, we plug the estimates of β and λ into (17) to estimate φ and the diversion ratios. Thus, each Column in Table 5 corresponds to one specification of (17) in Table 4. In particular: Columns 1 and 2 use the estimates of β and λ that we obtain from Column 6 of Table 4; Column 3 uses the estimates of β and λ from Column 7 of Table 4; finally, Column 4 uses the estimates of β and λ from Column 5 of Table 4. All specifications use the same number of observations (601). Twelve diversion ratios are estimated. There are three reasons for a diversion ratio to be missing. First, there were too few or no attack months so the variable was omitted. For example, Aleve attacked Advil only three times (see Table 2). Second, there are no direct attacks on "siblings." For example, Bayer does not attack Aleve (both are owned by

[32] One could allow the mean diversion ratio to change by year, but we do not go that route here because market shares do not change much over time.

[33] The exception is Aleve, which suffered a loss of market share in 2005, but recovered in a few months.

[34] Aleve suffered a large loss of market share in 2005, which it was able to recover in a few months.

the same parent company). Third, we do not estimate attacks for which the target did no self-promotion, since the first order condition for comparative advertising would not hold with equality (see (11)).

The coefficient estimates of the control functions for the shares of the attacker (s_{jt}) and of the attacked (s_{kt}) are statistically insignificant and of a small magnitude in Columns 2-4, implying that the endogeneity of market shares is not empirically significant. This is not surprising in light of the fact that market shares are quite stable over time while advertising expenditures vary quite a bit over time (See Appendix A for more on this). Column 1, which presents the main results for this section, does not include control functions. Henceforth we discuss the economic implications of the coefficient estimates in Column 1.

TABLE 5. Comparative Advertising Equation and Diversion Ratios

	No IV (Using β and λ from Column 2 of Table 4) (1)	IV: Generics and Short Term Shocks (Using β and λ from from Column 6 of Table 4) (2)	IV: Generics and Long Term Shocks (Using β and λ from from Column 7 of Table 4) (3)	IV: Generics Only (Using β and λ from from Column 5 of Table 4) (4)
ALEVE ON:				
Tylenol, d_{AlT}	0.153 (0.028)	0.119 (0.027)	0.138 (0.030)	0.201 (0.031)
ADVIL ON:				
Tylenol, d_{AdT}	0.153 (0.028)	0.120 (0.026)	0.139 (0.030)	0.199 (0.032)
Aleve, d_{AdAl}	0.045 (0.019)	0.026 (0.017)	0.037 (0.018)	0.045 (0.022)
Excedrin, d_{AdE}	0.014 (0.017)	0.001 (0.013)	0.011 (0.015)	0.000 (0.019)
TYLENOL ON:				
Advil, d_{TAd}	0.026 (0.015)	0.020 (0.009)	0.022 (0.013)	0.024 (0.021)
Aleve, d_{TAl}	0.050 (0.015)	0.030 (0.030)	0.041 (0.015)	0.056 (0.021)
Bayer, d_{TB}	0.043 (0.011)	0.029 (0.028)	0.038 (0.012)	0.049 (0.014)
BAYER ON:				
Advil, d_{BAd}	0.152 (0.067)	0.081 (0.055)	0.121 (0.060)	0.165 (0.078)
Tylenol, d_{BT}	0.203 (0.063)	0.136 (0.054)	0.184 (0.061)	0.251 (0.077)
MOTRIN ON:				
Advil, d_{MAd}	0.167 (0.060)	0.100 (0.054)	0.140 (0.052)	0.191 (0.084)
Aleve, d_{MAl}	0.162 (0.060)	0.090 (0.062)	0.128 (0.055)	0.167 (0.081)
EXCEDRIN ON:				
Tylenol, d_{ET}	0.102 (0.068)	0.058 (0.050)	0.092 (0.072)	0.104 (0.089)
Control Function for s_j		0.038 (0.083)	0.013 (0.077)	-0.000 (0.098)
Control Function for s_k		-0.021 (0.072)	-0.045 (0.062)	-0.058 (0.058)
ϕ	0.595 (0.135)	0.731 (0.144)	0.646 (0.142)	0.411 (0.148)
Constant Term	-0.159 (0.039)	-0.125 (0.041)	-0.150 (0.039)	-0.131 (0.065)
Variance Unobservable	0.140 (0.008)	0.140 (0.008)	0.138 (0.008)	0.140 (0.008)
Log-Likelihood Function	11.323	11.677	11.626	11.290
Number of Observations	601	601	601	601

Note: Bootstrapped standard errors are shown.

Consider the entry d_{AlT}, which is the diversion ratio from Aleve to Tylenol. In the second column we estimate d_{AlT} equal to 0.153, meaning that if Aleve sheds 100 consumers through a price rise (say), then 15.3 of them go to Tylenol. Now consider the entry d_{AdT}, which is the diversion ratio from Advil to Tylenol. We estimate d_{AdT} to be virtually the same number. This is fairly large, suggesting that Tylenol is a fairly large gainer from both Aleve and Advil. The two brands attack Tylenol in very similar fashion. Looking back to Table 2, we observe that Advil and Aleve both attack Tylenol every month. More striking is the fact that their overall expenditures are very close, with Advil spending a total of \$160 million and Aleve spending \$132 million attacking Tylenol.

The figure for d_{ET} is surprisingly low (at 10.2%) since it shares acetaminophen as active ingredient in many of its variants, but it might indicate that Excedrin serves specialty niches of consumers (Excedrin markets itself as a migraine medicine) interested in its combinations with caffeine and with aspirin (which Tylenol does not have). Motrin loses approximately 16 percent to Advil and Aleve, despite having the same active ingredient as Advil.

Next, Bayer loses even more (20.3%) to Tylenol, which suggests that consumers perceive Tylenol as the closest substitute to Bayer. This is consistent with the fact that Tylenol is the second best choice for a consumer who cares about the key characteristic for which Bayer is the top choice, safety. Yet, Tylenol loses more to Aleve than to Bayer, suggesting that substitution patterns are not symmetric.[35] Indeed, a price rise loses Tylenol just 11.9% to its 3 main attackers, but it picks up at least that amount from each of them.

The diversion ratios for each of the six brands sum to less than 1, as the theory hopes for (we imposed them to be all below one, but we did not restrict the sum). For example, we see that if a consumer leaves Tylenol, then that consumer will go with probability 2.6% to Advil, 5.0% to Aleve, and 4.3% to Bayer. With the remaining 88.1% probability a consumer will switch to the outside good, or a generic product, or one of the other two brands for which we do not have the data required to estimate the diversion ratios.

[35] It is also possible, but we cannot check it given the data we have, that as far as Bayer is concerned, consumers leaving Tylenol switch to the generic version of aspirin. Because generics do not use comparative advertising, we cannot estimate those diversion ratios.

There are three pairs for which we estimate the diversion ratios in both directions: $(Tylenol, Bayer)$, $(Advil, Tylenol)$, $(Aleve, Tylenol)$. Comparing them indicates relative own demand derivatives. In particular, $\frac{d_{jk}}{d_{kj}} = \frac{ds_k/d\delta_k}{ds_j/d\delta_j}$. Take for example j =Tylenol and k =Bayer. Because we have $d_{TB} = 0.043$ and $d_{BT} = 0.203$ and $\frac{d_{TB}}{d_{BT}}$ is around $\frac{1}{5}$ $(ds_T/d\delta_T \approx 5ds_B/d\delta_B)$. This means the demand derivative is much more price sensitive for Tylenol. At first blush, this may seem to presage a poor prospect for the estimates, given that Tylenol has a much higher price than Bayer aspirin (suggesting a more inelastic demand). However, a rough calibration brings this into perspective. The price of a "serving" (here roughly 3 days of pain relief) of Tylenol is roughly \$2.15; taking the generic price of \$1.17 as representing marginal cost gives a mark-up of approximately \$1. A similar mark-up is found for Bayer, with a brand price of \$1.85 and a generic price of about \$0.8. Now, the pricing equation (7) sets mark-up equal to demand over own demand derivative (in absolute value). Using the market shares of 0.3 for Tylenol and 0.07 for Bayer (these are rough inside market shares as a fraction of total market including generics, without outside good), then the pricing formula would predict roughly a demand derivative for Tylenol of 0.3 and for Bayer of 0.07, which gives us a 4.2-to-1 ratio that is the very close to the one that we get from the ratio of diversion ratios.

Whenever we have both diversion ratios, the diversion from small to large is greater than vice versa. This property would hold with a logit demand (recall for logit $d_{jk} = \frac{s_k}{1-s_j}$). For logit, d_{jk} is increasing in s_k (as customers are shed, they go to other brands in proportion to those brands' shares). This works well: the only, important, violation is from Tylenol to Advil and Aleve. However, other properties of the logit do not hold. For logit, d_{jk} is increasing in s_j but we see no clear relation in the table of diversion ratios on this count.

5.3 Damage Measures

We now derive measures of the damage that comparative advertising delivers to the attacked brand and the spillovers to other brands. We use the coefficient estimates of λ from Column 6 of Table 4 and of the diversion ratios and φ from Column 1 of Table 5.

As discussed when deriving (13), the full damage can be decomposed into a push and a pull effect. Table 6 shows the damage measures that we can estimate given the pattern of attacks observed in the data. Targets are column entries, and attackers are on the rows. The entries are written as dollar damages to targets from a \$1 marginal increment in comparative advertising by the attacker. These are all positive numbers, so are all costs inflicted.[36] The first term is the direct pull effect from the attack, which is the hurt through pulling down the target's perceived quality. It is reported whenever d_{jk} is reported. The second term is the impact of the push-up (of increasing attacker's own perceived quality through its outgoing attack) on the target. Note that the size of this attacker push effect on the target also tells us the damage from the attacker's self-promotion if we divide it by λ. The effect is reported whenever diversion ratios in both directions (i.e., d_{jk} and d_{kj}) are reported. When both are reported, we sum the two components of damage to give the final term, which is the total damage on the target of a marginal dollar of comparative advertising. We report the bootstrapped 90% confidence intervals in square brackets underneath point estimates.

There are several findings and points from Table 6.

First, and most obviously, because we cannot estimate the diversion ratios for all pairs, we cannot find all of the damages. We only get a full damage measure when both sides of a pair are attackers. If only one side attacks, then we can only find the diversion ratio from that side to the other, and even then we need the target to engage in self-promotion. In that case, we can find the Pull effect on the target, but not the effect on the target of the attacker's self-promotion.

Second, imprecision in the results of Table 5 feeds through to imprecise results in Table 6. This can lead to very large numbers via small diversion ratios that appear in the denominator of the damage expressions.

Third, in all the specifications that we have estimated (including those that are presented in the appendix), we find that the damage is larger than 1, regardless of: i) whether we do IV or not in both stages; ii) whether we do IV just in the first stage and not the second; iii)

[36] The damage numbers can be interpreted as the amount of self-promotional advertising needed to compensate for the marginal attack dollar.

which IV we use; iv) how precise is the estimate in Table 5. Hence, for each brand's marginal comparative advertising dollar, we consistently find that the damage to the attacked brand exceeds \$1. This result underscores the harm from comparative advertising in hurting the target. Because the attacker only reaps a fraction of the pull-down damage, when it uses comparative advertising, the target suffers by (much) more than the attacker gets back. The spillovers (of comparative advertising) on other brands are calculated below.

Fourth, some of the estimates (e.g. Advil on Tylenol) of the damages are very precisely estimated, and show that the damage is between 3 and 4 dollars for a marginal dollar of comparative advertising.

Fifth, the pull effect is much larger than the push effect (of self-promotion). For example, when Advil attacks Aleve, Aleve suffers a \$7.874 loss, but (marginal) self-promotion by Advil only causes 0.057/0.45 of required offset.] The pull effect is large because in order to induce a brand to use comparative advertising, given that only around half of the comparative ad has a push effect, it must be that the target is pulled down a lot since the fall-out is shared among all other rivals (the size of the spill-over is investigated below).

Sixth, one striking feature is the asymmetry between the Bayer-Tylenol numbers: Tylenol needs \$8.36 to negate a marginal Bayer ad, but Bayer only needs \$2.05 to negate a marginal Tylenol one against it. The other striking asymmetry is in the opposite direction: it takes Aleve \$5.68 to negate a marginal Tylenol ad but only \$3.50 in the reverse direction.

TABLE 6; Measures of Damage

	Target:					
Attacker:	Advil	Aleve	Bayer	Excedrin	Motrin	Tylenol
Advil		7.874 [3.752,17.015] N/A N/A N/A		9.694 [2.284,2.7e3] N/A N/A N/A		3.197 [2.094,4.835] 0.032 0.020 [0.004,0.041] 3.217 [2.112,4.853]
Aleve						3.457 [2.387,5.273] 0.067 0.042 [0.025,0.062] 3.499 [2.448,5.306]
Bayer	8.810 [4.265,23.786] N/A N/A					8.358 [4.686,14.884] 0.181 0.118 [0.069,0.179] 8.475 [4.839,14.814]
Excedrin						14.011 [5.003,207.996] N/A N/A N/A
Motrin	7.284 [3.917,14.884] N/A N/A N/A	6.987 [3.708,15.787] N/A N/A N/A				
Tylenol	11.685 [4.839,71.037] 0.114 0.074 [0.050,0.102] 11.759 [4.925,71.093]	5.678 [3.238,9.906] 0.129 0.069 [0.046,0.099] 5.747 [3.347,9.962]	2.026 [1.113,3.552] 0.055 0.029 [0.017,0.046] 2.054 [1.170,3.569]			

Notes: A row-column entry denotes attacker-target \$ damage from a marginal \$1 comparative ad attack, split up from top down as pull-down effect damage; push-up effect damage from attacker's self-promotion component of comparison; total damage as sum of these two. Bootstrapped 90% confidence intervals appear in square brackets underneath the point estimates. Confidence intervals are based on 100 draws on the asymptotic distribution of the estimates from Column 6 of Table 4 and from Column 1 of Table 5.

Other brands are affected when brand j attacks brand k. First, the push-up effect on brand j hurts all other brands $l \neq j$, and the pull-down effect on brand k benefits all other brands $l \neq k$. The net effect (see (14) above) can a priori be positive or negative. Indeed, even though the results of Table 6 indicate much stronger pull-down effects on the target than push-up effects on the attacker, the pull-down effect only benefits rivals to the extent that demand shed by the target is diverted to them.[37] Nonetheless, our results in Table 7, which reports the spillovers using (14), indicate that the net effect on other brands is positive. This means that there are substantial positive spill-overs on other brands. For example, a marginal comparative advertising dollar spent by Advil against Aleve benefits Motrin by 40 cents and Tylenol by 52 cents, while benefiting Advil by $1, and hurting Aleve by $7.87 (from Table 6). We are unable to estimate the spill-overs on the other brands because we are unable to estimate the diversion ratios from those other brands to both target and attacker (Excedrin attacks neither, while Bayer does not attack Aleve). Indeed, estimating the spillover on l when j targets k requires estimates of the diversion ratios d_{jk}, d_{lk}, and d_{lj}. In turn, this requires there to be active attacks from j to k and l, and from l to k. Hence we cannot estimate any spillovers from Motrin attacks because no brand attacks Motrin in return.

For all the specifications that we have estimated, we always find non-negligible and statistically significant spillovers for all but one case (Bayer's attacks on Advil). These are range from 12-52 cents for each dollar spent on a marginal attack, except for the outlier case of Excedrin on Tylenol, where the estimates are unreliable due to the small number of observations of this target pair and that Excedrin does very little comparative advertising overall. Notice that the imprecise estimates in Table 5 feed through into imprecision in Table 7, (for example, Bayer vs. Advil). However, except for the outlier case of Excedrin against Tylenol, the intervals are smaller than those in Table 6. This is because the expression for spillover damage, (14), is written in terms of ratios of diversion ratios and diversion ratios, whereas the damage to the target , (13), encompasses the reciprocal of a diversion ratio: small estimates of diversion ratios therefore give large damages and large confidence

[37]This dilution of pull-down is already reflected in the attacker's calculus: it only gets a fraction of the demand lost by its target.

intervals.

TABLE 7. Spillover Effects

Attacker	Attacked	Advil	Bayer	Motrin	Tylenol
Advil	Aleve			0.404 [0.188,0.686]	0.517 [0.266,0.863]
Advil	Tylenol		0.120 [0.054,0.155]		
Aleve	Tylenol	0.387 [0.230,0.485]			
Bayer	Advil				0.172 [−0.036,0.432]
Excedrin	Tylenol	1.648 [0.560,13.916]			
Tylenol	Advil		0.484 [0.214,1.325]		
Tylenol	Aleve	0.202 [0.052,0.304]			

A row-column entry gives the dollar effect on the column brand of a one-dollar increment in comparative advertising on the row link. Bootstrapped 90% confidence intervals appear in square brackets underneath the point estimates. Confidence intervals are based on 100 draws on the asymptotic distribution of the estimates from Column 6 of Table 4 and from Column 1 of Table 5.

The estimates of spillovers indicate significant free-rider issues in comparative advertising, insofar as other brands are shown to benefit from comparative advertising (the harm from the push effect is dominated by the gains from the pull effect on the target). Lest this suggest that comparative advertising is insufficient (which it is if we exclude the target!), bear in mind that the costs to the target far outweigh the sum of benefits to attacker and other rivals. In net, the practice of comparative advertising causes far more profit loss (at the margin) than it recoups to the attacker. This, quite likely, explains why there are so few industries (in so few countries) where comparative advertising is used. Recognizing the mutual harm, companies refrain from attacks.[38]

6 Conclusions

The paper models comparative advertising as having both a "push up" effect on own perceived quality, and a "pull-down" effect on a targeted rival's quality. The targeting of com-

[38] As discussed further in the conclusions, other ways of conceptualizing comparative advertising might soften this conclusion.

parative advertising affords a unique opportunity for estimating diversion ratios between products solely from observed supply side comparative advertising expenditures. Diversion ratios are direct inputs into deriving estimates for the damage inflicted from comparative advertising and the spillover to other brands.

The empirical results for OTC analgesics indicate that half of a marginal comparative ad constitutes push-up (it has the same effect on own perceived quality as half a dollar spent on self-promotion). The other half causes much more damage to the target than benefit to the attacker, while conferring significant net benefits on other rivals. On net though, comparative advertising causes more harm to industry profit than benefit (and similar complaints are voiced about the destructive damage caused by negative political campaign ads) This is a likely reason why it remains quite rare.[39]

Some strong caveats to these quantitative conclusions need stressing. The effects of advertising in the Push-Pull set-up are channeled through quality differences. This gives quite a negative view of comparative ads, in the sense that there is much wasteful battling to and fro between brands just to stay afloat. This feature is reminiscent of the critique of advertising that it serves solely to reshuffle demand and brands are better off if they could agree not to do it (they would save the expense). The critique is a fortiori true of comparative advertising, at least as modeled though Push-Pull.

Alternative ways of thinking of how comparative advertising could work could substantially mollify our conclusions. Indeed, when consumers have different tastes over different characteristics, comparative advertising (done by different parties in different characteristics directions) may serve to enhance the perceived horizontal differentiation between products. This effect is closed down in the current model, but introducing it might both give better estimates as well as an improved perspective on the social benefits of the practice, at least insofar as the advertising informs heterogenous consumers about true product performance differences, as opposed to reducing rivals' perceived quality.

[39]It is noteworthy that comparative advertising is being used recently more and more of late (e.g., the "soup-wars" between Campbell's and Progresso), coinciding with a recession, when quasi-collusion typically has more trouble surviving.

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