How firms can navigate competitors' pitfalls without being 'tarred by the same brush'

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Researchers from University of Adelaide published a new paper in the *Journal of Marketing* that examines how advertising can increase the informativeness of a firm's stock price by reducing its stock price

synchronicity.

The study, forthcoming in the *Journal of Marketing*, is titled "Tarred with the Same Brush? Advertising Share of Voice and Stock Price Synchronicity" and is authored by Chee Cheong, Arvid Hoffmann, and Ralf Zurbruegg.

Firms are sometimes "tarred with the same brush" by investors instead of being traded based on firm-specific information. This is problematic when influential incidents happen, such as product recalls, because firms in the same industry as the offender also experience a drop in firm value despite not being involved in the incident themselves. This study demonstrates that advertising can help firms avoid such a situation by differentiating themselves from their financial market competitors through communicating firm-specific information to investors.

The researchers argue that advertising provides information to investors in financial markets, analogous to its role for customers in product markets. Hoffmann explains that "Although advertising is typically intended to increase awareness of and provide information about a firm's products rather than its shares, it also attracts investor attention, constitutes an important source of information, and is eventually internalized by investors to affect stock trading behavior. We expect that advertising can increase the informativeness of a firm's stock price by reducing its stock price synchronicity, or the extent to which its stock price is driven by general market and industry trends instead of firm-specific information."

The study uses a comprehensive data set based on all U.S. publicly listed firms from 1994 to 2018 and supplements this quantitative data with qualitative data from in-depth interviews with executives of such publicly listed firms to examine three interrelated research questions.

First, if a firm advertises more relative to its industry peers, does this increase its stock price informativeness and thus reduce its stock price synchronicity? The researchers expect that the larger a firm's so-called "advertising share of voice," the more visible it will be among (potential) investors, thus making it more likely that investors incorporate in their pricing the firm-specific information conveyed in the firm's advertising.

Second, is the effect of advertising more pronounced if there is more demand for information about the firm in the financial market (for example, because the firm has more complex products)? In such situations, advertising would potentially be more valuable and informative for investors.

Third, is the effect of advertising less pronounced if there is more supply of information about the firm in the financial market (for example, because institutional ownership is greater as these professional investors have access to better information)?

Cheong says that "We find support for our expectation that firms with a larger advertising share of voice are more successful in differentiating themselves in the financial market, as expressed by having a lower stock price synchronicity. Furthermore, this effect is stronger for firms with more complex products and weaker for firms with a larger proportion of institutional ownership." Sensitivity analyses show that the effect of advertising is also more pronounced when there is congruence between a firm's corporate name and its ticker symbol and when a firm has a corporate branding strategy, providing actionable insights for managers. An event study analyzing product recalls as influential marketing-relevant incidents illustrates the practical importance of the results. Firms with high synchronicity are "tarred with the same brush" in terms of experiencing negative abnormal returns when competitors have a recall, while firms with low synchronicity are not affected.

Managers can tap advertising not just to help consumers understand the benefits of the firm's products, but also to communicate firm-specific information to (potential) investors. Ultimately, when stock prices are more informative, investors experience less information asymmetry and are more willing to provide capital to a firm, allowing it to invest in profitable projects.

"To maximize the benefit of the positive spillover effects between product-market advertising and financial market outcomes, managers of publicly listed firms should ensure that investors can easily link the product names as used in advertising campaigns to their corporate name in the stock market; for example, by having a congruent ticker symbol and a corporate branding strategy instead of a house of brands or mixed branding strategy," says Zurbruegg. Finally, it is critical to realize that the results of advertising are above and beyond the effect of a firm's news coverage, meaning that advertising provides new information to investors that they did not yet obtain from other media. Accordingly, the marketing and finance functions of firms should work together when designing ad campaigns.

More information: Chee S. Cheong et al, Tarred with the Same Brush? Advertising Share of Voice and Stock Price Synchronicity, *Journal of Marketing* (2021). DOI: 10.1177/00222429211001052

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