Advertising’s Effect on the Product Evolutionary Cycle

Criticism of the product life cycle (PLC) concept centers on problems with theory, empirical validation, and practical use. The product evolutionary cycle (PEC), an alternative concept based on the field of biology, has been suggested to provide a more complete picture of the effects of marketing mix and competition on product sales. The authors assess the PEC framework empirically in the U.S. cigarette industry. Advertising-sales causation is tested on three levels of segment competition: (1) individual brand, (2) intracategory, and (3) intercategory. The findings indicate that more distantly related “organisms” compete as well as those closely related in terms of background. Specifically, the authors demonstrate a gradual but marked decrease in the effect of advertising on sales as products with more distant lineage coexist and compete. The PEC is demonstrated to be an information-laden framework to use in making marketing mix decisions.

The product life cycle (PLC) has been used by marketing researchers in the context of product management and strategic planning. As Kotler (1988, p. 394) writes in his market management textbook, “The product life cycle is an attempt to recognize distinct stages in the sales history of the product. Corresponding to these stages are definite opportunities and problems with respect to marketing strategy and profit potential.” Though decision variables are not incorporated explicitly in the framework, different levels of marketing, finance, and production effort are required in each of the four stages of the life cycle (Kotler 1988). See Tellis and Crawford (1981) and Day’s (1981) introduction to a special JM issue on the product life cycle for comprehensive presentations of its application.

Despite its pervasive use and the empirical evidence supporting the PLC, doubt has been expressed about its validity. Tellis and Crawford (1981) cite problems involving theoretical, practical, specification, and empirical aspects of the life cycle idea. Much criticism has been leveled at the managerial applicability of the concept (Dhalla and Yuspeh 1976; Hunt 1976). Among the most crucial points is that controllable marketing variables, competitive information, and other important environmental factors are omitted from the PLC (Wind and Claycamp 1976). Other problems or limitations of the life cycle concept include the lack of empirical validation and uncertainty about the aggregation level (product, class, form, or brand) at which it applies (Polli and Cook 1969; Rink and Swan 1979). Additional limitations are cited in a recent article by Lambkin and Day (1989) on the ecological aspects of competitive structure.

Recognizing the need for a broader framework pertaining to product growth, Tellis and Crawford (1981) drew from concepts in the field of biology to suggest an alternative to the PLC concept, the product evolutionary cycle (PEC). They describe the PLC as an “oversimplification” of the more diagnostic PEC, which models product evolution as a function of three underlying forces: (1) market dynamics (actions of consumers and competitors), (2) managerial activity...
(promotional themes and changes), and (3) government mediation.

The purpose of our study is to perform the first empirical investigation of the evolutionary cycle. Our approach is to assess the impact of the three evolutionary forces on closely and more distantly related "species" or products. Of specific interest to us in our empirical test are sales response factors including promotion, competitive reaction, and product segmentation in the context of advertising-sales causality. Our research focuses on a product category in which a clear evolutionary path of distinct subcategories or forms can be identified. This dynamism at the category, form, and brand levels allows for a unique investigation of causality and the relationship between advertising and sales within and among product subgroups. Our product setting is analogous to biological evolution in which competitive relationships between organisms of the same species and more distantly related members of a family or genus can be assessed.

Our research findings have important methodological and managerial implications. Methodologically, the study recognizes the existence of causality in an evolving market. Managerially, our research provides guidance for strategic decisions associated with product management over time, based on our investigation of advertising-sales causality over product evolutionary cycles. We specifically show this temporal evolution effect, which is captured by the relationships between "species" or products with long lineage and newer additions to the product line. Above all, we demonstrate the value of the PEC and the use of genetic concepts in recognizing and assessing the source of competition among products over time.

We begin with a review of the relevant literature pertaining to the biological sciences, evolution theory, and analogous issues in marketing. Also included is a discussion of marketing effort results, particularly the relationship between advertising and sales. We then describe the industry in which we detail the PEC and its applicability. After presenting research hypotheses, we describe our method and analysis plan and report results. We conclude with a discussion of research implications, caveats, and future topics to be investigated.

The Product Evolutionary Cycle

The distinction between the PLC and the PEC can be likened to that between the literal Biblical view of creation and Darwin's theory of organic evolution introduced in the late 18th century. In the former view, the world was created by God, has remained essentially unchanged since the time of creation, and will remain so until it ceases to exist. According to Darwinian theory, species evolve through a process that...

"...consists chiefly of adaptive radiations into new environments, adjustments to environmental changes that take place in a particular habitat, and the origin of new ways for exploiting existing habits" (Dobzhansky et al. 1977, p. 7).

In keeping with evolution theory, life forms evolve through a process involving change that is (1) cumulative, (2) motivated by well-defined forces, (3) directional, and (4) patterned (Tellis and Crawford 1981). Analogously, products may evolve in a cumulative, patterned way. One might draw an analogy between products and the dynamic transformation of Darwin's famous finches. According to Darwin, the first finches (pioneer product) that reached the Galapagos Islands were able to increase rapidly in number because of the lack of competition for food (consumers). The increasingly larger finch population soon outstripped the supply of seeds (saturated market), thus causing more birds to seek alternate food sources such as insects, leaves, or fruit (market segmentation). Natural selection led to proliferation of finches with an appropriately modified beak (product development or product line extension), and ultimately a distinctive variation (Race 1979, p. 26-9). Like Darwin's finches, products may coexist and have an indeterminate life in the context of the PEC.

Three forces are the basis for product evolution (Tellis and Crawford 1981). Managerial creativity in the form of strategic decision variables is the most controllable underlying mechanism. Consumer behavior and competitive actions compose market dynamics, the force that essentially allows for survival of the fittest. The third factor, government mediation, serves as a regulatory force. These three underlying forces are applicable to the U.S. cigarette industry. Before discussing our research hypotheses and method, we describe the industry and its evolution.

The U.S. Cigarette Industry

Because of its unique characteristics and availability of data, the U.S. cigarette industry has been used in studies spanning many social science disciplines. Marketing-related research can be categorized as (1) studies investigating aspects of the advertising-sales relationship (Ayatk et al. 1985; Bass 1969; Horsky 1977; Leeflang and Reuijl 1985; Schmalensee 1972; Tellis and Crawford 1981) and (2) research focusing on public policy topics related to advertising (Holak and Reddy 1986; Tel, Tel, and Bearden 1979).

The cigarette industry lends itself to research on advertising and competition because of its relatively uncomplicated environment. Throughout its history, the "Big Six" firms—R. J. Reynolds, Philip Morris, Liggett and Myers, American Brands, Brown and Williamson (BAT Industries, Inc.), and Lorillard (Loews Corp.)—have dominated the industry. Horsky...
(1977) indicated that the combined sales of these six competitors in 1966 comprised 99.1% of total industry sales. Though relative market shares may change somewhat, the overall domination of the “Big Six” has remained a fact of the competitive environment.

During the first half-century of the industry, each company promoted only one or a few reliable brands (Overton 1981; Tennant 1950). Even up through the early 1950s there were only a handful of brands from which to choose. We subsequently discuss how this reliance on a small number of choices ended. The industry eventually evolved into one of many brands, each having a relatively small market share (Hörsky 1977).

Because of the relative homogeneity of prices and distribution policies across brands at any given point in time, the industry is viewed as an attractive research environment for advertising-related topics (Overton 1981; Telser 1962; Tennant 1950). According to Tennant (1950, p. 5), “The major cigarette industry companies compete among themselves by means of heavy advertising expenditures. The leading brands are usually sold at identical wholesale and retail prices, and the former may stay unchanged for years at a time. It is unusual for price to be used as a competitive weapon.” In addition, Telser (1962) notes that the industry is a prime example of the use of advertising as the key competitive weapon in its role as a barrier to entry for new firms. Hence, we are able to concentrate on one managerially controllable variable in our study of the PEC’s mechanisms.

Health-related information “shocks” that occurred in 1953 and 1964, as well as the ban on broadcast advertising effective January 2, 1971, also make the cigarette industry attractive for public policy research (Holak and Reddy 1986; Ringold 1987). This negative publicity was a catalyst for much of the industry evolution and specialization that is fundamental to our study.

Once prerolled cigarettes began to be produced by the “Big Six” in the mid- to late nineteenth century, companies typically offered one nonfilter product. According to Tennant (1950), the success of early products like Camel was due to the appealing blend of tobacco leaves featuring “Turkish taste” and “Virginia lightness.” There was no need for innovation in the industry.

With the first major pronouncements about health hazards in 1954, however, the situation changed. Filter cigarettes underwent a meteoric rise in popularity (Overton 1981). For example, the current leading filter product, Marlboro, soon outsold the prominent nonfilter brands, Lucky Strike and Pall Mall. Though they had been available earlier, menthol filter cigarettes contributed to the major sales growth in the industry during the 1960s. Similarly, the innovation for the 1970s after the advertising ban was the low-tar/low-nicotine product. Though some brands of this type had been available earlier, they failed to gain much attention until the 1970s (Overton 1981). Product development in the high nicotine categories effectively ceased. Other recent cigarette innovations include products such as Virginia Slims and Eve, targeted at female smokers, ultra-low-tar cigarettes, the generic products, and most recently the “designer” category (e.g., YSL, Ritz). With the advent of generic cigarettes, price became a competitive element in cigarette purchases. Figure 1 depicts the evolutionary process just described.

**An Industry Application of the PEC**

A process familiar to evolutionists is the taxonomy or categorization of organisms according to their common background. Principal taxonomic hierarchies from most general to most specific are (1) kingdom, (2) superphylum, (3) phylum, (4) class, (5) order, (6) family, (7) genus, and (8) species (Dobzhansky et al. 1977). According to Dobzhansky and his coauthors, “If a classification is to reflect evolution, all the mem-

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**FIGURE 1**

Major Innovation Segments in U.S. Cigarette Industry*

<table>
<thead>
<tr>
<th>Year</th>
<th>Innovation Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>Non-filtered Product</td>
</tr>
<tr>
<td>1950</td>
<td>Filtered Product</td>
</tr>
<tr>
<td>1960</td>
<td>Menthol Product</td>
</tr>
<tr>
<td>1970</td>
<td>Low-tar/Low-nicotine</td>
</tr>
<tr>
<td>1980</td>
<td>Women’s Segment</td>
</tr>
<tr>
<td></td>
<td>Generics</td>
</tr>
<tr>
<td></td>
<td>Designer</td>
</tr>
</tbody>
</table>

*The three blocked segments are the focus of analysis.
bers of a taxon should be closely related and descended from a common ancestor” (p. 234). To illustrate application of evolutionary theory to product settings, Table 1 contains taxonomic categories with a biological example and an analogous hierarchy for cigarettes.

One reason for considering taxonomic hierarchies is to identify competing organisms. For example, because of a common heritage, the monarch butterfly is more likely to compete for food and resources with members of its own species or with other types of butterflies than with other more distantly related insects or animals (Dobzhansky et al. 1977, p. 233-41). Analogously, the more closely related product “species” compete for resources (customers). For example, menthol filter cigarette brands such as Salem and Kool may be more likely to compete with each other for consumers than with a nonfilter product such as Pall Mall. To some extent, all creatures compete for some food resource just as noncomparable products (such as VCRs and vacations) compete for consumers’ (entertainment) budgets.

Polli and Cook (1969) investigated the appropriate aggregation level of the PLC curve by studying cigarettes at the category, form, and brand levels. They concluded that the form level was the only aggregation option to hold true to the shape of the PLC. Actually, the life cycle applied to nonfilter cigarettes, which as a subcategory essentially ceased development because of publicized health concerns. Filter products, in contrast, have evolved through adaptive radiations into several distinct forms.

The three evolutionary mechanisms for survival and selection that apply to managerial settings are listed in Table 2. Species evolve or become extinct through genetic, natural, or artificial selection (Minkoff 1983). Genetic selection reflects the species itself as stronger members survive and their traits are passed on. External environmental factors, such as limited food resources, and their roles in evolution are reflected in natural selection forces. Finally, the role of man in biological evolution in terms of his intervening actions is reflected in artificial selection.

From a business/marketing perspective, as noted in Table 2, internal managerial effectiveness is analogous to genetic selection in biological evolution, because a manager’s actions determine product offerings. In the U.S. cigarette industry, the decision making includes a brand’s advertising activity, new product development, and other marketing mix variables. Similarly, external market variables in the form of competition and other externalities are likened to natural selection pressures. Among tobacco industry participants, natural selection is reflected in new competitive entries, competitive actions, and primary demand. Governmental mediation is analogous to the artificial selection forces in the natural sciences. Interventions in the form of the 1971 ban on broadcast advertising, consumerism, and medical announcements by various agencies linking smoking to ill health act as artificial selection forces in the tobacco industry.

### An Empirical Test of the PEC Framework

Recall that our main research purpose is to investigate the impact of the three evolutionary forces of the PEC on products that are closely or more distantly related in terms of genetic heritage. Analogous to genetic selection having an impact on a species is the effectiveness of brand-level advertising decision making.
within the ranks of the major cigarette manufacturers. An additional aspect of genetic selection is new product activity, consisting mainly of brand extensions in this industry—for example, package size (regular, king, etc.) and package form (hard box, soft pack, etc.)—which can be considered at the same taxonomic level. Natural selection pressures are captured by advertising-sales causality among members of the same species or product category as well as among evolving organisms (brands) in a higher taxon in an environment with declining primary demand. Specifically, cigarette brands within the same segment may compete in a manner reflected in advertising-sales causality. In addition, and perhaps of greater interest,
TABLE 2
Evolutionary Product Management: Mechanism of the PEC

<table>
<thead>
<tr>
<th>Biology</th>
<th>Business/Marketing</th>
<th>Cigarette Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Genetic selection</td>
<td>Managerial effectiveness</td>
<td>→ Advertising</td>
</tr>
<tr>
<td></td>
<td></td>
<td>→ New products</td>
</tr>
<tr>
<td></td>
<td></td>
<td>→ R&amp;D, etc.</td>
</tr>
<tr>
<td>Natural selection</td>
<td>Competitive environment</td>
<td>→ Primary demand</td>
</tr>
<tr>
<td></td>
<td></td>
<td>→ New entries</td>
</tr>
<tr>
<td>Artificial selection</td>
<td>Governmental mediation</td>
<td>→ Competitors' 4Ps</td>
</tr>
<tr>
<td></td>
<td></td>
<td>→ FCC's advertising ban</td>
</tr>
<tr>
<td></td>
<td></td>
<td>→ Consumerism</td>
</tr>
<tr>
<td></td>
<td></td>
<td>→ American Cancer Society</td>
</tr>
</tbody>
</table>

brands in different product evolution categories may coexist and compete in a way that is evident in intercategory causal relationships. The 1971 ban on broadcast advertising of cigarettes serves as the outside force of artificial selection in the PEC. We believe that legislative intervention has an impact on all brands, though effects of the ban may vary across brands (Holak and Reddy 1986). This differential effect is allowed by the dummy variable in our analysis.

To focus and simplify our investigation of evolution in a marketing context, we concentrate on the "fittest" brands of the tobacco industry rather than on others that have become extinct. Given the longitudinal requirement of the time-series approach, we confine our focus to the earlier phases of product category evolution (nonfilter → filter → menthol filter categories) as delineated in Figure 1. More recent product forms such as low-tar and generic are excluded because of too few observations.

Research Hypotheses

Much of the prior research investigating the advertising-sales relationship has centered on the advertising-causes-sales causality direction. Other relationships, however, have received some recognition (Holak, Tang, and Reddy 1987). In their macroeconomic overview of advertising's effects, Jacobson and Nicosia (1981) indicated that four core relationships, two representing a sales response market mechanism and two feedback relationships, might be investigated. Comparatively few studies in the advertising literature have examined feedback effects. Bass (1969) included effects of past sales on future advertising in his simultaneous equation model estimated with cigarette industry data. In an analysis using the Lydia Pinkham vegetable compound data, Hanssens (1980a) found a sales-causes-advertising causal relationship. In our study, we focus on the basic causal and feedback relationships incorporated in the sales response mechanism.

Advertising and sales are causally related through a sales response mechanism at (1) the individual-brand level (species), (2) the intracategory level (interspecies or genus), and (3) the intercategory level (intergenus or class). Each level warrants further clarification before development of hypotheses.

At the micro level, some causal relationships would occur between advertising and sales of an individual brand by definition (as we subsequently explain further). At the intracategory level, we hypothesize causal relationships to be present for sales and advertising among brands in any one category; in our study this level includes nonfilter, regular filter, and menthol filter cigarette categories. At a macro level, we consider intercategory causal relationships between brands across the three product types. The advertising-sales causal relationship and the three environmental levels are used as the basis for generation of research hypotheses. The probability of causation for these three levels is denoted $P_1$, $P_2$, and $P_3$, respectively.

$H_1$: Individual-brand-level causality is present with some probability $P_1 > 0$.

The tradition of sales response research supports the presence of a causal relationship between an individual brand's advertising and its own sales.

$H_2$: Intracategory-level causality is present with some probability $P_2 > 0$.

Similar to the justification for $H_1$, an intracategory advertising and sales causal relationship is hypothesized. In evolutionary terms, members of the same genus or family are expected to compete for resources because of their common heritage. Actions taken by one organism in the quest for food or other limited resources would have some impact on like organisms, particularly in situations of scarce supply.

$H_3$: Intercategory-level causality is present with some probability $P_3 > 0$.

An intercategory advertising and sales causal relationship is expected as a result of brands obtaining sales from one another in a similar zero-sum game.
framework. Given a fixed or declining primary demand, intercategory causality may be present as more distantly related products or “species” compete for limited resources (consumers).

\[ H_0: P_1 > P_2 > P_3. \]

As one might expect on the basis of evolution theory, individual organism or brand-level advertising and sales causality should have the highest probability of occurrence, followed by intracategory (genus) and intercategory (class) levels, respectively. Most of the theoretical studies such as Moorthy’s (1984) have assumed the independence of segments, eliminating the probability of intercategory competition. Therefore, our hypothesis testing is set up to reject the null hypothesis that \( P_1 = P_2 = P_3 = 0 \) and to suggest such alternative values as \( P_1 > P_2 > P_3 \) from the empirical results.

**Data**

Historical data pertaining to the U.S. cigarette industry have been collected from as early as 1923 by Schoenberg (1933). Tennant (1950) provided a comprehensive analysis of the industry’s early years. Because of the dramatic changes in the industry after World War II, most research in the marketing literature involving cigarettes pertains to the post-war period. Our study follows this precedent and utilizes data spanning the 28-year period from 1952 through 1979.

Twelve cigarette brands were used as subject matter in the research. They represent a comprehensive set of the available cigarette products in the taxonomic hierarchy described in Table 1. Two brands can be categorized as nonfilter products, seven are plain filters, and three are menthol filter cigarettes. The categorization described is similar to that used in prior literature involving cigarette data (Aykac et al. 1985; Holak and Reddy 1986; Horsky 1977). Table 3 is a detailed listing of the 12 brands, their introduction dates, and periodic market shares. Two early market leaders, Lucky Strike and Chesterfield, are no longer part of the tracked top 25 brands in the industry and therefore could not be used in the analysis.

The post-war drive for product innovation in the industry has blurred the categorization of product segments. Recall that many brands now have multiple forms as described in Figure 2. However, substantial precedent supports categorization of brands according to the segment from which a brand receives most of its sales (Overton 1981).

**Variable Measures**

Annual sales data (in billion units) for brands in the three categories were obtained from Maxwell (1982) and supplemented by Advertising Age (1960, 1966, 1971, 1976, 1980). The annual brand advertising expenditures were obtained from Advertising Age and Leading National Advertisers (LNA) annual reports. To deflate these expenditures, annual cost indices of advertising for different media were procured from McCann-Erickson Advertising Agency for later years in the series and from Media/Scope (1968) for earlier years. With the proportions of annual industry media expenditures as weights, we computed an overall cost index that was then used to deflate the raw advertising expenditure data.

As indicated by Jacobson and Nicosia (1981), there may be limitations to using annual data in a study of this type. They maintain that annual data may not be appropriate if there are substantial fluctuations in the time series. The cigarette industry data have many of the attractive characteristics associated with the Lydia Pinkham data. Specifically, advertising is essentially the only marketing instrument used, price changes are small and rare, distribution is homogeneous and constant, and a long data series is available (Hanssens 1980a). The single possible element of fluctuation in our data may be due to the 1971 ban on broadcast advertising. In a similar situation, Hanssens (1980b) used airline industry data in which an industry strike was a potential impact mechanism. Given this precedent and the unavailability of cigarette industry data with a shorter interval, we felt it appropriate to use annual values.

**Analysis**

The marketing literature is replete with studies of the relationship between advertising and sales. The approach taken by most researchers is an econometric one (see, e.g., Farley and Lehmann 1986; Naert and Leeflang 1978; Hanssens, Parsons, and Schultz 1989). Often, information about competitive market structure can be derived from the coefficients of estimated sales response models. For instance, the effectiveness of the advertising of various brands can be examined by advertising-sales cross-elasticities; significant cross-elasticity values with negative sign may indicate direct advertising competition among brands (Clarke 1973; Telser 1962; see Russell and Bolton 1988 for a discussion of price competition).

Though there are methods to cope with estimation problems, econometric studies of the advertising-sales relationship often are plagued by multicollinearity, heteroskedasticity, and autocorrelation. As a result, some researchers have turned to multiple time-series analysis (MTSA) as an alternative or complementary estimation procedure to explore this relationship (Hanssens, Parsons, and Schultz 1989). One advantage of MTSA used alone or in conjunction with econometric modeling, in comparison with the a priori model specification required by a solely econometric approach, is causality detection.
Several research philosophies pertain to the study of causality. The concept of "causality" as discussed here is associated with Granger's (1969) work and can be expressed as: x is said to cause y if knowledge of past x values reduces the variance of the errors in forecasting future y values more than the knowledge of past y values alone.

To investigate the PEC framework, our analysis proceeded through three distinct phases, the first two corresponding to the Pierce-Haugh test. First, the univariate ARIMA series (Box and Jenkins 1976) was prewhitened to eliminate systematic elements. Then the two residual series were cross-correlated and a related chi square independence test was performed (Haugh 1976; Pierce and Haugh 1977). As we have 12 brands in the study, a total of 144 Pierce-Haugh tests were conducted. In phase three, aggregate chi square values (Sij) were calculated on the basis of the chi square distribution property (Mood, Graybill, and Boes 1974). The aggregate p-value for each competition level then could be obtained. These three phases are described in detail in the Appendix.

### Statistical Causality Results

The first stage of the PEC framework investigation involves construction of the univariate ARIMA models and estimation of the intervention effects. To check diagnostically that each residual series constitutes a white noise process, the autocorrelation, inverse autocorrelation, and partial autocorrelation functions (ACF, IACF, and PACF), available in SAS results (SAS 1984, ch. 8), were inspected visually. Diagnostic checking has two important roles in the prewhitening procedure. First, it assures that all systematic elements are removed and only white noise series are obtained for the next stage of the analysis. Second, the chi square values (Ljung and Box's Q-statistic, 1978) from the white noise series generally are less than the critical values, indicating the residuals are independently, identically, and normally distributed. As a result, the identified models are permissible.¹

The results from our causality detection at the second stage of the analysis are summarized in Table 4. Advertising of the brand is on the horizontal axis and sales of the brand are on the vertical axis. The table depicts a 12 × 12-brand matrix that is divided into nine smaller blocks according to cigarette types. Three square matrices are contained along the 12 × 12 diagonal—nonfilter (2 × 2), filter (7x7), and menthol (3 × 3).

Diagonal elements of the 12 × 12 matrix pertain to H₁, the hypothesis on individual brand causality. Similarly, the three square blocks along the main diagonal in the figure pertain to H₂ on intracategory competition. Finally, intercategory causality, the focus of H₃, is depicted in off-diagonal blocks. The temporal-level causality involving old-to-new categories is indicated in the off-diagonal results in the lower two-thirds of the table and new-to-old causality is indicated in the upper off-diagonal portions.

Three pieces of "preliminary" causality information are contained in each cell of Table 4 and summarized in aggregate in Table 5. The first value represents the simple correlation between sales and advertising, which is calculated directly from sales series Zᵢₙ and advertising series Zₙ, without time lag. The result shows that at individual-brand levels, the

¹Summaries of the sales and advertising results are available from the authors upon request.
TABLE 4
Advertising-Sales Causation (Individual-Brand Level)

<table>
<thead>
<tr>
<th>Sales</th>
<th>Nonfilter</th>
<th>Filter</th>
<th>Menthol Filter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Camel</td>
<td>13.32 (%)</td>
<td>14.21</td>
<td>16.23</td>
</tr>
<tr>
<td>Menthol Filter</td>
<td>1.92</td>
<td>6.71</td>
<td>8.68</td>
</tr>
<tr>
<td>Pall Mall</td>
<td>9.26 (%)</td>
<td>9.82</td>
<td>10.00</td>
</tr>
<tr>
<td>Nonfilter</td>
<td>8.23 (%)</td>
<td>9.26</td>
<td>9.82</td>
</tr>
<tr>
<td>Nonfilter</td>
<td>29.65 (%)</td>
<td>38.01</td>
<td>48.10</td>
</tr>
<tr>
<td>Menthol Filter</td>
<td>11.84</td>
<td>12.44</td>
<td>13.99</td>
</tr>
<tr>
<td>Sales</td>
<td>1.17 (%)</td>
<td>1.21</td>
<td>1.30</td>
</tr>
<tr>
<td>Camel</td>
<td>-1.03</td>
<td>-0.74</td>
<td>0.52</td>
</tr>
<tr>
<td>Menthol Filter</td>
<td>-1.30</td>
<td>-0.67</td>
<td>0.22</td>
</tr>
<tr>
<td>Pall Mall</td>
<td>0.02</td>
<td>0.13</td>
<td>0.36</td>
</tr>
<tr>
<td>Nonfilter</td>
<td>-1.03</td>
<td>-1.30</td>
<td>0.52</td>
</tr>
<tr>
<td>Nonfilter</td>
<td>-1.03</td>
<td>-1.30</td>
<td>0.52</td>
</tr>
<tr>
<td>Nonfilter</td>
<td>-1.03</td>
<td>-1.30</td>
<td>0.52</td>
</tr>
<tr>
<td>Nonfilter</td>
<td>-1.03</td>
<td>-1.30</td>
<td>0.52</td>
</tr>
<tr>
<td>Menthol Filter</td>
<td>-1.03</td>
<td>-1.30</td>
<td>0.52</td>
</tr>
</tbody>
</table>

**Table Notes:**
- Simple correlation between sales series, \( z_{u} \) and advertising series, \( z_{v} \).
- Long-Run Q-statistic based on calculation of CCFs from equation A2 in the Appendix.
- The observed confidence interval \( 1 - p \)-value of Q-statistic.
- Indication of Granger's prime facie causality.

TABLE 5
Advertising-Sales Causation (Aggregate Level)*

<table>
<thead>
<tr>
<th>Sales</th>
<th>Nonfilter</th>
<th>Filter</th>
<th>Menthol Filter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonfilter</td>
<td>21.88 (%)</td>
<td>21.62</td>
<td>21.62</td>
</tr>
<tr>
<td>Filter</td>
<td>103.73 (%)</td>
<td>103.73</td>
<td>103.73</td>
</tr>
<tr>
<td>Menthol Filter</td>
<td>9.08 (%)</td>
<td>9.08</td>
<td>9.08</td>
</tr>
</tbody>
</table>

**Table Notes:**
- Research hypotheses—H\(_i\): individual brand level, H\(_j\): intracategory level, H\(_k\): intercategory level.
- *The simple correlation mean for each competition level from Table 4. For instance, the correlation between nonfilter sales and nonfilter advertising, 1.72, is calculated from the mean of correlation of Camel (0.283) and correlation of Pall Mall (0.661).
- *Value of the aggregate Q-statistic, \( S_{u} \), from equation A3 in the Appendix.
- *The observed confidence interval of \( S_{u} \).

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correlation between a brand’s sales and its own advertising is positive for all 12 brands. Advertising can be considered a significant factor in explaining the sales for most of the brands. Aggregate results for individual-level causality reiterate this finding in Table 5, thereby supporting conventional thinking about advertising-sales causality. Some of the correlations in off-diagonal cells are negative, however—an indication of the competitive effects of advertising among brands. All off-diagonal aggregate cell entries in Table 5 are negative, again substantiating the presence of intra- and intercategory competition.

Because correlation does not imply causation, we are more interested in the second value in each cell of Table 4, the $S_{ij}$ statistic. The $S_{ij}$ value represents an analogous chi square test that investigates the presence of a causal relationship or empirical interdependence between sales and advertising series. As indicated before, the $S_{ij}$ statistic is an “exploratory” tool in defining competitive market structure, which is not specified a priori. The acceptance/rejection of the statistic generally is reported on a .50 significance level in order not to “throw the baby out with the bath water” (see, e.g., Majeski and Jones 1981, p. 273). For a more restrictive standard, however, the observed confidence interval $(1 - p$-value) greater than .80 is reported for each test in the study. Adjacent values in parentheses indicate the associated observed confidence level for the relationship between advertising and sales.

The third value, if present, in each matrix cell in Table 4 represents the significant spike(s) (at the .05 level) of the cross-correlation function related to Granger’s prima facie causality. CCF ($+k$) indicates that advertising (prima facie) causes sales, but not instantaneously; CCF ($-k$) indicates the reverse, that sales cause advertising, also not simultaneously; and CCF (0) indicates instantaneous causality only.

According to $H_1$, we expect elements on the main diagonal to indicate a causal relationship between advertising and sales. This hypothesis is strongly supported by Marlboro and Viceroy, each with an observed confidence level greater than .90, and is moderately supported by Winston, L&M, Kent, and Salem, each with an observed confidence level greater than .80. Three long-time segment leaders, Marlboro, Winston, and Salem, show instances of one-way causality (advertising causes sales), as evidenced by a significant CCF at some positive lag $k$. In two instances, for Viceroy and L&M, instantaneous causality is present and in one case, Camel, a reverse one-way causal relationship (sales causes advertising) is present. The aggregate observed confidence levels summarized in Table 5 for the nonfilter, filter, and menthol segments at the individual levels are .533, .977, and .344, respectively. Our findings support the conventional philosophy that advertising and sales are causally related in econometric modeling, particularly in the plain filter subcategory in which there is strong evidence for advertising-sales causality.

In $H_2$, intracategory causal relationships between advertising and sales are expected within the diagonal blocks. The hypothesis is supported by four dyads at a level greater than .90 and five at a level greater than .80 in the filter segment, but by none in either the nonfilter or the menthol filter segments. The aggregate observed confidence levels for the nonfilter, filter, and menthol filter categories are .012, .866, and .230, respectively, which corroborate the finding. The lack of support for interdependent causality among nonfilter products may be due to the fact that smokers of such brands as Camel and Pall Mall are loyal and addicted buyers who selectively screen out information about health hazards as well as competing advertising information.

For the filter segment, the largest category of cigarette products, competitive interactions are the greatest. The significant sample CCFs in Table 4 indicate that Winston’s advertising expenditures cause Marlboro’s sales, Viceroy’s advertising levels cause Kent’s sales, and Winston’s sales cause Kent’s advertising. Instantaneous causality also is observed for the Viceroy-L&M and Kent-Tareyton dyads. These findings suggest some important implications for intracategory competition, particularly in relation to the relative market share of brands. It is well-known that the Marlboro brand currently dominates the cigarette market. Apparently the advertising expenditures of the past segment leader, Winston, contributed significantly to Marlboro’s sales at the .94 level, whereas Marlboro’s advertising caused Winston’s sales at only a moderate .85 level. Marlboro’s advertising expenditures appear to be managed more effectively than Winston’s.

$H_3$ predicts intercategory causality in a temporal direction between old and new segments in the upper and lower off-diagonal blocks. In the lower off-diagonal blocks, only three of 41 cases (i.e., Pall Mall–Raleigh, Pall Mall–Newport, and Kent–Salem) have significant $S_{ij}$ values. In addition, none of the aggregate causal probabilities are significant (.035 for nonfilter advertising $\rightarrow$ filter sales, .636 for nonfilter advertising $\rightarrow$ menthol sales, and .011 for filter advertising $\rightarrow$ menthol sales). These results suggest that old segment advertising did not cause new segment sales. Intuitively, lack of intercategory competition between old and new segments can be interpreted as an indication that old segment advertising information was not appealing and usually was ignored by new segment smokers.

However, another temporal causation direction from new to old in the upper off-diagonal blocks of Table
4 suggests that increasing advertising of new segments has had an impact on the declining sales of older categories. This effect is supported in six of 41 dyads at significant observed confidence levels (.90) and in nine at moderate observed confidence levels (.80), with most of the lagged k-values in significant CCFs having a negative sign (suggesting a feedback relationship such that the decline in old category sales stimulated an increase in new cigarette advertising). The aggregate observed confidence level between menthol advertising and filter sales is extremely high (.996) and that between menthol advertising and nonfilter sales is marginally high (.875), suggesting that menthol brands (new segment) basically are responsive to categories. This effect is supported in six of 41 dyads.

The aggregate observed confidence level between menthol advertising and filter sales is extremely high (.996) and that between menthol advertising and nonfilter sales is marginally high (.875), suggesting that menthol brands (new segment) basically are responsive to competitive segment sales.

In summary, the three levels of competition based on genetic heritage (individual, intracategory, and intercategory) disclose a great amount of information about a species’ or brand’s existence over time. For example, in the case of Kool, note that the probability of this brand’s advertising causing its own sales is only 8%, but there is an observed 77% chance that Kool’s (menthol) advertising expenditures cause an increase in Marlboro’s (filter) sales, a 38% chance that they cause Salem’s (menthol) sales to decline, and a 62% chance that Kool’s advertising expenditures decrease Newport’s (menthol) sales. As a result, the one-time menthol segment leader may have gained from Salem and Newport in its own category (intra), but lost market share over the period studied to Marlboro in the other segment.

H₄ predicts that the causation between advertising and sales follows a gradually decreasing pattern as more distantly related species or products with more distant lineage are considered. For a more restrictive calculation, the aggregate observed confidence level for different competition levels can be summarized from Table 5 as follows.

<table>
<thead>
<tr>
<th>Observed Confidence Level</th>
<th>(1 - p-value)</th>
<th>χ²</th>
<th>d.f.</th>
</tr>
</thead>
<tbody>
<tr>
<td>H₁ Brand (species) level</td>
<td>.916</td>
<td>154.93</td>
<td>132</td>
</tr>
<tr>
<td>H₂ Intracategory (genus) level</td>
<td>.658</td>
<td>562.90</td>
<td>550</td>
</tr>
<tr>
<td>H₃ Intercategory (class) level</td>
<td>.592</td>
<td>911.27</td>
<td>902</td>
</tr>
</tbody>
</table>

Results from our time-series and econometric analyses indicate that causal relationships are present at all three levels and their relative probability of occurrence is commensurate with their “genetic” commonality. At the individual-brand level, advertising and sales causal relationships are supported most strongly. This finding follows from traditional sales response literature. In terms of the PEC and our original research objective, because the 12 brands tested are species that survived rather than becoming extinct, the high causal probability reflects managerial creativity and genetic selection as successful marketing strategies were developed.

In the case of intracategory competition, the probability of causation is not as high. However, it is more pronounced than competition at the intercategory level. This relative finding supports our evolution taxonomic hierarchy and the traditional view of segmentation.

The most pronounced intracategory relationships

Discussion

Recall that our research intent was to investigate empirically the three underlying forces of the PEC, especially managerial effectiveness and competition. In doing so, we have provided a basis on which to compare and contrast the PLC and PEC concepts. According to the PEC, related “species” that evolve from a common ancestor or from one another may coexist. We determined that a time-series investigation of advertising-sales causality would establish relationships among members of the same genus or product form and between more distantly related evolutionary organisms or products. Three bases of inquiry were used.

According to our first inquiry phase, pertaining to industry classification, variations in the sales histories at the category, form, and brand levels reflected across the life cycles were captured by the PEC. In the second phase, turning points in the life cycles of various cigarette brands were generated by the natural, genetic, and artificial selection effects of the PEC. Finally, our empirical test focused on advertising as it related to both concepts, given the dominance of this marketing mix variable as a competitive weapon in the U.S. cigarette industry. Because the tobacco industry is a mature one, only limited information related to advertising was provided by the PLC. In the context of the PEC, ad-sales relationships were investigated at the species, genus, and class levels.

Results from our time-series and econometric analyses indicate that causal relationships are present at all three levels and their relative probability of occurrence is commensurate with their "genetic" commonality. At the individual-brand level, advertising and sales causal relationships are supported most strongly. This finding follows from traditional sales response literature. In terms of the PEC and our original research objective, because the 12 brands tested are species that survived rather than becoming extinct, the high causal probability reflects managerial creativity and genetic selection as successful marketing mix strategies were developed.

In the case of intracategory competition, the probability of causation is not as high. However, it is more pronounced than competition at the intercategory level. This relative finding supports our evolution taxonomic hierarchy and the traditional view of segmentation.

The most pronounced intracategory relationships
are within the regular filter category. Intercategory causality is indicated predominantly in the new-causes-old categories temporal direction, lending support to the presence of relationships among coexisting “species” in different “genera” evolved through the PEC.

To our knowledge, ours is the first empirical study involving the PEC concept. We believe our research makes potentially important contributions in terms of (1) market dynamics, (2) the relationship between biological evolution and product competition, and (3) product line management.

**Market Dynamics**

A basic tenet of biological evolution is that events occur over time. It follows that the manner in which species coexist also evolves as time passes. In our example, the ways in which tobacco products coexisted in 1960, 1970, and 1980 might differ substantially. We chose for our analysis to take a “snapshot in time.” The time-series method used in the analysis required nearly three decades of data. As time passes and more data become available, however, a “moving-window” approach to the estimation could provide further insight into how a competitive structure evolves.

**Biological Evolution and Product Competition**

To carry our biological analogy a step further, one might consider that our organisms have one dominant gene in terms of genetic selection—advertising. An important question is which genes or genetic traits influence competition among species and survival over time.

**Product Line Management**

Our research shows primarily that competitive sales response and reactivity are more intense on an intercategory level than one might anticipate. This empirical result has important implications for theoretical research, which traditionally has assumed independence.

Future research efforts might be directed to replication of this type of dynamic analysis, should shorter-interval data become available. Quarterly or monthly data would allow a study to include more of the recent innovation categories than we were able to consider with annual measures. Replication of this analysis in a setting with multiple genetic traits would provide valuable information about the dynamics of genetic selection and competition among species.

**Appendix**

**Step 1. ARIMA Intervention Model**

In accordance with the two-stage Pierce-Haugh cross-correlation method described, the advertising and sales data series for 12 cigarette brands were prewhitened in this step. This prewhitening procedure is conducted to remove systematic patterns in the data series that might yield spurious causality in the next step. The model in equation A1 considers the genetic effect (advertising), natural selection effect (segment competition), and artificial selection shock (advertising ban) on the survival of the fittest (brand sales). The parameters \( \phi_i \) and \( \theta_i \) represent the cumulative pattern (strategy) that the life forms (brands) adopt in adapting to the environments.

The general ARIMA procedure models with the intervention from the advertising ban in 1971 in this step can be written as (see also McCleary and Hay 1980, ch. 3):

\[
Z_{it} = \mu_i + \psi_i I_t + \theta_i(B)/\phi_i(B) a_{it} \tag{A1}
\]

where:

- \( Z_{it} \) is the original sales series for brand \( i \) (\( Z_{it} \) represent advertising series, which follow the same process as in equation A1),
- \( \mu_i \) is the constant term, \( \mu_i \),
- \( \psi_i \) is the transfer function weight for the dummy variable \( I_t \),
- \( I_t \) is the dummy variable for the advertising intervention (\( I_t = 0 \) for observations before 1970, \( = 1 \) for observations after 1971),
- \( \phi_i(B) \) is the AR (autoregressive) operator, \( \phi_i(B) = 1 - \phi_{i1} B - \ldots - \phi_{ik} B^k \),
- \( \theta_i(B) \) is the MA (moving average) operator, \( \theta_i(B) = 1 + \theta_{i1} B + \ldots + \theta_{ik} B^k \),
- \( B \) is the backshift operator, i.e., \( B Z_t = Z_{t-1} \), and
- \( a_{it} \) is the white noise of sales series, also called random error, which follows the IID (independent, identically distributed) assumption.

The ARIMA model-building for sales and advertising series is based on a three-step iterative cycle of (1) model identification, (2) model estimation, and (3) diagnostic checking. The purpose of the model at the diagnostic checking stage is to examine whether the sample ACFs and PACFs of residuals are jointly zero. This procedure is conducted by Ljung and Box’s (1978) Q-statistic, which is desirable for moderate-sized samples. The formulation for the Q-statistic is the same as in equation A2 except that CCF(k) is replaced by ACF(k) for any \( k = 1 \) to \( m \) (the description of the Q-statistic is also given in SAS Econometrics/Time Series, 1984, p. 141).

**Step 2. Causality Detection**

Residual series were cross-correlated in a pairwise manner to test the independence of the causality hypothesis in this step. This procedure is performed by cross-correlating one prewhitened sales series with each of 12 prewhitened advertising series. As our interest is to investigate all possible causal events between advertising and sales, the significance of cross-correlation functions (CCF) was examined from the \( m \) positive lagged CCF to the \( m \) negative lagged CCF to detect causal relationships. This step can be summarized in the following formulation.

The statistic \( S_{ij} \), under the null hypothesis that advertising \( (a_{ij}) \) and sales \( (a_{ij}) \) are not causally related, in particular, is:

\[
S_{ij} = N(N + 2) \sum_{k=-m}^m \text{CCF}(k)^2 / (N - 2m - 1) \tag{A2}
\]

where:

\[
\text{CCF}(k) = \frac{\sum_{i}^{N-k} (a_{ij} - \bar{a})(a_{i+k} - \bar{a})}{\sum_{i}^{N} a_{ij} - \bar{a}} \sum_{j}^{N} a_{ij} - \bar{a}
\]

and
N = the total number of residuals from equation A1,
k = time lag, k = 1, 2, ..., k < N,
m = the maximum value chosen by the researcher (m = 5),
\( \bar{a}_i, \bar{a}_j \) are the sample means of advertising and sales residual series \( a_{i1} \) and \( a_{j1} \), respectively, and
\( S_{ai}, S_{aj} \) are the sample standard deviations of \( a_{i1} \) and \( a_{j1} \).

\( S_{ij} \) is asymptotically distributed as chi square with \( 2m + 1 \) d.f. (Pierce and Haugh 1977). Therefore, the hypothesis that \( a_{i1} \) and \( a_{j1} \) are independent would not be rejected at level \( \alpha \) if and only if
\[
S_{ij} < \chi^2, 2m + 1.
\]

This overall chi square test implies that the higher the \( S_{ij} \) value, the lower the probability of such an \( S_{ij} \) value if sales and advertising were unrelated. However, one must be cautious in interpreting the overall chi square test, \( S_{ij} \). If two series are not causally unrelated, several possible causality events can be referred to, such as instantaneous causality, feedback, advertising causing sales but not instantaneously, . . . etc. (see Pierce and Haugh 1977, Table 3, for details). Such causal events are called "prima facie causality" (Granger 1980) and are treated as simply happening by chance.

**Step 3: Overall Causality Test**

Our individual causality results are summarized in the context of the PEC and three levels of the taxonomic hierarchy, such that relationships among close and more distantly related products in terms of evolution are noted.

The causality test at each level of competition can be obtained by summing \( S_{ij} \) for each block from the chi square distribution property (Mood, Gaybill, and Boes 1974) such that
\[
S_k = \sum_{i=1}^{m} \sum_{j=1}^{m} S_{ij}.
\]

This new aggregate statistic \( S_k \) is also asymptotically distributed as chi square with degrees of freedom obtained from the summing-up cells. For instance, the first diagonal block for the nonfilter segment at the intracategory level is obtained by adding \( S_{11} \) and \( S_{22} \) as
\[
S_1 = 1.63 + 8.23 = 9.86
\]
with d.f. = 22 and the associated observed confidence level (1 − p-value) = .012.

**REFERENCES**


Media/Scope (1968), February, 95.


