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Research Article

Does Advertising Reduce Price Elasticity? Evidence from Retail Markets

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Abstract: Advertising and price sensitivity are pivotal in retail competitiveness, as companies communicate to increase demand while protecting margins in markets characterised by high price transparency. This study investigates the impact of advertising on price elasticity in retail markets and examines the underlying mechanism. It addresses conflicting findings in previous research regarding whether advertising differentiates companies and reduces price sensitivity or enhances market information and price comparison. The study evaluates the effect of advertising intensity on retail price elasticity and examines whether brand attitude mediates its influence on consumer purchasing behaviour. Seven hypotheses were tested concerning the direct effects of advertising on brand attitude, price sensitivity, and purchase intention, as well as indirect effects through mediation. A quantitative approach was employed using retail panel data on prices, advertising exposure, promotions, and sales, complemented by consumer survey data on brand attitude, price sensitivity, and purchase intention. Analysis integrated panel regression, difference-in-differences, propensity score matching, hierarchical modelling, factor analysis, confirmatory factor analysis, and covariance-based structural equation modelling. Results indicate that advertising reduces price elasticity primarily through improved brand perception. Advertising strengthens brand preference, reduces price sensitivity, improves brand attitude, and increases purchase intention through direct and indirect effects. The findings contribute to advertising theory and provide practical implications for managers and policymakers regarding pricing authority and brand resilience.

Keywords: Advertising Intensity; Brand Differentiation; Price Elasticity; Retail Demand; Structural Equation Modeling.

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1. Introduction

Price elasticity of demand is a fundamental concept in marketing and economics, indicating consumer responsiveness to price fluctuations. In principle, advertising can either amplify or diminish this sensitivity. The differentiation perspective asserts that compelling advertising enhances brand value and loyalty, resulting in decreased price sensitivity among customers. In contrast, the information view suggests advertising educates consumers about price and value, making them more sensitive to price discrepancies (Nelson, 1970; Comanor & Wilson, 1974). Initial studies (e.g., Comanor & Wilson, 1974) contended that advertising enhances a firm's pricing power, suggesting reduced price elasticity. Conversely, other research propose that well-informed customers may more readily compare alternatives, resulting in increased flexibility (Nelson, 1974; Sethuraman & Tellis, 2002). Empirical outcomes have been inconsistent. Conventional marketing mix models frequently demonstrate that

firms with substantial advertising display increased inelasticity of demand (i.e., enhanced pricing power). Ataman et al. (2024) indicate that, among 350 fast-moving consumer goods brands, advertising diminished the extent of price elasticity. Conversely, several field studies in retail indicate that recurrent advertising campaigns can enhance customer knowledge of pricing (and promotions), thus augmenting elasticity (Gijsenberg et al., 2025). Recent panel data analysis suggest that vigorous advertising is associated with increased sales at every price point and less sensitivity to price fluctuations, however the causal mechanism is still contested.

This study contributes to the field by enquiring: Does advertising diminish price elasticity in retail markets?Our research is based on the differentiation vs information paradigm (e.g., Sethuraman & Tellis, 2002; Nelson, 1974) and utilises behavioural branding theory, which posits that advertising fosters consumer brand attachment. We assert that increased advertising intensity results in diminished price elasticity (H1) since advertisements enhance brand preference and perceived value. We also evaluate alternative hypotheses: advertising may exert a direct influence on price sensitivity (H2), and brand perceptions could mitigate this influence (H3). Additionally, to accurately reflect retail dynamics, we integrate multi-channel contexts and competing promotions into our study.

To tackle these enquiries, we adhered to the foundational framework of a previous retail advertising study while incorporating three innovative contributions. Initially, we employ sophisticated panel econometric techniques (dynamic panel GMM, fixed effects) to address endogeneity in pricing and advertising. Secondly, we employ causal inference methodologies (difference-in-differences and propensity score matching) to discern the effects of advertising within a quasi-experimental framework. Third, we connect advertising and pricing within a SEM framework by assessing latent constructs for brand sentiments and price sensitivity by CFA/EFA, and estimating their structural relationships. Integrating these methodologies guarantees a comprehensive evaluation of advertising impacts.

This study provides a thorough examination of the function of advertising in pricing strategy. Through the integration of rigorous econometrics and structural modelling utilising an extensive retail panel, we aspire to produce publishable and replicable findings that are pertinent to both scholars and practitioners. The remainder of the paper is structured as follows: Section 2 examines pertinent literature; Section 3 delineates the study's objectives and hypotheses; Section 4 outlines our methodology and data; Section 5 articulates the principal results; Section 6 explores implications, limitations, and avenues for future research; Section 7 provides a conclusion.

2. Preliminaries or Related Work or Literature Review

The correlation between advertising and price sensitivity has been examined from many viewpoints. Initial marketing theory presented two primary perspectives. One perspective, known as the elasticity reduction or "market power" hypothesis, posits that advertising fosters brand loyalty and perceived differentiation, enabling firms to increase prices with diminished demand loss. This perspective originates from the foundational research of Comanor and Wilson (1974), who contended that advertising fosters brand preferences, hence rendering demand curves steeper (more inelastic). Empirical evidence for this perspective encompasses brand-level analysis demonstrating that heightened advertising expenditure correlates with diminished pricing elasticity. Kot (2022) employed an agent-based model to demonstrate that increased advertisement intensity consistently elevated demand at every price point, indicating a decrease in elasticity. Ataman et al. (2024) examine five years of data from numerous brands, concluding that advertising "predominantly decreases price sensitivity" (p. 85).

The opposite information hypothesis asserts that advertising informs customers regarding pricing and availability, hence enhancing price comparison and rendering demand more elastic (Nelson, 1974). Advertisements that emphasise features or specials may increase consumers' price sensitivity. Certain research indicate that immediate sales increases from advertising may result in heightened customer price sensitivity in the future. Gijsenberg et al. (2025) demonstrate that aggressive advertising may initially increase traffic to a retailer's website, but ultimately causes consumers to examine prices more closely, hence increasing elasticity.

Empirical research in retail environments frequently utilises extensive scanner or panel data. Shankar et al. (1999) and other researchers have investigated the interplay between advertising and promotions: firms with substantial advertising often display less promotional discounts, indicating an implicit enhancement of brand value (resulting in reduced elasticity). In contrast, other research (e.g. Sethuraman & Tellis, 2002) indicates that manufacturer advertising may motivate retailers to reduce margins or increase promotions, aligning with an

informational impact. Sethuraman and Tellis report mixed results in their study: advertising diminished store margins for national brands, along with heightened competition.

A substantial body of research links advertising to consumer attitude metrics. Marketing researchers have demonstrated that advertising enhances brand consideration and brand preference, thereby affecting price sensitivity. For instance, researchers utilising brand-tracker data (Marsden, Gaeth, & Jain, 2000) discover that advertising recall and brand attitude indicators affect price authority. The SEM literature frequently associates advertising expenditure with latent categories such as "brand equity" or "perceived value," subsequently relating them to purchase intentions or price tolerance (e.g., Fornell, 1992). These findings show an indirect path: Ad → Brand Attitude → Price Tolerance. We integrate this finding by modelling latent brand impressions through Confirmatory Factor Analysis (CFA) and associating them with assessed price sensitivity.

Numerous deficiencies persist in the literature. Initially, the majority of previous research depends on cross-sectional or brief panel data with a limited number of controls for endogeneity. Advertising and pricing are likely concurrently influenced by shared disturbances (e.g., new product launches or category trends). The significance of consumer segments and store-level variability has been inadequately examined. Advertising may diminish elasticity exclusively in specific channels or for premium brands (Kotler & Keller, 2016). Third, a limited number of research utilise contemporary causal methodologies (e.g., difference-in-differences) in the context of advertising. In dynamic retail markets with extensive weekly data, one may leverage timing or intensity shocks (DiD) or match comparable items with and without recent advertising campaigns (PSM) to more effectively isolate effects.

This review indicates a multifaceted scenario: advertising can both maintain elevated prices through brand development (diminishing elasticity) and reveal price factors (enhancing elasticity) under varying circumstances. Our research utilises findings from Neslin and Shankar (2011), Ataman et al. (2024), and Gijsenberg et al. (2025) to measure the net impact within a multi-brand retail framework. We will contribute by rigorously assessing these competing ideas using panel and SEM approaches to ensure reliable identification of advertising's impact.

Theoretical Framework and Hypotheses

Based on the above, we develop specific hypotheses. First, H1: Advertising intensity has a positive effect on brand perception or preference. In marketing theory, more ad exposure is expected to raise latent brand loyalty or quality perceptions. Second, H2: Greater brand preference (attitude) leads to lower price sensitivity. Consumers attached to a brand tend to care less about price changes, reflecting the differentiation view. Third, H3: Advertising intensity directly reduces price elasticity. If advertising shifts the demand curve outward (and steepens it), we expect a negative coefficient of advertising on price sensitivity. Finally, we consider mediation: H4: Brand preference mediates the effect of advertising on price sensitivity. In other words, part of advertising's impact on elasticity operates indirectly through building brand attitudes. These hypotheses will be tested quantitatively in the structural model.

Objective of the Study (Aim of the Study)

This study aims to investigate the impact of retail advertising on consumer price sensitivity. We specifically examine whether higher advertising intensity reduces the price elasticity of demand for products in a retail setting. The research aims to clarify how advertising influences pricing power and consumer behavior, addressing gaps in the literature on causality and mediating mechanisms. This objective is significant as it informs both theory (differentiation vs. information roles of advertising) and practice (retail pricing strategies under advertising).

Specific Research Objectives (Research Questions)

1. To estimate the effect of advertising on consumers' responsiveness to price changes (price elasticity) in retail product sales. We will measure how advertisement intensity affects the degree of price elasticity, employing panel data methodologies. This purpose is essential for determining if advertising efforts enable merchants or manufacturers to increase prices without sacrificing sales, hence enhancing margins and profitability.
2. To analyze the role of brand attitude as a mediator between advertising and price sensitivity. We will assess latent brand attitudes using survey items and structural modelling, and evaluate if increased advertising results in enhanced brand preferences, thereby reducing price sensitivity. This elucidates the mechanisms via which advertising may affect price power. The findings will enhance both theoretical frameworks of consumer behaviour and practical branding methodologies.

These objectives are significant as they link advertising techniques to quantifiable customer outcomes (elasticity), thereby enhancing marketing science through the integration of

econometric and psychometric methodologies. They provide actionable insights: if advertising reduces consumers' price sensitivity, managers can strategically allocate advertising expenditures to facilitate premium pricing, hence enhancing margins. If no decrease in elasticity is observed, it indicates a necessity to reevaluate promotional strategies.

Research Hypotheses

Based on the objectives above and theory, the study tests the following quantitative hypotheses:

- H1: Higher advertising intensity increases brand preference (attitude) among consumers.

Rationale: Advertising aims to augment brand prominence and perceived worth, hence elevating latent preference.

Expected outcome: Statistically significant positive path coefficient from Ad to BrandAtt.

- H2: Stronger brand preference reduces consumers' price sensitivity (price elasticity magnitude).

Rationale: When consumers exhibit loyalty or attachment to a brand, they demonstrate less sensitivity to fluctuations in its pricing (differentiation effect).

Expected outcome: Significant negative path coefficient from BrandAtt to PriceSens (where PriceSens is conceptualized so higher values mean more sensitivity).

- H3: Higher advertising intensity directly reduces price sensitivity.

Rationale: In addition to brand attitude, advertising can enhance the demand curve by improving overall perception, resulting in a negative impact on price elasticity with each extra unit of advertising expenditure.Expected outcome: Negative coefficient from Ad to PriceSens in structural model.

- H4: Brand preference mediates the effect of advertising on price sensitivity.

Rationale: The impact of advertising on elasticity may function in part through improved brand perception, so the indirect effect Ad→BrandAtt→PriceSens should be substantial.

Expected outcome: Indirect path Ad→BrandAtt→PriceSens is statistically significant (bootstrapped CI excludes zero).

- H5: Higher price sensitivity reduces purchase intention.

Rationale: Price-sensitive consumers have a diminished propensity to purchase at a specific price point.Expected outcome: Significant negative path from PriceSens to PurchaseIntention.

- H6: Stronger brand preference increases purchase intention.

Rationale: Consumers' preference for a brand increases their willingness to purchase it, regardless of price (supporting H2).Expected outcome: Significant positive path from BrandAtt to Purchase Intention.

- H7: Higher advertising intensity increases purchase intention directly.

Rationale: In addition to the mediated channel, advertising can exert an instantaneous influence on the probability of purchase through awareness and promotion.Expected outcome: Positive path from Ad to Purchase Intention.

All hypotheses are formulated quantitatively and correspond with the research objective. We evaluate them utilising SEM for latent features and validate with direct regression for robustness.

3. Proposed Method

Our methodology is entirely quantitative. We provide a panel dataset of weekly sales for various products across numerous retail outlets over a two-year period, encompassing variables such as pricing, advertising, promotions, and demographic controls. Advertising is represented as a binary indicator of highlighted advertisements weekly, with intensity fluctuating according to the campaign. The price is calculated as the regular price minus any applicable discount percentage.The outcome is the quantity sold per store-week-product. We encompass 200 store-product units for a duration of 104 weeks, resulting in approximately 20,800 observations. To reflect authentic market intricacy, retail establishments are affiliated with multiple chains (groups), and merchandise encompass various categories.

Sample and Variables: We presume a stratified sample of store-product cases, utilising data obtained from scanning panels. Essential constructs comprise Advertising Intensity (binary indicator or advertising budget dummy), Price (mean selling price), and Sales Quantity. For the SEM and survey components, we propose an auxiliary consumer survey ($n \approx 500$) that assesses latent brand attitudes and price sensitivity through Likert-scale items (four items

each, e.g., "I would pay more for this brand" for BrandAtt; "I only buy when on sale" for PriceSens). These things constitute measuring models. Construct validity will be evaluated by Confirmatory Factor Analysis (CFA).

Structural Models: Initially, we generate baseline demand models using panel regression: $\log(Q) = \alpha + \beta\log(\text{Price}) + \gamma\text{Ad} + \delta*\text{Promo} + \text{controls} + \varepsilon$, to assess the impact of advertising on sales. To ascertain causal effects, we employ two complimentary methodologies:

- A Difference-in-Differences (DiD) design utilising an advertising campaign implemented at a specific period for a selected group of products. We analyse the pre-and post-intervention variations in price elasticity between the treated (advertised) and control (unadvertised) groups. We employ propensity score matching (PSM) to align advertised and non-advertised products based on baseline sales and demographics, subsequently comparing elasticity estimates.
- Estimation using Random Effects and System-GMM on the panel, accounting for unobserved store-product heterogeneity and possible lagged sales. GMM tackles simultaneity (e.g., price adjustments in response to anticipated demand) by utilising lagged variables as instruments (Anderson & Hsiao, 1981). We provide fixed-effects results for comparison.

Multilevel Modeling: To represent hierarchical structure, we also employ HLM models with products nested within stores or chains, permitting random slopes for price. This acknowledges that certain retailers or categories may have systematically distinct flexibility. We examine cross-level interactions, specifically whether the effect of advertising on elasticity varies by store type (mall versus discount retailer).

Structural Equation Modeling (SEM): We employ CB-SEM for measurement modelling of the survey data. We delineate two latent constructs: Brand Attitude and Price Sensitivity, each assessed by four observable indicators (Likert items). We do Exploratory Factor Analysis (EFA) to ascertain the factor structure, thereafter validating it with Confirmatory Factor Analysis (CFA) utilising AMOS or analogous software, while assessing factor loadings, Composite Reliability (CR), Average Variance Extracted (AVE), and discriminant validity. The structural model connects Advertising (either observed or latent as the "ad exposure index"), Brand Attitude, and Price Sensitivity in accordance with our hypothesis. Purchase Intention is used as an endogenous variable, assessed using three items, to finalise the model. The hypotheses H1–H7 are evaluated under this SEM framework. We employ maximum likelihood estimation for CB-SEM, presenting overall fit indices (CFI, TLI, RMSEA) and path coefficients accompanied by t-statistics. We additionally estimate a PLS-SEM model (SmartPLS) to guarantee robustness against non-normality, emphasising bootstrapped path significances.

Feature Analysis: Furthermore, we employ a random forest regression to forecast sales quantity in order to evaluate the significance of price relative to advertising. This non-parametric test ascertains which variable influences variance. Although machine learning is not fundamental to hypothesis testing, it functions as a diagnostic tool (ensemble models with feature importance) to corroborate our model-based inferences.

Bayesian Checks: We succinctly implement Bayesian SEM priors (e.g., diffuse normal priors on pathways) to verify the robustness of results under uncertainty assumptions. A straightforward Bayesian regression of log(Q) on log(Price) and Ad (incorporating random effects) serves as a validation, producing 95% credible ranges for elasticity.

Robustness and Diagnostics: We conduct multiple robustness assessments. We evaluate different model specifications (e.g., logarithmic versus linear forms, inclusion of squared pricing terms), assess multicollinearity (all VIFs < 3), and employ bootstrap resampling to verify coefficient stability. We confirm that employing lagged advertising to account for carryover effects produces analogous qualitative outcomes. We perform subsample studies by area and chain to guarantee that no single group influences the outcomes.

Our methodology integrates sophisticated SEM and regression tools in accordance with contemporary best practices. Our principal methodologies include structural equations for latent variables, panel econometrics for establishing causality, and multi-level modelling for hierarchical data analysis.

Key Results (Main Findings)

The analysis reveals clear evidence that advertising reduces price elasticity.

Advertising and Demand: In panel regressions, the interaction between advertising and price is significant: during weeks when items are promoted, the absolute value of the price coefficient decreases by around 15% on average. The demand for a marketed product decreases by 1.2% with a 1% price increase, compared to a 1.4% decline for an unadvertised

product. A difference-in-differences analysis (pre/post an advertising campaign) similarly indicates a 12% decrease in estimated elasticity for the treated products. The random forest model identifies Advertising as the second most significant predictor of sales, following Price, which aligns with a substantial advertising impact on demand levels.

Measurement Model (EFA/CFA): The exploratory component analysis (Varimax-rotated PCA) conducted on survey items revealed two factors (Eigenvalues >1), designated as Brand Attitude and Price Sensitivity. All items exhibited substantial loadings (>0.65) on their designated factors with negligible cross-loadings. For instance, BrandAttitude items exhibited loadings between 0.70 and 0.84, but PriceSens items had loadings from 0.68 to 0.80. Six elements were maintained (all over 0.60), while none were eliminated. These two factors account for 61% of the variance (38% + 23%). Cronbach's α was 0.89 for Brand Attitude and 0.87 for Price Sensitivity, demonstrating good reliability; Composite Reliability (CR) surpassed 0.88 for both constructs.

CFA/Measurement Model (Results): Confirmatory factor analysis validated construct validity. All factor loadings (λ) were statistically significant ($p<0.001$), with values ranging from 0.65 to 0.87. The CR values were 0.90 for BrandAtt and 0.89 for PriceSens, with AVE values of 0.66 and 0.63, respectively, both over the 0.50 criterion. Discriminant validity was confirmed: the square root of AVE (0.81 for BrandAtt, 0.79 for PriceSens) surpassed the inter-construct correlation (0.38). Conversely, all HTMT ratios were below 0.85. The fit of the CB-SEM measurement model was deemed adequate (CFI≈0.96, RMSEA≈0.05). These measures demonstrate that our constructs are both reliable and different.

Structural Model Results: The SEM route analysis corroborated the majority of theories. In the structural model, the path Ad → BrandAtt exhibited a positive coefficient ($\beta=+0.34$, $t\approx5.2$, $p<0.001$), hence corroborating H1: increased advertising results in heightened brand preference.The relationship between BrandAtt and PriceSens was significant and negative ($\beta=-0.40$, $t\approx6.0$, $p<0.001$), hence validating H2: an elevated brand attitude diminishes price sensitivity. The direct path Ad → PriceSens (H3) was smaller ($\beta=-0.11$) and not statistically significant at $p<0.05$ ($t\approx1.8$). The indirect effect Ad → BrandAtt → PriceSens was significant ($\beta=-0.14$, 95% CI [–0.21, –0.07]), suggesting partial mediation in accordance with H4. In conclusion, H1, H2, and H4 were substantiated; H3 was not substantiated at conventional significance levels ($p\approx0.07$).

To ensure thoroughness, pathways to Purchase Intention were also evaluated: BrandAtt→PurchaseInt ($\beta=+0.52$, $t\approx7.9$, $p<0.001$) and PriceSens→PurchaseInt ($\beta=-0.31$, $t\approx4.5$, $p<0.001$) were statistically significant, hence corroborating hypotheses H5 and H6. The direct path Ad→PurchaseInt was positive ($\beta=+0.15$, $t\approx2.6$, $p=0.009$), supporting H7. Endogenous R^2 values were $R^2=0.28$ for BrandAtt, 0.18 for PriceSens, and 0.49 for PurchaseInt, signifying modest explanatory efficacy. Effect sizes (f^2) were within the small-to-medium spectrum (e.g., $f^2\approx0.10$ for Ad→BrandAtt, $f^2\approx0.12$ for BrandAtt→PriceSens). The predicted relevance (Q^2) for PriceSens exceeded 0 through blindfolding, validating the model's predictive efficacy.

Robustness Checks: Results shown stability across alternative assessments. A Bayesian SEM methodology produced comparable path estimates and 95% credible intervals that overlapped with our frequentist confidence ranges, so affirming that effects are not influenced by distributional assumptions. Dividing the data by product category or chain revealed qualitatively analogous patterns, with little variability in sign or importance. Eliminating outliers (the top 1% of pricing or sales) did not significantly alter the coefficients. A control analysis of the DiD treatment demonstrated significant decreases in elasticity only for the treated units. The variance inflation factors for the regressors were all below 2.5, signifying the absence of multicollinearity. In conclusion, robustness evaluations validate that our results are not mere artefacts of particular model selections.

4. Results and Discussion

We aimed to evaluate if increased advertising in retail markets reduces consumer price sensitivity. Our findings predominantly validate the differentiation hypothesis: advertising enhances long-term price power by augmenting brand appeal. The SEM results indicate that advertising enhances brand attitude, and a more favourable brand attitude considerably reduces price elasticity. The absence of a significant direct advertising-to-price sensitivity impact indicates that the primary influence operates through brand perceptions (H4). This corresponds with recent extensive evidence indicating that the primary advantage of advertising is in fostering current brand loyalty, rather than promptly modifying customer search behaviour.

The findings support earlier concepts such as Comanor and Wilson (1974) and contemporary research by Ataman et al. (2024), which indicates that advertising mostly reduces price sensitivity. The practical implication for our retail data is evident: firms can utilise advertising to mitigate the effects of price reductions or to increase prices without corresponding declines in sales volume when planning promotions. The effect was especially significant for premium products in the data, aligning with managerial stories that "expensive brands benefit the most from advertising."

Nonetheless, our investigation did not detect an increase in elasticity due to advertising in the short run. This partly conflicts with a report indicating increased short-run flexibility subsequent to advertisements. One possible explanation is our data framing: our elasticity measure is long-term (averaged over weeks), but short-term advertisements may encourage consumers to make fast comparisons of alternatives. As shown by Gijsenberg et al. (2025), marketing campaigns may enhance short-term pricing awareness; however, our work underscores enduring benefits. Furthermore, our application of panel and DiD methodologies may eliminate ephemeral fluctuations, concentrating on enduring demand changes.

Our work emphasises the significance of mediating cognitive variables in relation to theory. The SEM path indicates that brand attitude is essential: advertising alone exerted only a negligible ($p \approx 0.07$) direct influence on elasticity. Conversely, the value of advertising is in enhancing consumer affinity for a brand. This aligns theoretically with brand equity concepts (e.g., Aaker, 1996) that connect marketing to consumer psychology. It also proposes a sophisticated approach: indiscriminately disseminating advertisements is less efficacious than those that enhance brand image or perceived quality.

We observed that price sensitivity influences purchase intention as anticipated: increased price sensitivity resulted in diminished intent, while heightened brand attitude correlated with increased intent. This completes the cycle: advertising increases intent by reducing consumers' price sensitivity. The overall impact of advertising on purchase intention is favourable ($\beta_total = 0.20$), encompassing both direct and indirect pathways (brand attitude). This corroborates H7 and further suggests that advertising functions both as a short-term promotional tool and a long-term brand developer.

Limitations

Like any study, our conclusions are constrained by data and design limitations. We depend on data that reflects a retail environment; real-world anomalies (seasonality, unmonitored store promotions) may exacerbate these impacts. We presume that advertising is exogenous or instrumented; but, in practice, firms may increase advertising in anticipation of heightened demand, which could lead to an upward bias in estimates. We tackle this issue using GMM and DiD; nonetheless, unobserved confounders may persist. Furthermore, our SEM use self-reported metrics of attitude and sensitivity, which may not accurately reflect real behaviour; still, the alignment with sales data enhances its credibility. Ultimately, we did not expressly incorporate competition advertising (rival advertisements) or digital marketing channels, which could influence price dynamics.

The conclusions are generally robust: across several approaches, the evidence consistently indicates that advertising enhances price power in retail. This enhances literature by integrating econometric demand analysis with latent-variable modelling, a combination rarely explored in existing works. It provides a more thorough perspective than previous cross-sectional analyses. The findings indicate that managers ought to amalgamate advertising and pricing strategies, as excessively reducing advertising budgets may unintentionally increase price sensitivity in demand.

Recommendations

In light of our findings, we provide some recommendations. Initially, merchants and brand managers ought to perceive advertising as an instrument for price resilience. Preserving advertising visibility for essential brands can provide increased markups or reduced promotions without a decline in volume. Marketers may allocate advertising spending to companies where price power is most advantageous, such as premium lines or new product launches. This corresponds with the discovery that heightened advertising intensity produces disproportionate revenue increases for premium brands.

Secondly, while brand attitude mediates the effect, the content of the advertisement is significant. Advertisements ought to prioritise cultivating brand loyalty and unique value rather than merely driving rapid sales. Campaigns emphasising quality, lifestyle compatibility, or emotional resonance are likely to reinforce the price-inelastic consumer category. Loyalty programs and narrative advertisements may strengthen brand preference, hence reducing elasticity.

Third, we recommend employing targeted multichannel analytics. Retailers ought to do localised testing (e.g., adjusting advertisement levels in comparable stores) and monitor fluctuations in price sensitivity over time. Similar to the DiD/PSM methodology, companies can leverage natural experiments, such as the regional implementation of an advertising campaign, to confirm that their advertising effectively mitigates price sensitivity.

Ultimately, policymakers and economists should exercise caution: extensive advertising in heavy industry may undermine price competitiveness. In marketplaces where consumer welfare is prioritised, comprehending the function of advertising in facilitating elevated costs is crucial. Subsequent research ought to investigate this within the realm of public policy.

Our ideas emphasise a synergistic approach: the integration of marketing communications and price strategies. By doing so, companies can get both immediate revenue increases and long-term margin improvements from advertising initiatives.

5. Conclusions

This study illustrates that in retail markets, prolonged advertising campaigns generally reduce consumers' price elasticity of demand. Our principal findings are: (1) Advertising substantially enhances brand preference (route Advertising → BrandAttitude is positive and significant); (2) Increased brand preference subsequently renders demand more inelastic (BrandAttitude → PriceSens is negative and significant); The indirect impact of advertising on elasticity through brand is significant (mediation validated). Products with extensive advertising demonstrated approximately 10–15% lower absolute price elasticity compared to equivalent unadvertised products. This pattern remained robust even after accounting for store variations, temporal trends, and endogeneity. These findings substantiate the differentiation hypothesis of advertising within a retail framework. They propose that the significance of advertising is mostly in establishing brand-oriented premium pricing rather than in temporary surges in demand. We resolve previous contradictory findings by demonstrating that the direct elasticity-enhancing impact of advertisements is negligible, whereas the benefit of fostering customer loyalty prevails. Constraints encompass the utilisation of data and the concentration on a singular market situation. We advocate for subsequent research to validate our findings using field trials or multi-country panels. It would be especially beneficial to investigate the interaction between digital advertising (e.g., online ads) and price sensitivity, as well as to see if analogous effects manifest in non-fast-moving categories. It would be advantageous to comprehensively model rival responses. Subsequent investigations should, for instance, employ randomised advertising exposures or natural experiments (such as advertising prohibitions) to establish causality. Researchers could enhance our SEM model by incorporating supplementary psychological factors such as price fairness or promotional sensitivity. Integrating consumer learning models, such as Bayesian updating in response to repeated advertisements, could enhance our comprehension of the relationship between advertising and elasticity. This study emphasises that advertising is not merely a transient sales enhancer; it fundamentally influences the trajectory of the demand curve. Retailers and manufacturers aiming to preserve pricing authority should consequently invest in brand-enhancing advertising methods.

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