

Hidden Cost of Shelf Space

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1 Abstract

This essay investigates the advertising, Selling General and Administrative (SGA), and R&D expenses on the phenomenon of sales incentives. Also this paper addresses whether a vendors sales incentive is a product of market power or a signaling of market process. The findings suggest that prevailing distinctions between power and signaling effects may be simplistic. Contrary to the conventional wisdom, we find that signaling rather than market power is a determining factor for sales incentives. Furthermore, the findings reconcile the two competing arguments regarding whether the causal relationship between advertising and sales incentives is substitutive (Desai, 2000) or complementary (Sudhir and Rao, 2006). This paper finds that the impact of advertising is negative on sales incentives at low quantile levels, while from middle to upper quantiles sales incentives act as a complement for advertising. In general, effects of SGA and R&D expenditures are positive at all quantiles.