Why do brand managers (not) react when attacked? And does it matter?

Jan-Benedict E.M. Steenkamp
Tilburg University

Vincent R. Nijs
Northwestern University

Dominique M. Hanssens
University of California, Los Angeles

Marnik G. Dekimpe
Catholic University Leuven and RMS Erasmus University

Overview of findings

How do competitors react to each other's price-promotion and advertising attacks? What are the reasons for the observed reaction behavior? We answer these questions by performing a large-scale empirical study on the short-run and long-run reactions to promotion and advertising attacks in over 400 consumer product categories over a four-year time span.

Competitive reaction is found to be predominantly absent. When it is present, it is usually retaliatory in the same instrument, i.e. promotion attacks are countered with promotions, and advertising attacks are countered with advertising. There are very few long-run consequences of any type of reaction behavior. We further demonstrate that passive behavior is often a sound strategy, while firms that do opt to retaliate often do so with ineffective instruments, resulting in "spoiled arms". Accommodating behavior is observed in only a minority of cases, and often results in a missed sales opportunity when promotional support is reduced. The ultimate impact of most promotion and advertising campaigns depends primarily on the nature of consumer response, not the vigilance of competitors.

Significance of Research

In consumer and business markets alike, we observe a never-ending sequence of marketing actions and competitive reactions that eventually shape both the structure of a market and the

performance of its participants. In this repetitive marketing game, managers need to know whether or not marketing reactions are necessary (i.e., essential to the long-run survival of their brands) or discretionary, i.e., they may have desirable short-run outcomes, but are inconsequential to the brand's long-run competitive position. This is a difficult task, as it entails knowledge about the direction of a competitive effect (beneficial, harmful or neutral), its duration, as well as the effectiveness of competitive response for both retaliating and accommodating behavior.

This research examines the way in which competitors react to two of the most prevailing forms of marketing activity, viz., price promotions and advertising. We examine the competitive reaction elasticities due to price promotion or advertising attacks, both in the short and the long run, and quantify the impact of a variety of brand and category factors influencing the magnitude of these elasticities. We also study the implications of reaction behavior on the sales levels of the defending brands.

Our study is based on all major participants in 442 consumer product categories in The Netherlands, sampled weekly over a four-year period. We focus on the top 3 brands in each category, and measure promotion and advertising reaction behavior while controlling for the rest of the marketing mix, i.e., distribution coverage, new-product introductions, and feature and display support. We employ time-series models that measure the short- and long-run differential impact of promotion and advertising attacks, in terms of competitive as well as sales response. The breadth (number of product categories and brands) and detail (full marketing mix) of our data set leads to a first major contribution of the study: a rich set of empirical generalizations on the intensity and duration of different competitive reactions ("How do brands react?"). As a second contribution, we explain why they react as they do: we link a set of reaction elasticities to a number of theory-based brand and category characteristics, to test under what circumstances competitive reactions are most likely to be incurred ("What are the drivers of reaction?"). Finally, we link our findings on competitive reaction behavior with the corresponding cross and own effectiveness for, respectively, the attacking and defending brand, and assess the soundness of passive, retaliatory, and accommodating behavior ("Is their reaction behavior justified?").

Implications for marketers

Three types of managerial insights are derived.

How do brands react to a competitive attack? Overall, the most common form of competitive reaction is passive (i.e., no reaction). When reactions do occur, they are more often in response

to price promotions than to advertising. Retaliation with price promotions to price-promotion attacks is more prevalent than any other action-reaction combination. Same-instrument reactions are generally retaliatory, while different-instrument reactions can be either retaliatory or accommodating. All forms of competitive reaction are largely restricted to short-run changes in brands' marketing patterns, without causing permanent changes in spending behavior.

When are competitive reactions more aggressive? In general, same-instrument reactions with price promotion and/or advertising are stronger when the attacker is more powerful, when the defender is relatively stronger in the dyad, when the category is less concentrated and when the interpurchase time is higher. In addition, price promotion reactivity is stronger in categories that are higher on impulse buying, while advertising reactivity is lower in growing categories, for storable products, and in categories with lower advertising intensity.

Is their competitive reaction justified? From a sales maximization point of view, most of the observed brands are justified in their decision not to react. Of those brands that opt to retaliate, 37% promote ineffectively and a dominant 76% advertise ineffectively.

In combination, the results show that the ultimate competitive impact of advertising and promotion attacks is due primarily to the nature of consumer response, not to the vigilance of competitors.

Original article

Steenkamp, Jan-Benedict E.M., Vincent R. Nijs, Dominique M. Hanssens and Marnik G. Dekimpe (2005), "Competitive Reactions to Advertising and Promotion Attacks," *Marketing Science*, 24 (1), 35-54.

References for more information

Dekimpe, Marnik G. and Dominique M. Hanssens (2000), "Time Series Models in Marketing: Past, Present and Future," *International Journal of Research in Marketing*, 17 (2-3), 183-193.

Nijs, Vincent, Marnik G. Dekimpe, Jan-Benedict E.M. Steenkamp, and Dominique M. Hanssens (2001), "The Category Demand Effects of Price Promotions," *Marketing Science*, 21(1), 1-22.