

# Advertising Response to New Entry

Azamat Valei <sup>†</sup>

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## Abstract

Empirical studies on advertising outlays report that incumbent firms change their advertising strategies in response to a new entry. While some incumbents reduce their advertising expenditures, others increase them in comparison to the pre-entry period. Existing literature on strategic advertising in entry games is mostly focused on entry deterrence, meanwhile no theoretical foundation is found in this literature to explain what determines a change in the advertising strategies in the case of entry accommodation. The present work considers four types of advertising and builds a model that examines how accommodating incumbents decide on advertising. The paper also provides results on how advertising is related to the size of the entry. Particularly, informative advertising and advertising enhancing product differentiation allow greater entry, while complementary and business-stealing advertising result in fewer entries since they reduce residual demand for potential entrants. Depending on whether post-entry competition variables are strategic substitutes or strategic complements, incumbent firms may increase or reduce their advertising outlays in response to new entries.

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<sup>†</sup>CERGE-EI, a joint workplace of Charles University and the Economics Institute of the Czech Academy of Sciences, Politických veznu 7, 111 21 Prague, Czech Republic