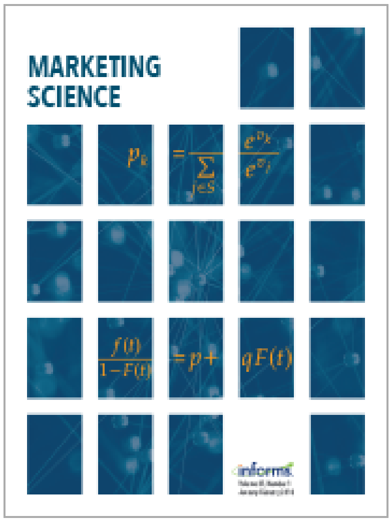


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# Commentary on “Marketing Mix Reactions to Entry”

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# COMMENTARY ON "MARKETING MIX REACTIONS TO ENTRY"

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I enjoyed reading Professor Robinson's paper and found it an excellent and stimulating analysis of a very important subject. Market entry is obviously a major decision for a business and how to attack and defend is critical for both the entrant and the incumbents. Neither entering strategies nor defensive strategies have been given enough emphasis by academics or practitioners in my opinion.

Several years ago when he was at Du Pont, Irwin Gross developed the concept of the *competitive* life cycle (this concept was cited by Philip Kotler in the fifth edition of *Marketing Management*: *Analysis Planning and Control*, Prentice-Hall, 1984, p. 365.) In studying the various phases of this competitive life cycle as Gross defined it, we concluded that the "competitive penetration phase" is probably the single most important phase for most businesses. In this phase a business begins to be faced with "in-kind" competition which results typically in the loss of both market share and price premium. Obviously, attack strategies by new entrants and defense strategies by incumbents are critical to the long-term success of all participants.

In terms of the reactions of incumbents, the most obvious extension is to assess the likely profitability of reaction alternatives. Insights on how incumbents should react given the strategy and position of the new entry, the competitive strengths of the incumbents, and the characteristics of the marketplace would be extremely valuable. Developing rules to help businesses decide whether to strongly defend, defend weakly, or fold would prove helpful.

As Robinson points out, the defensive strategy selected can impact future competitive situations as well as the present business conflict. Businesses and companies develop reputations with respect to their degree of competitiveness. This itself would be worthy of future research. This could be done in both laboratory simulations and through discussions with business managers.

This logically would lead to rules with respect to the most profitable entry strategy. Strategy would obviously be linked to the competitive capabilities of the entrant as well as the likely reaction of incumbents. I believe an important dimension in entry strategies (as well as defensive strategies) is the uniqueness of the product offering. In-kind competitors typically compete for the same applications, often on a price basis, whereas functional competitors compete for those applications where they have unique value. Understanding this value is obviously critical to both the entrant and the incumbent.

A somewhat related area for research is to examine attack and defense strategies when major capacity additions are made by existing competitors. My own studies of the "PIMS" data base have led me to conclude that there are significant differences in both attack and defense strategies when the new threat is a capacity addition rather than a new entrant.

I am unaware of any major studies of attack and defense strategies beyond the work cited in Robinson's paper. I believe most companies tend to look closely at the success or failure of individual situations and tend to adapt their practices in an "ad hoc" way to this experience. At Du Pont I have supplemented this with some simple studies of the PIMS data base which I have published internally. I am convinced, however, that busi-



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nesses can do a much better job in planning and executing better attack and defense strategies.

In thinking about the results of Robinson's paper, I am not really surprised that there is little reaction to entry by the big three competitors. There are a number of reasons for this:

1. The new entrant often contributes to overall market growth. Thus, the incumbents are not initially hurt, particularly if entrance occurs during a period of high market growth.

2. Because the new entrant usually begins with a relatively small share of total industry capacity, he often does not initially appear to be a long-term threat.

3. Aggressive reaction can hurt profit margins and large incumbents have much more to lose with reduced profit margins than the small entrant. The PIMS data base shows that profitability is not very sensitive to the number of firms competing which (a) may be, in part, due to less aggressive defensive strategies, and (b) may, in part, help cause the less aggressive defensive strategy.

4. Because of the budgetary process in many big firms, businesses tend to get locked into budgets and plans for a fairly long period of time. When this is the case, it may be easier to defend weakly than to "go upstairs" for more money. Fortunately, this scenario is changing and the more forward-looking companies' planning and budgeting systems are adapting to business needs rather than forcing all businesses to conform to a standardized planning system.

The finding that reactions are greater in growth markets should not be surprising either. Growth businesses are often run differently than mature/decline businesses. They frequently receive more resources and more flexibility in using those resources and often find it easier to deviate from established budgets and plans.

Also, management can differ significantly from business to business *within* a company. I believe that we often place too much emphasis on corporate culture and management and too little on business-to-business differences.

In summary, I found Robinson's paper valuable and stimulating and—as is the case for most good papers—it should lead to many other questions for future research and debate.