How to thrive when foreign competitors enter your market

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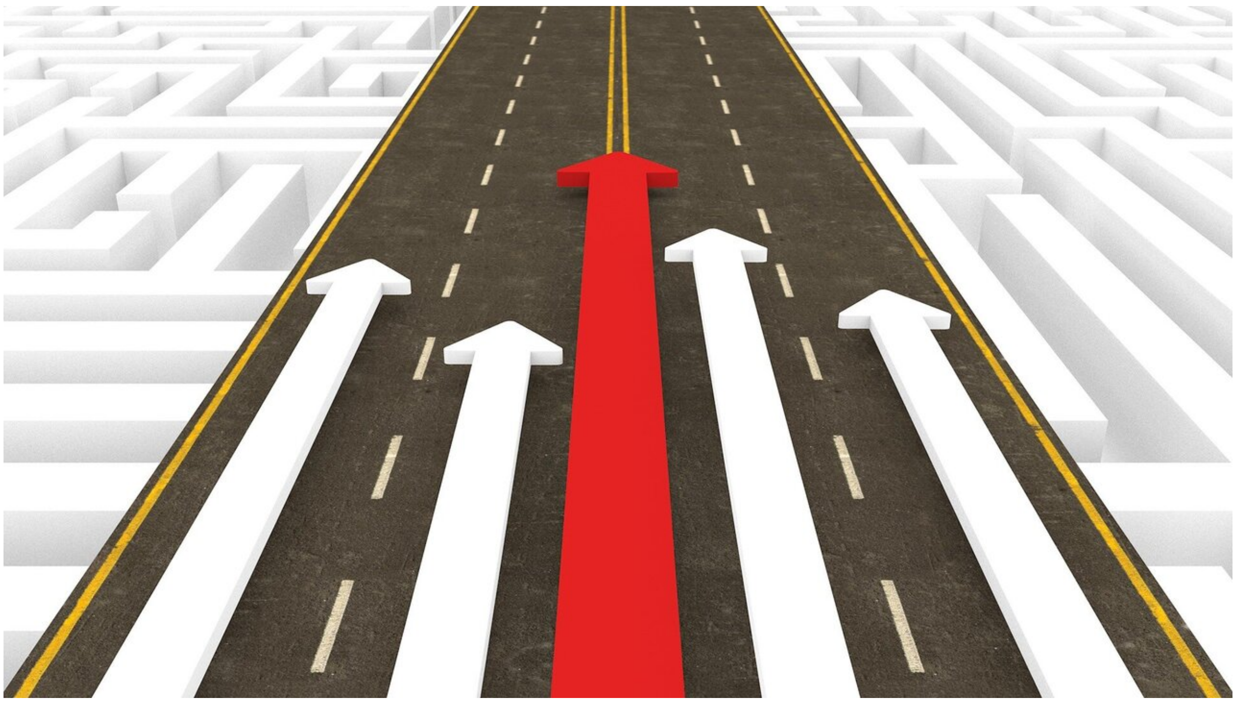

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Researchers from University of Texas A&M and University of Texas at Austin published a new paper in the *Journal of Marketing* that examines how incumbent domestic companies can use marketing tools to counter the threat of foreign entrants after the domestic market is liberalized.

The study, forthcoming in the September issue of the *Journal of*

Marketing and titled "Effects of Liberalization on Incumbent Companies' Marketing Mix Responses and Performance: Evidence from a Quasi-Experiment," is authored by Nandini Ramani and Raji Srinivasan.

In recent years, several governments have liberalized by opening their domestic markets to foreign investment in the hope of increasing economic growth. Foreign companies often bring superior technologies, products, and management practices to these markets. Countries that liberalize in a quest for economic growth can, however, create negative consequences for incumbent domestic companies who have become accustomed to operating in protected markets and may not have the resources to match their incoming foreign rivals.

Managers of incumbent companies are, naturally, concerned about the effects of liberalization on their companies' performance. For example, in response to the potential liberalization of the Indian retail sector, Kishore Biyani, chief executive of the largest incumbent retailer in India, stated in opposition to the reform, "The retail sector...should not be given away to the foreign players while it is too young to compete on a level-playing field." Similarly, founders of incumbent Indian technology startups, who have been fiercely battling U.S. entrants such as Amazon and Uber, argue that foreign competitors destroy domestic industry and have asked the Indian government to introduce protectionist measures.

Given that liberalization may be inevitable, how can managers protect themselves against its negative consequences? In a new study in the *Journal of Marketing*, two researchers examined whether incumbent companies can change their marketing mix responses to liberalization in order to improve their performance. They consider several aspects of incumbent companies that may influence marketing responses and performance, including knowledge of domestic institutions and market forces and prior exposure to foreign markets and companies.

To estimate the effects of liberalization on incumbent companies' marketing mix responses and performance, the researchers took advantage of a quasi-experiment conducted by the Indian government in 1991 in which some industries were liberalized, while others were not. The findings suggest that incumbent companies with greater knowledge of domestic institutions and market forces should intensify their distribution in response to liberalization. "Incumbent companies' knowledge of domestic distribution networks and trade partners is a strong advantage, which they can exploit by intensifying their distribution to achieve superior performance following liberalization," says Ramani. For incumbent companies that have prior exposure to foreign markets and performance, the findings suggest that they can improve their performance by increasing their promotions, such as consumer rebates and discounts.

For policymakers who may be tempted to raise barriers to protect domestic companies from foreign competitors, our study identifies incumbent companies' marketing mix responses as a mechanism to prevent being crowded out following liberalization. Srinivasan explains that, "Policymakers need not accede to the demands of incumbent business leaders to heighten protectionist barriers, but can find ways to facilitate incumbent companies' learning from foreign entrants such as through fostering alliances and trade associations, creating a win-win situation for domestic firms and policymakers."

More information: Nandini Ramani et al, Effects of Liberalization on Incumbent Firms' Marketing-Mix Responses and Performance: Evidence from a Quasi-Experiment, *Journal of Marketing* (2019). DOI: 10.1177/0022242919860085

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