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Cooperative Advertising for Competing Manufacturers: The Impact of Long-Term Promotional Effects †

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Abstract

The effectiveness of cooperative advertising programs is studied in a market where two competing manufacturers deal with an exclusive retailer and two products. Two two-stage game theoretic models are developed to analyze the long-term effects of retailer's promotions, which can be positive or negative, on the effectiveness of cooperative advertising. Closed-form equilibrium solutions are obtained and compared. We find that the level of product substitutability and the sign and magnitude of the long-term effects of retailer's promotions on sales determine whether cooperative advertising should be offered and accepted by the manufacturers and retailer. In particular, depending on the level of product substitutability, cooperative advertising can benefit both the manufacturers and retailer even when retailer's promotions negatively affects future sales. Conversely, it may not be in the interest of the manufacturers to offer cooperative advertising when the products are fairly undifferentiated regardless of the nature of the

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