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Brands in competition economic analysis

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Brands and competition: some common challenges

- 1. Branded goods markets are less competitive;**
- 2. Brands raise barriers to entry;**
- 3. Strategies to build brands do not in themselves deliver benefits;**
- 4. Overall they add little or no value to consumers.**

Are these challenges grounded in economics theory and data?

Economists have traditionally considered brands mainly through the prism of advertising. Three broad views on advertising in the academic economics literature:

1. “Persuasive” Advertising

- Advertising creates (spurious) brand loyalty and product differentiation, it leads to higher prices and raises barriers to entry.
- Essentially “anti-competitive”.

2. Informative Advertising

- Market response to imperfect information amongst consumers and search costs. Advertising provides information about products. Can also facilitate entry of new products.
- “Pro-competitive”.

3. Complementary Advertising

- “Adds to the product” provides image etc. which consumers value in itself alongside product characteristics;
- Not necessarily pro/anti-competitive.

In other words... It depends!

The devil is in the detail: Policy context and issues matter

Difficult to rely on general rules or on a “common approach” to assessing the role of “branding” in all policy contexts.

1. The policy context matters: in what context is the role of branding evaluated?

2. What aspect of “branding” is at issue? A broad distinction:

2.1. The existence of current brands:

- Do they imply barriers to entry (for example in merger assessment)?
- How do they affect consumption patterns? (For example in the context of assessing changes in regulation for advertising).

2.2. The strategies aimed at building and consolidating brands:

- Are they wasteful/anticompetitive? For example in the context of competition Market Inquiries or broader government policy evaluation.

What do views turn on?

So, two layers of complexity:

How does branding relate to competition and consumer welfare? (Industry specific)

What is the relevant policy issue?

Difficult to generalise but some common reasons for reaching negative views:

1. Missing the “dynamics”:

Innovations

Entry and exit

Market growth

2. A limited perspective on brand-building strategies:

“Persuasive” advertising

A positive story of branding needs to describe the role that branding plays in the competitive environment and in delivering benefits to consumers. The issue of branding should not be assessed separately from the competitive process.

A positive view of branding: a dynamic perspective

1. **Would the same level of investment in product quality/innovation be possible without branding?**

In many markets the answer is likely to be: no.

2. **Is the idea of advertising/branding as a barrier supported by the data?**

Not justified for all markets. See for example: Scott Morton (2000) “*brand advertising is not a barrier to entry in the US pharmaceutical industry*”.

3. **How does the market evolve? Does the anticompetitive view of branding make sense in the context of specific market dynamics?**

Lack of stability of market shares or significant “exit” events can alter the perspective.

4. **More generally: what is the appropriate market context?**

The rise of concentrated retail markets requires a different approach to assessing the effects of brands

A positive view of branding: what's in a brand?

1. Advertising is an important *part* of the story

- Important to understand the informational role of advertising;
 - Direct signals (product quality; prices etc.)
 - Indirect signals (an efficient/high quality firm has more incentives to invest in advertising)
- Better “matching” consumers and products delivers strong economic benefits

2. What else goes into building and maintaining a brand?

- Reputational element: “hard to build, easy to lose”;
- Policies on quality control, safety, handling of customers’ complaints need to come to the fore;
- How are new levels of consumer information (eg via the internet) affecting these strategies?

Conclusions

1. **No one-size-fits-all approach;**
2. **Assessing the role of branding requires a bespoke approach and often sophisticated economic arguments to address sector-specific issues within the scope of the policy issue at hand;**
3. **Specifically a fuller understanding of brands and their role is required in terms of:**
 - How they fit in market dynamics (innovation; barriers etc.)**
 - What role they play in a given market and what strategies they are the result of**

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