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Promotional Effects

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PII: S0925-5273(16)30330-9  
DOI: <http://dx.doi.org/10.1016/j.ijpe.2016.11.007>  
Reference: PROECO6580

To appear in: *Intern. Journal of Production Economics*

Received date: 6 April 2016  
Revised date: 3 October 2016  
Accepted date: 10 November 2016

Cite this article as: Salma Karray, Guiomar Martín-Herrán and Simon-Pierre Sigué, Cooperative Advertising for Competing Manufacturers: The Impact of Long-Term Promotional Effects, *Intern. Journal of Production Economics* <http://dx.doi.org/10.1016/j.ijpe.2016.11.007>

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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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\*Research of the first author is supported by the National Sciences and Engineering Council of Canada (NSERC). Grant # 1509. The second author's research is partially supported by MEC under project ECO2014-52343-P, co-financed by FEDER funds and the COST Action IS1104 "The EU in the new economic complex geography: models, tools and policy evaluation".

†The authors thank the editor and three anonymous reviewers for their useful comments and suggestions in improving this manuscript.

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