

# **Perceived Importance of Defensive Marketing Strategies: An Exploratory Study**

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*The purpose of this research is to explore how students enrolled in business programs perceive the importance of defensive marketing strategies before competitors enter their market. The study involves running principal component analysis to summarize the responses into broad categories, and then use ANOVA analysis to examine how different demographic and other variables impact participant perceptions about the importance of the defensive strategies. A major finding of the study is that the mental models and perceptions of graduate business students when they react to entry of competitors are not universal but differ depending on student gender, nationality, and level of studies.*

**Field of Research:** Mental models, Defensive marketing strategies

## **1. Introduction**

The issue of market entry and incumbent defensive actions is an important part of the competitive dynamics literature. Firms engage in offensive and defensive actions in an effort to expand or maintain their market position (Yannopoulos 2011). These moves and countermoves are part of an ongoing rivalry where firms are striving for a better market position.

Furthermore, firms grow by taking market share from rivals or creating new markets. Incumbents need to be prepared for attacks by existing firms seeking to expand their business and new entrants entering their markets. The incumbents' objective is to defend their market share and strengthen their position by making it harder for companies to enter or for existing firms to challenge them.

Incumbent firms may also attack in an attempt to enter a new market, reposition themselves, or improve their market position. As a result, markets are dynamic arenas where firms try to expand into their industries or reposition themselves in other segments within the industry (Yannopoulos 2011). Entry deterrent actions often include price reduction, increasing advertising spending, sales promotions, cost reduction and improving product quality. However, incumbents often do not engage in defensive actions (Karakaya & Yannopoulos 2011).

The motivation for this study stems from the desire to contribute to our understanding of defensive marketing strategies. We draw on the theoretical framework of the mental models to examine how perceptions of the importance of marketing strategies differ among students attending business classes. Mental models theory has been illuminating to marketing and business scholars because it helps explain how managers make decisions under conditions of uncertainty (Karakaya & Yannopoulos 2010; Yannopoulos, Gornish & Kefalaki 2011). We employ mental models theory because it can help us obtain

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## Yannopoulos

a better theoretical understanding of how cognitions of defensive actions differ among business students of different, gender, nationality, and other personal characteristics.

The purpose of this article is to empirically examine differences of the perceived importance of several entry deterrent marketing strategies by business students. Students attending business classes learn about business practices and develop an understanding of how to react to competitive actions. This paper is the first, to our knowledge, that incorporates mental models in measuring entry deterrent actions as the underlying theoretical framework. The specific objective of our study is to determine if there are differences in managerial mental models of students attending business classes before entry has occurred. Our paper's contribution to the literature is twofold. First, we provide a methodology for measuring the mental models of entry deterrence and how defensive marketing actions differ reflecting these differences. Second, the incorporation of mental models as the theoretical framework, we believe, can benefit and lead to more fruitful avenues in our effort to enhance our understanding of defensive marketing actions.

The next section includes the literature review where the relevant articles that provide the background to the study are reviewed. The methodology section, which follows next, presents a discussion of the simulation exercise, the questionnaire, sampling details and how mental models are operationalized in the study. The last sections include the findings, discussion of the results, and the conclusions derived from the study.

## 2. Literature Review

Companies constantly engage in defensive marketing strategies because of rival actions. Competitors see opportunities to enter a market or segment to increase their market share and sales. Such moves often have negative effects on competitors and they invite retaliation (Barnett 2008). Incumbents respond to competitor challenges by counterattacking with increasing advertising expenditures, cutting prices, increasing innovation, introducing new products, or sometimes accommodate the entrant by doing very little, nothing, or even decreasing the level of marketing effort (Karakaya & Yannopoulos 2011; Tremblay & Tremblay 2012).

Because firms often grow at the expense of their rivals, incumbents should be prepared to face attacks by other firms seeking to enhance their market position as well as from new entrants. As firms attempt to improve their position, they engage in competitive battles and adopt offensive strategies. Incumbents, on the other hand, often focus on defending their market position by making it difficult for rivals to enter or for existing firms to challenge them. Incumbent firms may also launch attacks in an attempt to defend themselves.

Incumbents engage in defensive strategies to fend off firms before or after challengers enter their markets. The primary purpose of pre-entry defensive strategy is to make entry unattractive and discourage potential challengers from entering the market. Incumbents attempt to influence the entrant's expectations about the profitability of the entry and convince them that the return on their investment will be low and entering the industry will be an unwise move.

Defensive strategies work better when they take place before a rival enters the industry, or, if they enter the industry, to force them to exit before exit barriers are raised, making it difficult for the challenger to exit the industry (Yannopoulos 2007). Consequently, incumbents strive to discourage a potential entrant from making any substantial

## Yannopoulos

commitment, because once the commitment is made, it is difficult to dissuade the challenger from following through with the entry especially if exit barriers are high. If entry has occurred, an incumbent may attempt to lower its negative impact, by directing the attack to areas where the firm is less vulnerable, or in areas which are less desirable to the attacker (Yannopoulos 2011). Or it could undertake actions designed to make the entrant's life difficult after entry has occurred. The objective of such actions would be to convince the entrant that its expectations were too optimistic and it does not warrant staying in the market or if they remain to contain their expansion effort.

While many firms ignore their competitors, research shows that firms that take a dynamic view of competition perform better (Roberts, Nelson & Morrison 2005). Competition is an important factor in a firm's effort to sustain or lose their market share. Actions of other incumbents and new entrants can be decisive forces in a firm's erosion of market share. The response of rivals determines to a large extent the success of entry. Reacting quickly and thoughtfully to competitive entry is important for market success (Debruyne, Moenaert & Griffin 2002). Companies that fail to respond to market entry often experience a decline in market share (Hutzschenreuter & Israel 2009).

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Research in cognitive psychology shows that mental models influence our decisions and actions (Yannopoulos & Daskou 2010). Mental models are simplifying frameworks that include assumptions about how markets work and how to compete in these markets (Markides 2000). Mental models are used by managers to simplify and make sense of these complex entities, to process information, to draw inferences, and to make decisions (Karakaya & Yannopoulos 2010; Markides 2000).

Individuals develop mental models of their environment and of possible actions and the consequences of those actions (Yannopoulos & Daskou 2010). Research in managerial mental models concludes that different managerial mental models are the result of different environmental and managerial experiences and are specific to a particular environment (Gebhardt, Carpenter & Sherry Jr. 2006; Kabanoff & Brown 2008; Mezas, Grinver & Guth 2001). Because of differences in mental models, managers react differently to environmental threats such as entry by new rivals.

### 3. Methodology

The simulation exercise was conducted by asking students enrolled in business classes at a major Canadian University to complete a survey that contained questions regarding the importance of a number of defensive marketing actions before competitor entry has occurred. Since the purpose of the study is to study perceptions and mental models of business students, participants in this study were students attending business classes.

We surveyed students attending both undergraduate and graduate business programs. In total 252 questionnaires were completed. The sample size is considered adequate and consistent with similar studies. The breakdown of the sample is as follows: in terms of gender, 54.5% of the participants are males and 45.5% females. In terms of level of studies, 79.4% are undergraduate and 20.6 graduate students. The composition of

## Yannopoulos

nationality is 50.9% Canadian, 28.7% Chinese, 7.8% Indian and 12.6% other nationality. Furthermore, 81.3% of the respondents have work experience and 18.7% lack work experience.

The questionnaire incorporated several sections and it took each participant about 15 minutes to complete it. Participants were asked about the importance of several marketing actions for entry deterrence purposes. The questions were asked for before entry of a hypothetical firm has occurred. A five-point scale was used to rate the importance of various marketing strategy actions that participants were asked to consider. Student information included gender, nationality, program level, and whether they have work experience.

The mental models and perceptions of importance of marketing strategies of participants were measured as follows. Respondents were presented with a total of thirteen marketing strategies and were asked to indicate whether they agreed or disagreed on a five point scale about the importance of each of these statements as defensive actions before a rival enters their market.

As it has been discussed earlier, managers form their mental models as a result of their experiences, education, culture and other factors. These mental models are reflected in peoples' cognitive structures, beliefs and perceptions (Hodgkinson & Healey 2008). The list of marketing strategies presented to respondents was derived from the marketing strategy and competitive dynamics literature. The specific defensive marketing actions are the following: increase advertising, decrease advertising, lower distribution costs, reduce overall cost of products, reduce price of products, improve product quality, introduce new products, reposition products in the market, provide incentives for distributors, bluff potential competitors, increase the height of entry barriers, exit the market, and do nothing.

### 4. Findings

Tables 1 through 6 show the results of the statistical analysis. The raw data were subjected to principal component analysis to summarize them into fewer dimensions and make further data analysis easier. The resulting factors were further analysis with the use of ANOVA for each of the respondent characteristics. This analysis is discussed in the following sections.

#### 4.1 Means of Perceived Importance of Defensive Marketing Strategies

Table 1 shows the means of perceived importance of defensive marketing strategies used in the study. The most important marketing strategy is to increase the height of entry barriers whose mean response is 4.16. The next most important strategy is to increase product quality which received a mean response of 3.89. The third most important defensive marketing strategy is to reduce the overall cost of products with a mean response of 3.58. Marketing mix related responses including lower distribution costs, introducing new products, and provide incentives for distributors received mid-range scores. Lastly, strategies designed to accommodate competitors such as decrease promotion, exit the market, and do nothing were the least important among defensive strategies considered by participants.

# Yannopoulos

**Table 1: Means of Perceived Importance of Defensive Marketing Strategies**

Increase promotion	3.47
Decrease promotion	2.02
Lower distribution costs	3.23
Reduce overall cost of products	3.58
Reduce price of products	2.74
Improve product quality	3.89
Introduce new products	3.19
Reposition products in the market	2.68
Provide incentives for distributors	3.30
Bluff potential competitors	3.21
Increase the height of entry barriers	4.16
Exit the market	1.56
Do nothing	1.51

## 4.2 Principal Component Analysis

Principal component analysis with varimax rotation was employed to reduce the number of marketing strategies into a few factors. Four factors emerged from the analysis accounting for 54.5% of the total variance (Table 2). As is normal, factors with eigenvalues one or greater were retained. The scree technique was also employed for additional information regarding the number of factors. The internal reliability of the factors was assessed with Cronbach's coefficient alpha (Churchill, 1979). The alpha values are lower than .70 but they are considered satisfactory due to the exploratory nature of the study. The Kaiser-Meyer-Olkin measure of sampling efficiency is .62 and the Bartlett test is highly significant ( $p < .00$ ) implying that the correlation matrix is not orthogonal and is, therefore, appropriate for factoring (Sharma 1996).

The first factor is named "Cost reduction" because the statements dealing with lower distribution costs, reducing overall cost of products and reducing the price of products have the highest loadings on this factor. The second component is labelled "Accommodate" since the statements lower advertising spending, exit the market, and do nothing load heavily on this dimension. The third factor is termed "Marketing mix" because of the high loadings of the statements increase promotion, introduce new products, reposition products, and provide incentives for distributors. The last factor is called "Competition" because it is related to competitor-related statements such as bluff potential competitors and increase the height of entry barriers.

## 4.3 Comparison of Perceived Importance of Defensive Marketing Strategies between Undergraduate and Graduate Participants

In this study, business students were presented with a number of statements representing commonly used marketing strategies and were asked to indicate the importance of each of them in case a new competitor enters their market. Participant firms were grouped into two categories according to whether they are enrolled in a graduate or undergraduate business program.

## Yannopoulos

**Table 2: Factor Analysis of Perceived Importance  
of Defensive Marketing Strategies**

Variables	Cost Reduction	Accommodation	Marketing Mix	Competitive
Increase promotion	-.025	-.357	.495	-.297
Decrease promotion	.093	<b>.742</b>	-.072	.099
Lower distribution costs	<b>.669</b>	.129	-.107	.126
Reduce overall cost of products	<b>.788</b>	.108	-.032	.161
Reduce price of products	<b>.686</b>	.012	.252	-.207
Improve product quality	<b>.562</b>	-.149	.236	.013
Introduce new products	.096	.096	<b>.600</b>	.245
Reposition products in the market	.152	.165	<b>.725</b>	-.079
Provide incentives for distributors	-.001	.086	<b>.576</b>	.361
Bluff potential competitors	.024	.161	.104	<b>.722</b>
Increase the height of entry barriers	.093	-.278	.073	<b>.725</b>
Exit the market	.081	<b>.666</b>	.183	-.065
Do nothing	-.068	<b>.703</b>	.102	-.055
Eigenvalues	2.38	1.7	1.4	1.3
Percent of variance explained	14.75	13.95	12.76	11.03
Cumulative percent of variance explained	14.75	28.7	41.46	52.49
Kaiser-Meyer-Olin Measure of Sampling Efficiency = .61				
Bartlett's Test of Sphericity: Significance = 0.0				

Table 3 presents the results of one-way ANOVA of the responses of undergraduate and graduate students about the importance of the four factors representing the various marketing strategies included in the survey. As it can be seen from Table 3, the mean values of accommodation and marketing mix are statistically significant indicating a significant difference in the perceived importance of these defensive marketing strategies between the two groups. Specifically, the results show that graduate students perceive a strategy of accommodating entry such as decreasing advertising, doing nothing or even exiting the market as more important than undergraduate students as a way of responding to new entry. Graduate students also feel that in some circumstances using marketing mix variables such as introducing new products, providing incentives to distributors and repositioning existing products are important tools as well. There are no statistically significant differences between undergraduate and graduate students regarding the other two dimensions - cost reduction and competitive actions.

## Yannopoulos

**Table 3: One-way ANOVA of Perceived Defensive Marketing Strategies between Undergraduate and Graduate Students**

	Undergraduate	Graduate	Sig.
Cost reduction	-.01	.02	.85
Accommodation	-.15	.60	.00
Marketing mix	-.07	.28	.03
Competitive	-.02	.06	.62

#### **4.4 Comparison of Perceived Importance of Defensive Marketing Strategies between Male and Female Participants**

Table 4 shows the ANOVA results between male and female participants. The statistical significance results of the one-way ANOVA analysis indicate that the two groups differ only in the case of accommodating entry of the new entrant. Specifically, male participants think that taking action to accommodate a new entrant is more important than female participants. This result provides evidence that male students are more willing than female students to retreat and accommodate entry of new competitors by engaging in marketing strategies such as decreasing advertising, doing nothing or exiting the business. Since there are no significant differences between male and female participants in terms of the other three factors we conclude that the two groups perceive cost reduction activities, marketing mix actions, and competitive oriented responses as similar.

#### **4.5 Comparison of the Perceived Importance of Defensive Marketing Strategies between Participants of Different Nationalities**

Table 5 shows the ANOVA results between students of different nationalities. The statistical significance results of the one-way ANOVA results shown in Table 5 indicate that the four groups differ only in the case of accommodating entry of the new entrant. Specifically, Indian students is the ethnic group, followed by Chinese, that appear to think that taking action to accommodate a new entrant is more important than other ethnic groups. Canadian students are less willing than other ethnic groups to engage in actions designed to accommodate entrants. Actions designed to accommodate entrants include decreasing advertising, doing nothing or exiting the business. Since there are no significant differences between different ethnic groups in terms of the other three factors we conclude that the two groups perceive cost reduction activities, marketing mix actions, and competitive oriented responses as of similar importance.

#### **4.6 Comparison of the Perceived Importance of Defensive Marketing Strategies between Participants with and Without Business Experience**

Table 6 shows the ANOVA results between participants with and without business experience. The statistical significance of the one-way ANOVA analysis shown in Table 6 indicate that the four groups do not differ statistically on any of the four factors. Although inexperienced students score higher on the accommodate and marketing mix factors, these differences are not statistically significant. Therefore we can conclude that experience or its lack does not lead to the creation of different mental models of entry deterrence strategies for students attending business classes. Business students place equal importance on the various marketing strategies such as cost reduction, marketing mix actions, accommodation of competitors, and competitive-oriented actions. Since there are no significant differences between different ethnic groups, we conclude that the two

## Yannopoulos

groups perceive cost reduction activities, accommodation, marketing mix actions, and competitive oriented responses as of equal importance.

**Table 4: One-way ANOVA of Perceived Importance of Defensive Marketing Strategies between Male and Female Students**

	Male	Female	Sig.
Cost reduction	.08	.06	.88
Accommodation	.22	-.18	.02
Marketing mix	-.08	.10	.26
Competitive	-.03	-.04	.98

**Table 5: One-way ANOVA of Perceived Importance of Defensive Marketing Strategies between Different Nationality Students**

	Canadian	Chinese	Indian	Other	Sig.
Cost reduction	.15	.02	-.04	-.15	.63
Accommodation	-.23	.26	1.14	.06	.00
Marketing mix	-.06	.14	.57	-.24	.12
Competitive	-.06	.12	-.0.10	-.35	.33

## 5. Discussion

Academic research into the field of mental models has shown that perceptions and beliefs are important factors shaping managerial actions (Markides 2000; Yannopoulos and Daskou, 2010). Executives engage in activities that they believe are important given the context of these activities. Therefore it is important to understand managerial mental models in order to better cope with and have a better understanding of how competitors will react to entry into their markets.

The present study set out to measure student perceptions of the importance of various defensive marketing strategies in case there is entry into their markets. The mental models and perceptions of business students appear to differ in important ways. More specifically, graduate students seem to place more importance on strategies designed to accommodate entrants. Also they appear to place more importance on the use of various marketing mix actions. This indicates that graduate students are more prepared to engage in various actions depending on the circumstances ranging from more action oriented such as increasing promotion and introducing new products to withdrawing from the market.

When we looked at mental models and perceptions of male and female business students, we observed that male students were more likely to employ accommodation strategies than female students. Female students appear to prefer marketing mix actions to challenge new entrants, but this result wasn't statistically significant. This result shows that male students are more inclined to retreat when a new entrant is coming into their markets than female students, while the latter, according to the evidence, are more inclined to engage in marketing mix actions such as introducing new products, increase advertising spending, and offering incentives to distributors.



## Yannopoulos

**Table 6: One-way ANOVA of Perceived Importance of Defensive Marketing Strategies between Students with Business Experience and Students without Business Experience**

	Experienced	Not experienced	Sig.
Cost reduction	-.12	-.16	.17
Accommodation	.03	.18	.50
Marketing mix	-.03	.16	.36
Competitive	-.02	-.09	.73

The mental models of students of different nationalities also differ with respect to actions designed to accommodate competitive entry. In this respect, students of Indian background are much more likely to accommodate new entrants than students of other nationalities. It is noteworthy that Chinese students, another Asian country group was next most likely while Canadian students were much less likely to act in a way that accommodates entry.

Lastly, this study found that the mental models of students with experience are not statistically different from the mental models of students without business experience. Therefore, students without business experience are not substantially different from those students with some experience. This result suggests that business experience may count for very little in shaping student beliefs and mental models of students enrolled in business programs.

## 6. Conclusions

The results presented in this paper provide further understanding of the mental models of business students attending business programs. One conclusion that can be drawn from the present study is that the mental models and perceptions of business students when they react to competitive entry are not universal but differ depending on student gender, level of studies, and nationality.

The results of this study are consistent with other findings in mental model research which show that managerial perceptions, attitudes, and opinions are developed based on managers' experiences, education, national background and other factors. As the present research indicates, among others, managers develop different mental models because of their particular circumstances, which in turn, shape their choices and decisions.

## 7. Limitations and Future Research

A limitation of the study is the use of students as participants in the study. This limitation makes the results difficult to extend to the general population of managers. For this reason, we consider the study an exploratory one. Furthermore, we think that the study can be used as a launch pad for future studies that will attempt to extend the findings to actual populations of managers. It would be of interest to study how real managers react to market entry and whether the results of the present study can be replicated.

Another suggestion for future research is that although the factors examined in this study play a role in student mental models, other factors may be relevant too. Such factors may include age, educational experience, other characteristics of the entrant and the resources

## Yannopoulos

and capabilities of the firm. Future studies into mental models of managerial defensive mental models may have to look at some of these factors as they may be important determinants of managerial mental models.

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