

## **Response Strategy of Incumbent Firms in Response to Foreign Entrants in Host Market**

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### **Abstract:**

Firms' response strategy has been subject to a stream of research (Gatignon and Hanssens 1987). Porter (1986) maintains that predicting the reactions to new entrants is strategically important. Incumbent firms' response strategy has significant implication for their survival and growth. Kotler and Singh (1981) hold that firms choose to employ marketing mix variables in different ways in their reactions. A number of other studies have also suggested that the response strategies of incumbent firms might have considerable impact on the new entrants (e.g. Kalyanaram and Urban 1992). Thus, incumbent firms' response strategy has tremendous implications for firms, as an appropriate response strategy can not only enable firms to best utilize their firm-specific resources and core competencies, but also alleviate the competitive pressure from foreign firms in the local market. Gatignon (1984) suggests that firms may respond to competition by increasing or decreasing their corresponding marketing expenditure. It is imperative for incumbent firms to strategically respond with marketing expenditure in the competitive environment.