Suppose that GE is trying to prevent Maytag from entering the market for high efficiency clothes dryers. Even though high efficiency dryers are more costly to produce, they are also more profitable as they command sufficiently higher prices from consumers. The following payoffs table shows the annual profits for GE and Maytag for the advertising spending and entry decisions that they are facing.

|  |  |
| --- | --- |
|  | **GE** |
| **MAYTAG** |  | **Advertising = $12m** | **Advertising = $0.7m** |
| **Stay Out** | **$0, $30m** | **$0, $35m** |
| **Enter** | **$1m , $20m** | **$12m, $15** |

Based on this information, can GE successfully prevent Maytag from entering this market by increasing its advertising levels? What is the equilibrium outcome in this game?

Suppose that an analyst at GE is convinced that just a little bit more advertising by GE, say another $2m, would be sufficient to deter enough customers from buying Maytag, thus, yield less than $0 profits for Maytag in the event it enters. Suppose that spending an extra $2m on advertising by GE will reduce its expected profits by $1.5 m, regardless of whether Maytag enters or stays out. Would this additional spending on advertising achieve the effect of deterring Maytag from entering? Should GE pursue this option?

Guided Response:

In 300 words or more, please, provide your response to the above discussion question. Please, show all your calculations and explain your responses. Describe the circumstances under which a firm chooses a low-cost strategy to attain sustainable competitive advantage. What about the situations when a differentiation strategy is chosen? Provide specific real world examples.