Illustration 15.3
The Advertising Dilemma: Recent Battles

The preceding example of the advertiser's dilemma in the soft drink market may not appear to characterize accurately actual oligopoly behavior, not because the two firms ended up over-advertising (which may easily occur) but because each firm was limited to only two levels of advertising. The limit of two levels of advertising was imposed solely to facilitate showing the problem in a diagram. This illustration reviews several advertising dilemmas in which various real-world oligopolies found themselves involved during the 1980s and early 1990s.

The baby food war
In 1984 Gerber controlled most of the baby food market, when Beech-Nut, a Nestle's subsidiary introduced a new product called Stages, designed for babies at different ages. Heinz simultaneously developed an instant baby food (to be mixed with water). ***The Wall Street Journal*** reported, "Those products were merely the beginning of what has turned out to be a vicious and still escalating war with Gerber Products Co. for the $700 million baby-food market." The new products gained market share at the expense of Gerber's, but the total market grew very little. The number of births was growing at only 1 to 2 percent a year, and babies eat baby food for only a limited amount of time. There was no way to increase the market substantially; people aren't going to have more babies in response to new baby foods or increased baby-food advertising.

The three firms were in a dilemma. The total market was fixed, but each firm had to advertise heavily just to hold on to its market share. Beech-Nut planned to double its advertising by 1986 while Gerber increased its advertising 50 percent, and, for the first time, began advertising on network TV. Since only about 4 percent of U.S. households have babies, network TV, which is quite expensive, was not an efficient advertising medium for baby-food manufacturers. The director of product management at Gerber summed up the dilemma in which the firms were trapped: "our competitors are on TV, and we want to be certain our voice is the loudest in the market."

The burger wars
In 1986, ***Newsweek*** reported that McDonald's, Burger King, and Wendy's, which controlled about one-third of the fast food market, were in a slump. McDonald's reported "soft sales." Burger King said its earnings were "disappointing," and Wendy's profit was said to be down 40 percent. Although the president of McDonald's said that the solution was to become more efficient, ***Newsweek*** pointed out, "Marketing—and more marketing—has been the classic response to such admonitions." The three major fast-food firms planned to spend more than a half-billion dollars to out-advertise the competition. The chairman of Burger King put his finger on the real dilemma: "Advertising [in the hamburger business] is like the arms race. Once you start, there's no way to stop."

The cola wars continue
According to Video Storyboard Tests Inc., a firm that measures consumer response to advertising, Coca-Cola's ads have gone flat. Since 1983, Pepsi-Cola's ads have grabbed the innovative lead, while advertising at Coke has been stuck in a rut. The last

memorable sensational advertising campaign for Coke's advertising was its 1971 ad "I'd Like to Buy the World a Coke." In the late 1970s, Coke produced a successful spot ad with "Mean Joe Greene." Since then, it has been all Pepsi. According to Tom Pirko, president of a beverage-consulting company in Los Angeles, "Coke isn't thinking big enough and bold enough, and Pepsi is grabbing the innovative lead…Pepsi is doing considerably better at reaching the consumer than Coke."

The most popular ad in the nation in the summer of 1991, Ray Charles crooning "You've Got the Right One Baby, Uh-huh," helped Pepsi gain market share in a crucial segment of the cola market—the food market. Consumers have a choice of what soft drink they buy at the food market, in contrast to fast-food chains that usually offer only one brand. In the food-store market, Pepsi's share increased 0.4 percent to 31.2 percent in April 1991 while Coke's share fell 0.2 percent to 33.3 percent. In the cola wars, neither company can afford to be repeatedly bested in the ad game for very long. Coke appears ready to up the ante in the ad war. Coke insiders admit that the company is looking for creative ad agencies other than the one they currently employ. Coke headquarters in Atlanta was recently visited by Bill Baker, the man who developed the "I'd Like to Teach the World to Sing" campaign. Apparently, peace remains nowhere in sight for rival Coke and Pepsi.

Sources: ***The Wall Street Journal***, "Baby-Food Fight: Beech-Nut, Heinz Put the Heat on Gerber," July 24, 1986; ***Newsweek***, "Burgers: The Heat Is On," June 16,1986; and ***The Wall Street Journal,*** "Pressure Grows at Coke as Ads Go Flat," August 2,1991.