

AE Report for MS-MKG-21-02259  
“Negative Advertising and Competitive Product Positioning”

This paper is a new version of a previous submission that studies the same issue (competitive positioning in a duopoly model where firms may engage in negative advertising), offers the same key message (allowing negative advertising may induce the competing firms to co-locate). The new manuscript adds a microfounded model of informative advertising; as a result, the model and analysis have been completed modified.

The paper has been evaluated by three reviewers and the responses are more positive. All three reviewers recommend a major revision. The reviewers like the core idea that having the option to use negative advertising makes two firms co-locating more likely to be an equilibrium outcome. Co-locating may eliminate a firm’s incentive to choose negative advertising that can spill over and reduce category sales. Like the reviewers I continue like this idea. Moreover, as reflected in the review comments, adding a model with a micro foundation to explicate the mechanism has significantly improved the paper. The progress has brought the paper to a point where we have a version to work with towards publication.

However, with the new model, the reviewers raise a wide range of issues related to model structure/assumptions, analysis method, and the presentation of results. I think these issues can be addressed within one or two rounds of revisions. The comments, although in small number, cover a wide range of issues, so I will not repeat them here. I want the authors to go through each of them carefully in the revision. Below, I’m highlighting a few issues which are more important to me.

1. Better motivating examples. First, use examples to clarify horizontal differentiation, positive attribute (P), and negative attribute (N). R1 (#1) and R2 (ii) both question the clarity of these concepts and the (in)consistency with examples. For instance, Mastercard attacked American Express’s limited network. Meantime, Mastercard also advertised its network size being the largest. My impression is that while separately each dimension/attribute makes clear sense, when taken together the distinctions are less clear. This is similarly reflected in the literature. The paper cites a long list of papers. Each paper points to one or two of these dimensions/attributes, but I do not see examples with all three together. Having better motivating examples upfront can eliminate these confusions. Second, are there any evidence that support the equilibrium results, for instance, markets where negative advertising are more likely to be salient in consumer decision making tend to see more co-location (or smaller horizontal differentiation).
2. Better justification for the assumptions on information structure. For instance, the assumption that consumers do not know the incumbent’s attribute/quality is not

conventional. R2 (i) also points to this issue and the (in)consistency with motivating examples.

3. Find a better way to present the conditions and intuitions. The key propositions have conditions for main results (e.g., the condition for Lemma 5), but these conditions do not provide a consistent way to follow the intuitions. R3 (first suggestion) and R1 (#5), and to some extent the interpretations of Table 1 as commented by R1 (#6, #7), are all related to this concern.

A side and minor note, I wonder why in Table 1 the paper does not use the direct result for  $E[A_i]$ . For example, the first entry could be easily II instead of the (unnecessarily) long expression.

I also note that in the Conclusion section, a lot of discussions refer to **comparative advertising**. Are you treat the comparative and negative advertising as equivalent? For the European and France case, Romano (2004) is about comparative advertising, e.g., one mash potato is better than another, would this case be consistent with the core message regarding negative spillover effect and reduced category consumption? Similarly, FTC statement (1979) is mostly about comparative advertising.