

Targeted Advertising and Entry

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Abstract

We study the effect of targeted advertising on firms entry, and the advertiser's incentive to invest in targeting technology. We show that a monopolistic advertising provider faces a trade-off between profit-dissipation and demand-expansion, the former refers to the fact that targeting relaxes competition between firms and reduces the value of advertising; and the latter one arises as targeting induces more entry and increases demand. We show that the advertising provider under-invests in targeting when investment cost is low, and over-invests when cost is high, compared to the social optimal targeting.

Key Words: Advertising, Targeting, Competition, Entry

JEL Classification: L1, L5, M3