BOYCOTTS OF A NATION'S PRODUCTS CAN HAVE BIG LONG-TERM EFFECTS: Evidence from Saudi Arabia's retaliation against Denmark

A four-month boycott of Danish dairy products in Saudi Arabia in 2005 was massively successful, according to research by **Alexis Antoniades** and **Sofronis Clerides**, to be presented at the annual congress of the European Economic Association in Geneva in August 2016. The market share of Danish firms plunged from roughly 18% before the boycott to under 1% for three months.

More importantly, the study finds that the boycott's impact extended far beyond its four-month duration. Although Danish sales recovered somewhat after the boycott was called off, they never returned to their original levels. This is strong evidence that national and religious sentiment play an important role in consumer choice and that even temporary events can have a lingering effect on consumer behaviour.

One of the long-term effects of the boycott was the entry of new firms: the number of brands in the segment increased from 16 to 25 between 2005 and 2007, and by 2009 the new entrants accounted for more than 5% of the market. The overall market share of the Danish firms settled down at about 8%, reflecting a loss of 55% of the original 18% share.

The authors conclude: 'Boycotts can be massively successful, especially if public pressure forces big retailers to join in. These findings show that political events can lead to permanent changes in consumer preferences, which produce a lasting impact on market structure.'

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In September 2005, a Danish newspaper published cartoons bearing the image of the prophet Mohammed. This led to protests by Muslim groups and governments and to calls for retaliation against Denmark, primarily in the form of boycotts of Danish products.

This study exploits one such boycott in Saudi Arabia to study two important questions. First, are boycotts effective: does national or religious sentiment factor into consumer choice? Second, how do firms respond when a large demand shock hits one of the main players in a market? The researchers describe their work:

We focus our attention on dairy products (particularly processed cheese) because Danish firms have a strong position in this market. We show that the four-month boycott of Danish dairy products in Saudi Arabia was massively successful, in large part because intense public pressure forced many retailers – especially the highly visible large supermarkets – to remove Danish products from the shelves. The market share of Danish firms plunged from roughly 18% before the boycott to under 1% for three months.

More importantly, we find that the boycott's impact extended far beyond its four-month duration. Although Danish sales recovered somewhat after the boycott was called off, they never returned to their original levels. Their overall market share settled down at about 8%, reflecting a loss of 55% of the original 18% share. This is strong evidence that national and religious sentiment play an important role in consumer choice and that even temporary events can have a lingering effect on consumer behaviour.

How does the targeted firm and its competitors respond to such a huge shock? We track the market for more than three years after the end of the boycott in order to capture both short- and medium-term developments.

In the short term (a few months after the boycott) we observe increased promotional activity, mostly by the targeted firms but also by competitors. This can be naturally interpreted as a price war as targeted firms struggled to recover their market share while competitors were trying to wrest it away.

We also observe significant entry in the market segment where Danish firms were most active. The number of brands in the segment increased from 16 to 25 between 2005 and 2007. Most new entrants were existing small firms that were previously active in other market segments and saw an opportunity to expand. Some of them were successful; by 2009, the new entrants accounted for more than 5% of the market.

Economists have traditionally been sceptical of the effectiveness of consumer boycotts because of the ‘free rider’ problem: the expected benefit for a consumer from joining a boycott is likely to be smaller than what she gives up by not consuming her favourite product.

Empirical evidence was scant until the last few years, when several empirical studies have been produced that find evidence of successful boycotts. Interestingly, almost all of these successful boycotts target countries rather than individual firms.

Our study adds to this research literature by showing that boycotts can be massively successful, especially if public pressure forces retailers to join in. It also shows that political events can lead to permanent changes in consumer preferences which in turn give rise to intensified competition and produce a lasting impact on market structure.

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