

Does the double jeopardy phenomenon work?: Asian-Western cross-cultural validation.

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이중위험은 여전히 작동되는 것인가? 아시아-서구권의 교차문화적 연구

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Abstract This study empirically investigates the double jeopardy phenomenon in a Korean and a New Zealand context. The double jeopardy is that companies with a small market share tend to suffer not only smaller sales volumes but also suffer a lower price than the market leader.

The research reported here analyses price and market share data for 14 categories of household goods in Korea and a smaller number in New Zealand. Analysis shows that, in Korea, leading brands do enjoy a price premium as predicted, of around 15%, but that there is little or no evidence of double jeopardy occurring in New Zealand. Based on this study, evidence suggests that market share is a strong valid strategic objective in the East.

Key Words : Double jeopardy, Brand, Market share, Price strategy, Revenue

요약 본 연구는 한국과 뉴질랜드환경에서 시장점유율에 따른 브랜드들의 이중위험에 대한 주제로 작은 시장점유율을 가진 브랜드인 경우에는 그렇지 않은 경우보다 단위당 낮은 판매가격을 유지하게 됨으로 판매량이 감소되고 수익이 줄어드는 현상을 뉴질랜드와 비교 연구하였다. 14개의 FMCG 제품군을 중심으로 진행된 연구결과 고 시장점유율을 통한 높은 이익 전략은 서구권의 국가인 뉴질랜드보다 아시아권 국가인 한국에서 여전히 유효한 것으로 나타나며, 특히 점유율이 높은 시장에서 1위 브랜드인 경우에는 약 15%의 가격우위를 점하는 것으로 나타난다. 하지만 이에 반해 뉴질랜드의 경우에는 그렇지 않은 것으로 나타난다.

주제어 : 이중위험, 브랜드, 시장점유율, 가격전략, 수익

1. Introduction

Double jeopardy refers to the supposed double disadvantage of companies with small market

share, who sell to fewer people at a slower rate than that enjoyed by market leaders and, at the same time, cannot command the premium enjoyed by the leading brand in their market[1,2].

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The term is also applied on the area of IT and other related industries[3,4]. The role market share as a sustainable, profitable strategic advantage has been the subject of fierce debate for some years[5-7]. The Buzzell and Gale study is based on PIMS market data and has had a huge impact on strategic thought and practice, leading to the development of the Boston Consulting Group matrix and other, similar, strategic devices[4]. The primary mechanism said to lie behind the advantage of market share is the experience curve, which combines long-run cost advantages of scale and accumulated knowledge and production and market wisdom.

The literature suggests reasons that market share lingers as a strategic tool, even though largely discredited in the West. Jacobson and Aaker suggest, for instance, that there could be a third variable driving profits[8]; perhaps a compelling attribute-based advantage or an unobserved variable such as managerial know-how. That is, it is not market share itself that provides an advantage, but some other differentiating competitive advantage, and that market share is a coincidental outcome. This fails to explain why the historical evidence produced by Armstrong and various colleagues shows that market share does not lead to long-term success and survival.

Armstrong's research, as that of Buzzell before him, was conducted in the West. There is evidence that Asian market dynamics might be different, and that many companies in Asia use market share successfully to generate satisfactorily high, sustained profits [9].

This evidence provides the focus of this research. The arguments supporting and opposing market share as a legitimate strategic guide are discussed first, then related to Asian markets and market philosophies. This is followed by a description of a simple empirical investigation to determine whether leading household brands in Asia (specifically South

Korean) enjoy a price premium, indicating that double jeopardy does exist, or whether their large market share is accompanied by a price discount.

2. Developing the arguments

2.1 Market share and price in Asia

There is a plethora of cross-cultural research that supports the idea that people from distinctive cultures (e.g. New Zealand) have a more independent view of the self and are thus likely to be less driven to adopt a leading brand merely because it is a leader [10]. In contrast, members of East Asian cultures (e.g., Koreans) have an interdependent view of self and are thus more susceptible to the lure of brands as a label about social success and belongingness. Indeed, Korea is small, highly populated country, (fourth in population density in the world) and, according to Ford & Ellis, a relatively small group can exert a disproportionate influence on society's brand preference in this circumstance[11].

To summarize this discussion, it is claimed that high market share brands command a higher price and exert greater market control. The brand holding a major market share truly has double joy; it not only has greater frequency of purchase but can also afford to maintain a comparative higher price. Whether this holds in the West is moot, but the indications are strong that this situation exists in the Asian high-growth economies to a far larger extent than in the West, where market share is often price-driven. Thus, the first research hypothesis:

- H1: Other than for niche brands, smaller market shares held by brands in South Korea are reflected in lower prices than those of the market leader. The converse is true in New Zealand.

2.2 Competitive strategy and the price premium accorded the market leader

Risk is a possible moderator of price premium, but as the products selected for this research are household items it is not relevant here, but business pricing strategies are quite often based on competitive objectives[12]. The ideal situation is when a product has a distinctive non-price differentiating factor, but for most product categories it is unusual when more than a couple of competitors can attain this exalted state. Niche players and market leaders typically enjoy a competitive advantage based upon some attribute or psychological factor, but the rest of the competitors most typically fall back on price. This is the crux of the double jeopardy idea, and holds central interest within this research.

H2: The greater the extent of competition within a market, the greater will be the price premium of the leading brand (by market share).

3. Research Method

3.1 Sample

The research deals more with managerial actions than consumer behavior although, of course, the two are often intertwined. However, this perspective means that rather than collect large-scale consumer perceptions about the price of various brands in a market, the actual shelf-prices are collected.

Unfortunately, only a small subset of these items is available in New Zealand, either because the product range is smaller or because the data is not publically available. Nevertheless, there are enough products to at least make an exploratory comparison.

Table 1. Summary of price data for products in the sample of Korean Market

Product	# off Brand	Price* _{1st}	Price _{2nd}	Price _{3rd}	Price _{Others}	Price _{Niche}	Unit
Shampoo	16	1,308	1,304	1,233	1,021	1632	100 ml
Fabric softener	7	188	163	118	144	370	100 ml
Dishwashing liquid	16	506	430	405	250	770	100 ml
Milk	9	188	188	182	159	256	100 ml
Roll toilet paper	7	119	116	102	71	N/A	10 M
Yoghurt	6	35	32	32	25.2	N/A	100 ml
Toothpaste	18	141	138	138	103	326	10 g
Chocolate pie	2	589	572	N/A	N/A	N/A	100 g
Coffee creamer	2	294	240	N/A	N/A	N/A	100 g
Curry powder	2	525	495	N/A	N/A	N/A	100 g

* Prices in Korean Won

Table 2. Summary of price data for products in the sample of New Zealand Market

Product	Price* _{1st}	Price _{2nd}	Price _{3rd}	Price _{Others}	Price _{Niche}	Unit
Shampoo	5.29	4.08	5.89	5.99	7.49	200ml
Fabric softener	2.99	2.99	2.51	2.99	N/A	2ltr
Dishwashing liquid	2.79	3.19	3.25	3.99	N/A	500ml
Milk	2.42	2.67			1.95	1ltr
Roll toilet paper	3.70	4.99	3.69	4.00	3.00	Pack of 4
Toothpaste	3.49	2.74	3.19		7.74	110g

*Prices in NZ dollars

3.2 Procedure

The researchers selected two major retailers in each Country and simply visited all their outlets, in the major Korean cities of Seoul and Pusan and in Auckland, New Zealand. Permission was sought from the retailers, and care was taken to ensure that all prices were set at the standard shelf-price and not a temporary discounted offer price. Market share data were collected from a published source (AC Nielson). The product categories that are used in this research are mainly FMCGs. Because the FMCGs are normally under high market competition and that kind of situation is directly reflected to products prices.

4. Results

4.1 Hypothesis 1 – the relationship of brand share to price premium

A simple calculation of the average premium enjoyed by the leading brand over the second brand reveals 8.4%, while the average discount from the leading brand utilized is 23.34%. An analysis of variance of price levels against market share shows the expected relationship, when averaged across all products in the sample ($F = 34.3, p < .05$). This ANOVA is illustrated in Figure 1, which plots the comparative price levels of each brand status category against the price of the first-ranked brand. The other part of Hypothesis 1 is that a converse pattern will show in New Zealand. Overlaid on the graph in Figure 1 is the plot of an ANOVA of the New Zealand data; the expression is statistically insignificant. The visual evidence is strong that there is no indication of the double jeopardy effect in New Zealand, among the products selected, only niche products still carry a price premium.

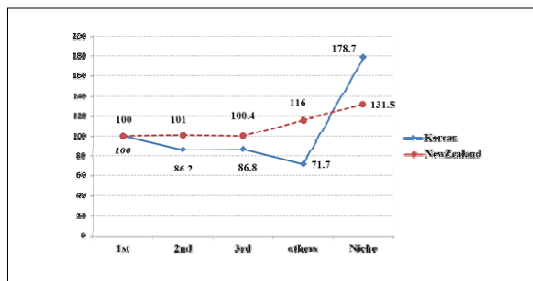


Fig. 1. Price ratio of brand share status categories based on the price of the brand leader

Disaggregating the data for the 10 product types in the sample shows that the average pattern noted in Figure 1 is typical and does not disguise a wide variation in the observed pattern. Figure 2 show the patterns for each brand market; only one specific case (toilet tissue) is the same pattern not evident.

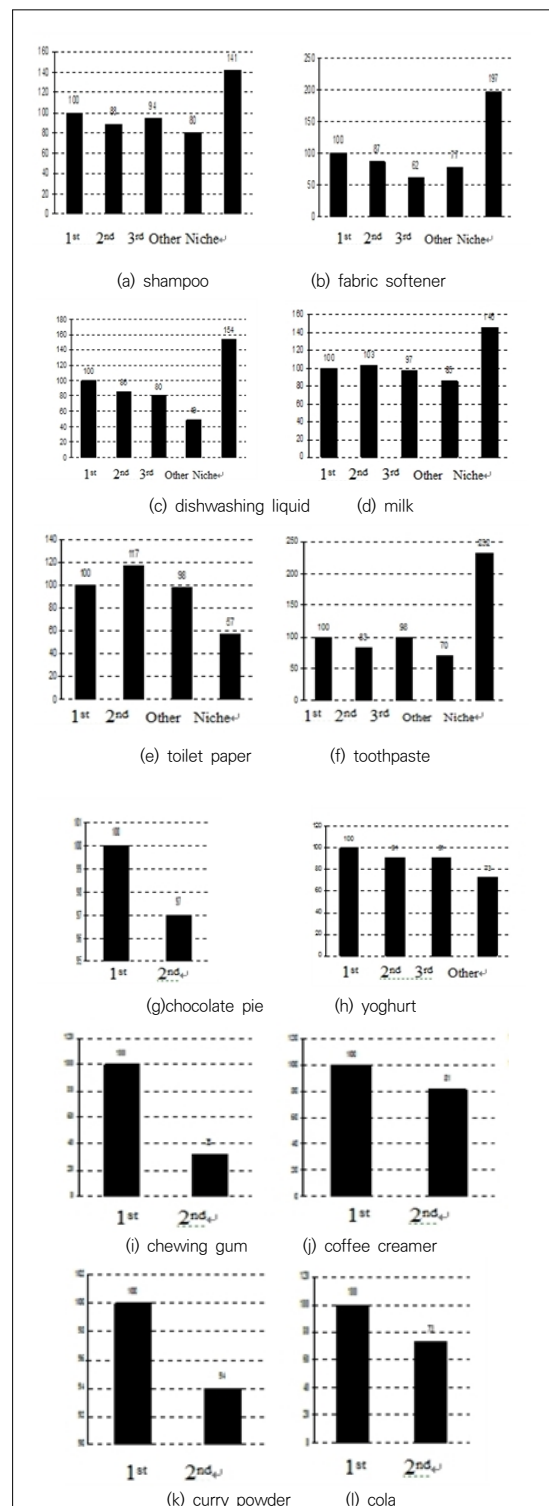


Fig. 2. Price Pattern in Korea for each Product Category by brand share status

A quite different story is told by the New Zealand data. In this instance the reverse is true and it seems that market share is attained through price discounting, with the exception of toothpaste.

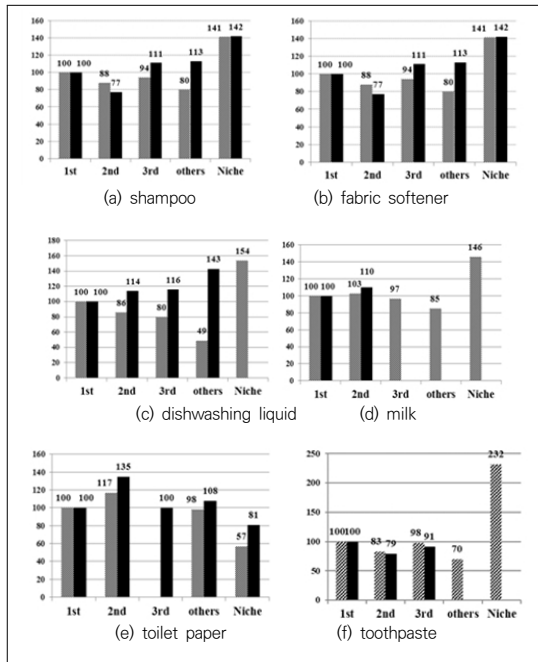


Fig. 3. Comparison of Korean and New Zealand price pattern (Korean: black, New Zealand: gray)

4.2 Hypothesis 2 – competition and price premium

Hypothesis 2 goes further than merely suggesting that a price premium occurs for the market share leader, to state that the premium will depend upon the extent of competition within the market, rising as competition rises. First, the markets are crudely classified to competitiveness by using the proxy of the number of competitors in the market. Thus toothpaste (18 competitors), shampoo (16) and washing liquid (16) form the high group; milk (9 competitors) fabric softener (7) toilet paper (7) and yoghurt (6) form the middle bracket, and chocolate pie, coffee creamer and curry powder all with two competitors in each of their markets

form the low competitive group. A one-way analysis of variance is conducted with competitiveness as the independent, categorical, variable and the percentage discount between the price of the leading brand and the mean price of other brands in the market (not including the niche brand) as the dependent. The differences are significant as predicted, $Mean_{high}=33.16\%$, $Mean_{medium}=26.79$ and $Mean_{low}=8.99$ ($F=3.59$, $p=.084$). Hay's Omega squared=.37, which Cohen classifies as a large effect [13].

ANOVA is simply a test of the difference between means, a more appropriate causal test is by regression analysis. First, the number of brands in each market is regressed against the dependent variable of the difference between the price of the leading brand and the mean price of other brands in the market (not including the niche brand). Similarly, this test is also significant ($R^2=.34$, adjusted $R^2=.26$; $t=2.03$; $p=.077$; $\beta = .58$). To compensate for the small sample, the three categories of market competitiveness used above, high, medium and low, are then used as a competitive scale (instead of the exact numbers) and regressed against percentage discount level. This analysis reveals a yet stronger results ($R^2=.47$, adjusted $R^2=.40$; $t=2.64$; $p=.03$; $\beta = .68$).

5. Conclusion & Implication

This simple research suggests that leading brands (in Korea) seem to command a price premium of approximately 10%. Conversely, it seems the price discount firms need (or perceive they need) to attract custom gets larger as the brand's market share decreases.

The immediate implication of the findings is that it really does seem that double jeopardy is relevant in Asia, (in South Korea, at least), but not so relevant in the West (or in New Zealand). This implies that market share is profitable in

Asia, as a price premium is evident; it also suggests strongly that market share is not being driven by low price, but some other “third” factor based on product or service features or image. The mechanism of double jeopardy, where the market leader and the niche brand can charge a premium, while follower brands compete for custom through discounting, seems to operate (again, in household products markets, at least).

That the premium which leading brands enjoy transpires to be about 8% over the second player and some 23% over the mass of minor competitors is immediately interesting and offers both insights and comfort on two (related) counts. In the first place this is a clear reflection of the practical price threshold for discounts found in Asia by Marshall and Seow, discussed above[14-15]. A premium of 8% between the first and second players is just at the low point of the amount required for customers of the second brand to consider it cheaper than the leading brand, yet unlikely to be noted by customers of the leading to be noticed[16]. As a conclusion, the market share preemption strategy and channel strategy is more important in Korea for competitive advantage.

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