Double Jeopardy, Alive and Well: A Preliminary Assessment of Price Expectations in the Republic of Korea and New Zealand

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Abstract This preliminary research is concerned with seeking price expectation differences in response to market share information in Korea and New Zealand. A qualitative approach is taken and the research proposition is that South Korean housewives expect to pay a premium for the brand with the largest market share, whereas New Zealand grocery shoppers do not share the same expectation.

Key words double jeopardy, price expectations, cross-cultural, market share

1. Research Issue

Double jeopardy refers to the supposed double disadvantage of companies with a small market share, who sell to fewer people at a lower rate than that enjoyed by market leaders and, at the same time, cannot command the premium enjoyed by the leading brand in their market (Ehrenberg, 1998). Double jeopardy or the converse, double joy is the topic of this research, and is predicated on the idea that market share is a worthy strategic objective, one that leads to profitability.

The role of market share as a sustainable, profitable strategic advantage has been the subject of fierce debate for some years. The original view was simple—that a greater market share of itself leads to greater profitability; a number of studies found this to be the case.[1-5] 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. 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.

Fairly recently Armstrong and Brodie[6] mounted a vigorous attack on the BCG matrix, with its emphasis upon market share and competitor activity. This was followed by two further papers along the same lines[7, 8] which, together, cast very strong doubt upon the veracity and conclusions of the earlier research. Golder[9] went even further, and re-analysed the original Buzzell and Gale material to show that their conclusions were, at the least, flawed and biased. Yet Armstrong et al. conclude, “Despite evidence from diverse laboratory and field studies…the myth of market share lives on” (2007, p.130).

The literature suggests reasons that market share linger as a strategic tool, even though largely discredited. Jacobson and Aaker[10] suggest, for instance, that there could be a third variable driving profits; 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 low-price market share as a strategic device successfully to generate satisfactorily high, sustained profits.[11] This evidence provides the focus of this research. The underlying difference in this research to most prior work is that it is based on the idea that it is consumers, not strategists, who ultimately determine price. Companies typically charge what they think the market will bear, or what they believe will match consumer expectations. In this sense, then, whether double jeopardy works depends not so much upon what the strategists think but on what consumer expectations are with regard to how much premium/discount a brand with the largest market share, or the most visibility, should carry.

2. Research Status

2.1 Developing the argument

The arguments mooted by Buzzell and Gale(1987) and others, when they suggest that market share itself generates profit, have face validity. Their argument is based on the view that increased volume provides high revenue but, at the same time, decreases average production cost (the experience curve and long-run cost curve come into play). According to Martin and others, firms with a higher market share also gain greater strategic power.[3-5] Buzzell notes that as a market develops, the market share of each brand settles down to a pattern where the leading brand in a duopoly market enjoys a 60% market share. Typically, however, three to four brands normally join the market but the leading brand tends to retain a major share. These studies note that market share, and its related market status, are important both for profit and comparative advantage.

The strong counter-arguments of Armstrong and Brodie, Armstrong and Collopy, Golder and others have been noted above. Golder [9] demonstrated quite clearly that the Buzzell and Gale data, showing how leading brands survived in the long term, were cherry-picked; and Armstrong points out that so often market share is attained through price discounting, which leads to low profits and even corporate demise. Armstrong also points out that if a company has a strong product or service, then it may come to enjoy a strong market share, but that this is quite different to market share itself leading to profit.

Jacobson & Aaker[10] also considered the PIMS data in greater depth, and similarly show that the simple relationship between ROI and market share is spurious. They also claim that there is usually an undisclosed third factor that affects market share effects. Aaker[12] takes this view within the context of brand building. He suggests that one of the strongest situations for a brand to hold is a large market share with a consequent relatively high market price. If the brand has a comparative advantage in the consumer's mind then market share should increase in a consistent way. Aaker[13] believes that market share has the advantage of being both readily available and accurate as an indicator of the marketing activities of a company.

2.2 Where double jeopardy fits

Behavioural studies focus on the consumer's perspective in order to identify this third factor mentioned by Aaker and Jacobsen. Customers' preference for a minor brand is typically because some attribute or function ("good" taste or perceived good value) particularly appeals to them. Yet others note that over any given term a brand with a minor market share typically has far fewer buyers than a larger competitive brand.[14, 15] That is, that even though the purchasers of brands with small market share like the brand enough to purchase it, they still tend to buy less often. This unfortunate (for minor brands) purchase pattern, allied to a lower price than that commanded by the leading brand, is an instance of "double jeopardy". This market phenomenon holds for segmented markets, even those strongly segmented.[15]

Fader and Schmittlein[16] explain that another advantage of high-share brands is that they enjoy higher behavioral loyalty, which makes the double jeopardy phenomenon even worse for minor brands. Yet again, brand leaders can optimize brand power through the sheer salience of the brand.[17] As the brand becomes more popular and gets wider distribution, it also gets greater shelf space, more displays, more attention from sales persons, greater promotion and word of mouth, more media mentions, and more advertising.

The whole situation is exacerbated for a minor brand if it does not adopt and maintain a strong differentiation strategy. In this case they are exposed to fierce price competition and have no choice but to attempt to undercut the price leader's price. So, as market share declines, a brand's market power also declines, and the chances of them facing a devastating price war are heightened. Other brands, which take a niche brand strategy, can eschew this fierce price discounting.

2.3 Market share and price in Asia

There have been a number of research articles suggesting that Asian managers have a greater tendency than Western to use market share as a decision heuristic, as producing in low-labor cost economies and selling into very large markets even with a comparatively low price may well lead to profitability; creating employment becomes important of itself to sustain growth. This is a gross simplification of a hugely complex issue, but the high growth of some Asian economies during the "Asian economic miracle" era of 1960-1998 was fuelled by innovation, education, restructuring of the workforce from traditional to modern production methods, capital injections and strong political growth agendas. The creation of jobs for the youth emerging from universities, for the traditional craftsman wanting to earn a higher wage in a more technical and capital-intensive work environment place pressure on economies of scale. These can only be attained through export, and the economies (particularly) of Taiwan District, Hong Kong, South Korea and, more recently, China mainland are all heavily exported and large-scale oriented. Certainly, there is an empirical body of work endorsing the fact that managers in developing economies still make decisions based on market share rather than short-term firm profitability.[11, 18, 19] The issue becomes, though, whether this growth-driven Asian market share was/is based on technology, on superior products/services, or merely on low price.

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.[20] 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[21], a relatively small group can exert a disproportionate influence on society's brand preference in this circumstance.

To summarise this discussion, it is claimed by proponents of double jeopardy 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, and this will be reflected in consumer attitudes. Whether this holds in the West to the same degree as in the East is moot, but the indications are strong that this situation exists in the Asian high-growth economies to a larger extent than in the West, where market share is often price-driven. Taking a consumer perspective on the issue, the research question seeks to differentiate the expectations of a set of consumers in the east and the West:

Research proposition: Asian (South Korean) consumers expect brands with a greater market share to exhibit a price premium, whereas the converse is true in New Zealand.

3. Research Method

This study is qualitative, but post-positivist rather than interpretivist. That is, interviewers were directed to seek answers to specific questions, rather than generate open-ended discussion that is later analysed for themes and otherwise interpreted. Each interview lasted no more than ten minutes, and all were conducted one-on-one in sports clubs, crèches, and respondents' homes or wherever convenient.

3.1 Sample

The convenience survey was conducted in Seoul, South Korea, and Auckland, New Zealand. Respondents were gathered on a convenient basis, but care was taken to ensure that every respondent was a mother of young children, between 20-30 years of age, is the principal household shopper and an attempt was also made to spread the respondents by social class as far as practical. However, as the interviewers were, in both cases, senior graduate (women) students, the majority of the respondents come for middle and upper-middle social classes with only the occasional foray into blue-collar territory. In Seoul, 25 women responded and in Auckland 23.

3.2 Interview protocols

All interviews began with an introduction, a general explanation, and a request for cooperation. Permission was sought to record the brief interview. Then participants were then asked what sort of products they shopped for in their local supermarket. The interviewer would select one of the product categories mentioned and explain to the respondent that there is the most popular, biggest-selling brand of the selected product category as well as a number of competing brands on a supermarket shelf. The interviewer then asked the respondent would she expect to pay more for the most popular brand or less. The interviewer then asks the same question for another two products mentioned by the respondent and repeats the question. Care was taken to avoid leading words such as "best brand", "leading brand", "number 1 brand". Care was also taken to ask respondents to ignore store and generic brands. At this point the interviewer would probe a little to see if there is a reason for the respondent's expectation or just an experience-based judgement. The interview was then closed, with thanks.

No issues were experienced, and a 100% response rate was enjoyed. The interviews were conducted in English language in New Zealand and in Korean in Seoul; later, during the transcription process, the Korean interviews were translated into English for analysis.

4. Research Result

4.1 Results, Korean data

Every Korean respondent, without exception, declared that she expected the most popular brand to carry a premium. Products mentioned by individuals include toilet cleaners, milk, tissues, toilet tissues, dishwashing liquid, laundry detergent, instant coffee, toothpaste and toothbrushes.

The reasons given for their price expectations are interesting, and seem to fall into two major categories; a group feeling; that if everyone else bought something it must be the best, and a belief that there is a strong relationship between costs and prices. A group, collectivist, orientation of some kind seems to be indicated in the comments of 10 respondents, such as:

"If most people buy it then it must be the best product." (Korean respondent 6)
"If most people buy it, isn't it the best?" (KR7)
"Doesn't being the most popular mean it is the best—of course pay more." (KR3)

"I don't know much about milk but it [Maeil, the milk brand with the biggest market share] must be better than other brands." (KR15)

The cost-price relationship is also quite specific in several responses, such as:

"Biggest brand must have spent more money on its product materials than other brands so its products must have better quality." (KR20)

"Its products must be made from better ingredients." (KR17)
"If it is the biggest selling, then they must have done much research." (KR9)
"Expect costs of research and development higher." (KR1)

A related set of comments was made by eight respondents concern trust. Comments such as:

"Milk is for my kid so even if I have to pay more, I'd buy the most popular brand, it is more trusted." (KR24)
"It [the brand with largest market share] is more trustworthy." (KR23)
"Many people buy it so I can trust the brand." (KR16)

4.2 Results, New Zealand data

The New Zealand house persons generated product categories very similarly to their Korean counterparts; these include milk, shampoo, toilet cleaner, laundry powder, dishwashing liquid, toilet paper, nappies, soft drinks, glass cleaner and air fresheners. An immediate difference in the two response sets is obvious, though; only 13 Auckland house persons agree with their 25 Korean sisters that the biggest-selling brand is sold at a premium. Five take exactly the opposite view and the other five either do not know or think it dependent (for some reason they could not articulate) on product category. Those in agreement with the Korean women make similar comments, and there is also an overtone of the cost expectation but more (more cynically) because of promotional expenses than product development costs, as against the Korean women who appear to have greater faith in their companies that a higher price reflects better quality:

"The most popular is because they have done the marketing and built up their brands." (New Zealand respondent 1)
"Well, you'd expect to pay more for the most popular ones. It doesn't mean I'd buy them, but I'd expect them to be more expensive." (NZR3)
"The most popular I would say, I would pay more, and the ones that you hear more about on the TV shows and stuff." (NZR8)

Those who hold a contrary view make the sort of comments one would expect:

"I would have thought the most popular was cheaper and that's why it was popular." (NZR23)
"It could be more for the competing brand if it's a better brand, but people generally like to buy the more popular one which is cheaper." (NZR21)
"I'll expect to pay more for the most popular coz [sic] everyone will like to buy them so the price should be less." (NZR12)

Of interest are those respondents who either do not care or know:

"You would expect to pay more for the most popular ones I'd think, I'm not sure." "I think you probably pay more for the competing brands; I don't know why I think that but anyway." (NZR12)
"I've got a list and I just go and fire things into the trolley. I don't know, that's a hard question I think, I'm not sure." (NZR17)

New Zealand respondents who believe that the pricing strategy depends on the product category sometimes held contrasting views to each other regarding which categories command a premium:

"I'd pay more for the leading brand [of milk]." "Maybe more for the competing brand [of soap]." (NZR19)
"You would expect to pay more for the most popular ones [of toilet cleaners and toilet tissues] I'd think, I'm not sure." "I think you probably pay more for the competing brands [of milk], I don't know why I think that but, anyway..." (NZR13)

5. Conclusions, Lessons Learned

This is a very preliminary, elementary study, yet there are several outcomes of interest. Because of the nature of the research method, perhaps the only thing quite certain that can be gathered from the results of the study is that double jeopardy seems to be alive and well in Korea, where every respondent expects to pay a premium for the brand with the largest market share, but the picture is not as clear in New Zealand. There is an issue here that demands further research, then, as there seems a real difference in consumers' pricing expectations that could confuse price-setters operating across cultural borders. Whether or not the difference observed between the two countries is a market or a cultural effect is not clear at this point, though. That is, it might be that Koreans trust (or do not trust) their large chaebol (e.g. Samsung, Lotte, Hyundai) that are so dominant in the Korean marketplace and absent at this level in Auckland or, alternatively, there could be some deeper cultural causes behind the difference.

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