

Product Differentiation

Different products or Products differently appreciated?

Case studies: Consumer Reports: Taste tests: Diet Coke v. Diet Pepsi (26%) and Coke v. Pepsi. (37%)

Williams College: Insignificant ability to identify D. Coke v. D. Pepsi; >1/3 like the other one better.

Coke v. Pepsi v. R.C. v. Chek Cola

Bud v. Pabst Blue Ribbon v. Ice House | Bud Light v. Miller Lite

Big Mac v. Whopper

Market Episodes:

New Coke

Fritos

Schlitz

Jeans | Tennis Shoes | Computers | Golf clubs & balls

Hype v. Real: Brand names

Drugs: Tylenol v. generic acetaminophen | Advil v. generic ibuprofen

Fixed cost model

Figure 7.1 in book.

Theoretical effect of competition on demand -- substitutability flattens demand.

Price setting power v. Dominant firm

Wal-Mart v. K-Mart v. Target v. Sears v. J.C. Penny

BiLo v. W-D v. Publix

Empirical observations:

1. Firms have some price setting power, but much of what appears to be different prices between firms is attributable to quality variations, including brand name premiums.
2. Firms have price setting power in small ways, but price index of all goods sold (i.e., grocery basket) is driven by competition.
3. In the small, firms seem to be able to price discriminate. This is the most interesting element of the product differentiation issue.