Journal of Retailing 94 (1, 2018) P1–P6

Executive Summaries

This section provides a concise, nontechnical summary of each article in the current issue of JR focusing on its strategic implications for management.

Something Free or Something Off? A Comparative Study of the Purchase Effects of Premiums and Price Cuts

Bram Foubert, Els Breugelmans, Karen Gedenk, Charlotte Rolef

As an alternative to promotional price cuts, retailers and manufacturers often rely on non-price promotion techniques, such as premium promotions, where consumers receive a free gift with the purchase of a product. While both premium and price cuts are known to increase sales, existing research does not offer a clear answer as to how a premium's effectiveness compares to that of a price cut. This is an important concern because managers oftentimes need to trade off multiple promotion forms. In our study, we therefore assess a premium's "comparative effectiveness," which we define as the purchase effects of a premium, relative to those of an equivalent price cut. In addition, we examine two potential moderators of this comparative premium effectiveness, namely the premium's functional relatedness to the category and whether the promoted brand is a national brand or private label. In line with many previous studies and examples in practice, we focus on premiums that are meant to increase the sales of the product to which they are tied (i.e., they are not samples for other products) and that are not part of a collection.To gather data, we set up an online purchase simulation in which more than 2,000 participants made purchase decisions in four fast-moving consumer good categories: orange juice, cereals, margarine, and milk. Computer-simulated shopping experiments have been shown to provide realistic buying behavior data and at the same time allow for extensive control. We formulate a joint econometric model for consumers' decisions whether or not to buy in the category (incidence), which item to buy (brand choice), and how many units to buy (quantity).

We find that premium promotions tend to generate weaker purchase effects than equivalent price cuts. A premium may be perceived as less fungible or more manipulative and therefore provoke stronger reactance. Especially at the quantity level, the effects of a premium are typically small or insignificant. Indeed, in comparison with price cuts, premiums are less likely to induce quantity acceleration because the marginal value of a gift declines with each additional unit. Interestingly, a premium's comparative effectiveness is largely independent of its functional relatedness to the category, which suggests that consumers are rather attracted by the premium's intrinsic value or by the promise of receiving a gift. However, the performance gap between premiums and price cuts is usually smaller for private labels than for national brands. In situations where the premium's sales performance is not too far below that of an equivalent price cut (like for private labels), the premium can be the most profitable option, provided that it costs less than the price cut. We calculate how large the cost advantage has to be for a premium to be more profitable than a price cut.

Our results have interesting implications for both manufacturers and retailers. Due to the limited quantity effects yet stronger choice effects, premiums are relatively more effective at increasing SKU sales than at boosting overall category sales. This is good news for manufacturers, especially because retailer pass-through for premiums is likely to be high: consumers may be well-aware of ongoing premium promotions and may consider switching to competing stores if they detect retailer opportunism. However, premiums do offer opportunities for retailers too: premiums appear a cost-effective strategy to shift sales from national brands to private labels, which often have higher profit margins

Effect of Store Brand Introduction on Channel Price Leadership: An Empirical Investigation

Hwan Chung, Eunkyu Lee

The proliferation of store brands has fundamentally impacted the relationship between manufacturers and retailers. Retailers are now allocating an increasing share of their already scarce shelf space to private labels, thus making national brand manufacturers vulnerable to retailers' demand for steep discounts. For national brand manufacturers, a store brand means not only fiercer competition for shelf space but also the pressure to accept smaller margins, because store brand products set price ceilings. On the other hand, retailers typically enjoy increased margins on national brands after the introduction of store brand. Furthermore, a retailer actively dealing with store brand suppliers may gain deeper knowledge of the manufacturers' cost structures. All these factors point to the possibility of significant changes in the channel price leadership status between national manufacturers and retailers after store brand introductions. Despite the significance of store brand business and its potential impact on channel price leadership between manufacturers and retailers, insufficient attention has been paid to the impact of a store brand introduction on channel price leadership in the literature. Thus, this research investigates empirically the impact of store brand introductions on the price leadership relations in a distribution channel between a retailer and national brand manufacturers. This study analyzes a multi-product category retail database from a major grocery chain, which captures both a period before and a period after the introduction of a store brand in each product category. By applying the time series approach to this data set, the analysis shows that store brand introductions frequently lead to price leadership changes, generally in a more favorable direction for the retailer than for the national brand manufacturer, evidenced by either the decay of the manufacturers' price leadership or the rise of the retailer's price leadership.

However, the empirical results also reveals that such a change is not universal for all national brands, but, instead, tends to be concentrated among a certain quality tier of national brands. Furthermore, such price leadership changes are not always observed for low-tier national brands, but sometimes detected among top-tier national brands despite the low-price low-quality positions of the store brands. Thus, the impact of a store brand introduction on price leadership pattern for a national brand is not constrained by the proximity in brand position between two brands. Instead, these patterns of post-store brand price leadership changes suggest the retailer's strategic proactive effort to take advantage of its enhanced bargaining power and managerial sophistication for reshaping the leader–follower relationships within the category. In particular, the results suggest that retailers may focus their efforts to change price leadership situations on the most critical national brand tier that has superior market shares, unit profitability or both.

Strategic Choice of Sales Channel and Business Model for the Hotel Supply Chain

FEI YE, LI ZHANG, YINA LI

Owing to the rapid development of e-commerce in recent years, the online travel agency (OTA) has become a popular distribution channel for the hotel industry in the sale of rooms. However, the OTA channel is a double-edged sword. On the one hand, it gives hotels access to a larger segment of customers and thereby can potentially increase occupation rates. On the other hand, however, it comes at an additional cost and leads to channel conflict between hotels and OTAs. Therefore, hotel managers have to know whether and when hotels should cooperate with OTAs to sell rooms. That is, under what conditions is it profitable for hotels to cooperate with OTAs? In addition, if the hotel and the OTA do cooperate to sell rooms, which business model is best for them to follow—the Merchant model (the OTA purchases rooms at a discount wholesale price and sells them at a profit, but takes on the risk of having unsold inventory) or the Agency model (the OTA passes reservations booked by its customers to the hotel and receives an agreed commission fee on each transaction)?Given the motivation and problem framework, in this paper, we investigate the optimal choice of sales channel and business model from the hotel perspective, given heterogeneous customer preferences. We make three key assumptions reflecting the anecdotal evidence in the study. The first is that the hotel's room capacity is finite and cannot be changed in the short term. The second is that selling through the OTA channel helps hotels obtain access to a larger segment of customers. The third is that customers purchasing from the OTA channel express a lower willingness to pay than those from hotel direct channel. We present a framework to explicate the hotel's strategic choice among three channel and business model strategy scenarios, namely, single hotel direct channel, dual-channel under the Merchant model, and dual-channel under the Agency model. Moreover, the hotel's equilibrium channel and business model strategy under different capacity and market conditions are obtained.

The findings reveal that there is no one strategy tailored to all situations: the choices of channel and business model are closely tied to certain conditions, like the hotel's room capacity, consumer acceptance of the OTA channel, the increase in market size with the OTA channel and the commission rate charged by the OTA. Even for a hotel with a given capacity, whether it should cooperate with the OTA channel or not depends on certain market conditions like customer acceptance of the OTA channel and the increase in market size with the OTA channel. A hotel might become worse off after adding the OTA channel if the hotel's capacity, the increase in market size with the OTA channel, and consumer acceptance of the OTA channel are relatively small. The results present a complete picture for hotel managers regarding the strategic choice of channel and business model. They need not "guess" or consider only a single factor (e.g., capacity), but can carefully take into consideration capacity and market conditions. A survey of hotel managers in China confirmed that the majority