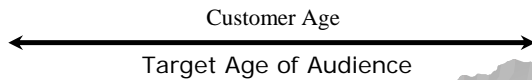


Differentiation

4 of 5 case writeups
Enterprise due Apr 12

Hotelling Line

- Products are viewed as located on a line
- Same line represents preferences of consumers

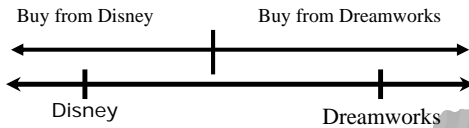


Types

- ◆ Quality (“vertical differentiation”)
 - gas mileage
 - reliability
 - durability
- ◆ Variety (“horizontal differentiation”)
 - color
 - style

Analysis of Hotelling Line

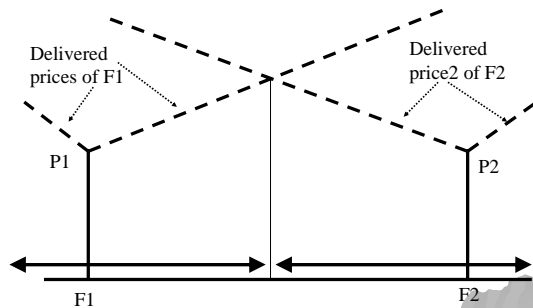
- ◆ Will tend to split the market
- ◆ Absent price competition, advantageous to move toward center
- ◆ Political parties

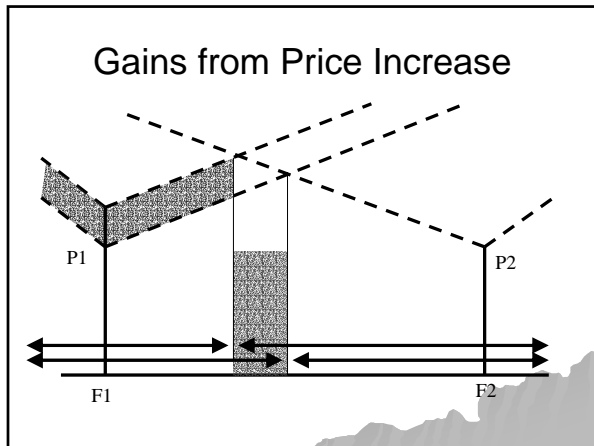


Price Competition

- ◆ Close proximity drives prices to marginal cost
- ◆ Strong price competition makes distance more valuable
- ◆ As we will see with Enterprise Rent-a-car, strong price competition is a deterrence to locating nearby

Determination of Prices





Equilibrium Pricing

- ◆ Pricing equalizes gains and losses
- ◆ As products become less substitutable, margins increase
- ◆ If one firm increases its price, rivals should also increase price, but by a smaller amount
- ◆ Awareness of this reaction leads to higher equilibrium pricing

Examples

- ◆ Coors beer
- ◆ Delivered rental cars
- ◆ Internet purchases
 - Books
 - Brand name electronics
 - Desktop computer
 - Diamond ring

Synergies

- ◆ Disney exploits complementarities between theme parks and films
- ◆ Makes entry more difficult

Creating Synergies

- ◆ Sony memory stick
- ◆ DeWalt battery system
- ◆ Frequent flyer miles
- ◆ BMC Software: "1 + 1 = 3"
- ◆ Compaq ipaq devices
- ◆ MS Excel, Word, Outlook

Synergies

- ◆ Goal is to lock-in customers
- ◆ Create switching costs
 - Common peripherals, chargers, etc.
- ◆ Major role for complementary goods
- ◆ Often desirable to avoid low price offers to competitor's customers
 - Get customers to choose a company and buy all their related products from that company

Table 7.3 Camcorder Hedonic Price Regression Results

Variable Name	Price Effect	Variable Name	Price Effect
Base Price (VHS-C) B&W viewfinder	\$347.26	Non-Sony Mini DVI	95.9%
On Sale	-7.5%	Sony Mini DV	141.2%
Non-Sony 8mm	-15.3%	Monitor Size	12.9% / inch
VHS	-8.4%	Color Viewfinder	9.8%
Non-Sony Hi 8mm	8.9%	Image Stabilization	7.4%
Sony Hi 8 mm	46.2%	Low weight	33.7%
Sony Digital 8	79.8%	JPEG format	65.6%

- ◆ JVC mini-DV camcorder with a 3 inch monitor, color viewfinder, image stabilization, low weight, JPEG format and not on sale is worth:
- ◆ Value = \$347.26 \diamond 1.959 \diamond 1.129 \diamond 1.129 \diamond 1.129 \diamond 1.098 \diamond 1.074 \diamond 1.337 \diamond 1.656 = \$2,556.05.
