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Empirical Generalizations about Marketing Impact

What we have learned from academic research

Edited by
DOMINIQUE M. HANSSENS
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of World Class Marketing**

Cross-price Impact: Neighborhood Price Effects

In grocery products, brands that are closer to each other in price have greater cross-price effects than brands that are priced farther apart. In particular, brands that are closest to each other in price have an average absolute cross-price effect of .090, while brands that are priced farther apart (fourth closest in price) have an average absolute cross-price effect of .043. This phenomenon is called the "neighborhood price effect." Absolute cross-price effect is measured as the change in market share (percentage) points of a target brand when a competing brand's price changes by 1% of the category price.

Evidence base	Meta-analysis of 1,060 cross-price effects on 280 brands from 19 different grocery product categories
Managerial implications	All else equal, brand managers should carefully monitor the discounts of their closely priced neighboring brands and, if necessary, provide offsetting discounts to avoid loss of sales.
Contributor	Raj Sethuraman, Southern Methodist University
Reference	Sethuraman, Raj, V. Srinivasan, and Doyle Kim (1999), "Asymmetric and Neighborhood Cross-Price Effects: Some Empirical Generalizations." *Marketing Science* 18 (1), 23–41

Cross-price Impact: Asymmetric Price Effects

The average cross-price elasticity of a higher-priced national brand's price cut on a lower-priced store brand's market share is .48, which is higher than the average cross-price elasticity of a lower-priced store brand's price cut on a higher-priced national brand's market share (.34). This phenomenon is called the "asymmetric price effect." However, the average absolute cross-price effect of a higher-priced national brand's price cut on a lower-priced store brand's market share is .07, which is not different from the average absolute cross-price effect of a lower-priced store brand's price cut on the share of the higher-priced national brand (.072).

Evidence base	Meta-analysis of 210 cross-price effects from 105 national brand–store brand pairs
Managerial implications	Conventional belief holds that national brand price cuts hurt store brand sales more than the reverse. This belief implies that national brands have a greater incentive to discount to take share away from store brands than vice versa. However, the conventional belief holds only when cross-price effects are measured in terms of elasticities but not when they are measured in absolute cross-price effects. Therefore, we cannot conclude that national brands have greater incentive to discount to garner store brand sales than vice versa.
Contributor	Raj Sethuraman, Southern Methodist University
References	Blattberg, Robert C., and Kenneth J. Wisniewski (1989), "Price-Induced Patterns of Competition." *Marketing Science* 8 (4), 291–309
	Sethuraman, Raj, V. Srinivasan, and Doyle Kim (1999), "Asymmetric and Neighborhood Cross-Price Effects: Some Empirical Generalizations." *Marketing Science* 18 (1), 23–41

Cross-price Impact: Asymmetric Share Effects

The average absolute cross-price effect of a low-share brand's price cut on the market share of a high-share brand is .069, which is greater than the average absolute cross-price effect of a high-share brand's price cut on the market share of a low-share brand (.043). This phenomenon is called the "asymmetric share effect."

Evidence base	Meta-analysis of 1,060 cross-price effects on 280 brands from 19 different grocery product categories
Managerial implications	All else equal, manufacturers of low-share brands would have a greater incentive to discount because they can attract a larger pool of consumers.
Contributor	Raj Sethuraman, Southern Methodist University
Reference	Sethuraman, Raj, and V. Srinivasan (2002), "The Asymmetric Share Effect: An Empirical Generalization on Cross-Price Effects." *Journal of Marketing Research* 39 (3), 379–86

Private Label Margins

In grocery products, the gross percentage profit margin per unit received by the retailer on the store brand is greater than the retailer's percentage margin on the national brand. One gross margin estimate is 34% for store brands and 24% for national brands. Gross percent margin is the profit contribution computed as a percent of brand price = [(price − variable cost) × 100/price].

Evidence base	Compilation of six academic and industry studies
Managerial implications	The higher gross percentage margin for store brands does not imply that retailers should promote their store brands, nor does it necessarily imply that manufacturers should close the percent margin gap by reducing their wholesale prices. Retailers and manufacturers should consider unit dollar contribution margin (price − variable cost) and profitability per square foot of retail space when making their price and promotion decisions.
Contributor	Raj Sethuraman, Southern Methodist University
References	Sethuraman, Raj (2006), "Private-Label Marketing Strategies in Packaged Goods; Management Beliefs and Research Insights." Cambridge, Mass.: Marketing Science Institute, Report No. 06–108 Sethuraman, Raj (2009), "Assessing the External Validity of Analytical Results from National Brand and Store Brand Competition Models." *Marketing Science*, forthcoming