

Go To Market Strategies: Week 7

David Bell (@davidbnz)

Xinmei Zhang and Yongge Dai Professor

- Red Ties Versus Blue Ties
- Research Article
- Details and Conclusions

Red Ties Versus Blue Ties

- Imagine that you live in a town where everyone wears ties all the time. Then, imagine that you'd like a blue tie, but everyone else wants a red one.
- Will you get what you want?



HOME

ABOUT

BRANDS

CULTURE

CAREERS

PRESS ROOM



diapers
.com



SOAP
.com



BEAUTY BAR.com



wag
.com



yoyo
.com



CASA
.com



VINE
.com



After
SCHOOL
.com



Booksworm
.com



LOOK
.com

JEONGHYE CHOI and DAVID R. BELL*

Offline retailers face trading area and shelf space constraints, so they offer products tailored to the needs of the majority. Consumers whose preferences are dissimilar to the majority—“preference minorities”—are underserved offline and should be more likely to shop online. The authors use sales data from Diapers.com, the leading U.S. online retailer for baby diapers, to show why geographic variation in preference minority status of target customers explains geographic variation in online sales. They find that, holding the absolute number of the target customers constant, online category sales are more than 50% higher in locations where customers suffer from preference isolation. Because customers in the preference minority face higher offline shopping costs, they are also less price sensitive. Niche brands, compared with popular brands, show even greater offline-to-online sales substitution. This greater sensitivity to preference isolation means that these brands in the tail of the long tail distribution draw a greater proportion of their total sales from high-preference minority regions. The authors conclude with a discussion of implications for online retailing research and practice.

Keywords: Internet, long tail, preference minority, retailing

Preference Minorities and the Internet

- **“Isolated” Prospects are Worth Pursuing**
- **Preference Isolation** brings shoppers online and explains geographic breakdown of online brand demand

J. Choi and D. Bell (2011) “Preference Minorities and the Internet,” *Journal of Marketing Research*.

Measuring Display Space in Philadelphia


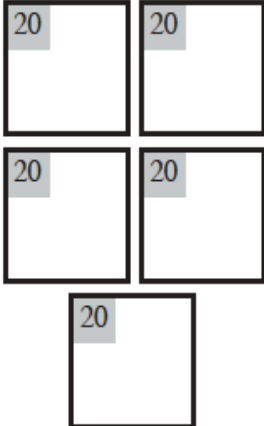
Table 1
PREFERENCE MINORITIES, SHELF SPACE, AND ASSORTMENT

Retailer Type	Proportion of Households with Babies	Shelf Space (Width) ^l	Assortment: Number of SKUs				
			Total	Pampers	Huggies	Luvs	Seventh Generation
Fresh Grocer Supermarket							
Store 1	.106	10 ft.	28	9	15	4	0
Store 2	.155	20 ft.	50	21	19	8	2
Store 3	.163	28 ft.	63	28	25	10	0
Wal-Mart							
Store 1	.139	35 ft.	58	24	25	9	0
Store 2	.199	50 ft.	82	43	28	11	0

Notes: The retail chains we visited use the same-sized shelves across multiple locations. Within a chain, shelf height and depth are identical; thus, we provide only the width information. Each brand has potentially several variants (e.g., Pampers produces Pampers Baby Dry, Pampers Swaddlers, Pampers Swaddlers Sensitive, and Pampers Cruisers). Moreover, sizes range from “preemie” and newborns to size 6 or 7, and the number actual diapers per package can also vary.

Physical Store Stocking Rules (Key Assumption)

Figure 1
PREFERENCE ISOLATION AND GEOGRAPHIC DIFFERENCES IN SHELF SPACE ALLOCATION

Target Population	Total Population	Target Population as Proportion of Total ^a	Stores (200 sq. ft. each) and Category Shelf Space per Store ^b	Total Shelf Space per Market ^c
Market A 100	200	$100/200 = 50\%$		100 sq. ft.
Market B 100	1000	$100/1000 = 10\%$		100 sq. ft.

- Unit volumes of *different brands* in zip code z in MSA m is an integer count, regressed on demographics and Preference Minority Index
- b value significant and > 0 for *Preference Minority Index* for all brands but largest effect is for *niche* brands
- Compare 90th percentile vs. 10th percentile PMI
 - Category sales 50% higher
 - Niche brand sales 125% higher

Findings

Market A

100 Others

100 Babies

versus

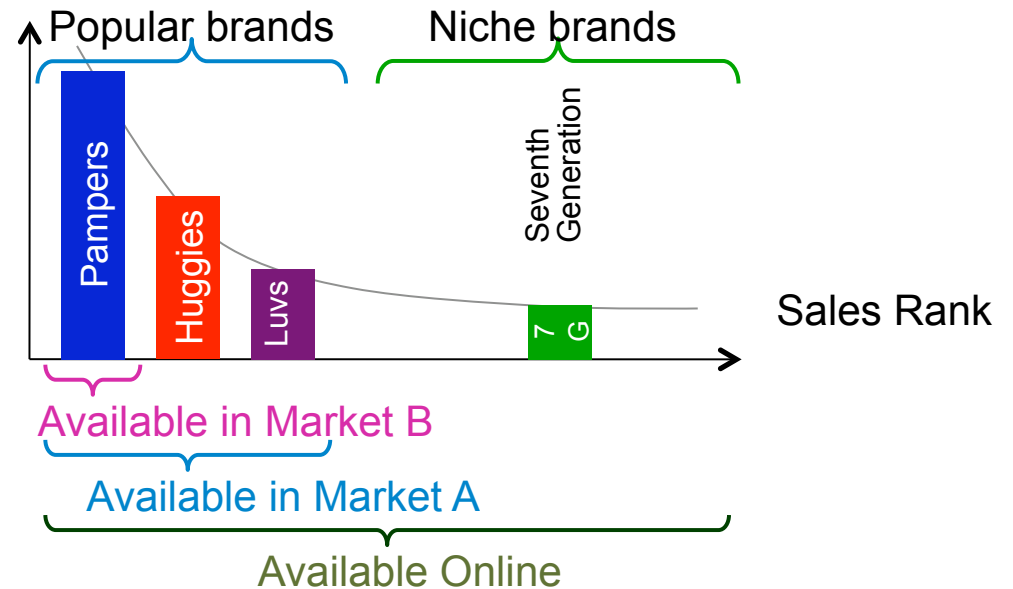
Market B

900 Others

100 Babies

The Long Tail Sales Distribution

Sales



Market A



Assortment at local retailers



Demand for online retailers

Market B

