Product Differentiation Case Studies, Data

Belleflamme and Peitz, 2010

Cabral, 2017

Dixit and Stiglitz, 1977

Shaked and Sutton, 1982

Schmalensee, 1978

- The ready-to-eat breakfast cereal market in the U.S. was heavily concentrated from 1950 to 1972, with a 4-firm concentration ratio of 85% and a 6-firm concentration ratio of 95%. Throughout this period, no new firm achieved a non-negligible market share. Incumbents enjoyed very high profits, that could not apparently be explained as compensation for risk-bearing, given limited fluctuation in sales and profits. Over this period the 6 leading incumbents introduced over 80 brands into distribution beyond test market. Minimum efficient scale in this industry is thought to be small, at $3-5\%$ market share, neither patents, ownership of raw material sources, production knowhow, advertising, nor capital costs seems to constitute a significant barrier to entry (by introducing a new brand) (especially for the potential entrants Pet and Colgate, which are large, diversified food processing firms).
- The ready-to-eat breakfast cereal industry exhibited increasing returns to scale, since there is some fixed cost associated with advertising and research and development incurred in launching a new brand. Rivalry is localised. And each brand is relatively immobile in product space since re-locating a brand in product space is at best very costly. In fact, established brands often withdraw entirely when sales decline while new brands are being launched at the same time.

Salop, 1979

Hausman, 1997

Anderson et al., 1992