

CHAPTER 5

CONCLUSION

The conclusion of these subgame perfect Nash Equilibria outcome provides us some business strategies in the real world if the situation goes under this game assumption. Given that the players already have their own original branches, they have three strategies for their new branches.

The first strategy comes from the second outcome in proposition 2. This is offensive strategy. Player might choose to locate his new location to his opponent's original location and try to beat him by employing very high product quality. This strategy will bring a very competitive environment to the game as his opponent will also try to beat him by locate at his original location and employ high product quality level.

The second strategy comes from the first, third, and fourth outcome in proposition 2. This strategy is defensive strategy. Player might choose to improve his specialty by locate at the same point as his original location, but increase the product quality level. This strategy will make the cost of production to be higher, but also the provided utility.

The last strategy comes from the third, fourth and fifth outcome in proposition 2. This strategy is the cost-cutting strategy. This strategy guides the player to choose any location in the game, but reduce the product quality to the lowest level. Although, the consumer might not buy the product from the new branch, the cost of production of the original branch is minimized.

And, in all strategies, player also has to focus on the pricing strategy correspond to their location and product quality level strategy. As we can see that the higher level of product quality will bring the price of product to be higher regardless whether the strategy is offensive or defensive.

5.1 Real world example

Although this paper is focus in theoretical manner, but some of the findings from this analysis can be used to explain some business competition in the real world. Car industry in Thailand can give us this concrete example. The example goes to Honda and Mercedes Benz. We can see that, at first, Honda and Mercedes Benz focus on difference group of consumer. Honda focuses on the consumer who wants to use smaller car and fuel saving or city car while Mercedes Benz focuses on the consumer who wants the bigger car and safety. As in the second competition, Mercedes Benz employed the offensive strategy and launched the new car model called A series. This model is much smaller comparing with the previous design of Mercedes Benz. Obviously, Mercedes Benz tries to expand the product type to its competitor position by launching this new model. On the other hand, Honda also launched the new model to compete with the original model of Mercedes Benz.

The next example goes to the beverage industry. Although there are many brands of beverage in Thai's market, two players used in this example are SINGHA beer and CHANG beer. CHANG beer locates itself at the lower-end consumer while SINGHA beer locates itself as medium-end. After some period of time, SINGHA launched the new product under the new brand called LEO beer. This LEO beer focuses on the lower-end consumer and tries to beat CHANG beer. At almost the same time, CHANG also launched the new product to compete with SINGHA on the medium-end market. Although these launchings do not succeed, but we can see that the offensive strategy is used in this example.

For defensive strategy, the example of mobile phone is used. The player in this market tries to develop the new technology and new design basing on their strength and position in this market. iPhone and BalckBerry are the good example. Both of them main strategy is to increase the performance of their mobile phone. iPhone always come with the new application and also the higher speed. Also, BlackBerry is still launching the new version of mobile phone where the speed is increased.

5.2 Model limitation

Although some business competitions can be explained by this analysis, some business competitions are still unexplainable using this model setting. For example, one might ask about a strategy of launching the product that has the same features as the leader's product or follower strategy. This business strategy cannot be explained by the model setting in this analysis as the research cost and first mover advantages is not included in the consideration. Thus, the disadvantage to the follower in term of brand loyalty and the advantage to follow in term of cost saving is not in the model.

Also, one might ask about the situation that the restaurant owner is trying to sell the souvenir in his shop. The model setting in this paper also cannot explain this strategy as the production differentiation dimension included in this paper's model is only one dimension. When there is more than one style of product, the strategy is out of scope. Also, this paper model's does not take into consideration of the effect to the original product from launching new type of product. Restaurant with souvenir shop might gain more customers due to variety of product type provided.

Another model limitation is the assumption that consumer is uniformly distributed and has a unit demand. In the real world the consumer distribution is not uniform. When the health care trend comes, consumers are concern more on health, which means that the consumer density in term of health care product is higher. In real world, the consumer distribution also depends on timing. Business area will have less consumer density on weekend but will have more density on weekday comparing with living area.