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Identifying Price Competitiveness of Local Coffee Franchises in Daegu, Korea

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Introduction

- Jung and Kim (2015) found **price competitiveness of local franchise- and independent-coffee shops (local shops, hereafter)** comparing to national and global coffee franchise coffee shops **in Daegu, Korea** as a reason why they have larger market share unlike other cities in Korea.
- Need to find choke price: how much coffee price of local shops can be raised in order to increase their profitability keeping their price competitiveness

Empirical model

Two-stage probit estimation

- First stage: resolve endogenous issue in price variable
- Second stage: identify factors associated with price burden for consumers.

$$y_{1i}^* = \beta y_{2i} + \gamma x_{1i} + u_i$$

$$y_{2i} = x_{1i}\Pi_1 + x_{2i}\Pi_2 + v_i$$

where, y_{1i}^* : Price burden, y_{2i} : Coffee price,

x_{1i} : Explanatory variables, x_{2i} : instrumental variable

Study area

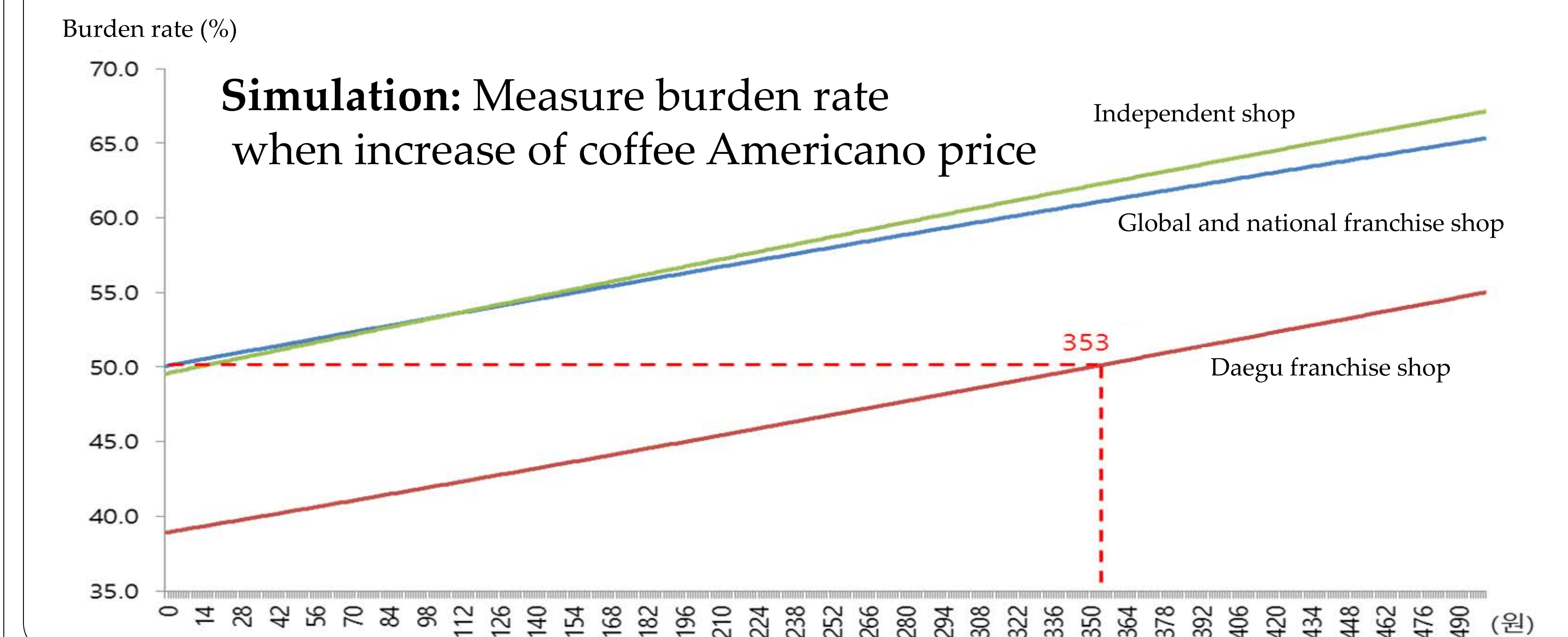
- **Questionnaire:** Data collected from 320 university students who purchased coffee Americano at 43 coffee shops near 4 major universities in Daegu, Korea.

Descriptive statistics

Variable	Definition	Mean
Burden (y_{1i}^*)	Feel price burden (1=exist, 0=otherwise)	0.453
Price (y_{2i})	Price of coffee Americano (Korean Won)	2994.375
Monthly expense	Average monthly expense excluding housing cost (1<200 thousand KRW, 2=200~300, 3=300~400, 4=400~500, 5>500 thousand Korean Won)	3.059
Quantity	Satisfied with quantity of coffee Americano (1=Very unsatisfactory, 2=unsatisfactory, 3=neutral, 4=satisfactory, 5=very satisfactory)	3.600
Location	Satisfied with shop location (1-5 points)	3.840
Convenience	Satisfied with parking (1-5 points)	2.738
Taste	Satisfied with taste of coffee Americano (1-5 points)	3.700
Environment (x_{2i})	Satisfied with overall indoor environment (1-5 points)	3.778
Discount	Satisfied with price discount policy (1-5 points)	3.038
Global and national Franchise shop	Dummy variable of coffee shops affiliated in global and national coffee franchises (1=global and national coffee franchise, 0=otherwise) (reference dummy, excluded in the regression)	0.431
Daegu (Local) Franchise shop	Dummy variable of coffee shops affiliated in Daegu coffee franchises (1=Daegu coffee franchise, 0=otherwise) (reference=independent coffee shop)	0.294
Independent shop	Dummy variable of independent coffee shops (1=independent coffee shop, 0=otherwise) (reference=independent coffee shop)	0.275

Empirical results

First stage (LHS=price)			Second stage (LHS=Burden)		
Variable	Coefficient	P-value	Variable	Coefficient	P-value
Monthly expense	55.800	0.138	Price	0.001	0.000
Quantity	-332.700	0.000	Monthly expense	-0.162	0.024
Location	-77.459	0.116	Quantity	0.011	0.946
Convenience	84.628	0.093	Location	-0.090	0.374
Taste	44.142	0.470	Convenience	-0.199	0.041
Discount	29.553	0.575	Taste	-0.132	0.265
Daegu Franchise shop	-854.325	0.000	Discount	-0.076	0.450
Independent shop	-502.179	0.000	Daegu Franchise shop	0.997	0.000
Environment	313.451	0.000	Independent shop	0.847	0.000
Constant	3038.913	0.000	Constant	-2.828	0.040



Conclusion

- Price competitiveness of Daegu franchise shop can maintain until additional 353 KRW (about 0.30 USD)
 - Well setup current strategic price, not sure for long-term competitiveness and profitability