



MARKETING SCIENCE

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November 18, 2007

MS # 7119.1

Type: Regular

To: Noriaki Matsushima

E-mail: nmatsush@kobe-u.ac.jp

cc: ishibash@econ.aoyama.ac.jp;

Manuscript: "The Existence Of Low-End Firms May Help High-End Firms"

Thank you for submitting your revised manuscript to *Marketing Science*. In addition, we thank you very much for your response letter that provided detailed and useful information.

The review team has completed its work. The Area Editor (AE) report and two reports (#1, and #3) have arrived for your manuscript.

I highly value their opinions. The review team has the expertise and experience to evaluate your manuscript. The review team has carefully read the manuscript and put considerable effort into their evaluations. You will find their thoughtful evaluations attached to this letter.

The news is propitious.

The AE report is excellent in detail and direction. Beyond nicely summarizing the comments in the reviewer reports, the report provides specific recommendations.

The AE report recommends conditionally accepting this manuscript for publication in *Marketing Science*.

Given this recommendation, it is a pleasure to conditionally accept this manuscript for publication in *Marketing Science*. The conditions are as follows:

1. Please follow the recommended revisions outlined in the AE report or provide a compelling response explaining why any of those revisions are unnecessary. Some of the following items might overlap with those revisions but I think it is useful to enumerate all of the conditions for acceptance.
2. Please provide the additional information (e.g., clarification of market properties p. 8, etc.) requested by the review team. Essential details should be in the body of the manuscript. Important but not essential details should be in the regular appendix. Interesting, but more routine, details should be in an on-line appendix to be placed in the *Marketing Science* website after formal acceptance of the manuscript. All details requested by the review team should be provided somewhere.
3. Please provide appropriate caveats (e.g., see reviewer report #1) and, possibly, identify these as areas for future research.
4. Please consider the specific recommendations in reviewer report #1. In particular, the recommended clarifications are highly desirable.
5. Please carefully proofread the manuscript. Please fix any remaining typos, inconsistencies, inaccuracies, undefined terms, unnecessary digressions, missing information, misleading remarks, ambiguities, redundancies and other minor problems either identified in the attached reports or identified from a careful proofreading of the manuscript. Please see the attached reports for details.
6. Please note that some recent and forthcoming articles in *Marketing Science*, that are very related to this research, could be cited and possibly mentioned in footnotes or the body of the manuscript. These related articles include:
 - Kopalle, Praveen K., Donald R. Lehmann. 2006. Setting Quality Expectations When Entering a Market: What Should the Promise Be? *Marketing Sci.* 25(1) 8-24.
 - Geylani, Tansev, Anthony J. Dukes, Kannan Srinivasan. 2007. Strategic Manufacturer Response to a Dominant Retailer. *Marketing Sci.* 26(2) 164–178.

Note that I will also mention your article to future authors when your research is related.

7. Please divide the appendix into two appendices (regular and technical). The first (regular) appendix will appear in *Marketing Science* and the second (technical) appendix will appear on the *Marketing Science* website. Please try to keep the regular appendix to a reasonable length (perhaps, 10 pages). There is NO length limitation on the technical appendix that will appear on the *Marketing*

Science website. You may refer to both appendices in the body of the manuscript.

8. If this manuscript is based on a dissertation please notify me immediately IN A SEPARATE E-MAIL. All articles based on a dissertation become automatic entrants for the Frank M. Bass Dissertation Paper Award. Please note that all manuscripts (based on a dissertation or not) are automatic entrants for the John D. C. Little Best Paper Award.
9. Please supply a 120 to 200 word abstract. Please avoid "teaser" abstracts that only encourage the reader to digest the entire article. The abstract should summarize rather than advertise. When writing an abstract, remember that periodical search engines (often truncate long-abstracts or rewrite them). The first 50 words should contain the important findings.
10. In addition to the usual Adobe PDF file, please supply a copy of your manuscript (and any attachments) in either Microsoft Word or LaTeX.
11. Please do not make other changes to the manuscript (that are unrelated to this letter or the attached comments) without notifying the editor of those changes.

Given these revisions, there is no need to return the manuscript to the reviewers. When we get the final manuscript, we will decide whether to send it back to the AE.

Future correspondence concerning this manuscript should refer to manuscript number 7119.2. Please direct all questions and correspondence to mktgsci@cba.ufl.edu.

Please note that my term as editor-in-chief of *Marketing Science* ends in December 2007 and Eric Bradlow becomes editor in January 2008. I will continue process revisions until March 2008. Please see our website for details. Please try to complete all revisions as soon as possible.

Our records show that manuscript # 7119.1 arrived on September 21, 2007. Hence, your turnaround time (start date to final decision) was 57 days.

We consider your turnaround time to be acceptable.

Reviewer #1 took 32 days. Reviewer #3 took 25 days. The AE took 4 days. After receiving the AE report, my office took 12 days. The remaining time was initial processing.

We strongly encourage you to revise this manuscript and we very much look forward to seeing the hopefully final version of this manuscript.

Thank you again for considering *Marketing Science* as an outlet for your research.

Best Regards,

A handwritten signature in black ink, appearing to read 'Steve', written in a cursive style.

Steven M. Shugan
Editor-in-Chief
Marketing Science

Notice of INFORMS Policy:

As a condition of final acceptance of a paper for publication in *Marketing Science*, the author(s) must indicate if their paper is posted on a working paper website, other than their own. They are responsible for assuring that, if any part of the paper has been copyrighted for prepublication as a working paper, the copyright can and will be transferred to INFORMS when the paper has been accepted. This includes both print and electronic forms of the paper. On acceptance, the text, or any link to full text, must be removed from working paper websites, other than the author's own website.

GENERAL COMMENTS TO AUTHORS FOR REVISIONS

1. **Accompanying revised manuscripts should be a letter of response OF REASONABLE LENGTH to the review team that provides information to help satisfy the review team's concerns regarding possible deficiencies in the manuscript. We will not publish the letter to the review team.**
2. Regarding readability, please make the presentation completely limpid. Clarify the numerous assertions and analyses that the review team found to be misleading or confusing. Note that you can accomplish this task by clarifying the text, elaborating in the letter of response to the review team, moving material to a technical appendix or all three.
3. It is often possible to make manuscript shorter by having two appendices. One appendix could contain essential technical material and the second appendix could contain more detailed and mechanical material. We would publish the second appendix on the *Marketing Science* website, upon acceptance of the manuscript.
4. Please remember that responses to specific questions and the details of ancillary analyses need not be in the text of the manuscript but, rather, in the response letter to the review team. Unless these analyses produce new results, please only mention the analyses in the body of the manuscript and report the details in a letter.
5. When doing a revision, please keep the following in mind. Obviously, the extent of the analysis and conditions examined always limit the conclusions of any manuscript. Please avoid speculation in the body of the manuscript concerning how findings might differ given violations of the assumptions or speculations about the outcomes of unfinished analyses. It is better to place speculative statements of this kind in the future research section. Provide the appropriate caveats and avoid claiming more generality than actually shown. State the contributions in easily understood language and with some modesty. Then, suggest what still needs to be done in the future. As noted, in the future research section, manuscripts may speculate about which assumptions or conditions in the analysis are critical to the conclusions as well as conditions when future research might find different results.
6. Some manuscripts rely on unpublished sources. We have had problems with the availability of cited working papers and links to websites. They have disappeared shortly after publication of the citing article. Although citations are at the author's discretion, as a matter of journal policy we do NOT require or encourage the citing of unpublished working papers and websites. It is best to cite ONLY research that is permanently archived, available to the public and not subject to substantial changes. Copies of critical websites should be included in an appendix. Please avoid citing articles or any other research that is either in progress (i.e., subject to change) or unavailable to the public -- unless it is appropriate to assign credit to those sources. Finally, it is necessary to obtain permission from the authors of working papers before quoting or citing them.

AE Report for “The Existence of Low End Firms may help high end firms ”

The authors should be complimented on having done a thorough job of addressing the issues raised by the review team in the last round. I would ask the authors to address the following concerns in preparing a revised version of the paper.

1. The discussion regarding the need of firms to create “brand perceptions as a high-end brand” (last sentence of the abstract and second last paragraph on page 4) should be reconsidered. The model does not demonstrate this as a finding since the cost of creating these brand perceptions is not accounted for. The model provides insight about the impact of low end firms when the high-end position of two firms is *exogenous*. The discussion at the top of page 5 regarding the ability of promotional activity to enhance the profitability of a brand also seems unrelated to the model’s findings.
2. Footnote 7 does not seem to be related to the sentence to which it is associated (page 6).
3. Please discuss the condition on page 18 (equation 11). To confirm that the findings generalize to a Bertrand setting, it is important to show that this condition is easily satisfied. What is the nature of the condition relative to situations where it is not satisfied? (It’s a quadratic equation in t_L so this analysis should be straightforward.)
4. There seems to be something missing in the second line of the “Proof of pricing equilibrium in Bertrand competition” page 26. What does $p_2 - p_2, (-\infty, -t_L] \cup [t_L, +\infty)$, mean? I believe perhaps the sign \in may be missing?
5. Please address the reviewer concerns which are mostly expositional (I do not see the need to put the Bertrand model first as recommended by Reviewer 3. If you prefer, the current order is fine).

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Reviewer Manuscript Evaluation Form

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Thank you for using our manuscript evaluation form!
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Please answer the following questions on this document.
ANSWERS 1 THROUGH 7 ARE GIVEN TO THE AUTHOR.
Add lines when necessary.

MANUSCRIPT #: 7119.1_____

REVIEWER#: #1_____

1. Is the topic of this manuscript important? If not, why?

2. Does the manuscript provide sufficient information to make an evaluation? If not, what information is needed?

Yes

3. What are the strengths and weaknesses of this manuscript?

I am overall happy with this revision, especially the addition of the price competition model and how different numbers of firms in the high-end vs. low-end markets might influence the result. I only have a few minor points remaining.

REVIEW 1

- (1) Related to some comments I raised last time. I think you have tried to do so (p. 13), but please make it more explicit in the front (including the abstract) that it is necessary to have at least two firms in the high-end market to have these results. That is a critical element of your analysis for both types of competitions.
 - (2) On the proof of pricing equilibrium in Bertrand (p. 16~17, p. 26~27). Where did you show that price undercutting *by one firm* is not a profitable move to deviate from the equilibrium? If I read your proof correctly, it says that there is no equilibrium when firms undercut each other. However, this does not guarantee that eq. (6) is robust to unilateral price undercutting. To make the logic correct, you will need to show that the profit levels in eq. (6) is no less than the profit that one firm can receive by undercutting the rival.
 - (3) Please put footnote #11 and #12 into the text. They help the reader understand your derivations more easily.
 - (4) p. 8, end of the 2nd to last para, what does “market properties” refer to?
 - (5) Please add briefly the intuition of your model to the abstract.
 - (6) The last part of Lemma 1 and 2 on p. 10. Please be explicit that the “Each firm obtains a profit of xxxx.”
4. Do the authors achieve their stated contribution (see the submission form)?
If not, what do they still need to do?
(For fast track submissions, please stress remedies with deletions over additions.)

Yes.

5. Does this manuscript make mistakes? If so, are they correctable? Would removing problematic sections be a solution?

I didn't identify any, expect for a concern about the proof of price equilibrium (see comment #2 above).

6. Would the stated contribution (assuming it was achieved) be sufficient for publication? If no, why? (E.g., Is the topic uninteresting? Are the findings already known? Are the findings trivial?)

Yes.

7. Are revisions necessary? If so, what revisions need to be made?

REVIEW 1

Yes, see comments above.

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Reviewer Manuscript Evaluation Form

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Please note the manuscript # in the e-mail subject header.

Reviewing many manuscripts require expertise in multiple areas. If you are ONLY comfortable reviewing some parts of this manuscript, PLEASE just review those parts.

For example, if your expertise involves the methods rather than the problem area, you may restrict your review to whether the manuscript properly employed the methods with sufficient precision to justify the conclusions. If your expertise is only in the substantive domain (related to the conclusions), you may restrict your review to the evaluation of the relative novelty and potential impact of the results.

Marketing Science encourages you to provide WHATEVER feedback you can regardless of whether that feedback involves all or only part of the manuscript. Thanks you very much for your time, effort and contribution to Marketing Science.

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It makes our job much easier.

Please answer the following questions on this document.
ANSWERS 1 THROUGH 7 ARE GIVEN TO THE AUTHOR.
Add lines when necessary.

MANUSCRIPT #: 7119.1 "The Existence of Low-End Firms May Help High-End Firms"

1. Is the topic of this manuscript important? If not, why? (For example, is the research question interesting and important?)

Yes.

2. Does the manuscript provide sufficient information to make an evaluation? If not, what information is needed?

Yes.

REVIEW 3

3. What are the strengths and weaknesses of this manuscript?

Strengths: clear exposition and a counter-intuitive result.

Weaknesses: a similar result is known in somewhat different settings.

4. Would the stated contribution (assuming it was achieved) be sufficient for publication? If no, why?

Yes. I think it still adds to our understanding of the role of competition.

5. Do the authors achieve their stated contribution (see the submission form)?
If not, what do they still need to do?
(For fast track submissions, please stress remedies with deletions over additions.)

Yes.

6. Is the actual current contribution sufficient for publication? (For example, are the findings important? Are the findings new?)

Yes.

7. Does this manuscript make mistakes? If so, are they correctable?

Not that I noticed.

8. Are revisions necessary? If so, what revisions need to be made? NOTE: YOU NEED NOT PROVIDE THIS INFORMATION FOR FAST TRACK SUBMISSIONS.

I am largely satisfied by how the authors addressed my prior concerns. Expositionally, I would recommend to start with Bertrand competition model and introduce the Cournot case later, possibly in the Appendix. Please also note that if the prior literature has shown that a competitor's entry may help existing firms even when the market is without vertical differentiation, adding this condition does not seem to make the result stronger. Perhaps, emphasis should be rather made on what this model does not require relative to the models in the other papers.