Faculti Summary
https://faculti.net/measuring-deterrence-motives-in-dynamic-oligopoly-games/

This video video discusses the phenomenon of market saturation, where multiple stores of the same brand, such as Starbucks or 7-Eleven, are found in close proximity. It poses the question of whether this business strategy, often seen as cannibalization of profits, can have economic benefits. The speaker, drawing from an economics background, explores the idea that having multiple locations deters competitors from entering the market, providing a strategic advantage.

An extensive review of literature over several years revealed that while it is challenging to quantify deterrence motives without direct data (like internal company discussions), existing economic models, particularly a dynamic oligopoly model, can be adapted to analyze this behavior. The research involves developing a framework to understand the incentives for firms to expand strategically, considering both competitive dynamics and forward-looking behavior.

The study also highlights a movement toward more standardized measurement of preemptive market strategies. The findings suggest that a notable percentage of Starbucks' expansion motivations can be attributed to preemptive considerations, with estimates ranging from 5% to 30%. This video video research aims to provide valuable insights for future studies and practical applications in fields like antitrust and corporate finance, as understanding these motivations could help in predicting firm behavior and assessing risks related to expansion strategies. This video video concludes by linking preemptive motives to broader discussions of retail success and failure, suggesting that overexpansion—especially when financed through debt—can contribute to the struggles faced by many retail chains.