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Demand and Distribution Relationships in the Ready-to-Drink Iced Tea Market: A Graphical Approach

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Abstract

The relationship between distribution coverage and market share for an incumbent brand and for new entrants in the ready-to-drink iced tea market during its growth phase is explored using state space diagrams. This graphical visualization method was originally developed to disentangle lead-lag relationships between short nonstationary time series, a situation in which standard econometric methods have difficulty. In this research we show the usefulness of this method for long time series in offering complementary insights to econometric models, in providing a simple and managerially useful tool, and in conducting exploratory data analysis to guide subsequent modeling decisions. In the ready-to-drink iced tea market, usage of this method shows that during introduction of new brands and growth of the category, demand leads distribution, but that as the market matures, the dominant incumbent can defend with a distribution-leading-demand dynamic. Further, distribution coverage eventually becomes relatively stable so that short term fluctuations in demand (probably due to responses to promotion) have minimal impact on distribution.

Keywords: Distribution, Market Evolution, Time Series, Measurement and Inference, Retailing, Competitive Analysis.

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