



UNIVERSITY OF WASHINGTON
Economics Undergraduate Board
THE ECONOMIZER

VOLUME 29, NUMBER 2

DEPARTMENT OF ECONOMICS

WINTER 2020

Customer is King:

Why Customer Service Helps Les Schwab Tire Center Remain a Major Competitor

NATALIA OWEN

Les Schwab Tire Center started out in a small tire shop purchased for \$11,000 by the company's founder, Les Schwab in 1952. As of 2014, Les Schwab is estimated to have a sales revenue of \$1.78 billion. Customer service has constituted a major part of the Les Schwab brand as exemplified by its Best Tire Value Promise, which promises customers free repair of flat tires at any of its locations along with a number of other free services. Prioritizing customer service has propelled Les Schwab to the forefront of the tire industry due to its influence on consumer decision-making through increased consumer utility, peer effects, and product differentiation.

One reason Les Schwab's customer service has allowed it to remain a top competitor in the tire industry is through its influence on consumer decision-making.

Customers are not only purchasing tires, but a guarantee of continued care and service for their tire repair needs. Thus, the consumer's potential utility and individual surplus rises, and their willingness to pay increases as well. Another way Les Schwab increases its business through customer service is by widening its customer base through peer effects. An increasing social preference for a certain company or brand may lead to an increased likelihood that an individual within that social group will be influenced by those preferences. A study conducted at the University of Michigan examined peer effects in economic attitudes, concluding that fundamental individual preferences are suggestible and vary according to changes in peer group attitudes.

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Revisiting the Asian Financial Crisis in Korea

YEAN KIM

In 1997, South Korea and many other Asian countries including the 4 tiger economies of Asia were hit with a large financial crisis. Unemployment went up by 10,000 people per day, with major companies such as Hyundai laying off up to 20% of its employees. This crisis led to many people, in South Korea and around the world, criticizing the IMF's response to the crisis. In a few weeks, South Korea went from being the 11th largest economy in the world to the 17th economy in the world, with the recovery having lasting impacts for the Korean economy until now. When the Korean War ended in 1953, South Korea was greatly devastated, with one fourth of its population being refugees, and a per capita GDP of \$67 of 1960. Economic growth began to pick up in 1963, when president Park Chung hee engaged in plans to develop the country based on export-oriented industrialization.



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Thus, peer preference for a certain company may lead to an increase in its potential customer base. In fact, 42% of Americans say that what most influences them to consume from a new business are friend and family recommendations. The key benefit Les Schwab gains from positive customer experiences is an increase in referrals, in addition to a greater retention of existing customers.

Even though car tires have a relatively inelastic demand, the industry remains competitive. The more Les Schwab can distinguish itself from other tire dealers, the larger share of the market it will gain. One of the ways Les Schwab engages in product differentiation through its customer service is by leading in free services offered. However, the price of tires among the top tire industries, including Les Schwab, are relatively the same. Though this may resemble irrational consumer behavior, as customers appear to be valuing the same good differently, according to Forbes, “the value proposition of good customer service can make price less relevant”. As a result, the substitution effect decreases because consumers no longer solely consider the price of the tires but also the lifetime investment and experience of service. Despite having less outlets and a smaller selection of tires than its competitors, Les Schwab is listed in the top three most satisfying tire retailers and remains in the top four independent tire dealers. This demonstrates the growing realization across industries that customer service exists as a key component of a firm’s ability to remain competitive.



Sources for information in this article can be provided upon request

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He nationalized the banks and had the banks give loans to exporting companies. As a result, exports grew from 3% of GDP in 1960 to 41% of GDP in 1980, achieving a growth rate of about 40% annually. Thus, by the mid-1990s, Korea had around 3 and a half decades of rapid growth, known as the “Miracle on the Han River,” soon becoming the world’s 11th largest economy.

As western financial institutions were eager to earn seemingly guaranteed returns, they began lending to the Korean banks, who in turn lent the money to chaebols anxious to use the money for expansion. These loans led to high debt-equity ratios of South Korean chaebol. By December 1997, Korea’s economy fell into economic crisis as short-term foreign debt was more than 7 times its foreign exchange reserves.

South Korea was initially reluctant in approaching the IMF as the two saw different causes of the crisis, and Korea feared the IMF solution would create a contraction and undermine the traditional growth model. The IMF bailout plan forced Korea to adopt a contractionary macroeconomic policy including higher interest rates, higher taxes, and reduced government spending. Higher taxes and reduced spending were intended to reduce the current account deficit and gain money for economic restructuring.

Higher interest rates were intended to restore confidence in the Korean Won by making it more attractive for foreign investors to hold capital in Korea. However, the high interest rates ultimately further weakened the (already weakened) chaebol and the banks by making it harder to borrow.

Predictably, the IMF’s response sparked much discussion on its appropriateness, with the IMF defending its policies on the grounds that the crisis would have worsened had it not intervened, and with economists Joseph Stiglitz and Martin Feldstein, arguing that the crisis was a short-term illiquidity crisis that did not require that harsh of a response. All in all, the “IMF Crisis”, as it is dubbed in Korea, was an important wake-up call for the Korean economy, with Korean chaebol reducing its debts greatly, and the government, in an effort to avoid future crises, increased its foreign exchange reserves by 1200% (comparing from 1996 and 2019.)

Sources for information in this article can be provided upon request

Rising Prices of Pork in China:

RUIYUAN HAN

The advent and growth of e-commerce and the stagnation of heavy industry, has led to the poor performance of the Chinese economy in recent years. Further examples of challenges to the Chinese economy include government enacted policies to fight against haze during winter time which often result in the closing of thousands of factories. When the trade war began and President Trump started to set tariffs on Chinese goods, China retaliated by putting tariffs on US agricultural products. This greatly reduced the import of soybeans, corn, fruits, and other agricultural products to China.

In July 2019, when it was announced that the suspension of US agricultural products may take place, President Trump retaliated with an additional \$300 billion tariffs on Chinese goods. The Chinese government thus began to find it difficult to control the continuing rising food prices, and this food price inflation took a toll on the population. One representative example of a food source climbing in price is pork. According to reports, pork prices rose by 30 percent compared to

the previous year, leading to the highest recorded price of pork in China. The invasion of African swine fever further reduced the large supply of raised pigs-further increasing prices. Pig farmers in China thus faced a dilemma. On one hand, the government enacted strict policies about the environment required to raise pigs, and required farmers to spend more money constructing a pig farm with certain hygiene standards in order to relieve the air pollution effect. On the other hand, the decreased amount of import of soybeans and other original materials for pig fodder increased the total cost for raising pigs. These factors contributed to the decreased production (supply) of pigs overall and lead to rising prices. Turning away from US imports has forced China to seek its protein sources from the European area, Japan, and Canada. By importing from nations other than the US, China could release some of the pressure of the rising pork price. Furthermore, replacing (substituting) pork with chicken may also help in relieve price-related constraints in this supply-constrained situation.

Sources for information in this article can be provided

The potential impact of Coronavirus on the economy of China

YINRUI DENG

At the beginning of 2020, two weeks before the Lunar New Year, China experienced a serious virus outbreak. This article seeks to lay out the economic impacts of this virus. History tells us that this epidemic can have consequences for economic growth, as the SARS epidemic in 2003 dragged economic growth down. Primary, secondary and tertiary industries will likely be affected. At the end of the epidemic, the growth of the secondary industry may quickly recover, however, the recovery of the tertiary industry may take longer.

On the demand side, the epidemic may have a major impact on retail consumption. Retail sales of consumer goods and imports will be affected, but the momentum of consumption is expected to be restored shortly after the end of the epidemic. The impact on investments and exports is not expected to be significant. With regard to inflation, food prices and most non-food prices were not drastically impacted during the SARS outbreak, this trend is expected to continue with the rise of COVID-19.

Although the epidemic started in December of 2019, it was relatively early to get widespread attention. An important factor to consider which is relevant to the timeline of this outbreak is the timing of the Chinese lunar new year which came earlier than usual. This meant many people were traveling back to their hometowns for family reunions- increasing the amount of movement in the country as well as the risk of spreading the virus. As the epidemic continues on, further economic consequences arise. This includes return-

ing travelers delaying returning to work. The real impact of the economy will most likely start to show in the first quarter, which is earlier than the timeline of SARS in 2003.

If the work delay is long after the holiday, the economy in February may not be significantly improved either. The subsequent trend depends on the evolution of the epidemic. If the epidemic situation is controlled in the second quarter, the postponement of consumption and production in the first quarter may cause a big rebound in the second quarter.

The coronavirus epidemic is not the dominant factor of the current CPI, but if the trend of steady growth is not strong enough to counterbalance the virus's economic impact, the upward momentum of PPI may be temporarily suspended. Exports still depend on external demand which depends on the global economy. If the epidemic does not spread to the major export regions (Zhejiang, Guangdong, Jiangsu, etc.) in the short run, the short-term impact on exports may not be tremendous.

In general, the upward trend of the economy may not be changed, as this epidemic has a greater impact on consumption and imports. Industrial production has fallen slightly. Price levels might first rise and then fall. To assist with the recovery, in the initial period, the Chinese government could issue appropriate fiscal subsidies to industries that were affected the most and then tighten the monetary policy after confirming the upward trend and recovery of the economy.

Sources for information in this article can be provided upon request

UPCOMING EVENTS:

Math/Stats Review: In early Spring quarter the EUB will be hosting a Math and Statistics Review Seminar to help students brush up on the math used in ECON 200/201, as well as ECON 300/301.

Economics Tutoring: The EUB offers free tutoring every weekday at various times every quarter! Check the schedule on the EUB website to see tutoring times. If you need help with an upper level class, however, make sure you check the website to see which tutor can help.

Economizer Submissions: The Economizer will be seeking guest writers for our Spring Quarter issue. Interested writers should check their emails in early Spring quarter for submission instructions.

EUB Applications: The EUB will begin recruiting members for the 2020-2021 school year during early Spring quarter. Application information will be sent out through department emails and available on the EUB website.

The Economizer is a quarterly newsletter published by the Economics Undergraduate Board.

The articles herein do not necessarily reflect the views of the department or its faculty.

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