Finding the New Market Sweet Spots:  
The Art and Science of Being Profitably Different  
In the Era of the Informed Consumer

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1. Introduction

Most firms still focus their products so that they will appeal to the largest number of consumers, but consumers are abandoning them. Some consumers are trading up, abandoning Budweiser for Westvleteren 12 or Chimay Blue, or leaving the Holiday Inn and the Marriott for the Four Seasons and the Ritz. Some are trading out, leaving the Marriott for something different like Indigo, or leaving Michelob for a Victory Hop Devil Ale or a Stone Ruination. Whether trading up or trading out, some customers are abandoning their traditional choices in order to achieve better fit, and they are willingly paying for it. Simultaneously, other customers are trading down, deciding that for product categories that do not interest them and for which they have no passion, they will be satisfied with a Holiday Inn Express, a seat on Jet Blue or Ryan Air, or a cold can of Busch.

Consumers are not behaving the way our experience and our historical market research suggest that they will, so that firms’ traditional sources of advantage now appear ineffective. Firms are making better products, with high quality, more variation, more differentiation, and more sizes for consumers to choose from, they’re producing and distributing them at lower cost, and yet, somehow, their profits are slipping away.

What’s happening? Consumers can’t be wrong — by definition, consumers are buying what they want, at the prices they are willing to pay. Human nature has not rapidly changed ... so why do consumers now want different goods and services, why are they now buying different goods and services, and in what was predicted to be the era of internet-enabled discounting why are many now paying more for what they buy? How can the definition of truly desirable goods and services have changed so quickly?
More importantly, what do firms need to do about these changes? How can firms get back on track? What do firms need to do to restore their margins and their profit growth?

Below we summarize more than five years of work — academic research, consulting practice, and anthropological fieldwork among consumers in a wide range of settings:

1. We describe the principal changes that we have seen in consumer behavior and the damaging impact of these changes on successful, previously dominant corporations.

2. We analyze the single underlying marketplace force that has driven this change. This underlying force is so fundamental and significant in its impact on how consumers behave that it requires management to respond.

3. We introduce the two skills that you need to master in order to restore your firm’s profitability and growth. As importantly, we will show you how to master them.

2. Unrewarded Excellence

Most firms that are suffering marketplace setbacks still appear quite good by any objective measures. The overall quality of products and services is good, as reported by internal quality assessment, consumer satisfaction surveys, and third party assessments. Firms have made sure that consumers know that quality is up and costs are down, and yet, somehow, the consumer does not appear to care. The challenge as the press has recently put forth is “making products consumers want to buy.”

Firms have tried line extensions until they’ve become a joke in the New Yorker (“Correcting an oversight, Coke will soon rush-distribute a caffeine-free version of Mid-Caloric Vanilla Coke.”). Some line extensions seem more about making sure that every product...
is available with every option, rather than addressing the needs or desires of any segment of consumers (“Buick buyers—J.D. Power says their average age is 64—are the oldest in the industry. In the world of marketing, this is zombieland” — and yet Buick offers the Rendezvous SUV, a vehicle that has, needless to say, captured no real constituency.) The consumer ignores all the tweaks and variants of Pepsi and Coke while flocking to Arizona Iced Tea (with and without ginseng) and Nantucket Nectar fruit drinks, or ignores the Rendezvous and chooses the Nissan Murano instead. Specialty products offered by subscale upstarts that are positioned around the edges of major categories now account for all the growth in some categories, like coffee and soft drinks; in others, like ice cream, the premium and super premium brands now account for all the profits for the entire category.

Why are growth and profitability stalling in the traditional core of a market? The problem is that too many firms are competing for the same market fat spots, offering similar products with competitive quality, aimed squarely at huge concentration of consumers in the middle of the market. These products are easy to describe and aimed at the taste of the largest number of consumers. Since competitors have chosen the same fat spots, and are offering similar products, targeted at the same group of consumers, brutal price-based competition has become the norm. And yet, increasing numbers of customers are selecting highly differentiated products, which were aimed at small sweet spots around the fringes of the category. Whatever profits these products lack due to small market share they more than recover through higher margins; indeed, that is their intent. These products seek to appeal more to consumers’ passions than to their pocketbooks, and seek to provide each of a small number of consumers with a strong functional or emotional motivation to buy. One of the most visible among recent adopters of sweet spot marketing is General Motors, which under North American Chairman Bob Lutz has pioneered a new line of emotionally charged Lutzmobiles, highly differentiated products that, the company hopes, consumers will consider must-have vehicles.
Some customers are indeed finding their must-have product offerings, trading out without trading up. Others, recommitting discretionary spending to categories for which they have passionate interest, are indeed trading up to luxury, weather or not their income levels have increased. Still others are committed to saving money on categories for which they feel no resonance, despite enjoying significant income, driving their luxury sedans and SUVs to a Costco or Sam’s Club, or flying Jet Blue, staying in a Holiday Inn Express, and playing the finest golf courses. Indeed, customers seem perversely engaged with discount providers, clearing their own trash on Jet Blue to help keep costs down when they would never do so on the streets of New York.

The dilemma this poses is that many mass market firms are not prepared to deal with trading out, trading up, or trading down. American Airlines is not a low cost carrier, and is already having trouble serving customers who are trading down to low fare airlines; likewise, it is not a luxury service provider and may have difficulty responding to all first class luxury discounters like Eos. General Motors’ vehicles are not low cost, not luxury, and not yet fully differentiated. Whether your customer eventually abandons you to trade up for luxury, trade out for differentiation, or simply trades down to save money, if you persist in playing to the fat spots of your market you will get slammed.

If consumer preferences and the drivers of consumer behavior have not changed, why has consumers’ purchasing behavior shifted so dramatically? Why are previously successful firms finding their strategies now ineffective, why are their profits declining, and why are they suffering from unrewarded excellence? The answer is that customers finally know … accurately and with certainty … what is available to them. The customer can now trade out, trade up, or trade down because the customer knows what he wants, knows what is available, knows where to find it, and knows what it costs.

The customer gets exactly what he wants and is no longer paying less because he is accepting a less than perfect fit; the compromise discount has been eliminated. The customer knows that he is getting exactly what he wants and is no longer paying less
because he worries about whether he is getting perfect fit; the uncertainty discount has been eliminated. Alternatively, for categories that do not matter to the customer, he is able to find the lowest possible price for an offering he considers adequate; the competition discount is as large as it has ever been. These changes are so profound they go beyond mere awareness, and become true customer informedness.

3. Guidelines for Harnessing Customer Informedness

There are only four guidelines for corporate strategy in the resulting new marketplace:

1. If your product is perfect for some customers, they will know. Customers are not just savvy or aware, they have achieved a state of nearly perfect informedness. They know what is available, from whom, with exactly what attributes, and at exactly what price. They know what everything is worth, to them, and nothing else matters. The uncertainty discount is eliminated.

2. If your product is perfect for some customers, you want them to know. Customers will pay for it. If you achieve true resonance with the customer’s desires, longings, and cravings, you take price largely out of the set of criteria that drive many decisions. If you achieve true resonance, you have must-have products, appealing to customers’ emotions, not to their pocket books. Customers are no longer paying less because the products they buy are not quite what they want; the compromise discount is eliminated.

3. You can be perfect. You can learn to design products that resonate with your targeted customers. Consumer science allows you to understand the marketplace, to understand customers’ latent desires, longings, and cravings, and to identify the unserved and underserved market opportunities. You now also can respond to those opportunities, even though they might previously have been considered subscale and uneconomical to address. With outsourcing, co-packers, product family

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1 Resonance, of course, is the term a scientist uses to describe a perfect match between a force and the object it meets. When the frequencies of the force and the object match perfectly the response can be much larger than common sense and experience would suggest, from the shattering of a glass when the tone of a singer matches exactly, to the sound of an orchestra in a perfectly tuned opera house or chanting monks in a gothic chathedral.
architectures, shared product platforms, and combinatorial assembly, you can make almost anything. Hyperdifferentiation, the ability to make products that are truly different from anything else in the marketplace, has finally emerged, but mostly it has led to SKU clutter and mindless product proliferation. Consumer science guides hyperdifferentiation and tells you what to make in order to achieve resonance.

4. You **have to be perfect**. There is no longer partial credit for a “pretty good” product! — In a fully informed marketplace, the compromise discount becomes lethal. As more and more competitors respond to the end of the consumers’ uncertainty discount by introducing highly focused products that delight someone, it becomes necessary for all products to compete either purely on price or on nearly perfect fit. Over time, more and more of the customers who care about a category have found their perfect offerings, and the mass market middle contains only customers who are largely indifferent, making choices among largely equivalent offerings, and making those choices based almost entirely on price. The *competition discount* has become enormous, and margins left for the mass market have become brutally thin.

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2 Hyperdifferentiation is the art of producing whatever the company believes will sell. There are numerous techniques, ranging from outsourcing to a specialist partner or co-packer who already has the necessary expertise to designing products that can easily be reconfigured by changing one or more modules. Combinatorial assembly is practiced at computer manufacturers, and its close relative, shared product platform architectures, is used at automobile manufacturers. This is described more fully in the sidebar on managing complexity. Hyperdifferentiation and the techniques needed to implement it are not new, but resonance marketing makes it newly effective.
Sidebar on Managing Complexity

The use of common product platforms and shared architectural families allows research and development expenses to be spread over numerous offerings, and allows economies of scale to be achieved in shared components. This enables extreme differentiation to be attained at the same time as economies of scale resulting from the combined scope of numerous individual offerings.

Combinatorial assembly and deferred specialization are merely extreme forms of common platforms and shared architectures. The best-known example of course is Dell’s make-to-order lines of desktop and laptop personal computers. The range of machines appears endless, and yet each is assembled simply by matching the right processors to the right memory chips, the right disk drives, the right video controllers, wireless and Bluetooth controllers, and the right software.

Just as discrete units like laptop computers can be tailored through discrete steps in their combinatorial assembly, continuous process products, like beers and ales can be tailored during their manufacture. Beers are not assembled in the same sense that laptops are, but brewing a beer requires making a number of discrete decisions, such as whether it is top fermented or bottom fermented, whether it uses a light or a dark malt, the specific yeast to be used, additional flavorings like coriander or orange peel to be added, and the length and temperature of the fermentation. Brewers needed to have top fermenting and bottom fermenting vats, but most of the rest of their product development makes shared use of the same equipment across their product line.

Analogous to tailoring brewing through flavoring, software products can be tailored through parameterization and versioning. Credit card billing differs from card-to-card and from customer-to-customer based largely on parameters such as credit limit, interest rates, penalties imposed, and the calculation of rewards.

Companies do not need to produce everything that they sell. There are many new alternatives for bringing products to market, including strategic alliances with companies with complementary product offerings, co-packers and strategic partners who can design and produce products under contract, and strategic acquisitions of startups with products that complement an existing product portfolio.

Customer informedness is yours for free. Hyperdifferentiation — producing and managing a portfolio of offerings— is largely understood. The two new skills you need to develop in order to create resonance with the customer are stated below:

1. Accelerate informedness. This is different from traditional marketing, advertising, and promotions and requires a new way of thinking about communications
2. Design products that resonate. This entails locating unserved and underserved customer segments and designing products for them. Ideally, these will be “must have” products without a compromise discount to reduce consumers’ willingness to pay for them, and initially there will be little or no competition from existing product offerings to depress prices.

Why are we so certain you need to do this? Quite simply, customer informedness is already high in today’s marketplace and will only get higher. Consequently, the value of fit with customer preferences is high, and likewise will only get higher. The penalty for lack of fit, and the penalty for lack of differentiation, likewise will only increase. Achieving resonance will ensure profits as informedness increases; the absence of resonance will destroy margins and force virtually all companies that lose customer resonance into competing as generic suppliers.
Sidebar on Profitable Mass Market Performers

Very few companies will be able to defend a mass-market position.

Some companies, like Wal-Mart, will be able to maintain profitable mass market positions, based on the price advantage in the marketplace, which in turn is based on a cost advantage. Defending a cost advantage requires enormous, unassailable scale advantage, usually in promotion or distribution. Outsourcing or the use of imports frequently erodes production cost advantage in many instances. Thus Wal-Mart, with its huge operating efficiencies, or Budweiser, with its efficiencies and control in distribution, are able to protect cost and price positions.

Other companies are able to defend their undifferentiated positions through emotive appeals that are sufficient to decommoditize products that are essentially commodity offerings. Tide is a great detergent, able to remove most stains and because of florescent chemicals Tide actually does get clothes whiter than white and brighter than bright. But even the least expensive generic detergent is better than any detergent of previous decades, and most products really are good enough. Tide commands a premium price because customers value cleanliness, and detergents, for whatever reason, have some emotive appeal; perhaps that is why, after decades of promotions and advertising, the single best predictor of a detergent purchase remains the brand your mother used when you were a child.

Very few products will be able to defend mass market positions as effectively as Tide and Budweiser. Anthropological observation suggests that few categories have the emotive impact needed to induce the loyalty enjoyed by Tide. Likewise, very few products rely as completely on traditional advertising and traditional multi-tier distribution as Budweiser, and thus few will be as dependent upon economies of scale to offer a cost advantage. The center of the market will have lower profit margins and fewer consumers, and more customers will be attracted to offerings that provide better fit. The power of cost-based advantage will protect very few companies. As fact-based, fit-based assessments will begin to override emotive appeals in many categories, the power of emotive appeal will protect very few companies.

Your mass production offerings will increasingly be used for line-leveling, keeping your production facilities busy until better profit opportunities arise. Some will be used for your own nearly-generic offerings, some will be used for co-packing for private label retailers.

Increasingly, profit will require resonance.
4.  Informedness, Yours for Free

Customer informedness really is different from traditional ways in which customers formed their opinions about products and services, and from traditional ways in which manufacturers and service providers were able to influence consumer opinions. Bad reviews could always destroy a Broadway play, and great reviews on opening night could ensure instant success of the musical and create a new star. We now have reviews for everything, from amateurs and professionals, online, available instantly. New cameras, new books and CDs, new beers, restaurants are reviewed immediately. Previously the consumer based choices on familiarity, staying at a favorite hotel, or staying with a property whose brand he trusted. Familiarity was all-powerful, and brand was a simple representation that ensured some familiarity and some adherence to minimal levels of acceptability. Holiday Inn and McDonalds never sought to be great; they sought to be familiar and ubiquitous, the choice of a newly mobile American public, looking for a comfortable place to stay and an affordable place for dinner on the road. Familiarity conferred certainty, and brand was an instant surrogate for familiarity, providing certainty based on an easily remembered story rather than on facts and details.

With customer informedness, the value of familiarity is greatly reduced. Why would consumers settle for something they knew was merely adequate based on experience, when they can locate something new and ideal based on informedness? Likewise, the value of the brand and the story it tells are greatly reduced; why would consumers settle for something that seemed to delight some generic consumer on television or in a magazine, when they can locate something ideal for themselves, not a generic consumer, based once again on informedness.

You once could control brand image through advertising, and established brands were able to bank on their familiarity. Neither image nor familiarity will ever again enjoy the power they had in previous decades.
Informedness is the single most powerful impact of the information explosion and of the net in particular, far more significant than any form of channel innovation or eCommerce. The customer now knows, truly knows, what is available. Online communities exchange product preference information, every product has a product review site, consumers can do their own research on competitor sites and through Google and there is nothing that you or your ad agency can do to reverse this process.

The profound change in the quantity, quality, reliability, and nature of the information available to consumers has led to observable changes in customer behavior. These changes are often surprising to experienced executives, even those responsible for marketing strategy and for the design of new product and service offerings.

In the old marketplace, advertising created demand for fat spot products dead center in the middle of the category, appealing to as many consumers as possible, with minimal differentiation. Even though many consumers might have preferred more extreme, more differentiated offerings, lack of information and lack of certainty kept consumers from trying highly differentiated products, even those that would have been ideal for them. In industries where distributed promotional samples is both infeasible logistically and illegal, like attempting to mass mail free samples of new beers, lack of familiarity essentially precluded new entrants.

Informedness, in particular the online reviews of products, has changed the marketplace, and microbrewers, craft brewers, and imports represent the fastest growing segment of the beer market, despite the higher prices that these products command. The cost of advertising is the largest single cost of traditional brewers, and Anheuser Busch spends over half a billion dollars annually on advertising; in contrast, most of the microbrewers spend absolutely nothing on advertising. The higher prices of the small brewers and their and lack of advertising support the first part of the resonance marketing hypothesis — customers no longer discount new entrants based on uncertainty, and removing uncertainty no longer requires expensive advertising and promotional campaigns.
As importantly, a careful analysis of which microbreweries have succeeded supports the second part of the resonance marketing hypothesis — it is the truly different new entrants — those that produce resonance with at least some consumers — that are the fastest growing. This helps explain the role that product reviews play in building customer informedness, and to explain customer purchases in an informed world.

No one really needs a beer, and surely no one really needs a beer that costs $30 per case or more. Consumers purchase expensive beer to achieve delight, and the only customers who will pay a premium price for a case of expensive beer are those who expect to love it. If this is true, then customers who merely like an expensive premium beer (and do not love it) are no different from customers who truly hate it, at least in terms of their willingness to pay premium prices for it and thus in terms of their actual purchases. The average customer satisfaction, or the average of customer evaluations, as reported in online reviews, third party reviewing services, or internal customer evaluation systems is not a good predictor of sales, since if all customers who tasted a beer that cost $35 per case thought it was ok, even above average, none would pay the higher prices charged for the beer. In contrast, if no one merely liked your beer, but two thirds of consumers truly detested it and one third loved it, sales would be quite high, even though average ratings would suffer.

For this reason the average rating from reviewers for premium luxury products that command a high price is not a good predictor of sales. In contrast, the variance in ratings is a good predictor, and the mean of the top 20% of ratings is a better predictor still. Statistical analysis of tens of thousands of beer ratings, of thousands of newly introduced beers from microbreweries, confirms this.
Sidebar on The Power of Customer Informedness

Anecdotally, perhaps the best example can be observed from the initial launch of Victory Brewing’s first two beers. Victory Lager is a good enough beer, a fairly traditional, well-made beer in the same style as Budweiser or any other lager. It is very good, everyone likes it, no one hates it, and it accounts for less than 1% of Victory’s sales. In contrast, Hop Devil is an extreme example of a distinctly American style of very hopped ale, with strong taste of pine tar and orange from its use of Northwest Cascades hops. Many consumers dislike the beer and some actively hate it, partly because the use of Cascades hops is unfamiliar to many, and partly because its bitterness (68 on a scale where Bud is about a 16) is so overwhelming that many actually cannot swallow the beer when they first taste it. It’s an extreme beer, and it gets extreme rankings; most consumers hate it, and only a few consumers merely like it. However, some consumers truly love the beer, and if you love it it’s hard to find anything quite like it on the east coast of the US. The beer accounts for over 50% of Victory’s sales, even though Victory offers dozens of other beers. This is suggestive of the results of our statistical analyses. It is, indeed, the extremes of the reviews that predict sales and not the means.

In the age of customer informedness, the reactions of the average customers, whether obtained through focus groups, traditional surveys, or online evaluations, are poor predictors. When the customer is seeking delight, it is the mean of best reviews that strongly predicts success.

5. Learn How to Accelerate Resonance by Increasing Informedness

Many companies have discovered, some quite by accident, that the process of achieving customer informedness can be accelerated. Small brewers, with annual sales in the range of 2 to 10 million dollars, could not afford any advertising, nor would their advertising have been effective when the giant producers like Anheuser Busch were spending half a billion annually on advertising and additional sums on related promotions. Instead, they found mechanisms to reach influential customers, participating at beer fairs and events, or providing free samples to fund raisers. Interestingly, these influential consumers frequently posted online reviews immediately after sampling, and word of mouth, and the even more powerful electronic equivalent, word of mouse, did the rest.
Seeding and accelerating informedness is not like advertising, which can be expensive and is entirely the result of corporate sponsored activities; word of mouth and word of mouse appear to be free and appear to be entirely outside of corporate influence. Moreover, advertising is about creating demand by creating a story, an emotive appeal, and an aspiration; informedness is about first getting exactly the right product, and then making sure that customers know exactly what it really is. In some sense, it is perceived to be more direct, more useful, and more honest in today’s highly cynical world.

It is important that you know your limits in a highly differentiated world. You cannot control informedness and you cannot use it to compensate for product defects. You should only Attempt to accelerate it once you have the right products in the marketplace.

You can work at and seed informedness. There are a number of options: **Sampling**, giving small samples of the product to consumers, will reduce the uncertainty discount by eliminating uncertainty. **Couponing**, distributing coupons to encourage trial, effectively buys off the uncertainty discount by paying consumers enough to compensate for uncertainty. Accelerating the reviewing process by distributing samples to consumers and professionals is perhaps the easiest and most obvious ways of creating informedness.

With an accelerating rate of product introductions, traditional sampling has become an extremely blunt tool; it’s not possible to send a potential customer samples of all possible products in your hyperdifferentiated portfolio; moreover, in resonance marketing many of your products will be disappointing to many potential consumers and sampling requires actively identifying which consumer should try which product. Victory Brewing, among the fastest growing and most successful craft beer companies, discovered that it could greatly accelerate informedness by working beer events, serving their beers to customers who were likely to write reviews that accelerated awareness among other potential consumers. As importantly, they found that it was
essential to have a company representative present, steering the sampling to ensure that each customer sampled the right beers for his or her preferences. Any product which requires a perfect match between customers’ preferences and the attributes of a specific product will require some way to increase consumers’ awareness, whether it is offering potential customers extended test drives (guest drives at Infiniti) or providing samples of gourmet products at shopping malls.

It’s hard to cheat when trying to seed informedness. The fictional product promotional specialists at “Blue Ant” in William Gibson’s *Pattern Recognition* makes for great science fiction, as their trendy and fashionably dressed employees work bars in London as shills, talking about and praising products in an attempt to encourage trial and adoption. Unfortunately, steering customers to make purchases they will not be happy with cannot lead to repeat purchases, to good reviews, or to new trials and adoptions based on those reviews. Indeed, our data indicate quite conclusively that inaccurately favorable initial online reviews lead to over-trial, disappointment, and a rebound of overly hostile online reviews that actually depress sales.

It’s hard to give up on the mass market marketing tools of advertising and emotive stories, and to trust the consumer to find and to work with simple, factual product-based information. However, traditional story-based and emotive advertising has a very small role in the new world of resonance marketing; emotive advertising plays a role only to the extent that it provides a compelling context for the delivery of product positioning information. It is now necessary to design and produce the right products and services; to get accurate information out about them as quickly as possible, accelerating the process as necessary; and then to trust the consumers to buy what is best for them. If indeed you have done so, adoption and profits will follow.
6. Creating Resonance — You have to earn it!

Achieving resonance requires getting the right products and services to the marketplace; identify the right opportunities, develop the right offerings, and informed customers acting in their own self interest will accomplish the rest for you.

Consumer science is the mechanism for determining what to offer. It shows us how to determine what customers want and what they are willing to pay, for products that they have never seen, and for products that may never have existed. It's the critical skill set for dealing with market forces of increased informedness and reduced production cost, and for achieving the correct new balance between price and differentiation.

Consumer science is a body of skills and techniques that is used to study the marketplace and yields a new set of customer insights. These insights are specific to each product category, and determine what functionality will produce a strong emotional response among different subsets of consumers. It replaces the old, simple, and fixed segmentation strategies, largely based on age and income, with a more complete, robust, and context-specific set of insights that identifies potential resonance opportunities customer-by-customer and category-by-category. Gone are segmentations that place a customer in a single segment based on age, income, and demographic characteristics, and then try to use this same segmentation to determine what automobile a customer will buy, or what brokerage services the customer will use, or which hotel the customer will choose, or which wine or beer the customer will drink.

Consumer science in its best form relies upon a combination of field-based anthropological observation, quantitative data analysis, and hypothesis testing. Observation gives us insights into how consumers use products and services and how they choose among them; these observations, and follow-up on-sight interviews with consumers actively engaged in the selection process, allow us to infer what consumers value, and what desires, cravings, and longings remain unserved. Subsequent analysis allows us to infer which other consumers have similar unmet preferences and which
other consumers likewise represent targets for future resonance. Finally, hypothesis testing allows us to determine to what extent our analyses are correct and can serve as the basis for product development, sales and marketing, and pricing strategies.

In general, consumer science produces insights and suggests opportunities that are determined by the context, and that are different for every category. Consumer science tells us which desires, longings, and cravings are currently underserved in the marketplace; more importantly, it tells us how to target these products by telling us, with a high degree of accuracy, which customers can be reached with new products, how these customers will respond to them, and what they will be willing to pay for them.

Consumer science helps us produce resonance for our customers and profits for ourselves. It answers questions like what new products represent our next resonance opportunities, how do we identify the customers that cluster around them to seize the opportunities, and how do we defend the opportunities by maximizing our from competitors?

6.1. Intuition and Observational Insights

The starting point of consumer science is often observational, learning who your customers truly are, what they truly desire, how they truly make purchase decisions. This can rely on intuition and insights, motivated by anthropological observations. For example, in the repositioning of Snickers we started by observing consumers picking up various candy bars at a counter in Grand Central Station in New York, looking at several, making a selection, and putting the rest back. We asked customers who put down the Snickers bar what they were thinking when they did so and their answers were pretty consistent: “I was hungry and needed food, not a sweet or a treat.” We suggested that Snickers reposition itself as a high-energy food for “when you’re
hungry”, and were delighted to see Snickers follow up with a recent line of Snickers power bars.

Sometimes exploiting intuitive insights will still require vast amounts of data. When we were designing the entry strategy for the launch of Lexus in North America we noted that there were some customers of Mercedes Benz who simply would not buy a Lexus or other Japanese luxury sedan, regardless of the price; for them, part of the Mercedes purchase was a statement of personal wealth and sensible but still conspicuous consumption. Other customers would buy a less expensive vehicle, simply because it was less expensive, but only if the quality were seen as equivalent; these customers wanted to be seen as driving the best available luxury sedan and wanted to be seen as clever enough not to pay any more for it than necessary. We then determined where these consumers got their product information; at the time they got it from Consumer Reports, the preeminent source at the time of customer informedness. We then read every automotive review ever published in Consumer Reports, reverse engineering the reviews to determine what they looked at and what they didn’t, what they liked and what they didn’t, what they thought was important and what they did not consider significant in their evaluation of a vehicle. We designed a car specifically for Consumer Reports reviewers, and, indirectly, specifically for their target readers, or, at least, so that their readers would be influenced to love our car. We succeeded, and Consumer Reports rated the 1990 Lexus as setting a new standard and among the best cars they had ever reviewed.

6.2. Inferences, from Observed Behavior back to Historical Databases

Part of Consumer science is inferential, mapping what we have learned about a few customers in depth back into our huge database of all customers’ histories. That is, after interviewing a few thousand customers and correlating observations and revealed preferences (what did they do and what did they buy and what did they pay for it) and expressed preferences (what did they say they wanted, what did they say they would buy, and what did they say they would pay for it) with our vast range of transactional
data on them, we know these customers pretty well. We know what they said they would do, and we know what they actually did. Of course, we have hundreds of thousands, even millions of customers, whom we did not study. These customers can still be characterized on the basis of the data that we do have, and they each will look similar to customers that we studied in depth, when we compare only the historical information we have on both. If these apparent similarities are in fact real and meaningful, then we can make inferences about the observational expressed and revealed preferences that we would have observed on the large number of remaining unstudied customers, had we been able to study them as well. That is, by comparing customers we did not study with customers we did study, we can put the unstudied customers into categories.

A similar form of classification based on analyzing data that is carefully captured by studying some customers, and then making an inferential classification of customers we did not study based on apparent similarity to customers we did study, is the basis of most marketing research. The difference lies in the nature of what consumer science studies, the data that consumer science captures, and the depth of its observations.

We can use these segmentation assignments in a variety of ways, driving our product development and distribution strategies and our customer acquisition and retention strategies. The two that follow are illustrative.

- We can use segmentation information as an offensive weapon, to drive our new customer acquisition strategies. We know enough about the preferences of customers in each segment to determine which would be most profitable for us to serve, we can identify segments that we might wish to serve more fully, and we can determine those segments that might wish to serve for which we do not yet have sufficient scale to justify the necessary investments in product development or distribution. Finally, we can decide whether or not it is possible for us develop products and a distribution system that would enable us to serve these profitable segments.
• We can use segmentation information defensively, to support our customer retention strategy. We can use the segmentations derived from consumer science to determine in which segments we are likely to experience successful attack from competitors, since our offerings in these segments are presently too similar to those of competitors. We know what products and services to develop for those segments, to provide greater distance between our offerings and those of our competitors and to make our offerings in those segments more attractive when compared to competitors’ offerings. Moreover, since we know which of our customers are presently in the relevant segments, we know which customers to contact and whom to advise about new product and service offerings.

6.3. Hypothesis Development and Testing

Part of consumer science is based on testing. If our inferences about our customers are correct, then we can predict the behavior of customers in our historical database, including those whom we did not study, from the behavior of similar customers whom we were able to study in depth.

We start by developing hypotheses about the consumers we did not study. We then pick a small set of customers in our historical database who we did not study, and conduct tests of our hypotheses. We make observations on these customers to determine if they behave the ways we predict, based on the set of customers we have already studied in depth. If they do, then we can accept our hypotheses as meaningful, and we can safely begin to design products and services, and to develop a pricing and a marketing strategy, based on our predictions. This test and learn strategy enables us to determine which of our predictions generalize beyond the customers we studied, and thus are qualified to form the basis of our resonance marketing strategy.

Experience shows a higher degree of accuracy when targeting is based on consumer science, and products and services marketed as a result of consumer science have a higher degree of customer acceptance than products and services marketed through
more traditional segmentation strategies. For example, a bank for which we did a consumer science segmentation study used the results to send out direct mail solicitations to its customers. Its positive response, or hit rate, was 12 to 15% on these solicitations, or 500% to 600% higher than the responses it achieved in its previous solicitations.

7. Summary and Conclusions

The trends reinforcing the importance of sweet spots are not going to reverse, stop, or even slow down. Customer informedness will only increase. The benefits of resonance marketing will increase as well — you will want to master resonance marketing. Your competitors’ ability to manage complexity and to target underserved segments is going to increase, either as a result of scientific study by established competitors (intelligent design) or Darwinian trial, error and good luck from new entrants (natural selection) and the margins from fat spot commodity offerings will be destroyed by informedness — you will need to master resonance marketing and only firms that do so will survive in the new competitive environment. Fortunately, you can master the tools needed to do this, by learning to harness informedness and by learning to locate the underserved market segments and develop the offerings that command premium prices — you can master resonance marketing.

Resonance marketing offerings complement but do not replace the rest of your portfolio of products. You are not going to abandon fat spots in your markets or your traditional strengths, nor do you need to do so, and you will continue to achieve scale from consumers without passion for a category. Fortunately, you do not have to forego opportunities to seize numerous sweet spots, adding them to your portfolio and increasing your profits from consumers where your products resonate. More and more of your portfolio will be based on sweet spots and resonance, achieved through hyper-differentiation of your offerings, using consumer science to guide you. Your most progressive competitors are already doing this. You can too.
Some successful product introductions are based on inspired line extensions, whether they be as simple as adding perforations to Bounty Towels or as dramatic as reconfiguring a Chevy pickup truck into the macho, heart-racing H2. Some are simply offering a truly upscale alternative to a prosaic item at the right time, like Haagen Dazs ice cream. Some represent a response to profound shifts in consumer taste and in consumers’ ability to find what they want, like the extreme beers of microbrewers Victory and Dogfish Head on the east coast, or Stone and Rogue on the west. Some are more dramatic shifts, representing new subcategories like up-scale fruit juice and ice tea beverages. None is too complex for you to execute, either with your existing organizational structure or through strategic partnerships with co-packers as outsourcing vendors. Consumer science will help you find the opportunities that you can exploit around the edges of your categories, and your own operations people can tell you how best to exploit them, by modifying existing products, modifying existing processes, strategic partnerships with vendors, or strategic acquisitions.

Welcome to resonance marketing as a strategy!