The new language of consumer behaviour

Conventional wisdom on how business deals with customers is hopelessly out of date. Only by embracing resonance marketing and hyperdifferentiation will a company survive in today’s market.

In today’s rapidly changing marketplace, there are two profound changes afoot. The first deals with supply. With outsourcing and changes in production and manufacturing technology and internet-based distribution, economies of scale are less significant than they once were. As a result, competitors are able to produce or procure, and to sell and distribute almost anything - from inexpensive no-frills to full luxury goods, from quirky to broad appeal - and to do so at acceptable margins.

The second deals with demand. Consumers have always had strong preferences – a combination of longings and cravings, needs and desires. But in the past they have been willing to make compromises, accepting a product that was adequate for their needs even if it did not meet any longing, craving or desire. Increasingly, however, this is no longer the case.

Much of this change in consumer behaviour arises from improvements in the average customer’s information endowment. This is the idea that customers know what is available, can find and assess how it fits with their desires and are willing to pay more to get products they know they truly want.

These simultaneous changes to both supply and demand destroy the strategic plans of many companies, negate the current sources of their competitive advantage and create nearly insurmountable challenges for their management teams.

In this article, our focus will be on strategies for preserving margins and profits. Our ideas are based on understanding changes in customer behaviour since this determines how corporate strategy needs to change. Ultimately, the two key responses are: resonance marketing and hyperdifferentiation.

Resonance marketing

Today’s consumer knows more than ever before about the marketplace. This is not the result of better advertising but due to the explosion in the amount of publicly available information from all sources. For example, today we often window shop online and by the time we make an actual purchase, our behaviour has been profoundly altered.

Resonance marketing entails the development of products by manufacturers for which these newly informed customers will pay premium prices. In business studies, we generally model consumers and the products they want as if they fall in a continuous hypothetical product space. Consumers will pay more for a product whose location in this space is close to their ideal product. When consumers do not know precisely what they are going to get when they consider a purchase, they discount what they are willing to pay.

Think of this as the Goldilocks effect. Although a bed may be just right, if it is too hard it is worth less. At the same time, if it is too soft it is worth less, too. Although on average the bed may be perfect (the average of a range from too hard to too soft), the value the consumer expects to get from the bed is not (the average of a range discounted for being too hard to discounted for being too soft).

Historically, it was not possible for producers to inform customers of exactly what their products offered – or to let consumers know precisely where products fell in this product space. Consequently, a consumer’s willingness to pay for new products was sharply discounted and new products tended to be clustered around well known existing offerings.

In contrast, resonance marketing focuses on giving informed consumers precisely what they want, knowing that those consumers for which the product truly resonates will find it, understand it and pay a premium price for it.

Information endowment

The current turbulence of the soft drinks market is an instructive example. Although traditional soft drinks are losing share, the market for soft drinks generally is flourishing as a range of products, including premium ice teas, non-traditional fruit juices and bottled waters is growing rapidly.

In the UK, the successful Innocent drinks company was founded by three friends from Cambridge. Their starting product – fruit smoothies – is remarkably simple, containing nothing but
crushed fruit. The ingredients are clearly listed on each label and for more information, the consumer can go to the company website for a complete description of the company, its products and its business philosophy. The label is both comprehensive and factual.

The founders believe that the consumer will find this product and pay a premium for it as a result of the premium product itself, not because of the marketing or packaging. We are the opposite of traditional soft drinks – which are all about the brand – because the contents are just sugar and water.

Hyperdifferentiation

Hyperdifferentiation strategies exploit the fact that companies can now provide almost anything, and are based upon normal goods and services that are different in essence than they have no substitutes and no direct competitors. Consider the following scenario.

You want to defend your company against encroachments from competitors, and you try to fortify your market space with traditional line extensions. But the old logic of brand extensions just does not seem to work any more. You can make as many varieties as Cheerios and cola as you wish, but the market still moves towards granola and specialty fruit products.

Hyperdifferentiated new entrants are providing products that target specific market segments, and even individual consumers. When you can’t compete with your lager beers, your orange juice or your family cars. Instead, they have a unique quality that makes them attractive to at least some consumers.

When informed consumers face a hyperdifferentiated new entrant, they will make a consumer decision regarding whether your household products and that had lasted for years can now be ended where they can be found of the fat spots that are difficult to sell at any price consistent with the higher cost of production. The lesson: the beers that succeed are those that are fat spots and sufficiently different that they have no real competition.

Responding to the market

Companies need to embrace the twin strategies of resonance marketing and hyperdifferentiation, and need to master the technologies that enable each. The improved information endorsement of a company now makes it possible to target product offerings and to manage the competition and potential substitutes of the fat spots. Customers who love it that the product sells at a significant premium – and that is why it accounts for more than half of Victory’s sales. In contrast, although Victory makes a good lager, it is so close to the Budweiser fat spot that it is difficult to sell at any price consistent with the higher cost of production.

Why it might not work for you

Of course, if your organisation is not set up to implement the solution outlined above, you will need to address the following:

• Your marketing efforts are built on the assumption that consumers will find this product and pay a higher price for it.

• Your manufacturing operations are based on economies of scale and simplicity. Ideally, you will have achieved the lowest operating expenses because of economies of scale.

Unfortunately, the result is a cost structure that does not help you very much if your customers are now willing to pay higher prices for a competing product.

How to make more money

Instead of being forced to compete with competitors that are not acceptable to a large number of consumers, the strategy is to offer a product that is acceptable and loyally stayed with. Once companies were successful established, with offerings that were accepted by a large number of customers, they were generally able to fend off attacks from unknown new entrants. Uncertainty about the true nature of alternative offerings caused consumers to discount the perceived value of these products, making it harder for the unfamiliar offerings to gain acceptance in the market.

In the past, companies competed to have the largest number of customers like you, dislike you or even hate you – it only matters how many customers love you.

Combining resonance marketing and hyperdifferentiation is an effective way to compete when companies can manage complexity and produce what they want, and well-informed customers can choose exactly what suits them best.

The improved information endorsements of both manufacturer and consumer have changed the strategies of each. Quite simply, in the 21st century marketplace, the old strategies no longer work.

“Today, it is less important how many customers like you, dislike you or even hate you”