

# Resonance Marketing in the Age of the Truly Informed Consumer: Creating Profits through Differentiation and Delight







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Eric K. Clemons © September 2018

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## Context

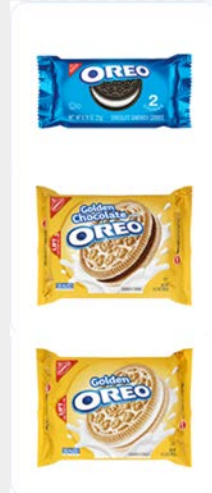
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-  Study of change in **consumer behavior**
-  Caused by improved **information endowment**
-  How to sell **more** bread and cheese, or cars, or beer, or iPads, or hotel rooms ...
-  How to sell **more expensive** bread and cheese, or cars, or iPads, to happier customers
-  Improved **selection and choice**
-  Driven by **more information**, from all sources

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# Context

- **Resonance Marketing**
- Caused by improved **information endowment** and consumers making rational, fully informed choices
  - Based on profound **individual differences in preferences**, not on differences in quality
- Different from **Versioning**
  - We all agree that a first class seat is better than coach, and we all agree that choosing our airline, airport, and time of departure is better than not having the freedom to choose
  - We don't all agree that a Hop Devil is better than a Belgian Tripel, or that a Prius is better than a Corvette
- Different from **Line Extensions**
  - Oreos are all mass market, some just slightly different in attribute (preference) space



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# Introduction









- This theory was based more on prediction than on observation
  - Changing role of advertising and of scale
  - Role of **informedness** in changing consumer behavior, which then changes corporate strategy
    - **Informedness**
    - **Hyperdifferentiation**
    - **Resonance**
- Without a theory of **informedness** this is just story-telling, like the demon theory of friction!
- Extreme differentiation requires an entirely new mindset
  - Don't focus on getting **most** guys to **like** you, but but on getting **some** guys to **love** you

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# The New Brand Positioning





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-  Resonance Marketing
-  It's not about being **better**
-  It's about being **better for each customer**
  -  Hundreds of power bars
  -  For men or women, for golfers or weight lifters
  -  Anything from a focus on designer whey protein to easy-to-wrap-around-bicycle-handlebars
-  **No single best** power bar
-  **No single best** hotel or airline or bank or broker

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# The New Brand Positioning

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-  Differentiation really does drive profitability
-  Only consumers who love you matter to you in resonance marketing
-  It's **better** by far to be **loved and hated** by some than merely liked by all!
-  In Resonance Marketing products, top quarter of reviews determine speed of growth of new brand more than strength of average reviews!

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# Resonance Marketing

## Trading Up?

Trading Up, Trading Down, Trading Out

Simultaneously, in a **single consumer**, at different times and in different settings

To make this useful, need to understand:

Role of **informedness** in changing consumer behavior, which then changes corporate strategy

**Hyperdifferentiation** — supply side

Making anything the company wants to make

**Resonance Marketing** — demand side

Finding what each consumer wants and what each will pay for

And making it work in an environment of physical products, with manufacturing costs, holding costs, spoilage

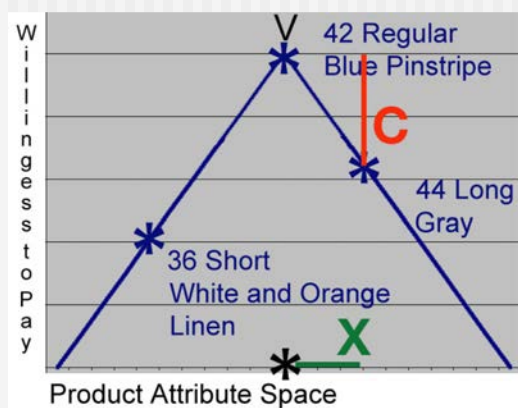
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## The Theory — Fit Matters

Assume a theoretical **product attribute space**

Assume a range of customers in this space, each with different location for his or her ideal product

Assume that **willingness to pay** for a product at \* is a function of the distance between a customer's location and product location \*



Really important diagram!  
Shows a **single customer's** willingness to pay for different products

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# The Theory — Uncertainty Matters

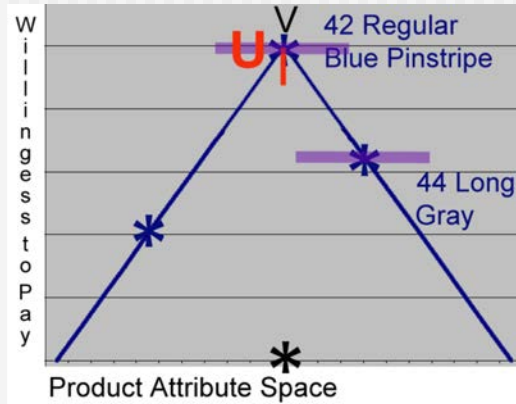
## Uncertainty can reduce willingness to pay

- The 42 Regular Blue will probably be perfect for me
- What if it is a little too big or a little too small?
- Uncertainty can't make it better than perfect, but it can make it worth a little less

## Sometimes it won't hurt

- The 44 Long will surely be too big
- It may be a little bigger than I expect or a little smaller
- Average value to me unchanged

## So uncertainty discount is most severe when product is closest to ideal

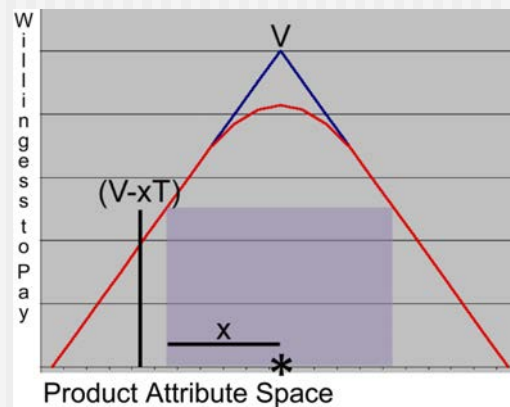


- Even more important diagram!
- Shows how uncertainty affects valuation of different products
- "I don't have to call you Sir!"

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# The Theory — Profit Maximizing Price

- A range of customers, each with different location for ideal product
- Each with willingness to pay in the presence of certainty or uncertainty
- Each with range of uncertainty about product's actual location
- Distance from ideal reduces willingness to pay
- Uncertainty reduces willingness to pay
- Producer sets profit maximizing price

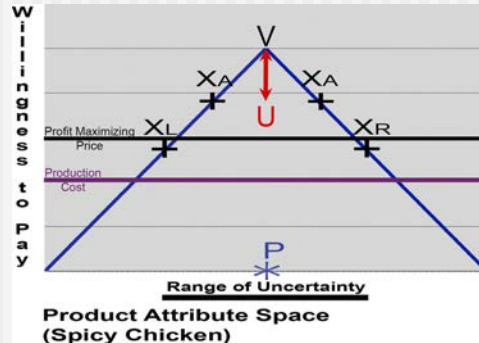


- Different diagram, different focus
- This diagram shows a **range of customers** evaluating a **single product**

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# The Theory — Uncertainty and Profit Maximizing Price

- How is the the picture for a single customer and a range of products different from a range of customers and a single product?
- A **range of customers**, each with different preferred location for ideal product
- Each with willingness to pay in the presence of certainty or uncertainty
- Each affected by the **range of uncertainty** about product's actual location
- Each consumer's** distance from ideal reduces willingness to pay



- For many consumers **uncertainty** also reduces willingness to pay
- Producer sets a profit maximizing price
- In this case unaffected by uncertainty

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## But First— Is this really anything new?

- There is nothing sacred about Porter's 2x2 strategic grid
- In an information age, with manufacturing flexibility and marketing flexibility, we have an efficient frontier, not a 2x2 grid
- Easier to justify — Y and Z are both focused strategies, but not at all like each other
- Captures role transitions over time**
- B is no longer foolish or infeasible, but now represents pursuit of a standard**



- Z to X is possible, Z to Y is most implausible**
- And what is X? Doomed and hopelessly stuck in the middle? Or Toyota?

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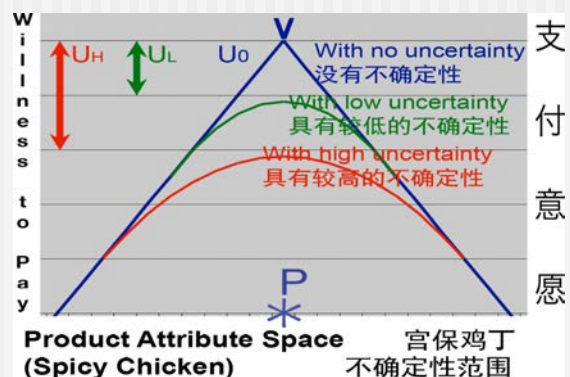
# But First— Is this really anything new?

- If it is new, what is it?
- Newly Vulnerable Resonance Market
- Newly Easy to Enter — in some cases, because of modern inventory management, production scheduling technologies
- Newly Attractive to Attack?
  - This is more complicated to discuss
  - You can argue that there is a new **CPG** because of informedness
- Difficult to Defend — Why was it so hard for Budweiser to replicate the strategies of craft brewers, or for Nestles and Unilever to do so in Ice Cream or in Ice Tea?

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# The Theory — Uncertainty and Profit Maximizing Price

- With greater uncertainty, the uncertainty discount **can** interfere with profit maximizing price
- That **can** and often **does** interfere with new product launches
- Need **mechanisms to reduce uncertainty discount**, even for resonance products
- How was this handled for traditional products?



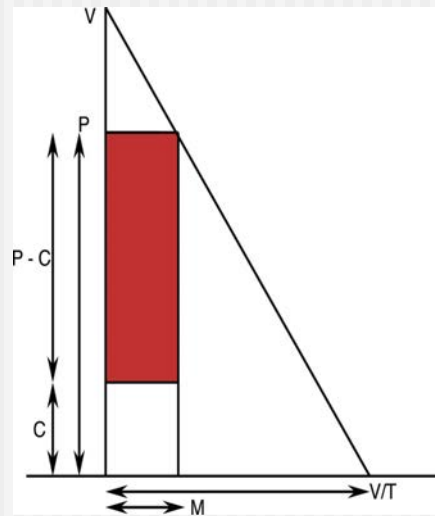
- Why do resonance products need different mechanisms?
- How is this handled for resonance products?

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# Profit Maximizing Price

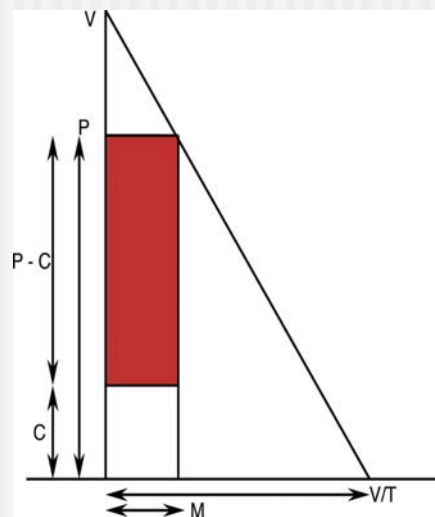
- The profit from price P is simply net unit contribution from sales at price P times size of the market at price P
  - $(\text{Price} - \text{Cost}) * \text{Market Size} =$
  - $(P - C) * M$
- Total possible market is  $V/T$ 
  - Why does price go to zero at  $M = V/T$ ?
  - Why does M go to zero at V?
  - Pretty much from the definition of maximum willingness to pay V, of fit cost T, and of the willingness to pay line
- Given the geometry shown, M is a fraction between 0 and 1, of total possible market,  $V/T$ 
  - $M = ((V-P) / V) * V/T$
  - That is, M is a fraction of the total market,  $V/T$ , and the fraction is proportional to the difference between V and P
  - When P goes to V we are not selling anything, and when P goes to zero everyone buys but we are losing money



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# Profit Maximizing Price

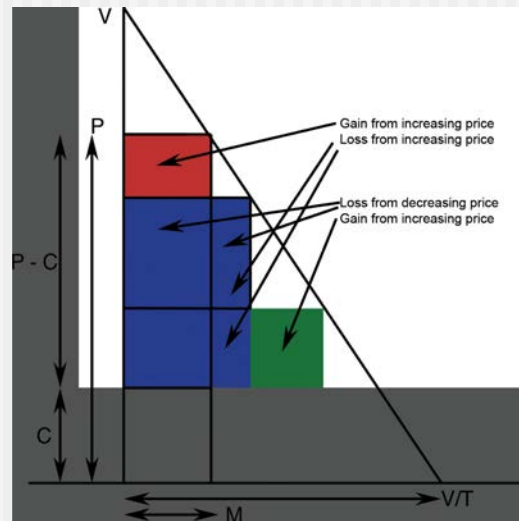
- So profits are  $(P-C) * M$
- Equals  $(P - C) * [(V-P)/V] * V/T$
- Which we can multiply out (nasty algebra!)
  - $(PV/V)*(V/T) - (P^2/V)*(V/T) - (C*V/V)*(V/T) + (C*P/V)*(V/T)$
- We then take the first derivative and make it zero
- First derivative is just the rate of change
  - At first making P lower will increase sales fast enough to increase profits
  - After a while decreasing P will decrease profits faster than increasing sales can offset
  - Profits are maximized at the point where the trends are exactly balanced
- $1*(V/T) - (2*P/T) + C/T = 0$ 
  - Do a little more algebra
- $P = (V+C)/2$ 
  - Which may look a little more natural as  $P = (V-C)/2 + C$



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# Profit Maximizing Price

- Can we derive the profit maximizing price without using calculus?
- Sort of, by inspection
- Blue is the profit maximizing price
- If we raise the price, I earn a little more from some of my customers (red box) but lose more from the customers who drop me.
- If I lower the price, I earn a little more from the new sales at the lower price (green box) but lose more from the earnings I lose from existing customers.
- I'd love to find a way to charge all three prices, of course
- But if I can only charge one price, it will be  $P = (V-C)/2 + C$



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## The Maths — New Strategies

- It is **newly easy** to design and deliver products and services for customers whose “needs, desires, cravings, and longings” are not yet met in the marketplace
  - It is possible to design for those customers most willing to pay for what they want, implying a **customer profitability gradient**
- And it is **newly profitable** to do so
  - Historically, the most demanding customers, those most willing to pay for what they want, also discounted the most in the presence of uncertainty
  - (That is, historically, new offerings suffered from uncertainty, and focused **premium products suffered most**)
  - But with **word of mouse** reducing uncertainty, the ability to launch new premium offerings has never been better

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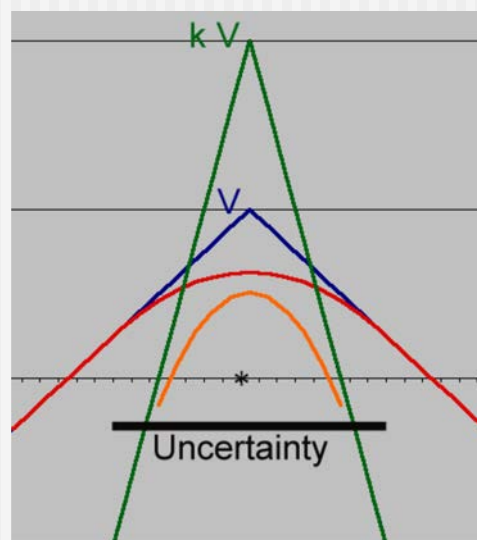
# Implications of High Valuation Customers

- Not all customers have same valuation for their ideal product in a specific category
- Some have low valuation  $V$  and low fit cost  $T$
- Some have  $V$  and high  $T$
- Justification for assuming  $V$  and  $T$  are related?
  - Alternatives are uninteresting:
  - Relationship is the basis of versioning

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# Implications of High Valuation Customers





- High  $V$  High  $T$  customers are those most affected by uncertainty
- Customers for whom a new product would be ideal rationally impose the greatest uncertainty discount
- This historically blocked launches
- Marketing research did not detect latent demand or willingness to pay
- The latent **CPG** was not yet there!
- Markets are newly attractive to attack due to **Informedness**



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# Conclusions






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-  **Hyperdifferentiation** and **Resonance Marketing**
-  Increased customer awareness, increased willingness to pay
-  Reduced role of price in customers' choice of products and services
-  **Sweet spots** vs. fat spot, **skill** vs. scale, **addition** vs. multiplication

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# Conclusions

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-  Marketing Strategy in the Age of the Informed Customer
-  Firms' strategies must change because consumer behavior has changed:
  -  Because firms **have to** — competition discount up
  -  Because firms **want to** — compromise discount up
  -  Because firms **can** — uncertainty discount down

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# Information Goods

If even beer is an information good ...

