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WORKING PAPER SERIES

Contents

The Incumbent's Curse? Incumbency, Size, and Radical Product Innovation

Rajesh K. Chandy and Gerard J. Tellis

A common perception in the field of innovation is that large, incumbent firms rarely introduce radical product innovations. Such firms tend to solidify their market positions with relatively incremental innovations. They may even turn away entrepreneurs who come up with radical innovations, although they themselves had such entrepreneurial roots. As a result, radical innovations tend to come from small firms, the outsiders.

This thesis, which authors Chandy and Tellis term the "incumbent's curse," is commonly accepted in academic and popular accounts of radical innovation. Yet a review of the literature suggests that the evidence for the incumbent's curse is based on anecdotes and scattered case studies of highly specialized innovations. It is not clear if it applies widely across several product categories.

Chandy and Tellis re-examine the incumbent's curse using an historical analysis of a relatively large number of radical innovations in the consumer durables and office products categories. In particular, they seek to answer the following questions:

- How prevalent is this phenomenon? What percentage of radical innovations do incumbents, versus nonincumbents, introduce? What percentage of radical innovations do small firms, versus large firms, introduce?

- Does the phenomenon invariably afflict large incumbents in current industries? Is it driven by incumbency or size?

- How consistent is the phenomenon? Has the increasing size and complexity of firms over time accentuated it? Does it vary across national boundaries?

Results from the study suggest that the conventional wisdom on the incumbent's curse may not necessarily be valid, and that incumbents or large firms are not necessarily doomed to obsolescence by nimble outsiders. Among the results:

- In the consumer durables and office products categories, over a 150-year period, small firms and nonincumbents introduced slightly more radical product innovations than large firms and incumbents.

- However, the sources of radical product innovations in the sample changed substantially after World War II. Large firms and incumbents introduced a majority of radical product innovations after this time period.
- The U.S. accounts for close to two-thirds of radical product innovations in the sample, while Western Europe accounts for most of the remaining. Japan accounts for only a few innovations, but those have been entirely in recent years. The distribution of radical innovations between the U.S. and other nations has remained steady over time.
- Small firms and outsiders account for many more innovations in the U.S. than they do in other countries. Thus, the incumbent's curse is less prevalent in Western Europe and Japan than in the U.S.
- Dynamic organizational structures and strong technological capability are factors that may help large, incumbent organizations to remain nimble and innovative.

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Social Alliances: Company/ Nonprofit Collaboration

Minette E. Drumwright, Peggy H. Cunningham, and Ida E. Berger

More and more companies are supporting social causes while advancing their business goals. Likewise, nonprofit organizations are increasingly reaching beyond their traditional sources and modes of support to tap corporate coffers. Some collaborative efforts between companies and nonprofit organizations have moved beyond cause marketing and strategic philanthropy to encompass close, mutually beneficial, long-term relationships designed to accomplish strategic goals for each partner. Drumwright, Cunningham, and Berger label these partnerships "social alliances."

Social alliances can create and enhance financial capital, human capital, and social capital for both partners; however, even the best alliances can experience problems, usually the result of an organization's inexperience in working with the other sector.

The authors investigate 11 social alliances involving 26 organizations in order to identify and discuss these predictable problems, recommend solutions to overcome or at least mitigate them, explicate best practice and its distinguishing characteristics, and finally, discuss the potential payoffs of social alliances.

Findings and Managerial Implications

Many social alliance problems are rooted in cultural differences between the sectors—some of which are real, some perceived. There are six categories of predictable problems: misconceptions, misallocation of costs and benefits, misuses of power, mismatches, misfortunes of time, and mistrust. There is no single prescription for preempting such problems. However, they can be anticipated and mitigated through a consideration of (1) the fit between the company, the nonprofit, and its cause, and (2) the structural characteristics of the nonprofit, the company, and the social alliance itself. Both may be influenced through the choice of partners.

The best social alliances involve intensive educational efforts and demand considerable learning on the part of both partners. Nonprofits have opportunities to learn business skills from companies, and companies have opportunities to learn how to motivate and energize people, manage volunteer efforts, and allocate charitable donations more effectively. Commitment to the social alliance must be diffused through both the company and the nonprofit organization. Networks of engagement within both organizations facilitate this process. Mobilization occurs through various forms of adaptation on the parts of both partners. This requires matched structures, aligned processes, compatible performance measures, and integrated managements.

Finally, if there is anything universal about successful social alliances, it is that entrepreneurship abounds. Nonprofits as well as companies have substantial entrepreneurial obligations, and “social alliance entrepreneurs” are needed within both organizations. These individuals must be both boundary spanners and boundary protectors, and most importantly, they must discern when to play these quite different roles.

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The World According to E: E-Commerce and E-Customers

Prepared by Katy Haberkern, Katrina Hubbard, and Wendy Moe
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This report summarizes the proceedings of the Marketing Science Institute's December 2-3, 1999, conference, "The World According to E: E-Commerce and E-Customers."

The world of e-commerce embraces new competitors, different cost structures, and new marketing tactics. For marketers in this developing domain, one key question is, How well do existing marketing practices translate to the new e-world?

The 11 presentations summarized here take up that question from several perspectives. Presentations from academic researchers examined customer loyalty and retention, the supply chain in the e-world, the role of "smart agents," and the use of Internet panel data, among other topics. Business presentations provided a look at the best practices of companies such as eBay, Ford Motor Co., and Corning Inc. In an open discussion on customer privacy and the Internet, participants addressed a topic of growing concern: how can e-retailers protect customer privacy, and still leverage the Web's unique capability to customize the shopping experience for each visitor?

In all, the conference offered important insights on the unique challenges of this new domain, and surfaced a research agenda of important emerging questions. Conference highlights, provided here, will be valuable to researchers and practitioners alike.

- The Future of Internet Retailing: Bigger than Catalogs? Bigger than Bricks and Mortar?
  Diane D. Wilson, Andersen Consulting
- Implications of the Internet for Disintermediation: Channel Structure, Prices, and Profits
  Richard Staelin, Duke University
- Ford Direct in Mexico—Bienvenido al Futuro!
  Tim Leckey, Ford Motor Co.
- Promoting Your Brand's Social Vision
  Bruce Brownstein, eBay, Inc.
- Smart Agents, Competition, and Consumer Welfare
  John Lynch, Duke University

- Using Internet Panel Data for Fun and Profit
  Peter S. Fader, The Wharton School
- Sources of Increasing Returns on the Internet
  John Deighton, Harvard Business School
- Working Session on Privacy and Customization
  Abbie Griffin, University of Illinois, Urbana-Champaign
- Who's Buying on the Internet and How Long Will They Be Loyal?
  David J. Reibstein, MSI and The Wharton School
- The Next Generation of E-Commerce Research
  Steve Barnett, OgilvyOne Consulting and The Wharton School
- Repeat Buying in Cyberspace
  Bruce G. S. Hardie, London Business School
- "Are We Ready?" E-Commerce for a Manufacturing Technology Company
  Suzanne D. Welch, Corning Inc.

Implementing Global Account Management in Multinational Corporations

David Arnold, Julian Birkinshaw, and Omar Toulan

As companies strive to compete in a globalized market, an increasing number use global account management (GAM) to manage sales across national boundaries. Although intended to improve control and consistency in customer management processes, GAM structures have also increased the complexity and fragmentation of vendors' international sales organizations. Since they operate alongside national sales units, GAM programs create additional organizational units involved in customer management and, thus, raise issues regarding control, incentives, and decision-making authority. In fact, GAM implementation has proved difficult for many multinational companies.

In this paper, authors Arnold, Birkinshaw, and Toulan address the phenomenon of global account management from the point of view of information-processing theory. They suggest that the establishment of GAM structures is a response by companies to deal with heightened information-processing needs that stem from customer demands for global account coordination. A survey of 106 global account managers in 16 major multinational companies was used to test hypotheses regarding which structures in particular lead to increased account performance. Results indicate that:

- ❏ Even though the primary objective of global account managers is to coordinate customer relationships, it is the internal coordination of GAM units with other sales and support units that seems to have the greatest influence on their success. Frequency of communication with the customer was of only secondary importance in explaining account performance.
- ❏ Global accounts perform better when the global account manager does not make all decisions unilaterally, but acts in coordination with national sales organizations. Centralization of account responsibility, in which all decision authority on the account is transferred to global account managers, is associated with poor account performance.
- ❏ Account performance is highly dependent on the development and use of internal support systems.

Managerial Implications

While acknowledging that customer relationship management is critical to the success of global account management programs, this research suggests that implementation of GAM programs should focus initially on internal coordination and support of sales units. Issues to be addressed include the following:

- Timing: If major customers are designated global accounts before the necessary support systems are in place, the vendor may not be able to deliver on expectations of higher service and better relationship management.
- Structure: Some customer responsibility should remain at the local level, even when customers are designated global accounts.
- Personnel: The ability to manage intercompany relationships is a more critical skill for global account managers than customer management capability.

Until now, customer management has generally been delegated to local subsidiary organizations, on the ground that it is an execution-sensitive rather than a strategic activity. The emergence of global account management is a major shift in the complexity of these marketing organizations, and this study suggests that future research should be directed toward organizational implementation, rather than toward the business achieved with major accounts.

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The Role of Package Color in Consumer Purchase Consideration and Choice

Lawrence L. Garber, Jr., Raymond R. Burke, and J. Morgan Jones

To gain notice and consideration at the point of purchase, brands must break through the clutter of competitive products and messages. Package color is a critical, but often overlooked, tool to gain such notice.

Using a computerized grocery store simulation, this study investigates how the color of a product's packaging affects consumer choice. The authors predict that the shopper's likelihood of picking up and purchasing a product depends, in part, on his or her ability to identify the brand, the meaning communicated by the package, and the package's novelty and contrast—all of which are affected by package color.

Their results suggest that for shoppers who are not loyal to a particular brand, a change in package color can enhance brand consideration. Further, in relatively small and stable categories like raisins, flour, and spaghetti, the revised package was more likely to be picked up and purchased when the meaning it conveyed was consistent with the brand's original positioning. In highly competitive categories like cereal (where it is more difficult to attract shoppers' attention), having a strikingly different package was more important than consistency of meaning for attracting customers' interest.

On the other hand, the results suggest that if the brand has a large base of loyal customers, it may be better to retain the original package or a minor variation, as large changes may reduce brand identification and confuse existing customers.

The research also revealed that a change in package color can increase the total amount of search in the category.

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A Model-Based Approach for Planning and Developing a Family of Technology-Based Products

V. Krishnan, Rahul Singh, and Devanath Tirupati

In an effort to reduce costs and benefit from product variety, many firms use the product-family design approach, developing and reusing a platform of major components and subsystems that is shared across all products.

Although this approach simplifies individual product development and thus reduces costs, the design of product platforms is itself expensive and requires joint decision making about the composition of the entire product family. In addition, at this aggregate planning phase, the specific benefits of platform reuse may be difficult to specify.

In this report, authors Krishnan, Singh, and Tirupati offer a model that integrates customer-demand and development-cost information in order to capture the costs and benefits of platform-based development of technology-based products. They characterize the product family using three factors: the number of products in the family, the maximum performance or span offered by the product family, and the separation between adjacent products. They illustrate their model with an example from the electronics industry.

Managerial Findings

- Traditionally, many firms have made product line decisions ignoring the design and production costs. This paper reveals the trade-off between demand-side cannibalization effects and design-side synergies from locating products closer to each other.

- Due to the integrality of the number of products, there is a range of values of maximum performance for which a particular product population is optimal. The number of products a firm offers is not strictly increasing in the performance range due to the non-linear and integral nature of the managerial decision.

- In some cases, the reusable platform may favor a smaller number of products in the optimal product family. For example, when a platform helps reduce the cost of adapting existing design elements for new products, the firm can offer products at larger separation from one another without significant costs and can thus cover the range of performance needs of the customer with fewer products.

- In summary, this paper generalizes the product line to a product family, by modeling the coupling between products in a family using a product platform.

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A Cross-national and Longitudinal Study of Product-Country Images with a Focus on the U.S. and Japan

Nicolas Papadopoulos, Louise A. Heslop, and the IKON Research Group

As marketers strive to develop unique positioning strategies in increasingly complex markets, they frequently use extrinsic cues to drive buyer perceptions, reduce cognitive overload, and facilitate decision making. One such cue is product-country image (PCI), the country or place of origin with which a product is associated through branding, promotion, and other means. Consider Volkswagen's "German engineered road sedans," for example, or this advertisement by a North American carmaker: "Who gives you Italian style, British handling and German engineering? Daewoo, that's who."

To further our understanding of such origin cues, this study undertook a multi-country and longitudinal examination of product-country image. It is based on the findings of two cross-national empirical studies, one carried out a decade ago in 8 countries, and one conducted in 1997-98 in those same 8, and 7 additional, countries. In both studies respondents assessed the United States, Japan, Sweden, Canada, and their home country on key attributes of the countries themselves and their products. To create a more global context, the new study also obtained partial evaluations for another 13 countries.

Findings

Structure of Product-Country Images. Seven constructs appear to capture the underlying pattern of consumer thoughts in relation to PCI. Four relate to consumer assessment of products (product integrity, price, market presence, and buyer response) and three to consumer assessment of country (advanced country, affect for its people, and desired links with it).

Cross-national Patterns in Country Positions. In general, an origin's ratings on both the country and the product scales was reflective of that country's level of development, confirming earlier findings that consumers generally hold less favorable attitudes toward products from developing nations. There were, however, some important exceptions. Germany, Japan, and the U.S., in this order, were rated in the top three positions on the product scales, but ranked considerably lower on the country scales. Japan, in particular, is rated very low as an "ideal" country. Conversely, Canada and Australia appear lower on the product scales but occupied the first or second positions on the country measures.

U.S./Japan Comparison. A detailed assessment of the U.S. versus Japan shows higher ratings for the U.S. on certain cognitive and affective country variables (e.g., global political role, stability, ideal country), but also a clear superiority of Japan, by practically all samples, on several of the "advanced country" measures (e.g., technology, education, industriousness) and virtually all of the product variables. American respondents agree with their foreign counterparts, rating U.S. products lower than those from Japan on several variables, including, importantly, those in the "product integrity" construct.

The longitudinal analysis shows that the country image of the U.S. has improved while that of Japan has stayed the same or deteriorated. In terms of product image, Japanese products are seen as more expensive than before, but also more technically advanced and innovative. American products are perceived as improved in workmanship and value and as less expensive than before, with lower levels of technical advancement and innovativeness.

Implications

For both researchers and managers, the improved scales and confirmed constructs provide tested instruments with cross-national stability that can be used in future studies. In addition, the consistency of findings across samples and time periods provides useful insights into PCI as a global phenomenon.

Overall, the findings suggest that origin images can play an important role in attitude formation and buyer decision making. One implication for managers is that even when one decides to *not* use PCI as a core strategy, consumers may infer a country association from their general knowledge and/or various parts of the marketing mix.

Marketing managers in the U.S. may find in the data cause for both optimism and concern. On the one hand, there is some improvement in product perceptions, and the positive assessment of the U.S. on the country scale suggests a potential halo effect in future product evaluations. On the other hand, Japan appears to have shed its image as an "imitator" and to be evolving into an even more formidable competitor.

IKON, a research unit of the School of Business of Carleton University in Ottawa, Canada, conducts research on product-country images and is coordinated by Nicolas Papadopoulos and Louise A. Heslop. The following IKON members (in alphabetical order) are co-authors of this paper: Professors Michael Baker (United Kingdom), Gary Bamossy (Netherlands), József Berács (Hungary), T.S. Chan (Hong Kong), Françoise Graby (France), Peter Graham (Australia), Chrysanti Hassibuan-Sedyono (Indonesia), Heribert Meffert (Germany), Jose-Miguel Mugica (Spain), Erik Nes (Norway), Regina Schlee (U.S.), Roberto Solano Méndez (Mexico), and Vlassis Stathakopoulos and George Avlonitis (Greece).

Managing Customer Relationships

Prepared by Simon Walls, The University of Tennessee, and
Debra L. Zahay, North Carolina State University

This report summarizes the proceedings of the Marketing Science Institute conference on "Managing Customer Relationships" held on March 2-3, 2000, in Charleston, South Carolina.

Managing customer relationships is at the core of good marketing. It is well established that it is easier, and more cost efficient, to keep current customers than to acquire new ones. Customer relationship capabilities are thus critical for firms in all industries, including services, durables, packaged goods, and business-to-business.

Conference presentations included company case studies and findings from new research. They addressed such topics as how to measure "customer equity" and the profitability of serving customers, how to learn about how best to serve customers with both products and services, and how to enhance the customer relationship. These summaries, which offer highlights of and insights from those presentations, will be of interest to researchers and marketing professionals alike.

- Customer Interface Initiative: Our World Revolves Around the Customer
  Mack Murrell, The Dow Chemical Company
- Relationship Learning
  Fred Selnes, BI-Norwegian School of Management
- Customer Satisfaction, Capital Efficiency, and Shareholder Value
  Claes Fornell, University of Michigan
- Co-planning Through Category Management—A Key Process for Building Customer Relationships
  Larry P. Stanek, The Minute Maid Company
- Customer Profitability in a Supply Chain
  Chakravarthi Narasimhan, Washington University in St. Louis
- Driving Customer Equity: Linking Customer Lifetime Value to Strategic Marketing Decisions
  Roland T. Rust, University of Maryland
  Valarie Zeithaml, University of North Carolina
  Katherine Lemon, Harvard Business School

- ❏ Making the Link: Grounding the Concepts of Customer Loyalty and Customer Profitability in an Action-Oriented Tracking Program
  Tim Teran, Citibank Global Consumer Bank
- ❏ How Much Are Customer Relationship Management Capabilities Really Worth? What Every CEO Should Know
  Stephen Dull, Andersen Consulting
- ❏ Valuing High-Value Customers—An AT&T Case Study
  Susan Herster, AT&T

Customerization: The Next Revolution in Mass Customization

Jerry Wind and Arvind Rangaswamy

In the digital marketplace, where products and services can be endlessly reconfigured, customers are becoming active participants in the product development, purchase, and consumption process. Garden.com, for example, allows a consumer to design a garden at a desktop computer, choosing from 16,000 plants according to local climate; the company then coordinates one delivery from over 50 suppliers. Similarly, priceline.com and DealTime.com have customized the price determination process.

These companies and a growing number of others are transforming the practice of marketing from being seller-centric to being buyer-centric, say authors Wind and Rangaswamy. They call this emerging paradigm "customerization" and describe it as "a call to the marketing profession to rise to a new standard of interacting with customers and building relationships with them."

Combining mass customization with customized marketing, customerization allows firms to adapt one-to-one marketing and personalization strategies to the digital environment. In a sense, a firm becomes an agent of the customer—"renting" out to customers pieces of its manufacturing, logistics, and other resources, thus allowing them to find, choose, design, and use what they need. Such strategies often require little prior information about customers, and the product itself can be manufactured *after* customers tell the company what they want to buy.

In developing customerization strategies, however, companies face a number of challenges. These include obtaining information from customers, identifying intangible factors that may be crucial to customers, dealing with enhanced customer expectations, limiting the complexity of options, and pricing customized offerings.

In addition, while technology makes the implementation of customerization strategies easier and cheaper, strategic and organizational decisions are more complex and expensive, as the company determines what is the right information to send to each customer. To be truly successful at customerization, a company must bring together the value chains of the supply and demand sides of the market. In some cases, the entire company might be reorganized around a new order generation and fulfillment process as part of a customer-driven, integrated global supply chain.

Finally, managers face critical decisions about where and when to customerize and how to integrate this strategy with other marketing strategies. They must determine the optimal portfolio of mass marketing, direct marketing to target segments, and interactive customized marketing. In this new realm, success will depend on finesse—the ability to deploy effort into areas that generate higher customer value than the cost of adding that value—rather than on massive resources.

Where should a firm begin in implementing a customerization strategy? First, by increasing the digital content of its offerings and of the customer's shopping and consumption experience, and second, by positioning the firm to become the customerizer of the entire industry.

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The Short- and Long-run Category Demand Effects of Price Promotions

Vincent R. Nijs, Marnik G. Dekimpe, Jan-Benedict E.M. Steenkamp, and Dominique M. Hanssens

While the commercial use of price promotions has increased over the last decade, attention has primarily focused on their effects on brand choice and brand sales. Little is known about the conditions under which price promotions expand short-run and long-run category demand, even though the benefits of category expansion can be substantial to manufacturers and retailers alike.

In this report, the authors investigate the category-demand effects of consumer price promotions. Using a dataset of 560 consumer product categories over a four-year period, they examine the main effects of price promotions on consumer demand in the product category in the short and the long run, as well as how these effects change with marketing intensity and competition.

The results, based on market-level data, generate an overall picture of the power and limitations of consumer price promotions in expanding category demand.

Findings and Implications

Short- and Long-run Effects. Price promotions have a significant short-term impact on category demand: they significantly expand category demand in 58 percent of cases. In addition, the more frequently price promotions are used, the stronger is the short-run consumer sensitivity.

However, this strong short-term effect weakens over time, and only rarely (in 2 percent of cases) does it result in permanent shifts in category demand. Promotion-intensive product categories in general tend to follow stationary demand patterns over time, except when trend-setting new products are introduced.

This result offers a caution to brand managers who see the large, immediate effect of price promotions on sales, and may divert resources to support price promotional efforts. This study suggests that such actions do not help enhance the brand's long-run position.

Effects of Marketing Intensity and Competition. The most influential moderator of price promotion effectiveness is the use of nonprice advertising by incumbents. Advertising creates differentiation among brands in the category, which reduces consumers' price promotion sensitivity at the category level. In other words, heavy advertising may make it easier for a firm to implement a strategy of reduced price promotional spending.

Short-run promotional effectiveness is also determined by competitive structure: the fewer industry members, the stronger the promotional effectiveness of its participants. However, price promotional effectiveness is shaped to a greater extent by the behavior of firms within the category (i.e., marketing intensity and competitive reactivity). Even so, the dominant form of reactivity found in this study is nonreaction. This could be attributable to budget limitations (consider the expense of prolonged price promotion or advertising wars), and the difficulty in sustaining cooperative behavior/agreements over long time periods.

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What Makes Consumers Pay More for National Brands Than for Store Brands: Image or Quality?

Raj Sethuraman

Private labels, or store brands, have become a major force to reckon with in grocery products. They account for more than one-fifth of total volume sales in the United States and are outpacing national brand growth. Central to understanding this trend is the question, Why do some consumers purchase national brands and others purchase store brands? More specifically, why are some consumers willing to pay a price premium for national brands over store brands?

In this study, author Sethuraman investigates these questions. To begin, he suggests that consumers may be willing to pay a price premium for national brands for three possible reasons: (1) they believe that there is a quality difference between a national brand and a store brand that warrants payment of a higher price for the national brand; (2) they may be very sensitive to quality changes and are willing to pay a higher price for the national brand; (3) they may believe that there is little difference in quality between the national brand and the store brand, on average, but may still want to pay a higher price for the national brand because of their familiarity with it, its imagery, or other positive associations that go beyond quality perceptions. Sethuraman calls such imagery and positive associations *nonquality utility.*

The study develops a model that separates the total price premium that consumers are willing to pay into three components: perceived quality differential, consumer quality sensitivity, and nonquality utility. The model is estimated using data on what consumers were willing to pay for national brands versus store brands. The dataset consists of 2,237 observations from 132 consumers on 20 grocery products.

Findings and Implications

A key insight of the study is that perceived quality differential and nonquality utility, or brand image, dominate different stages of the purchasing process. Perceived quality differential (or parity) is the driving force in a consumer's decision to participate in or consider purchasing a store brand. But when it comes to deciding how much more consumers will pay for national brands over store brands, brand image or brand equity plays the primary role. In fact, consumers will pay a reasonable premium for national brands even if they believe that the national brand and the store brand are of the same quality.

These findings have important implications for national brand managers and retailers alike. Among them:

- National brand managers will be able to command a reasonable price premium even when retailers close the quality gap. They should maintain and increase their brand's equity through frequent and effective advertising and other equity-enhancing strategies.

- Retailers, by contrast, should recognize the importance of national brand equity and set the price differential for their store brands appropriately. Just because retailers have closed the quality gap does not mean that they can close the price gap and maintain a low price differential. Nor should they set too high a price differential; charging too low a price for a store brand may create negative brand associations.

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Towards a System for Monitoring Brand Health from Store Scanner Data

C.B. Bhattacharya and Leonard M. Lodish

In recent years business strategists have criticized managers for "market share mentality"—an over-reliance on market share to measure brand performance. To build long-term customer franchise, they suggest, more sensitive measures reflective of underlying "brand health" are needed. This raises some important questions for marketing researchers. What is brand health? What are its components? How do we measure brand health? How does it relate to future brand performance?

Study and Results

Authors Bhattacharya and Lodish define brand health and identify a variety of measures that managers can use to track it. Using established notions of health found in the epidemiology literature, they outline two dimensions of brand health:

- Current wellbeing—a brand's attraction to consumers in an environment where all brands are operating under typical, normal conditions, and
- Resistance—a brand's attraction to consumers when it is under attack from competition or from other elements in the macro-environment (e.g., when a new product enters the market).

The authors use both existing measures and adapted measures as likely indicators of brand health. Existing measures include market share, baseline sales, brand-specific intercepts, clout, and vulnerability. In addition, they adapt measures of customer-based brand equity and interbrand substitutability to their measurement context. They use longitudinal, store-week data for the pain reliever and stomach remedy product categories to estimate these proposed brand health indicators.

Their study finds that brand health is multidimensional. That is, market share, baseline sales, clout, brand-specific intercepts, and customer-based brand equity belong to the "current-wellbeing" dimension of brand health; vulnerability and the relative share loss on competitive promotions (their adaptation of the interbrand substitutability measure) belong to the "resistance" dimension. Both dimensions are found to be reliable and valid. Store scanner data for three large-scale new product introductions (Aleve, PepcidAC, and Zantac 75) show that the resistance dimension of health is more prognostic. In other words, compared to current wellbeing, resistance is significantly better able to predict the relative order of the share loss suffered by the existing brands in the market when the new brand enters.

Managerial Findings and Implications

Some interesting observations can be made from the empirical application:

- In both the pain reliever and stomach remedies categories, although private labels had large market shares, the share loss on competitive promotions suggests that they are less resistant than some of the smaller national brands. In other words, private labels lose more share on competitive promotions. Excedrin, for example, lost significantly less than the loss suffered by all three private label variants.
- The researchers were able to assess the incremental market share attributable to brand equity relative to store brands. Overall, most national brands had incremental equity relative to the respective private label brand. Interestingly, although Tylenol had the highest market share, Advil seemed to have the highest customer-based brand equity.

Overall, the data suggest that market share alone may not reveal the different facets of brand health. The individual indicators of brand health can be used concurrently with measures such as market share and promotion effectiveness to gain insight into the effectiveness of marketing strategies.

In addition, monitoring trends in brand health will enable managers to react more quickly to market dynamics. Depending on the context (and managerial risk-taking ability), managers can use their own rules—absolute changes, percentage changes, or difference of means tests—to take action based on the observed trends. Moreover, over time, managers can also develop their own markers of what is "normal" for their brands in terms of current wellbeing and resistance, and can use these markers to classify cases that deviate from the norm.

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A Linkage Model of Corporate New Ventures

Anurag Sharma

Conventional wisdom holds that existing structures and systems can pose daunting obstacles to innovation in large firms. So, how do new ideas become real businesses in large organizations? How do new venture teams navigate their business idea through the inertia of existing operations and past the skepticism of embedded interests? To offer insight on these questions, this study examined the experiences of individuals who led new business initiatives in established companies.

Author Anurag Sharma conducted in-depth case studies of nine internal ventures in eight large firms over a 14-month period in the mid-1990s. In each case, the new product was seen by the firm as significantly different from its existing products and as a foray into a new product market. In addition, in all nine ventures, the initial idea had evolved into one or more concrete products, and an infrastructure for the new business had begun to emerge.

Qualitative Findings

New venture managers engage in a range of interlocking activities to establish organization-venture-environment linkages that help reduce key (mostly political) uncertainties. These linkages emerge from informal personal relationships and gradually mature into institutionalized routines that bind the venture to the organization. When firmly established, the linkages serve as conduits that nourish the venture with information and resources. In so doing, they act as anchors that stabilize the venture in its persistently dynamic environment.

Over time, these linkages remain susceptible to rupture by a variety of forces over which managers have only partial control. Political acuity and interpersonal finesse of managers, along with lots of luck, are some key ingredients that sustain the linkages and make a new venture successful.

Managerial Implications

Successful "intrapreneurs" have highly developed interpersonal skills; they are very sensitive to the political culture and to powerful players in the organization. They know that the chief impediment to new ventures is political commitment by top management. So, they co-opt these internal players by serving their *short term* instrumental interests. Moreover, successful intrapreneurs make the existing bureaucratic structure—with all its faults—work for them.

In addition, internal bureaucracy, while frequently seen as an impediment to innovation, should also be seen as helpful to a new venture. Existing routines offer important and helpful support to budding initiatives. Finally, successful intrapreneurs acknowledge that continued funding of new ventures should be contingent upon periodic reviews of incremental success.

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Ready, Set, Go! Creativity, Innovation, and New Products

Prepared by Amar Cheema and Barney Pacheco,
University of Colorado at Boulder

This report summarizes the proceedings of the Marketing Science Institute's conference, "Ready, Set, Go! Creativity, Innovation, and New Products," held on June 1-2, 2000 in Denver, Colorado.

In presentations by scholars and member company executives, the conference addressed long-standing questions about how to develop products that will succeed in the marketplace. Among them:

- ❒ How are innovative companies understanding emerging market needs, and converting that understanding into successful new products?
- ❒ How can we predict if an idea is good?
- ❒ What organizational factors lead to new product success and failure?
- ❒ What is the role of design in new product success?
- ❒ How can we measure the return on innovation?

Much progress has been made in understanding what customers want. The nine presentations summarized here provide learning on how to use that understanding to develop innovative products with unique appeal to customers.

- ❒ Is the Idea Any Good? Two Perspectives
  Donald R. Lehmann, Columbia University
- ❒ Radical Innovation at 3M: Lead User Research
  Mary Sonnack, 3M Company
- ❒ Pre-market Research versus Real-time Market Research
  Karl Ulrich, The Wharton School, University of Pennsylvania, and Nova Cruz Products
- ❒ Win Big with SuperGroup Idea Generation and Concept Development
  Gayle Moberg, Research International USA
- ❒ Building a Creativity-Enhancing Organizational Context
  Deborah Dougherty, Rutgers University

- ❐ A Quest to Assess New Interactive TV Services
  Peter Gatseos, AT&T Broadband

- ❐ The System Concepts Center: Driving Sustained Innovation at Eastman Kodak Company
  Gary M. Eihaus, Eastman Kodak Company

- ❐ A Comparison of Conjoint Analysis and QFD to Help Design New Products
  Bill Moore, University of Utah, and Mellie Pullman, Southern Methodist University

- ❐ The Value of Innovation (Innovation and New Brands: Where It Pays off and Where It Doesn't)
  Matthew Carey, ACNielsen-BASES

Global Branding

Prepared by Pedro Sousa, INSEAD

This report summarizes the proceedings of the Marketing Science Institute's conference on "Global Branding" held June 20-21, 2000, in Milan, Italy.

Although much has been written about the value and importance of brands, less attention has been given to the extendibility of the brand across national boundaries. In this conference, leading scholars and MSI member company executives addressed critical questions associated with global branding: Is it necessary or desirable for the brand to be the same in all parts of the world? When do consumers prefer global brands to local ones, and why? How can we understand and make use of the culture-specific meanings associated with particular brands? How can companies build and leverage corporate brand images when competing across multiple markets? Are there universal drivers to great brands? How are companies making strategic use of the Internet for global branding?

The nine presentations summarized here offer a balance of business and academic perspectives. They provide fresh insight and ideas on how to determine when a global brand is the appropriate goal and how best to implement this decision.

- ❒ Is There Really No Hope for Local Brands?
  Jean-Noel Kapferer, Groupe HEC

- ❒ Global Branding: Changes and Risks for a Transnational Company
  Klaus Morwind and Hans-Willi Schroiff, Henkel KGaA

- ❒ Global Brands: Consumer Motivations and Mechanisms
  Rajeev Batra, University of Michigan

- ❒ General Motors Case Study: Assessing Brands Globally
  Philip S. Dykewicz, General Motors Europe

- ❒ Peacefulness and Passion: The Meaning of Brand Personalities Across Cultural Boundaries
  Jordi Garolera, Universitat Pompeu Fabra

- ❒ Leveraging the Internet for Global Branding
  Rohit Deshpandé, Harvard Business School

- ❒ Electrolux Case Study: The Beginning of Branding as We Know It
  Lars Göran Johansson, Electrolux

- ❒ Unlocking the Power of Your Corporate Brand with Customers
  Gabriel J. Biehal and Daniel A. Sheinin, University of Maryland

- ❒ What Makes a Great Brand Great?
  Jim Alleborn and Steve Thomson, Roper Starch Worldwide

A Conceptual Framework for Understanding e-Service Quality: Implications for Future Research and Managerial Practice

Valarie A. Zeithaml, A. Parasuraman, and Arvind Malhotra

As e-commerce proliferates, the most experienced and effective e-tailers are realizing that the key determinants of success or failure are not merely Web presence or low price but rather the delivery of electronic service quality (e-SQ). To encourage repeat purchases and build customer loyalty, companies must shift the focus of e-business from e-commerce—the transactions—to e-service—all the cues and encounters that occur before, during, and after the transactions. To do so, managers need answers to many questions. What is good service on the Web? What are the underlying dimensions of superior e-SQ? How can e-SQ be conceptualized, measured, and thereby assessed? What actions can be taken to deliver e-SQ? And, what role will different technologies play in addressing the various aspects of customer service on the Web?

In this report, authors Zeithaml, Parasuraman, and Malhotra begin to address these questions by developing a framework for consumer evaluation of e-SQ gleaned from focus-group research with customers who shop on the Internet. They compare these findings on e-SQ with what is known about traditional service quality (SQ), and offer a conceptual model for understanding and improving e-service quality.

Study Findings

- Consumers consider 11 dimensions when they evaluate e-SQ: access, ease of navigation, efficiency, flexibility, reliability, personalization, security/privacy, responsiveness, assurance/trust, site aesthetics, and price knowledge. Notably, personal service is not considered critical in e-SQ except when problems occur or when consumers make complex decisions.

- The ideal level of many of the 11 e-SQ dimensions varies widely among customers. That is, more is not necessarily better. This is particularly true of responsiveness and personalization.

- Perceived control over the shopping environment and perceived convenience (characteristics that are enabled by the above dimensions of e-SQ) are critical to consumers.

- ❏ Participants have difficulty in precisely defining expectations pertaining to their interactions with websites.
- ❏ Price-value themes are strongly related to e-SQ, perhaps due to the pervasiveness of price as a reason for shopping on the Internet.

Managerial Implications

The findings from this exploratory research offer a rich set of insights about the criteria and processes consumers use in evaluating websites. These insights, in addition to serving as a starting point for developing a formal scale to measure perceived e-SQ, constitute a conceptual blueprint that managers can use to qualitatively assess the potential strengths and weaknesses of their websites.

Further, the study highlights four common "disconnects" between consumers' expectations of a website and their experience in using it. First, a *marketing information gap* reflects insufficient or incorrect information on the part of an e-tailer about website features desired by customers, and about the customers' assessment of the company's e-SQ. However, even when a company has complete and accurate knowledge, it may not be fully reflected in the site's design and functioning, resulting in a *design gap*. A *communication gap* reflects a lack of accurate understanding on the part of marketing personnel about a website's features, capabilities, and limitations. This may result in unattainable promises (e.g., guaranteed delivery of purchased merchandise by a certain date). This internal communication gap triggers a *fulfillment gap* which customers experience when the promises are broken.

As such, to foster customer loyalty to a website, managers must (a) develop a thorough understanding of how customers assess e-SQ, and (b) implement systems to detect and eliminate information, design, and communication gaps.

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Total Market Orientation, Business Performance, and Innovation

John C. Narver, Stanley F. Slater, and Douglas L. MacLachlan

In the past decade, numerous studies have shown a positive relationship between market orientation and business performance dimensions such as profitability, new-product success, and sales growth. In these studies, the form of market orientation examined has been "reactive" market orientation, in which a business attempts to satisfy customers' expressed needs, that is, needs of which customers are aware. "Proactive" market orientation, in which a business attempts to discover and satisfy customers' latent needs (that is, opportunities for satisfaction of which a customer is unaware) has not been systematically discussed and examined to date.

Study and Findings

In this study, authors Narver, Slater, and MacLachlan suggest that reactive, proactive, and total (combining reactive and proactive) market orientation relate positively to business innovativeness, profitability, sales growth, and new-product success. Further, they suggest, the strength of the proactive market orientation relationship to these variables is as large as, if not larger than, that of reactive market orientation, and, thus, proactive market orientation is an important factor in the market success of a business.

Using data from a sample of 41 technologically diverse businesses the authors (1) developed a valid measure of proactive market orientation and refined the measure of reactive market orientation, and (2) statistically examined the relationships between reactive, proactive, and total market orientation and business performance and innovation.

Individually, the two forms of market orientation—reactive and proactive—relate positively to innovation and business profitability. Proactive market orientation also relates positively to sales growth and new-product success.

Managerial Implications

If a business engages only in reactive market orientation, it will miss opportunities to innovate and be a market leader. The power of a proactive market orientation is that the business continuously discovers new opportunities for target-customer benefits. However, if a business engages only in proactive market orientation, it risks alienating its served market by failing to address its expressed needs. For any business the strongest foundation for sustainable competitive advantage is a total

market orientation—reactive market orientation coupled with proactive market orientation.

The challenge for any market-oriented business is to improve continuously its skill in learning more effectively and efficiently about its target customers' expressed and latent needs.

Future Research

Although the units surveyed represented a broad range of industries and technology, they are not a random sample. A much larger random sample would permit more powerful statistical tests. In addition, future studies of the market orientation–performance relationship would benefit from longitudinal research designs.

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Justifying Profitable Pricing

Joel E. Urbany

Increasing pressure to achieve financial performance and access to new information technology are now focusing attention on fundamental issues in price decision making. Classical economic theory assumes that managers set prices by considering how demand, cost, and profit vary at different price points, and selecting more over less profitable prices. In this paper, author Urbany describes two anomalies in pricing behavior, based upon anecdotal observation and recent experimental and field evidence. That is, in pricing decisions, managers often fail to account for (1) marginal profitability and (2) likely competitor reactions.

Urbany reviews evidence of these anomalies and offers two general explanations. First, he suggests that managerial decision making may often be driven by intuitive belief in *hysteresis*, a scenario in which short-term aggressive behavior gains market share and favorable longer-term profits. Such an intuitive model appears to have become deeply ingrained in managerial thinking and may be responsible for much decision making that precipitates price and spending wars.

Second, and more generally, decision *accountability* may explain the failure to account for marginal profitability and competitor reactions in price setting. Tetlock's (1983) classic work suggests that, particularly in an organizational context, people must be accountable for their decisions; therefore, they are compelled to justify decisions based on criteria that are influential within the firm. The empirical research reviewed in the paper leads to the proposition that managers tend to justify decisions on the basis of more familiar and less ambiguous criteria. As a result, more ambiguous but potentially important considerations may receive little weight. Uncertain factors may essentially be discounted in decision making, outweighed by the impact of more concrete, easily measured factors.

The challenge, then, is how to heighten attention to incremental profit and competitive behavior in pricing. Urbany offers three case studies that illustrate how firms have adapted information strategy, culture, and competitive thinking in the interest of focusing greater attention on the profit implications of pricing decisions. Key behaviors include:

- ❐ systematic data-gathering about competitor behavior and about price-demand-cost relationships;
- ❐ applying the logic of segmentation and developing the courage to let some customers go;
- ❐ recognizing the critical role played by the salesforce;
- ❐ developing higher-order thinking skills among decision makers;

- getting senior management commitment; and
- preparing to either justify higher prices to customers or shift attention away from price.

For researchers, the paper highlights that additional work is needed in examining the incidence and variation in errors in pricing, the effects of decision feedback, and how managers do (or should) translate elasticities into prices. Most significantly, the paper draws attention to the need to better understand how managers are held accountable for decisions. As discussed, there appears to be a bias toward justifying decisions based on criteria that are more quantitative and less ambiguous (i.e., "harder"). This suggests important questions regarding the decision making of individuals at various levels of the organization, as well as about whether and how decision cues or criteria are discounted by uncertainty.

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Capabilities for Forging Customer Relationships

George S. Day

Customer retention has always been a high priority in business-to-business markets, and it is now at the center of the strategy dialogue in most markets. Customer relationships are seen as among the most valuable and durable of all advantages. Most firms have started, or will start, a major customer relationship management initiative to achieve:

- a continuing dialogue with customers,
- across all their contact and access points,
- with personalized treatment of the most valuable customers,
- to increase customer retention and the effectiveness of marketing initiatives.

However, for many firms, this initiative will be purely defensive, and will not result in advantages. In addition, as firms diffuse best practices, and vendors make relevant software widely available and economical, all competitors will be equally equipped. Most importantly, the organizational capability to provide a personalized experience for each customer is more difficult to achieve than a transactional or product-focused approach. In fact, few firms will master it.

What factors distinguish firms that are more capable than their rivals? How do firms achieve an alignment that enables them to successfully execute customer relationship management? What actions can strengthen the customer-relating capability?

Achieving a Relationship Advantage

In this paper, author Day provides a framework for addressing these issues. He uses a resource-based view that differences in firm performance are attributable to differences in assets and capabilities. Like all capabilities, he suggests, the customer-relating capability is embedded in a web of other capabilities and resources, and exercised through a complex knowledge acquisition, sharing, and application process. These include three closely coupled components:

- Orientation—the standards by which employees set priorities and make decisions about customer retention
- Information—the availability, quality, and depth of relevant customer information

- Configuration—the structure, systems, and processes that enable the application of the information

Each of these components plays an essential role—but none is a sufficient condition for success. To gain an advantage a firm must be as good as or better than the best of the rivals on each component, and there has to be a positive interaction among the components.

Implications for Action

This model of a superior customer-relating capability raises a series of questions for managers:

- *What are our competitors doing?* How do we compare to the best of the rivals on each of the three components? Are our judgments the same as those of our customers? If not, why not?
- *Is the entire organization engaged?* No business can prevail if the firm orientation is transactional or unsupportive, if the key implementers don't accept the need to treat different customers differently, or if a silo mentality discourages information sharing and condones the belief that one function "owns the customer."
- *Are the structures, systems, and incentives aligned?* Each of these elements of the configuration sends a strong signal. Revamping the incentives and organizing around customers have especially high leverage.
- *Are there new possibilities for relationship building?* Does the collective mindset encourage a continual search for innovative ways to combine market insights and technology advances to tighten customer relationships?
- *Is learning a priority?* Best of breed companies are never satisfied, and keep learning more about what their best customers value.

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Marketing Metrics

Prepared by Marion Debruyne, The Wharton School, University of Pennsylvania and the University of Ghent, and Katrina Hubbard, The Wharton School, University of Pennsylvania

This report summarizes the proceedings of the Marketing Science Institute's conference on "Marketing Metrics" held October 5-6, 2000, in Toronto, Canada.

- ❒ What Marketing Metrics Are Used by MSI Members?
  Russell S. Winer, University of California, Berkeley
- ❒ Marketing Metrics Across Industries: From Food to Sports to Pharmaceuticals
  James W. Masterson, Bristol-Myers Squibb Company
- ❒ Inferring Customer Value from Local Information
  David R. Bell, The Wharton School, University of Pennsylvania
- ❒ Pushing the Levers That Make Money: Econometrics and Business Development
  Steve Kincaid, Fidelity Investments
- ❒ Toward a System for Monitoring Brand Health
  C. B. Bhattacharya, Boston University and Leonard M. Lodish, The Wharton School, University of Pennsylvania
- ❒ Economic Theory and Brand Health: A New Accounting
  Stuart Agres, Young & Rubicam Inc.
- ❒ The Slipper-e Art of Measuring e-Brand Value
  Stephen F. Dull and Kelly A. Dixon, Accenture
- ❒ Web Metrics: What Can We Learn from the "Offline" World?
  Peter Fader, The Wharton School, University of Pennsylvania
- ❒ Kraft's Return on Marketing Investment: Portfolio Management Planning Implications
  Michael D. Duffy, Kraft Foods, Inc.
- ❒ Decision Satisfaction as a Performance Metric
  Gavan Fitzsimons, The Wharton School, University of Pennsylvania

Getting Returns from Service Quality: Is the Conventional Wisdom Wrong?

Roland T. Rust, Christine Moorman, and Peter R. Dickson

Conventional wisdom dictates that service quality improvements are most profitable when they generate revenues due to increased customer satisfaction and retention and, at the same time, reduce firm costs. Recent studies suggest, however, that there may be a tradeoff between service quality efforts that drive revenue expansion and efforts that drive efficiency and cost reduction.

Study and Findings

In this study, authors Rust, Moorman, and Dickson examine that issue, first, by suggesting that firms tend to adopt one of three quality profitability emphases: (1) an emphasis on returns from revenue expansion arising from customer satisfaction and retention, (2) an emphasis on returns from cost reductions arising from improvements in productivity and efficiency, or (3) an emphasis on both at once—an approach consistent with the conventional wisdom. Then, they examine the impact of each emphasis through a survey of managers and secondary data across a wide variety of industries.

The empirical results show that, counter to the conventional wisdom, firms that adopt the revenue expansion emphasis perform better than firms that try to emphasize both revenue expansion and cost reduction simultaneously. They also find that current shifts in quality profitability emphasis, as perceived by managers, are consistent with the empirical findings.

Discussion and Implications

In a pure manufacturing environment where standardization is the key to quality, revenue increases and cost reductions are achieved simultaneously. In a service environment, however, customization assumes a much larger role. Because customization requires increased resources to serve the customer (e.g., more service options, more customer contact personnel, longer service hours), providing higher levels of service often entails higher costs. In other words, a tradeoff between revenue expansion and cost reduction emerges as the role of services increases.

The results of this study indicate that companies that emphasize revenue expansion more than cost reduction have better customer relationship outcomes and better financial outcomes, as measured both by self-reports and objective financial returns. These results have implications for how companies allocate resources. They suggest that companies, on average, should be allocating fewer resources to traditional quality programs (which operationally tend to be internally focused), productivity programs, and efficiency programs such as Six Sigma, and allocating more resources to service-oriented revenue expansion initiatives such as customer satisfaction programs, customer retention and loyalty programs, customer relationship management (CRM) programs, and customer equity programs. In addition, empirical data on the observed shifts within the companies studied reinforces the anecdotal evidence that such a shift toward a revenue emphasis is, in fact, taking place.

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Collecting and Using Market and Marketing Knowledge

Prepared by Marion Debruyne, The Wharton School, University of Pennsylvania and the University of Ghent

This report summarizes the proceedings of the Marketing Science Institute's conference on "Collecting and Using Market and Marketing Knowledge" held December 7-8, 2000, in Naples, Florida.

As speakers examined the current state of knowledge about this MSI priority research topic, they addressed such questions as:

- ❐ How are companies overcoming individual and organizational barriers to the use of market information?
- ❐ What can be done to make customer information more "actionable" for marketing executives?
- ❐ Is there a crisis in the marketing research industry and, if so, what can be done about it?
- ❐ What accounts for the differences in the way managers interpret and respond to marketing information?

Offering a balance of business and academic perspectives, the seven presentations summarized here provide a view of the current state of knowledge and practice, and outline areas in need of further work.

- ❐ Beyond the Possible Today to the More Profitable Tomorrow
  Delaine Hampton, Procter & Gamble Company
- ❐ Converting Market Sight into Market Insights: Lessons from Theory and Practice
  Anil Menon, Emory University
- ❐ The Locus of Customer Focus: Knowledge Systems in Organizations
  Christine Moorman, Duke University
- ❐ Market Research: An Industry in Crisis
  Jay Wilson, Roper Starch Worldwide Inc.

- ❐ Making Customer Information Actionable
  Scott L. Berman, Marketing and Planning Systems
  Robert S. Duboff, Ernst & Young

- ❐ Emerging Principles of Effective Information Use: Overcoming Individual and Organizational Barriers
  Joe Urbany, University of Notre Dame

- ❐ Marketing Managers' Interpretation of Marketing Information
  Chris White, University of Central Florida

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