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Contents

Brand Alliances as Information About Unobservable Product Quality

Akshay R. Rao, Lu Qu, and Robert W. Ruekert

In this study, authors Rao, Qu, and Ruekert examine the emerging practice of brand alliances (featuring two or more brands in the same product context, thus enabling each ally to “buy” the benefits offered by the other brand).

Although most current research—as well as writing in the business press—focuses on individual brands, brands often exist in conjunction with other brands. Such brands may be physically integrated in a product (as, for example, in Diet Coke and NutraSweet, or IBM computers and Intel chips). Two or more brands may also simply be featured in joint promotions (as, for example, in television commercials promoting Oscar Mayer and Mail Boxes Etc.).

In this study, the authors propose that one important reason for forming a brand alliance is to “signal” unobservable product quality to quality-sensitive buyers. In other words, if the quality of a product is not observable and the existing brand name associated with the product is not able to communicate high quality, the addition of a second (credible) brand name (or ally) may successfully convey high quality.

Findings

A survey of 120 mall shoppers in a major midwestern city found that consumers’ quality perceptions of a product that features a brand alliance are enhanced when (1) brand quality is not observable prior to purchase and (2) a brand ally is perceived to be vulnerable to consumer sanctions if its quality claims turn out to be false, thus making it a credible brand ally. These results are observed both when the brand ally is a real brand name and when it is a fictitious brand name.

Implications for Managers

1. The familiarity and prestige attached to one brand name in a brand alliance can indeed enhance the credibility of a quality claim when product quality is unobservable. In addition, the degree to which the familiar brand in a brand alliance is vulnerable to consumer sanction has an important bearing on its credibility as a quality “signal.”

   However, the familiarity and prestige attached to one brand is not the only means of credibly signaling quality. It is possible for brand allies with low equity (that is, low recognition or a small consumer franchise) to successfully communicate high quality if the brand is perceived to be credible because it has something to lose if its quality-related claim turns out to be false.

2. Consumers' willingness to pay increases as the observability of product quality increases. Thus, firms should make every attempt to provide consumers with an opportunity to evaluate quality prior to purchase.

3. When faced with product failure, consumers' complaints and other sanctions are likely to be directed toward a variety of actors ranging from brand allies to distributors. Consequently, the brand ally must recognize that assuring the quality of an unknown or weak brand may have negative consequences. The primary brand must recognize this as it courts prospective allies; potential allies will be very concerned about the true quality of the primary brand product.

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Use and Usability: Business-Focused Market Research

Prepared by Puneet Manchanda, Columbia University

This report summarizes the proceedings of the Marketing Science Institute's September 12-13, 1996 conference, "Use and Usability: Business-Focused Market Research."

The conference focused on the assessment, management, and improvement of market research capabilities through attention to implementation issues and strategic directions. Thus, assessing and improving managerial use of market research information was the focus of one session; another addressed the strategic alignment of market research to achieve business objectives. The presentations were concluded by three studies that addressed the assessment of difficult-to-measure, long-term effects of advertising, promotion, and other marketing activities on outcomes such as brand loyalty, repeat purchase, price sensitivity, and profitability.

The nine presentations summarized here offer a balance of business and academic viewpoints on increasing the value of marketing research to business. They will be of interest to academic researchers and to managers involved in research, brand management, and planning.

❑ A Model of Marketing Knowledge Use
James B. Wilcox, Texas Tech University
Anil Menon, Emory University

❑ Assessing Market Research Use at Dow Chemical
Charles Kazmierski, The Dow Chemical Company

❑ Business Adoption of Advances in the Analysis of Scanner Data
Randy Bucklin, University of California, Los Angeles
Sunil Gupta, Columbia University

❑ Creating Growth: Why Research Makes a Difference at Avon
Joseph A. Faranda, Avon Products Inc.

❑ Ford Motor Company's Support of a Global Enterprise with the Voice of the Customer
Ben Lever, Ford Motor Company

❑ Conjoint Calibration for Strategic Choice
David Montgomery, MSI/Stanford University

- The Long-term Impact of Promotions and Advertising on Brand Performance
  Carl F. Mela, Notre Dame University
  Sunil Gupta, Columbia University
  Donald R. Lehmann, Columbia University
  Kamel Jedidi, Columbia University

- Sustained Spending and Persistent Response: A New Look at Long-term Marketing Profitability
  Dominique Hanssens, University of California, Los Angeles
  Marnik Dekimpe, Catholic University of Leuven

- Erosion and Variability in Brand Loyalty
  Marnik G. Dekimpe, Catholic University of Leuven
  Martin C. Mellens, Catholic University of Leuven
  Jan-Benedict E. M. Steenkamp, Catholic University of Leuven
  Piet Vanden Abeele, Catholic University of Leuven

Sustained Spending and Persistent Response: A New Look at Long-term Marketing Profitability

Marnik G. Dekimpe and Dominique M. Hanssens

Do marketing investments help shape the future by changing market conditions or by affecting the competitors' long-run position? The answer is unclear. Indeed, currently available managerial tools have been of little help in increasing understanding of observable long-term marketing effects, or in offering guidelines for long-term resource allocation in evolving or changing markets.

While certain well-publicized marketing events have been said to change market conditions forever, much of this evidence is anecdotal. There has been no broad body of knowledge allowing managers to *precisely* measure the degree to which marketing efforts affect the long-term evolution of the marketplace.

Here, professors Dekimpe and Hanssens provide a method for diagnosing product markets and long-term marketing effects. Such diagnoses can be used to devise specific strategic recommendations for marketing resource allocation.

The Study

The authors classify marketing spending, market performance, and their interrelation as either temporary or sustained; from this classification, they derive four possible strategic scenarios for managers and their products.

- Business as usual: temporary marketing activity creating temporary results
- Evolving business practice: sustained marketing efforts leading to persistent results
- Hysteresis: temporary marketing investments resulting in sustained sales change
- Escalation: sustained marketing activity, created by competitive action and reaction, without long-term sales gain for any of the players

They propose a measure of long-term marketing effectiveness, called persistent surplus, and relate it to the four scenarios. Using data from two major companies in the packaged-foods and pharmaceuticals industries, they observed several long-term marketing effects—some with profitable and some with unprofitable consequences.

Managerial Implications

Real markets are indeed a mixture of the four strategic scenarios. Sometimes companies can reap long-term rewards from short-term marketing investments (hysteresis). Other times it takes sustained spending to steer products or brands in a certain strategic direction (evolving business practice). At other times market response is only temporary, yet managers spend their products into an unprofitable escalation scenario. Lastly, some markets are in a comfortable spending/response equilibrium where nothing changes in the long run.

With good time-series data on revenue and marketing spending, it is possible to identify which of the four strategic scenarios is taking place in a real market and to use this diagnosis to make decisions about marketing resource allocation. This framework can be used, for example, to distinguish between "do or die" and unnecessary price wars. In other words, managing marketing resources with long-run performance in mind need no longer be a pure act of faith on behalf of the executive.

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The Influence of Market Orientation on Channel Relationships: A Dyadic Examination

Judy A. Siguaw, Penny M. Simpson, and Thomas L. Baker

Market Orientation and the Channel Dyad

Many companies have sought to alter channels of distribution to achieve the strategic gains necessary to compete in challenging global markets. At the same time, marketers have advocated adoption of the marketing concept and a market orientation to enhance competitive positioning. A meshing of the two concepts—using a market orientation to alter the channel of distribution relationship—may provide companies with a viable way of creating a sustainable competitive advantage and enhancing organizational performance.

Market-orientation research has found that market-oriented behaviors positively affect various corporate measures such as profitability, employees' attitudes, and salesperson orientations. In this study, authors Siguaw, Simpson, and Baker examine the influence of market orientation on key factors that may influence the performance of the channel, most notably trust, cooperation, and commitment. Using 179 matched sets of questionnaires from a national sample of distributor members of the National Association of Wholesalers and their key suppliers, they found that the direct effects of market orientation on trust, cooperation, and performance were significant.

Managerial Implications

Their findings lend strong support to the importance of a market orientation in a channel relationship to strengthen the relationship and to enhance organizational performance. Further, this study highlights additional benefits to both parties in the channel dyad of seeking to fulfill customer needs. A mutually held market orientation allows channel members to better serve shifting market needs within the context of strategic partners pursuing the same goals. These market-oriented actions also strengthen channel alliances.

Mutual trust has been found to be more crucial to the formation of strong channel relationships than contractual agreements or techniques. To facilitate the creation of trusting channel relationships, firms should adopt market-oriented behaviors. This research clearly indicates that market orientation has a positive and significant effect on the level of trust in the dyadic relationship, and, thereby, indirectly influences cooperation and commitment. Consequently, the practice of market-oriented behaviors is a critical means of building and reinforcing trust in the channel relationship to keep channels intact and to reduce channel tensions.

Market orientation also has a positive direct and indirect effect on channel performance. Since better performance is the ultimate goal of business, a strong market orientation would appear to be a critical element for all firms.

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Information Search Style and Business Performance in Dynamic and Stable Environments: An Exploratory Study

Stanley F. Slater and John C. Narver

Conventional wisdom holds that a superior learning capability is crucial to competitive advantage. Organizations learn by searching for and acquiring information from the market and other learning partners, from repetitive experience, and from experimentation; by sharing that information widely throughout the organization; and by reaching organizational consensus on the meaning of the information. This sequence of information acquisition and processing creates knowledge.

Much of the recent discussion of organizational learning and knowledge creation has focused on its importance in dynamic environments. However, a superior learning capability may be just as important in stable environments since it may reveal opportunities for creating superior customer value by augmenting products with services or by developing innovative distribution approaches.

Information Search Behavior and Business Performance

While there have been several studies that have examined processes that organizations use for sharing information internally and for reaching consensus on the meaning of information, there has been no research that examines the relationship between the different modes of information search behavior and business performance. In this study, professors Slater and Narver examine those relationships in both a dynamic industry environment—the electronics industry—and a more stable industry—the paint-manufacturing industry. The information search behaviors included:

- *Market-focused information search*—acquiring information about customers' expressed and latent needs and competitors' capabilities and strategies from customers and other market members
- *Learning from others*—learning from suppliers, consultants, universities, and alliance partners, among others, about new ways to create superior customer value
- *Experimentation*—trying out new ideas for creating superior customer value based on intuition rather than evidence, evaluating those experiments, and learning from the results

- *Learning from experience*—a conscious and sustained effort to understand the nature of a repetitive task and to identify opportunities for improvement

The study examined the influence of these information search behaviors on *economic performance*, *quality of customer relationships*, and *product development effectiveness.*

Findings

The study found a positive relationship between market-focused learning, learning from experience, and learning from experimentation and business performance in both the dynamic and the stable environment. Consistent with prior research, market-focused learning had the strongest relationship with economic performance. However, the results also strongly suggest that market-focused learning should be complemented by other information search styles. Apparently, there is a body of important information that is not easily accessed through the information search techniques associated with a market orientation, e.g., new technologies and really new product concepts.

Contrary to current thinking, learning from others does not appear to have a statistically significant relationship with business performance in either environment. It is possible that the benefits of learning from others are subsumed under a broader external focus that is captured through market-focused learning.

Managerial Implications

In a complex environment, managers in a learning organization should encourage the development of skills for searching and acquiring information from multiple sources. The focus of the information search efforts should be on the development of new organizational knowledge that will lead to the creation of superior customer value.

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Interactive Home Shopping and the Retail Industry

Joseph Alba, John Lynch, Barton Weitz, Chris Janiszewski, Richard Lutz, Alan Sawyer, and Stacy Wood

Forecasts of interactive home shopping (IHS) sales range from $5 billion to $300 billion by the year 2000. In contrast to such projections, current sales are barely perceptible. Optimistic projections about electronic shopping clearly are not anchored by the status quo. In this commentary paper, the authors examine the factors that are likely to affect the diffusion of IHS, assuming that fully interactive systems are available to a significant number of households. In addition, they examine the potential impact of IHS on the retail industry.

IHS differs from traditional shopping channels in terms of the quantity and quality of information offered to consumers. Although IHS does not allow direct product experience, it does compete favorably in terms of search attributes. These include:

- A greatly expanded universe of offerings
- An efficient means of screening the offerings
- Unimpeded search across stores and brands
- Memory for past selections that can be used in simplifying information search and purchase decisions

The implications for the retail industry are several. In particular, IHS has the potential to increase price competition across retailers. For those retailers who cannot compete on cost of goods sold, survival may depend on developing advantage in terms of: (1) distribution efficiency, (2) assortments of complementary merchandise, (3) collection and utilization of customer information, (4) presentation of information through electronic formats, and (5) unique merchandise. However, IHS will not threaten all retail formats or even all competitors within a format. Some retailers will be relatively immune to the threats of IHS and others may prosper.

Forecast

- IHS will exert a dramatic impact on the retail industry—but only if the IHS systems are designed to provide superior benefits over existing retail formats. The critical benefits are the opportunity for consumers to search across a broad range of alternatives, to develop consideration sets based on their specific needs, and to obtain information about alternatives in the consideration set.

- Current shopping over the Internet does not provide these benefits because Internet retailers are preoccupied with the potential of IHS to intensify competition on price and are configuring electronic marketplaces that preclude comparison shopping. Technological and market forces can be expected to thwart retailers' efforts to isolate themselves.

- The suitability of different types of merchandise to an IHS format will be driven by delivery costs, the consumer's need for immediacy, and the degree to which electronic retailers can provide prepurchase information that predicts consumption satisfaction.

- Insofar as IHS technology makes it easier to compare alternatives on quality-related search attributes, it will both stimulate and reduce price competition among brands, depending on the true degree of parity in the product category.

- Established catalogers, department stores, and category specialists are differentially suited to compete interactively; the incentives of leaders in each format to participate in IHS vary as a function of their reliance on national versus private-label merchandise, on the strength of their direct fulfillment systems, and on their ability to adapt their merchandise mix to emphasize items that are unsuited to IHS.

- Disintermediation by manufacturers (i.e., cutting out channel intermediaries) will be rare. Less rare will be "nonintermediation," whereby entrepreneurial manufacturers who do not have established relationships with retailers sell direct to consumers via IHS.

- In an IHS world, brands will become increasingly important to consumers, inasmuch as they predict satisfaction when buying outside of stores. Paradoxically, this same predictability makes national brands less attractive for retailers: IHS makes it easy to find the retailer carrying the lowest price on an item sold by many.

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Managing the Corporate Brand: The Effects of Corporate Marketing Activity on Consumer Evaluations of Brand Extensions

Kevin Lane Keller and David A. Aaker

For many firms—particularly large corporations with a number of brands—the role of the company name is a critical component of brand strategy. Consider, for example, Sony, Hewlett-Packard, Kodak, 3M, or IBM: these corporate brand names prompt associations related to the values, programs, and activities of the firms that may rival specific product associations.

In this study, professors Kevin Lane Keller and David Aaker examined several different types of corporate marketing activities that may influence consumers' evaluations of extensions introduced under the firm's name. Specifically, they considered the effects of offering information that characterized a firm as innovative, concerned with the environment, or involved with the community. These commonly observed types of corporate marketing activities, they suggested, would affect corporate credibility (i.e., perceived expertise, trustworthiness, and likability) and, thus, influence brand extension evaluations.

They also explored whether the effects of such activities were strong enough to show up when the brand extension was also being positioned by advertising.

The Study

In a laboratory experiment, 256 subjects were offered information regarding four new products. Each new product represented a corporate brand extension that was not within the product categories currently served by the company but was not too dissimilar to current offerings. Corporate descriptions included information that emphasized one of the following:

1. A firm's innovative reputation and its philosophy of introducing technologically advanced products;

2. A firm's policy to sell "environmentally friendly" products and to manufacture products in an environmentally safe fashion;

3. A firm's philosophy to improve the quality of life in local communities through various activities and programs;

4. Location and years in business (control).

Likewise, advertising content positioned each of the new products as innovative, environmentally sensitive, or beneficial to the community, or provided neutral descriptive information (control).

Findings

The results suggest that corporate marketing activity can provide a direct marketing benefit by improving perceptions and evaluations of a corporate brand extension—even in the presence of advertising for the extension. Engaging in corporate marketing activity, creating a corporate image, and employing a corporate brand strategy can facilitate the acceptance of new products. The impact, however, depends on the type of marketing activity:

Corporate marketing activity related to *product innovation* provided the most valuable enhancements to a corporate brand extension. Specifically, it led to the most favorable perceptions of corporate expertise and to inferences that the corporate brand extension would also be innovative. Most importantly, corporate marketing activity related to product innovation was the only type of activity to enhance consumer perceptions of extension product "fit" (even if the new product was somewhat dissimilar to current offerings) as well as evaluations of specific product attributes. Not surprisingly, then, it was the only type of corporate marketing activity to substantially increase both the perceived quality and purchase likelihood ratings for the extension.

Corporate marketing activity related to *concern with the environment* also provided a number of benefits. In particular, it enhanced perceptions of corporate trustworthiness and likability and inferences that the corporate brand extension was also environmentally sensitive. There was no impact, however, on either perceived fit or favorability of attribute beliefs for the extension. Thus, it had only a modest impact on the perceived quality of the corporate brand extension (substantially lower than that for corporate marketing activity related to product innovation), and no significant effect on purchase likelihood.

Corporate marketing activity related to *involvement with the community* had more limited effects. As expected, it enhanced perceptions of corporate trustworthiness and likability, and led to more favorable evaluations of the corporate brand extension as beneficial to the community. However, it did not affect perceptions of corporate expertise, extension fit, or extension attribute beliefs. Thus, corporate marketing activity related to community involvement did not increase perceived quality or purchase likelihood ratings for the brand extension.

Managerial Implications

In a practical sense, these findings reinforce a key advantage of using a corporate brand extension strategy—that a less concerted advertising effort may be necessary. With a corporate branding strategy, the associations created by corporate marketing activity can provide freedom to communicate other product information in an introductory advertising campaign.

In particular, this research underlines the power of innovative corporate image associations. These associations can provide a boost to new products that are offered under the corporate brand name, even if a product is currently beyond the product scope of the corporation.

Conceptually, the study findings highlight the importance of corporate credibility, as well as extension fit, in influencing consumer evaluations of the corporate brand extension.

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Market Orientation in U.S. and Scandinavian Companies: A Cross-cultural Study

Fred Selnes, Bernard J. Jaworski, and Ajay K. Kohli

Although the market orientation concept has received increasing research attention, most published work has focused on organizations based in the United States, limiting our understanding of the concept in global markets. In this study professors Selnes, Jaworski, and Kohli examined how a country context affects: (1) the levels of organizational antecedents that drive a market orientation, including a focus on top management, interdepartmental relations, and organizational systems, (2) the levels of market orientation, and (3) the strength of linkages between market orientation and its antecedents and consequences.

Using a multiple-informant survey design, they collected data from strategic business units in the United States and Scandinavia (i.e., Denmark, Norway, and Sweden). Scandinavia was selected as the comparative world region based upon its contrasting political economy and cultural heritage. A greater level of government involvement (in Scandinavia the government share of GNP is above 50 percent, while in the United States the share is closer to 30 percent) was expected to affect companies' dependence on the market. That is, there are more incentives to be market oriented in the United States. Second, the cultural differences between Scandinavia and the United States suggest that Scandinavian organizations are more consensus oriented, less formal, more peer oriented (as opposed to self oriented), and promote egalitarian values.

Findings

The principal findings of this research suggest that the core framework for market orientation proposed in earlier U.S.-based work does generalize to Scandinavia. At the same time, several findings did challenge conventional wisdom. Most notably, although Scandinavian companies perceive less competition, the magnitude of the difference was far smaller than expected. This may partially explain why the level of market orientation is similar in both regions.

However, market orientation is also highly influenced by how the organizations operate, and the cultural differences between the United States and Scandinavia seemed to produce some counterbalancing effects. That is, U.S. companies scored higher on market-based reward systems, while Scandinavian companies have less interdepartmental conflict—both antecedents being important determinants of market orientation. A final unique finding was the high level of management support for market orientation found in Scandinavian companies.

Managerial Implications

The results provide evidence that the market-orientation construct and measure can be employed successfully in a Scandinavian setting. Market orientation appears to have the strongest effect on performance in capitalist-dominated economies without high levels of regulation or government involvement. However, even in highly regulated and government-involved economies, the effects of market orientation have a direct effect on performance. From a managerial perspective, the results suggest that U.S.- and Scandinavian-based firms clearly benefit from instilling a market-orientation perspective in their organizations.

The study also suggests that interdepartmental conflict is an important determinant of market orientation in both regions. This may be even more important for countries that value group cohesion and downplay individuality (e.g., Scandinavia and Japan). Similarly, market-based reward systems play an important role in countries or cultures that value individual performance. However, by introducing market-based reward systems a firm may harm the organizational climate by increasing the level of conflict. And alternatively, reducing interdepartmental conflict may harm the individual's motivation to initiate market-oriented activities. Care must be taken to minimize these negative effects.

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Factors Affecting Organizational Performance: A Five-country Comparison

Rohit Deshpandé, John U. Farley, and Frederick E. Webster, Jr.

It has been extensively documented that, due to factors such as national and organizational cultures, strategic orientations, and management styles, there are significant differences between organizations operating in different countries. Less clear, however, is whether there are significant differences in the factors that drive performance in the most successful firms, regardless of country.

In this study, professors Deshpandé, Farley, and Webster examined how organizational culture and climate, customer orientation, and innovativeness affect performance in firms in the U.S., England, France, Germany, and Japan.

In a nationally representative sample of firms in these countries, they found unsurprising differences in organizational cultures (the Japanese businesses had more clan-oriented cultures and the French firms more hierarchical ones, for instance). Despite these differences, however, they found that successful firms transcended national culture differences to develop a common pattern of drivers of business performance. These included a primary focus on organizational innovativeness, a friendly climate, and a competitive culture.

Managerial Implications

- *Successful innovativeness is paramount.* Organizational climates that encouraged trust, participativeness, and entrepreneurial behavior were effective across all five countries.

- *Organizations with relatively flexible, externally oriented corporate cultures perform better.* Even when a national culture tended to be more insular, this result held.

- *The best-performing firms in all five countries have similar corporate cultures.* The authors did not find strong evidence of country-specific slope differences for relationships between organizational culture and performance.

- *Organizations are not polar in terms of organizational culture.* All organizations in the sample saw themselves as mixtures of four types of organizational cultures: market, adhocracy, hierarchy, and clan. Relative emphasis on one or another of these was often subtle. Various combinations might produce good results; for example, successful Japanese firms, while generally hierarchical and clan oriented, also tended to develop relatively strong market cultures.

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Managing Retailer Cooperation with Manufacturer-Sponsored Promotions: An Empirical Examination

Jan B. Heide and John P. Murry, Jr.

Although industry expenditures on retail displays and other point-of-purchase materials currently total over $12 billion, a recent survey of retailers found that 40 percent of all manufacturer-supplied point-of-purchase displays are never used. This noncooperation takes one of two forms: retailers (1) are reluctant to agree to feature programs in the first place, or (2) fail to comply with previously established agreements to use point-of-purchase displays.

In this study, professors Heide and Murry suggest that these two aspects of cooperation—agreement and compliance—are influenced by four factors: (1) strength of the interpersonal relationships between the boundary personnel in the manufacturer and retailer firms, (2) incentive premiums, (3) use of performance-based payment method, and (4) manufacturers' monitoring of retailer compliance.

In a conjoint study across two industries (liquor stores and grocery stores), they found that personal attachments and incentive premiums tend to increase retailer cooperation, while performance-based payment methods and monitoring have negative effects. They also found that these practices may act independently or in combination, but do not serve as substitutes for one another.

Managerial Implications

From the perspective of the manufacturer, these results show that maximizing retailer cooperation can't be achieved by considering individual factors in isolation. For example, increasing incentive premiums will not compensate for losses in cooperation due to weak interpersonal attachments. Achieving maximum levels of retailer cooperation requires concurrent and effective management of each of the mechanisms for promoting cooperation.

The findings also suggest that personnel practices in many consumer product companies may foster ineffective retailer relations. In particular, manufacturers often use their retailer sales representatives to educate new employees about the category before promoting them into either marketing or sales management positions. This practice may have very substantial, but hidden, costs due to the increase in salesperson turnover on retail accounts. Since new salespeople have weak interpersonal

attachments with retailers, this decreases retailer cooperation with manufacturer-sponsored programs and brand sales.

Importantly, finding no significant interaction between interpersonal attachments and incentive premiums also suggests that the loss in retailer cooperation due to weaker attachments cannot be recovered by increasing the incentive premiums offered.

Managers need to be particularly careful when designing incentive and monitoring programs. Both performance-based incentives and monitoring decreased retailers' initial agreement to cooperate; in other words, both practices may help identify a priori those retailers who are more likely to behave opportunistically. This is important because manufacturers currently have little recourse against opportunistic retailers who accept trade payments without performing agreed-upon functions.

However, manufacturers also need to be cautious when implementing performance-based incentives and monitoring due to the risk of lowering compliance by creating a negative reaction among nonopportunistic retailers. It should be possible to minimize this risk through appropriate socialization processes. If successfully implemented, performance-based incentives and monitoring have the potential to drive down the costs of retailer opportunism without adversely affecting brand sales.

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Organizational Improvisation in New Product Development

Anne S. Miner, Christine Moorman, and Paula Bassoff

In describing the dynamic features of organizational action, scholars and practitioners frequently invoke concepts such as flexibility, adaptation, learning, and rapid change. An intriguing subset of this work points to the idea of organizational improvisation, suggesting it represents not only an underexplored theoretical construct, but a potentially important managerial tool.

In this study, authors Miner, Moorman, and Bassoff investigate organizational improvisation. Most research in marketing assumes that composition—or planning of an activity—usually occurs first and is followed at a later time by implementation or execution. However, the authors note that in improvisation, the time gap between these events narrows so that at the extreme, composition converges with execution. Therefore, the more improvisational an act, the narrower the time gap between composing and performing, designing and producing, or planning and implementation.

The authors' research on improvisation draws on observations of new product development projects in two firms over a period of 10 months. They found that organizations engaged in improvisation during new product development and introduction. They also found that organizational improvisations assumed similar forms across settings and included product, process, behavioral, and cognitive improvisations. Product improvisations affected the substantive nature of new products; process improvisations affected the manner in which these products were developed. Behavioral improvisations applied to actions that were undertaken during the product development process; cognitive improvisations applied to interpretations of these actions.

The short-term impact of these organizational improvisations tended to be situation specific (e.g., a software fix marketed as a feature or a new way to conduct focus groups).

In the long run, improvisation affected organizational activity in two ways. First, as a source of unintended experimentation, it affected product offerings and organizational processes. New products were developed from one-of-a-kind experiments, standard practices from off-the-cuff procedures.

Second, firms appeared to acquire an organizational competency through improvisation, developing highly structured routines that would elicit certain types of improvisation from individuals and teams. In a sense, these organizations had "learned to improvise." Yet this long-term organizational learning tended to be biased in favor of some types of improvisation over others, resulting in firm-level opportunity traps (i.e., the firm developed new products in too many areas, overextending itself over time) and specification creep (i.e., the aggregate impact of many small changes raised product costs or slowed down product development).

In sum, improvisational strategies may have subtle consequences that are both helpful and harmful to organizations. Though they facilitate some forms of adaptation, they may also bias the organization's collective learning process.

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Testing New Direct Marketing Offerings: The Interplay of Management Judgment and Statistical Models

Vicki G. Morwitz and David C. Schmittlein

Overview

Direct marketers nearly always test new products or services before launching, or rolling, them on the market. Managers' decisions about which customer segments to test and, based on test results, which customer segments to use in the full product launch are crucial to the ultimate success of the offering. How effective are managers' test and roll decisions? Can managerial performance be improved by using statistical models?

This study found that selective use of managerial judgment and simple statistical models increased profits in the two product offerings (that is, managerial judgment was used for tasks for which experience increases accuracy, and statistical models for tasks for which managers are prone to making errors in spite of their expertise). Particularly in roll decisions based on test results, a statistical model can eliminate the need for repetitious forecasts from experienced managers.

Study and Findings

In their study, authors Morwitz and Schmittlein examined the overall effectiveness of managers' test/roll decisions, identified particular test/roll decisions that managers seemed to be good at making as well as particular test/roll decisions that appeared to be subject to error, and demonstrated how managerial performance could be improved using simple statistical models.

In implementing new product tests, managers must decide how to use historical information about customers to define the consumer segments to include in the test. Their decisions are likely to be based on historical evidence concerning variables that significantly affect response rates. When a test is completed, managers choose which segments will be selected for the new product offering.

The effectiveness of managers' decisions was evaluated using information provided by a large direct marketing firm, gathered during the testing and full-scale launch of two new product offerings. For both products, the authors examined the segmentation scheme used by the firm's managers, the sampling plan for the test, managers' projections of segment response rates based on test results, and the actual product launch roll results. The profit consequences of the various decisions were assessed using relevant price and cost data. The judgments of experienced managers were then compared with both actual market responses and the predictions of simple statistical models.

The results of the study suggest that selective use of managerial judgment and simple statistical models increased profits in the two product offerings. In the test design decision, selective use of the two approaches increased profits by more than 10 percent. In decisions related to the interpretation of test results, gains from the use of a model were modest (less than 5 percent) but worthwhile.

Managerial Implications

Rather than replacing managerial judgment with a decision-making model, or combining or averaging their predictions, the authors recommend selective use of managerial judgment and models.

However, it is important to stress the benefit of a model that can reliably and effectively replace the need for repetitious forecasts from experienced managers. While the managers and model seemed to perform equivalently as stand-alone generators of roll decisions based on test results, the managers' expertise was hard won through time, and could be lost through illness or turnover. The model needs no expertise beyond the test results (and the construction of the segments in the first place), so it is immediately and consistently available.

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When Do Purchase Intentions Predict Sales?

Vicki G. Morwitz, Joel H. Steckel, and Alok Gupta

Purchase intentions data are routinely used as an input to strategic decisions concerning both new and existing products and the marketing programs that support them. However, the accuracy with which purchase intentions predict subsequent sales can vary greatly.

In this study, authors Morwitz, Steckel, and Gupta identify factors that affect the predictive accuracy of purchase intentions data. The results provide managers with information that can help them design studies to maximize the predictive validity of purchase intentions, and that will help them determine how much weight they should place on intentions data when making strategic decisions.

Study and Findings

In order to reflect real-world diversity in how intentions studies are conducted, the authors used meta-analytic methods to examine data collected from a wide range of different settings, including data from academic studies and data provided from several corporations. They found that purchase intentions are:

- Better predictors of purchase behavior for existing products than for new ones and for durable versus nondurable goods. These results are especially notable because intentions are often used to predict sales for new nondurable products.
- Better predictors of behavior when consumers are asked their intentions to purchase a specific brand or model (e.g., "How likely are you to buy a Ford?") than when they are asked their intentions to purchase any product in a product category (e.g., "How likely are you to buy a car?").
- Better predictors of penetration or trial rates than overall sales.
- Better predictors of behavior when they are measured in a comparative mode (i.e., two product variants are compared) versus a noncomparative mode (i.e., a single product variant is evaluated).
- Better predictors of behavior over short time horizons compared to long time horizons.

Managerial Implications

Based on the results from this study, the following recommendations are made:

1. Intentions data should be used to predict trial rates. Other methods should be used to predict repeat and purchase quantity decisions.

2. Intentions data should only be used to forecast sales over short time horizons. Other methods should be used to forecast sales over longer time horizons.

3. Intentions data should be collected in a comparative mode.

4. The context in which respondents supply purchase intentions should be as close as possible to how they will make the eventual purchase decision. Some possible steps are: (a) Respondents should be directed to imagine the pros and cons of the purchase in question. In particular, they should be made to understand the consequences of their decision in terms of what products they would have to give up. (b) Respondents should be asked to supply information that will frame the intentions response. Such information might include current usage patterns and stores that will be patronized.

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Organizational Team Learning for Really New Product Development

Gary S. Lynn

Nowhere is organizational learning more critical than in a company's new product development efforts. This commentary examines team learning patterns in a series of 13 successful and unsuccessful new computer products in three companies from 1977 to the mid-1990s: Apple Computer, Hewlett-Packard, and IBM.

These case studies of new product teams revealed three forms of new product team learning: within-team, cross-team, and cross-company learning. In *within-team learning*, teams learn by doing; the team functions as a cohesive unit, improving over time within the confines of its own group. In *cross-team learning*, teams learn from other teams within their own company; in *cross-company learning* teams learn from other teams and from companies outside their own organization.

A team need not excel at all three forms of learning. The degree of newness in the technology and in the market dictate which learning patterns are most appropriate.

- Teams trying to develop new products with existing technology and for an existing customer base must have a cost-reduction orientation, with emphasis on lowering costs and improving the manufacturing process. Within-team learning becomes critical as the team builds on the knowledge it has gained by producing the product. Adequate, but not excellent, cross-team and cross-company learning are required.

- When the technology already exists within the innovating firm, but the product is being sold to new customers requiring new channels of distribution and pricing strategies, the learning pattern focuses on cross-company learning—learning how current companies compete in the market. Cross-team learning plays a limited role because the company must be willing to change its traditional method of marketing. Overly close ties to other teams may actually impede the team from developing and using new models.

- For new technologies in existing markets, teams must excel at cross-company technical learning, that is, they must build on the technical advances of competitors, so they avoid reinventing what is already available. Cross-team experience is also crucial, as the team must draw on people with relevant technical backgrounds and perspectives.

- When a company is trying to develop and commercialize the most extreme form of innovation—really new innovations that combine new technologies with new markets—it must *limit* cross-team learning. Here, a Skunk

Works strategy—the formation of an autonomous group with adequate authority and resources—is appropriate. Within-team and cross-company learning also become critical. Teams must complete a thorough external technical analysis to learn about available technologies, and conduct market audits to determine competitors' channels of distribution, pricing schedules, and product offerings.

- Most importantly, teams trying to develop "new market/new technology" innovations must bind into a cohesive unit by developing a common direction and "vision" for the new product.

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Why Store Brand Penetration Varies by Retailer

Sanjay K. Dhar and Stephen J. Hoch

Store brands are the only brands for which retailers must take all responsibility—from development, sourcing, and warehousing to merchandising and marketing. Although the success or failure of a national brand is largely driven by the manufacturer's actions, the success or failure of a private label is determined by the retailer.

In this report, professors Dhar and Hoch analyze the across-retailer variation in store brand performance, asking the question, "After controlling for category differences, what are the key determinants of store brand market share for a specific retailer?" Using data from 34 food categories for 106 major supermarket chains operating in the largest 50 retail markets in the U.S., they found that variation in store brand performance across retailers is systematically related to underlying consumer, retailer, and manufacturer factors.

Key Findings

- Overall chain strategy in the use of everyday low pricing (EDLP), commitment to quality, breadth of private label offerings, use of own name for private label, a premium brand offering, and greater number of stores consistently enhance the retailer's private label share performance in all categories. Also, the extent to which the retailer serves a customer base containing less wealthy and more elderly households and operates in less competitive markets improves the performance of the store brand.

- Supporting recent statements in the popular press, their analysis suggests that retailer promotional support can significantly enhance private label performance.

- Retailers often use national brands to draw customers to their stores. Retailers who pursue this traffic-building strategy usually carry more national brands, deeper assortments, and offer better everyday (lower price gap) and promotional prices on national brands. Each of these actions works against the retailer's own brands, highlighting the important balancing act the retailer must perform to profitably manage the sales revenue and margin mix in each of their categories. At the same time, adding a higher quality premium store brand program may mitigate this trade-off.

- Unlike cross-category studies, this within-category, across-retailer analysis shows that the national brand-private label price differential exerts an important positive influence on store brand performance.

- When retailers obtain more than their fair share of a category (high category development index), they also do much better with private labels.

- From the national brand's perspective, encouraging the retailer to carry more brands and deeper assortments may be the most effective way to keep store brands in check. The importance of these variables, however, may depend on the national brand's market position. For example, a category leader may be glad to see a rise in store brand share if it comes at the expense of one of its secondary national brand competitors.

- Finally, premium store brands offer the retailer an avenue for responding to the national brand's ability to cater to heterogeneous preferences. This appears more likely in categories where store brands already offer high quality comparable to the national brands.

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Asymmetric Quality Tier Competition: An Alternative Explanation

K. Sivakumar

What is the nature of the competition between brands in different quality tiers? As private label brands pose a growing threat to established national brands, this question is of increasing interest to managers and researchers alike.

Previous research has shown that by reducing prices in the short term, high quality brands are more successful in making consumers "switch up" from low quality brands than low quality brands are in making customers "switch down" from high quality brands. Several rationales have been offered to explain this asymmetric competition.

Author Sivakumar proposes the rationale that when consumers evaluate products in different quality tiers, they formally consider (or behave as though they consider) price and quality tradeoffs before making a choice decision. Using scanner panel data, he corroborates that price reductions do benefit high quality brands more than low quality brands. In addition, he shows that:

- As the quality differential between the brands increases, the asymmetric advantage of the high quality brand increases.
- As the price differential between brands increases, the asymmetric advantage decreases.
- High quality brands benefit more from deep and infrequent price cuts than from shallow and frequent price cuts.
- Low quality brands benefit more from shallow and frequent price cuts than from deep and infrequent price cuts.

Managerial Implications

The significant role of quality-price tradeoffs in explaining asymmetric competition has several implications for managers of national brands and store label brands. First, national brands should seek to increase their favorable quality differential by increasing the quality perception (e.g., through image advertising) and reduce the perceived price differential by emphasizing the value offered by the national brands. Conversely, private label brands should reduce the perceived quality differential and increase the perceived price differential.

A second implication is that arbitrarily increasing the price of high quality brands without a corresponding increase in their perceived quality may not be an optimal strategy. Price increases should be accompanied by perceived improvements in quality.

A third implication is that the optimal tradeoff between frequency and depth of price cut is not uniform across all brands, but is contingent upon the perceived quality level of the brands.

One pertinent question is whether the asymmetric advantage of high quality brands in terms of sales (the focus of this and other research on quality tier competition) translates to profitability advantages. The estimated brand choice models described here can be used to analyze the profitability implications of different pricing strategies. A brand manager could conduct similar analyses for different brand combinations before deciding on the appropriate pricing strategy for the brand.

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Antecedents and Consequences of Marketing Managers' Conflict-handling Behaviors: A Five-country Comparative Study and Strategic Implications

X. Michael Song, Jinhong Xie, and Barbara Dyer

One of the most important factors contributing to firms' new product success is cross-functional integration between marketing and other functions, as well as the effective management of cross-functional conflict during this process.

In this study, authors Song, Xie, and Dyer collect data from 1,055 companies in Japan, Taiwan, Hong Kong, the United States, and the United Kingdom to investigate these questions:

- ❏ How do marketing managers' conflict-handling behaviors affect the degree of cross-functional integration?
- ❏ Which conflict resolution method is more effective in facilitating cross-functional harmony and promoting cross-functional involvement?
- ❏ Do organizational structures and management styles affect marketing managers' conflict-handling behaviors?
- ❏ What can organizations do to improve the effectiveness of cross-functional conflict management in the NPD process?

Findings

Conflict Resolution Methods: In both Western and Eastern firms, collaborating behavior increased cross-functional integration, and avoiding and competing behaviors decreased cross-functional integration.

Management Style: While the East group countries perceived management support toward cross-functional integration to be an influential variable on conflict behavior, it had no significant impact in the West group countries.

Organization Structure: Centralization significantly affected the way that marketing managers deal with conflict in the West group, but had little impact on the conflict-handling behavior of marketing managers in the East group.

Managerial Implications

Both Eastern and Western managers should refrain from using avoiding and competing behaviors during conflict. In particular, this means encouraging open discussion of problems and issues within the firm, and avoiding the use of power to achieve personal ends. For Western firms, changes in competing behaviors present a substantial challenge, because much of the Western tradition is based on individualistic competition. Western firms need to find a way to separate competing behaviors that may be appropriate in the firm (outside conflict situations) from those that are not (inside conflict situations).

The East Group. Managers in Japan, Taiwan, and Hong Kong should emphasize three organizational factors. First, capitalizing on the strong influence of their authority, top management must provide the resources and the climate to support collaborative behaviors, thus encouraging the challenges to the status quo that accompany knowledge creation.

Second, companies in the East group should look at the congruency of goals, values, and resource allocations within the firm and between top management and divisional strategies and activities, as well as congruency among the different functional areas. Strategically, companies need to align the goals and objectives of the marketing, R&D, and manufacturing departments wherever possible.

Third, management must emphasize participation of marketing, R&D, and manufacturing in the initial stages of new product development. This early exchange forms the heart of the knowledge-creation process within the company's new product development system, because the quality of activities at the early stages of NPD determines the parameters for quality downstream.

The West Group. To improve collaborative behaviors in the United States and the United Kingdom, managers should first eliminate functional incongruities (i.e., differences in goals and objectives) within their firms. This might include regular interactions, better communication channels, inclusive MIS systems, and common language. More importantly, however, training Western workers in a cooperative spirit might best address the reduction of functional incongruities.

For U.S. managers, a second focus should be on using a participative management style in dealing with conflict situations. This study suggests that U.S. managers may still be inappropriately using a scientific management style when coping with opposing opinions. They need to philosophically support the participative management concept, as well as proactively provide an environment in which ideas and suggestions from all employees, no matter their level in the firm, are welcomed.

Employees should also feel that "getting it right" is the important focus, not pointing out who made the mistake. Further, management should be willing to provide encouragement and incentives for new ideas, accepting the risk of failure attached to new product endeavors. Finally, U.S. and U.K. managers should see to it that marketing, R&D, and manufacturing get involved in the early stages of new product development, establishing relationships that will enable collaborating behaviors when disagreements inevitably occur.

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Research, Development, and Engineering Metrics

John R. Hauser

Research, Development, and Engineering (R,D,&E) provides the science and technology that firms use to serve tomorrow's customers profitably. R,D,&E metrics are used to determine the value of R,D,&E and justify investments; to evaluate people, objectives, programs, and projects in order to allocate resources effectively; and to motivate scientists, engineers, and managers.

The Study

In this study, Professor Hauser combines qualitative and quantitative research in an effort to understand and improve the use of R,D,&E metrics. First, he and a colleague interviewed 43 representative chief technical officers, chief executive officers, and researchers at 10 research-intensive international organizations. These interviews, and an extensive review of the literature, produced insights which Prof. Hauser explored using formal mathematical models.

Managerial Implications

Many managers, consultants, and researchers have argued that R,D,&E should be primarily market driven (i.e., should be evaluated using market-outcome metrics). In contrast, Prof. Hauser's research suggests that metrics-based evaluation and management can, and should, vary based on the type of R,D,&E activity.

For applied projects, project selection should be based on market-outcome metrics if firms use corporate subsidies to compensate for "short-termism," risk aversion, and scope (the number of potential applications). With an efficient form of subsidy known as "tin-cupping" (in which one business unit negotiates with others for support of particular projects), business units have an incentive to choose those projects that are in the firm's best long-term interest.

For the development of core technologies (which involve longer delays and greater risks), however, market-outcome metrics may overly encourage researchers to favor short-term projects with less risk. Instead, a greater weight should be placed on effort metrics such as publications, citations, patents, and peer review.

Basic research is even further from the market; hence, indicators of researcher quality become more important. However, the common practice of rewarding basic researchers for original ideas leads them to ignore ideas that were "not invented here" and to build research empires by undertaking too many internal explorations. This may lead to fewer ideas. The firm can be more profitable if it encourages “research tourism”—metrics that encourage researchers to take advantage of research spillovers from universities, other industries, and even competitors.

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A Different Game: Really New Products, Evolving Markets, and Responsive Organizations

Prepared by Page Moreau, Columbia University

This report summarizes the proceedings of the Marketing Science Institute's May 5-6, 1997 conference, "A Different Game: Really New Products, Evolving Markets, and Responsive Organizations" held at Le Meridien Hotel in Boston, Massachusetts.

Although really new products have the potential to transform entire industries, the early stages of their development are very difficult to manage. There is acute uncertainty about market acceptance; market information is nonexistent, and the appropriate organizational role for these products is undefined. It is increasingly evident that really new products demand new ways of thinking about marketing and about product development.

The conference summarized here addressed the unique challenges and enormous opportunities that really new products present. Chaired by professors Donald Lehmann, Columbia University, and George Day, director of the Huntsman Center for Global Competition and Innovation at the Wharton School, University of Pennsylvania, it included topics of interest to those involved in all aspects of new product development, strategy, and marketing.

Presentations by leading thinkers in business and academia focused on organizational challenges, generating and refining breakthrough concepts, understanding market response and evolution, and building responsive organizations.

The ten presentations summarized in the report are listed below.

- ❏ A Different Game: Setting the Stage
  Donald R. Lehmann, Columbia University

- ❏ A Different Game: Setting the Stage
  George S. Day, University of Pennsylvania

- ❏ Drivers of Change in the Basis of Product Competition
  Clayton Christensen, Harvard Business School

- ❏ Understanding Architectural Knowledge: Competence and Competition
  Rebecca Henderson, Massachusetts Institute of Technology

- ❏ Innovation Streams, Executive Teams, and Ambidextrous Organizations
  Michael L. Tushman, Columbia University

- ❏ Getting Through the New Product Funnel
  Robert B. Worden, Eastman Kodak Co.

- ❏ A Culture of Knowledge Brokering: Innovation at IDEO
  Bob Sutton, Stanford University

- ❏ Scenario Planning for New Products
  Paul Schoemaker, University of Pennsylvania

- ❏ Market-driving Forecasting
  Mohan Sawhney, Northwestern University

- ❏ Redirecting Capabilities Toward New Markets
  Dorothy Leonard, Harvard Business School

Market-based Assets and Shareholder Value: A Framework for Analysis

Rajendra K. Srivastava, Tasadduq A. Shervani, and Liam Fahey

Traditionally, business strategy seeks to create value for customers, and marketing is viewed as important in the development and implementation of business strategy in the product marketplace. Increasingly, however, top management is demanding that marketing view its *ultimate* purpose as contributing to the enhancement of financial returns. As more firms adopt shareholder value-based measures of firm performance, marketing must effectively address the marketing-finance interface.

Here, the authors develop a framework that proposes that marketing is concerned with the task of developing and managing market-based assets, or assets that arise from the commingling of the firm with its external environment. Examples of market-based assets include customer relationships, channel relationships, and partner relationships. These market-based assets, in turn, increase shareholder value by accelerating and enhancing cash flows, by lowering the volatility and vulnerability of cash flows, and by increasing the residual value of cash flows.

Managerial Implications

A fundamentally new challenge for many marketing managers is the identification of the market-based assets they now possess. Crossfunctional teams will aid both in listing such assets and in affording an opportunity to begin the necessary dialogue across organizational boundaries about market-based assets and their impact on financial performance.

The market-based assets an organization possesses may not be those it needs. Using current and potential marketing strategies as a guide, managers should ask what relational and intellectual assets would be ideally required to attract, win, and retain customers. Managers then need to make assessments about asset stocks (that is, how much of each asset they possess) and flows (that is, whether each asset is augmenting or atrophying).

The central managerial challenge, of course, is how to leverage market-based assets for marketplace success. Consideration of how intellectual and relational assets might be leveraged in developing new products or solutions, reaching new customer sets, and establishing new modes of differentiation may lead managers to identify new opportunities or how to better exploit existing opportunities. At a minimum, assessing how such assets can be leveraged will give managers a greater appreciation of their role and importance in developing and executing marketing strategy.

At the output end, managers must assess how leveraging these assets affects cash flows. Managers can begin by carefully identifying how a marketing strategy or individual marketing program such as a sales promotion program or a new advertising campaign might affect cash flows. Indeed, the few organizations that do leverage their market-based assets provide excellent guidelines for how other firms can also create and utilize market-based assets. At a minimum, additional marketing decision levers will be added to the arsenal of marketing managers.

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Point-of-Purchase Promotions That Sell More Units

Brian Wansink, Robert J. Kent, and Stephen J. Hoch

A key issue for retailers and manufacturers is how consumers decide how many units to buy. The average consumer regularly shops multiple stores and makes a significant number of unplanned, discretionary purchases. For retailers, the more units sold on any shopping trip, the greater the share of short-run grocery dollars. For manufacturers, the same logic holds: Selling more units makes it less likely that a buyer will run out of the item and purchase a competing product.

Whereas past research has focused on purchase incidence and brand choice, in this study authors Wansink, Kent, and Hoch focus on how consumers make quantity decisions.

Two field experiments and three lab studies show that promotions with suggested quantities anchor consumers' decisions. Anchor-based promotions—presented as multiple-unit prices, purchase quantity limits, and suggestive selling—have a powerful influence on how many units a person buys.

These studies consistently show that consumers buy greater quantities when presented with high anchors in promotions. High anchors can be used in multiple-unit prices (e.g., prices that are presented as "4 cans for $2" instead of "50 cents per can"), purchase quantity limits ("Limit of 6 per customer"), and suggestive selling (e.g., "Buy 12 for your freezer"). Their results indicate that anchor-based promotions may increase sales with discounts as low as 12 percent to 20 percent. Even if retailers pass no discount through, manufacturers may be able to effectively use suggestive selling and expansion anchors in ads, at point-of-purchase displays, and on packages.

The following table offers suggestions on how anchor-based promotions can be executed and improved.

Table. Executing and Improving Anchor-based Promotions

	ANCHOR-BASED PROMOTIONS			
	Multiple-unit Pricing	**Purchase Quantity Limits**	**Suggestive Selling**	**Expansion Anchors**
EXECUTIONS	• 3 for $1.97 • 12 for the price of 10 • Baker's dozen $2.99	• Limit of 12 per person • Limit of 1 per visit • 4 per person per day	• Grab 6 for studying • Buy 8 and save a trip • Buy 12 for your freezer	• Remember when you ran out? • Buy a month's worth • How many will you eat this weekend?
IMPLEMENTATION CONSIDERATIONS	• The larger and more expensive the product, the lower the suggested number should be. • Discounts of 12–20% increase sales while protecting margins.	• To avoid truncating sales, set limits at least two times higher than typical quantity bought on deal. • Very low limits increase purchase incidence; high limits increase purchase quantities.	• May work without a corresponding sales promotion • May be most effective with familiar, inexpensive items like snacks and drinks	• POP or ad or package must cause shopper to stop and think. • Can be used as a theme in an ad campaign and may be used without a sales promotion

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Competitive Responses to External Market Information Flows: The Case of the Nutrition Labeling and Education Act

Christine Moorman

Past research suggests that information flowing into a market from firms may influence the market in two ways: by improving the quality of products in the market and by increasing the level of competition in the market.

In this study, Professor Moorman investigated competitive responses to increased flow of market information following the Nutrition Labeling and Education Act (NLEA) of 1990, which mandated the adoption of a uniform nutrition label. Product quality and price promotion information were collected from product labels and from Nielsen scanner data sources for a sample of brands across time periods before and after the implementation of the NLEA.

Findings

Results indicate that market information did foster competitive activity among firms. Specifically, firms changed the quality of base brands (i.e., brands without a nutritional positioning) and their brand extensions in opposite ways which allowed brands to occupy distinct strategic positions in the market and appeal to different segments of consumers.

In particular, firms increased the level of positive nutrients (e.g., vitamins and minerals) in their base brands, but did not reduce the level of negative nutrients (e.g., fats and sodium) in the same brands. On the other hand, firms improved their brand extensions by reducing the level of negative nutrients but not increasing the level of positive nutrients.

This strategically conservative response protected base brands from potentially negative attributions from consumers who saw a tradeoff between taste and nutrition, while allowing firms to compete for the health-conscious consumer through the introduction of healthy brand extensions.

Market information also influenced the nature of competitive rivalry by shifting price promotion levels depending on the nutritional quality of firm brands. It was found that when the brand is healthy (high nutritional quality), the basis for competition remained focused on nutritional quality because the brand had a differential advantage over competing brands in this area. Because of these advantages, firms were less likely to resort to price promotion to provide value to consumers. On the other hand, for unhealthy brands (low nutritional quality), firms were more likely to utilize price promotion tactics to provide value in the form of lower prices to consumers.

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Brands, Brand Managers, and the Management of Brands: Where to Next?

Pierre Berthon, James M. Hulbert, and Leyland F. Pitt

The brand has been at the core of marketing for over a century. Nonetheless, the wisdom of the brand management approach, and the value of brands themselves, have been questioned of late. In this paper, professors Berthon, Hulbert, and Pitt continue and extend the debate on the future of brand management. Their contribution builds, in part, on MSI's stream of research in the area of brands: first, in its focus on brand management, and second, through its reconceptualization of brands in term of the functions they perform for the customer.

What Do Brands Do?

Brands are conceptualized as solutions to problems and opportunities arising from the context of a business. For buyers, brands perform a function of *reduction*: reducing search costs, perceived risk, and the social and psychological risks associated with owning and using the "wrong" product. For sellers, brands perform the function of *facilitation*—they make certain tasks that the seller has to perform easier.

Overall, brands perform a fundamental function of bringing buyers and sellers together: they act as symbols around which both parties can establish a relationship. However, current pressures on both branding and the brand management system are challenging these historical functions.

Information technology, for example, has increased retailer power and consumers' search capabilities. Other forces for change include changing customer values, brand proliferation, and brand extension/ dilution, as well as an increased focus on category profitability, on the net asset value of brands, and on alternative modes of organizing marketing.

Managerial Implications

In a series of scenarios, the authors offer a framework for thinking about the future of brands and brand management.

Their analysis suggests first, that it is incumbent upon the whole organization to become committed to a focus on the customer, and that brands will increasingly be seen as a means to that end. Second, marketing must become far more active in the initiation and driving of innovation. Third, information technology's role as a vehicle of analysis will increasingly be supplemented by its ability to enable and maintain large-scale customer and consumer interaction and conversation. Fourth, to be effective, the onus for the ownership and management of change in brands and the brand management system will increasingly shift to senior management.

Brands will undoubtedly evolve from the rather static notions that prevail today, but the directions in which they are to change are far from fixed. Consumers, trade customers, competitors, and technology will all play a role, but the creative input of managers may well be the determining factor in the future of brand management.

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The Effects of Brand Name Suggestiveness on Advertising Recall

Kevin Lane Keller, Susan E. Heckler, and Michael J. Houston

Choosing the proper brand name—often the centerpiece of an introductory marketing program—may enhance brand awareness or help to create a favorable brand image for a newly introduced product. One strategy is to choose a brand name that semantically reinforces a particular attribute or benefit of a product (e.g., DieHard auto batteries, Mop and Glo floor cleaner, and Beautyrest mattresses).

In this study, authors Keller, Heckler, and Houston examine the costs and benefits of choosing a "suggestive" brand name. While a suggestive brand name can facilitate initial brand positioning, they propose, it can actually hamper subsequent marketing communication efforts to reposition the brand in new, unrelated directions.

Study and Findings

A laboratory experiment examined the effects of the meaningfulness of brand names on recall of advertising. The findings indicate that a brand name explicitly conveying a product benefit (e.g., PicturePerfect televisions) led to higher recall of an advertised benefit claim consistent in meaning with the brand name, as compared to a nonsuggestive brand name (e.g., Emporium televisions). However, a suggestive brand name led to lower recall of a subsequently advertised benefit claim unrelated in product meaning (e.g., superior sound), as compared to a nonsuggestive brand name.

Implications

These study findings have important implications for marketers regarding advertising strategies and the optimal use of meaningful brand names in building and managing brand equity.

On the one hand, choosing a brand name that is concrete and evokes imagery that suggests a certain product benefit may, by producing strong brand associations, contribute to brand equity by facilitating initial positioning.

On the other hand, choosing a brand name that suggests a certain product benefit may adversely affect the ability of advertising to link new brand associations at a later time. Consumers may find it more difficult to accept—or just too easy to forget—the new positioning when the brand name continues to remind them of other product considerations. (This may explain, for example, why Jack-in-the-Box restaurants have found it difficult to establish a more adult, product-focused image, and Old Spice aftershave, Oldsmobile automobiles, and John Hancock financial services have struggled to create more youthful images.)

Marketers may be better off adopting a more flexible branding strategy—i.e., using nonsuggestive brand names when introducing new products—if they anticipate the possibility of having to later advertise additional, unrelated benefit claims.

Alternatively, if marketers choose suggestive brand names to introduce new products, they must be willing to reposition the brand if it later becomes necessary, or to introduce new brands or sub-brands to capture product positions unrelated to existing meaning-laden brand names.

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New Frontiers in Competitive Decision Making: Toward a Research Agenda

Prepared by Alan J. Malter, University of Wisconsin-Madison

This report summarizes the proceedings of the second Conference on Competitive Decision Making, held June 6-8, 1997, in Charleston, South Carolina. Sponsored by the Marketing Science Institute, University of Notre Dame, and University of Wisconsin-Madison, and organized by Joel E. Urbany, University of Notre Dame, the conference sought to rethink strategy and competitive decision making in light of the increasingly complex and dynamic nature of competition. A central theme was the belief that markets are continuously changing, nonlinear, positive feedback systems characterized by path dependencies, or market regularities. As such, markets rarely converge toward a stable equilibrium point, contrary to assumptions in neoclassical economics.

Given the challenges faced by decision makers in dynamic environments, conference sessions focused on four important issues regarding competitive decision making:

- the evolution (past and future) of dynamic market systems, studied with both simulation modeling and historical data analysis;
- the question of whether managers actually conjecture about future actions and responses in competitive markets, and if so, how;
- the problem of judgmental errors biasing managerial decision making, using both game theory and behavioral decision theory approaches;
- the role of decision support systems in reducing or eliminating judgmental error in dynamic competitive decision making, e.g., by modeling optimal promotion strategies.

What are the implications for research on competitive decision making if one adopts this market dynamics orientation? What types of research questions will be important? The presentations at the Charleston conference suggest that crucial to competitive decision making is the higher-order skill of being able to think in terms of complex dynamic systems and to conjecture about future interactions with competitors and customers. For example, Day concludes that the key to surviving industry shakeouts is "informed anticipation," Dickson emphasizes the importance of "process thinking" skills and "prospective memory" (i.e., forward planning skills) in the new "delta-paradigm" of continuous change, and Little discusses managerial "early warning systems" that would be enhanced by automated decision support systems.

While these abilities are clearly essential to effective market learning and strategic planning, our understanding of the basic psychological mechanisms and processes involved in such cognitive performance is still extremely limited. The Charleston presenters made a promising start toward closing this gap, proposing a number of new frameworks and tools to help managers widen their field of vision and succeed (i.e., survive) in an increasingly intense competitive environment. The conference themes also provide a research agenda that can help guide future study of competitive decision making in dynamic markets.

The contents of the report are listed below.

Consumers' Perceptions of the Assortment Offered in a Grocery Category: The Impact of Item Reduction

Susan M. Broniarczyk, Wayne D. Hoyer, and Leigh McAlister

It has been suggested that retailers can significantly lower operating costs if they reduce the number of low-selling stock-keeping units (SKUs) in a category. Retailers, however, have resisted such cutbacks, fearing that shoppers would be less likely to shop in stores that they perceived as offering diminished assortments of products.

Study and Findings

In this study, authors Broniarczyk, Hoyer, and McAlister examine the link between SKU count and assortment, as perceived by consumers. They suggest that cues other than simple SKU count, such as the availability of favorite products and the amount of shelf space devoted to the category, influence shoppers' assortment perceptions.

In two laboratory studies they demonstrate that:

- In the face of SKU reduction, consumers are less likely to lower their assortment perceptions if low-preference rather than high-preference SKUs are removed.
- In the face of SKU reduction, consumers are less likely to lower their assortment perceptions if the amount of space devoted to the category is held constant than if the space is reduced.

In a field study, they confirmed that as long as favorite products were available and shelf space remained constant, consumers' assortment perceptions were unaffected by moderate SKU reductions. Further, consumers reported stores with SKU reduction as easier to shop.

Implications

This study suggests that retailers can make moderate reductions in SKU count—thus cutting back on warehouse inventory and related costs—without degrading their image of offering a good assortment. Further, retailers can expand facings of the most popular products, thereby reducing out-of-stocks and the costs associated with them.

In this way, traditional format retailers who streamline their operations should be able to compete effectively with the emerging alternative format retailers (e.g., Wal-Mart), whose superior operating systems currently provide a 26 percent cost advantage.

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Why Do Consumers Pay More for National Brands than for Store Brands?

Raj Sethuraman and Catherine Cole

Private labels or store brands have witnessed considerable growth in grocery products in recent times. Because low price is the major differential advantage of private labels, several national brand manufacturers have attempted to fight private label growth by cutting prices. However, price cuts can reduce margins and hurt profitability. Therefore national brand manufacturers face a dilemma: Should they cut their prices to compete with private labels? Or should they adopt other non-price-related strategies?

In this study, professors Sethuraman and Cole investigate the following questions: In what type of product categories are consumers willing to pay a price premium for national brands over store brands? What factors influence the size of this price premium? In particular, they examine whether the following factors influence the premium consumers are willing to pay for national brands: perceived quality differential between national and store brands, average purchase price, purchase frequency, familiarity with store brands, price-quality inference, perceived deal frequency, the amount of pleasure derived from consuming the product, and demographics.

The Study

Two consumer surveys were used to collect data. The first survey investigated the relationship between perceived quality differential and price premium consumers are willing to pay for national brands across 203 consumers and 88 grocery products. The second detailed study identified additional factors besides quality differential that influence the size of the price premium, using information from 140 consumers across 20 grocery products.

Key Findings and Managerial Implications

1. Overall, perceived quality differential accounts for about 16 percent of the variation in price premiums across consumers and product categories and is the most important variable among the ones considered. This suggests that national brand managers should invest in product improvements to increase objective quality differential as well as spend on advertising to increase perceived quality differential.

2. Among demographic variables:

   - ❑ Middle income households are willing to pay smaller price premiums than either the higher income or lower income households.

   - ❑ Younger consumers are willing to pay larger price premiums than older consumers.

   - ❑ Females are willing to pay larger price premiums than males.

These findings imply that managers of premium national brands may be better off targeting the younger, high income, and female consumers.

3. Among category characteristics, consumers will pay relatively lower price premiums for national brands in product categories:

   - ❑ in which the average purchase price is low,

   - ❑ which are purchased more frequently,

   - ❑ which are consumed more for functionality than for pleasure,

   - ❑ in which the price-quality inference is weak.

National brand managers should therefore adopt aggressive pricing strategies (low price) in these product categories. Managers can also use advertising to strengthen the perceived price-quality relationship, and increase the hedonistic value of products.

Limitations and Future Research

The measure of price premium is based on what consumers state they would be willing to pay and not based on what they would actually pay. There may be a discrepancy between stated intentions and actual behavior. The 12 variables included in the model explained only 23 percent of the variation in price premium. Future research should study more variables (e.g., life style, personality) and examine how they influence price premiums.

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Will It Ever Fly? Modeling the Takeoff of Really New Consumer Durables

Peter N. Golder and Gerard J. Tellis

A consistent pattern in the evolution of really new consumer durables that have become household products is a *takeoff* or dramatic increase in sales early in their history. This usually appears as an elbow-shaped discontinuity in the sales curve showing an average sales increase of over 400 percent.

Knowledge about the takeoff is crucial for managers who are deciding whether to maintain, increase, or withdraw support of new products. It is equally important for industry analysts who advise investors and manufacturers of complementary and substitute products. Yet many managers do not even know that most successful new consumer durables have a distinct takeoff. Their sales forecasts tend to show linear growth. Similarly, most marketing textbooks and diffusion models depict the growth of new consumer durables as a smooth sales curve. While diffusion models are commonly used to study new product sales growth, they do not explicitly consider a new product's takeoff in sales. Indeed, diffusion researchers frequently use data *only from* the point of takeoff.

In this study, professors Golder and Tellis provide the first analysis of the takeoff. In particular, they address three key questions: (1) How much time does a newly introduced product need to take off? (2) Does the takeoff have any systematic patterns? (3) Can we predict the takeoff?

Their results provide potential generalizations about the time-to-takeoff and the price reduction, nominal price, and penetration at takeoff. In particular, they found:

- On average for 16 post-World War II categories the price at takeoff is 63 percent of the introductory price, and the penetration at takeoff is 1.7 percent.
- The time-to-takeoff is decreasing for more recent categories. For example, the time-to-takeoff is 18 years for categories introduced before World War II, but 6 years for those introduced after World War II.
- Many of the products in the sample had a takeoff near three specific price points (in nominal dollars): $1000, $500, and $100.

Managerial Implications

First, the finding that the average time-to-takeoff for post-World War II categories is six years suggests that firms may need to exercise caution in committing resources at the time of introduction. In addition firms may need to manage expectations of investors when introducing new products, in order to avoid pressure to prematurely withdraw support for a promising new product.

In addition, the model offers substantial improvement over the current state of the art in new product management. For example:

- ❏ The model predicts takeoff one year ahead with an expected average error of 1.2 years. It predicts takeoff *at a product's introduction* with an expected average error of 1.9 years.
- ❏ A threshold rule of sales growth for determining takeoff, further developed here, can be used to distinguish between a large increase in sales and a real takeoff.
- ❏ Model results can be used to maximize long-term profits by trading off the increased probability of takeoff or higher sales against lower prices and smaller margins.
- ❏ The model can provide a decision rule to determine whether to discontinue supporting a new product that has not taken off. For example, if a product does not take off after the seventh year, assuming price reductions of 10 percent per year, the probability of it ever taking off is quite small.

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The Ownership Effect in Consumer Responses to Brand Line Stretches

Amna Kirmani, Sanjay Sood, and Sheri Bridges

One of the primary reasons for introducing brand extensions is to leverage the brand's equity among its current consumers—marketers hope that consumers' liking for the parent brand will extend to other products that share the name. They also hope the new product will not disenfranchise current consumers or dilute overall brand equity. Despite its managerial importance, however, the effects of ownership status on consumers' responses to brand extensions are largely unresearched.

In this study, professors Kirmani, Sood, and Bridges examine ownership effects in the context of brand line extensions that are higher- or lower-priced versions of an existing brand name. Since owners are more likely than nonowners to incorporate the brand into their self-concept, the authors propose, owners are likely to react differently from nonowners to price-based line extensions of prestige and functional brands.

Study and Findings

Ownership effects were examined in two studies—a lab study using prestige and functional brands of jeans (Calvin Klein and Gap) and a field study using prestige and functional brands of cars (BMW and Acura). Brand involvement was higher among owners than nonowners of both functional and prestige brands. In addition, prestige brands were more likely to tie in to owners' self-concept than were functional brands.

Specifically, owners responded more favorably than nonowners to upward or downward stretches of a functional brand (Acura) and to upward stretches of a prestige brand (Calvin Klein and BMW). However, owners of Calvin Klein and BMW reacted less favorably than nonowners to a downward stretch, presumably because a downward stretch lowered the brand's exclusivity, an important aspect of the self-concept.

Managerial Implications

Because marketing managers use extensions to leverage brand equity, the reactions of current owners to such extensions is critical. Managers may use the results of this paper to make predictions about conditions under which brand line stretches may be positively or negatively received by the brand's current owners.

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Research Frontiers in Interactive Marketing

Prepared by Lisa Klein, Harvard University, and Nicholas Lurie, University of California, Berkeley

Preface

John Deighton and Rashi Glazer

The conference on "Research Frontiers in Interactive Marketing" was the first dedicated to presenting academic work in the field of interactive marketing. It also aimed to nurture more conversation between practice and scholarship and to review pioneering teaching initiatives in this area.

Recent advances in digital electronic technology, allowing marketers to design one-to-one communication programs without forgoing mass-scale economies, have significant implications for the way marketing is practiced—amounting, some say, to a transformation of the paradigm of marketing. Yet empirical scholarship, obliged as it is to study what has happened, not what will happen, has only recently begun to model the phenomena of digital interactivity.

In organizing this conference, we searched for work that was not merely descriptive of interesting interactive practices, but that specified and, where possible, tested cause-effect relationships in these practices. The result of this search was encouraging. The papers presented here gave reason for optimism about the new agenda of interactive research.

The papers were grouped according to four themes. The first theme, and largest single group, dealt with new distribution and communication channel options enabled by interactive technologies. Anderson and Zettelmeyer sought to account for a firm's preference for communication via the Internet as a function of firm and consumer characteristics. The greater a firm's uncertainty about consumer preferences and the greater consumer uncertainty about products, the more likely it was that each would include the Internet in the repertoire of channels. Peterson and Balasubramanian compared the Internet to conventional retail and catalog distribution channels on dimensions of product features and kinds of consumer decision process. Herz described the 20-year history of electronic banking services at Chase Manhattan Bank. The digital channel had succeeded in 1997, where it had failed 20 years earlier, because of system speed and widespread home ownership of computers. Narayandas and Steinman explored the on-line broker role in industrial distribution channels, concluding that it was more useful as a pre-purchase service to smaller buyers than as a service to match large buyers and sellers.

The second theme explored measures of customer lifetime value. Berger and Nasr presented an approach to modeling income from repeat purchases. Regan described the Reader's Digest's current model for identifying best prospects for mailing based on maximizing response to that mailing, and posed the problem of how to maximize response over a customer's life.

The third theme was consumer behavior in interactive settings. Rangaswamy presented findings on how consumer choice in electronic store settings differed from traditional in-store choice. Johnson showed how Web site clickstream data yielded many of the same insights as information display board data. Lynch presented a study in which price and quality search costs were manipulated in an electronic store. Lowering search costs increased price sensitivity only when quality search costs were high and comparison with stores was difficult. Iacobucci showed how network methods provided managers with useful diagnostic tools for interactive marketing systems. Lee described consumer testing of copy on the Web for AT&T, and a customized coupon program at Polaroid.

The fourth theme consisted of presentations of approaches to teaching courses in interactive marketing, electronic commerce, and the marketing-interactive technology interface, with presentations by Little, Palij, McCann, and Vassos.

This group of papers, taken as a whole, supports the idea that interactive marketing is not to be viewed merely as direct marketing by another means, nor as just another element of the marketing mix to be blended into an integrated program. As the organizers of the conference have argued in an editorial in the *Journal of Interactive Marketing*, the principle underlying interactivity—that of treating each customer as an individual and not as part of a mass—represents a fundamental shift in the marketing value proposition that has the potential to redefine the nature of competition in every industry to which it is applied.

In this regard, our hope is that the conference has been instrumental in helping define the term "interactivity," particularly as it relates to marketing, and in setting what we expect will develop into an exciting and productive research agenda. As the conference made clear, this research has moved far beyond the stage of merely reporting descriptive statistics to one of true appreciation of both the potential and need for applying a wide range of conceptual and theoretical frameworks, innovative methodologies and sophisticated analytical techniques.

The contents of the report are listed below.

- Internet Marketing, Catalog Marketing, and Conventional Retailing: A Structural Analysis
  Robert Peterson, The University of Texas at Austin
  Sridhar Balasubramanian, The University of Texas at Austin

- Introducing a New Channel: The Story of Chase On-line Banking
  Russel Herz, Chase Manhattan Bank, N.A.

- Facilitating Buyer-Seller Exchanges in Business Markets Using the Internet
  Narakesari Narayandas, Harvard University
  Christine Steinman, Harvard University

- Customer Lifetime Value: Models and Applications
  Paul D. Berger, Boston University
  Nada I. Nasr, Boston University

- Issues in Finding, Keeping, and Nurturing Lifetime Customers
  Kari Regan, Reader's Digest Association

- On-line Grocery Shopping: Findings and Research Opportunities
  Arvind Rangaswamy, Pennsylvania State University

- When Mice Meet Models: Using Clickstreams to Better Understand Your Customers
  Eric J. Johnson, University of Pennsylvania

- Interactive Home Shopping: Effects of Lowered Search Costs on Competition
  John Lynch, Duke University

- Interactive Marketing and Networks of Networks
  Dawn Iacobucci, Northwestern University

- Effective Internet Marketing
  Laura G. Lee, Polaroid Corporation

- Panel Discussion on Teaching Interactive Marketing
  Peter Palij, University of South Carolina
  John D.C. Little, Massachusetts Institute of Technology
  John M. McCann, Duke University
  Tom Vassos, University of Toronto / IBM Canada

Subject Index

Subject headings are followed by report number (e.g., 97-100) and by the page on which report information can be found.