

## Competing Beyond the Product

Consumer Insights Practice



# Delivering Strategic Insights for Consumer Business Planning

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## Contents

|   |           |
|---|-----------|
| 1. Executive Summary                            | 3         |
| 2. Changing the Competitive Perspective         | 4         |
| 3. The Challenge of Creeping Commoditization    | 6         |
| 4. Options for Attack                           | 7         |
| 5. Addressing the Need for Marketing Innovation | 9         |
| 6. Summary                                      | 10        |
| <b>7. How Can We Help You?</b>                  | <b>11</b> |

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## 1. Executive Summary

Strategy Analytics often works with clients to improve their market shares and performance. As products ranging from smartphones to consumer packaged goods mature, they often face increasing competition and commoditization as the underlying product value proposition has difficulty differentiating.

Particularly for products in the technology sector, there is a strong tendency to continue to rely on differentiation maintained through incremental feature enhancement and evolution driven by R&D. Continuing erosion of profit margins and market shares indicates that this approach is losing its effectiveness.

SA's research for clients on consumer choice indicates that in addition to the economic utility factors driving choice, there are factors associated with the buyer's connection to the emotional message and positioning of the brand related to that product. In many cases, these emotional factors and drivers have been overlooked as options for improving the differentiation perceived by the consumer for that product.

This paper examines some of the background and options for improving business performance through improving brand equity and brand positioning driven by emotional factors affecting buyer decisions. With proper research, the effects of leveraging emotional factors associated with brand in the buying decision can have last effects that can improve market share and enhance profitability.

## 2. Changing the Competitive Perspective

Across a wide range of companies selling to consumers, from advanced consumer electronics to breakfast foods and beauty products and on to cellular services, there is a never ending search for new products and innovation. In some companies, the function responsible for the search is new product development and in others it is product engineering or new concepts. The challenge may sometimes focus on totally innovative new concepts often with high failure rates. In other cases, the search involves incremental additions of new features, benefits, and capabilities. In all cases, the hope is for improved market share, profitability, and performance to justify the expenditures of R&D and marketing as well as to continue the success of the business.

In working with clients, Strategy Analytics is often starting with a few different situations in approaching the new product activity:

- Companies with a dominant position or a top 2 position in their category that seek to maintain momentum and leadership
- Companies that are mid-tier competitors seeking to find %white space+where they can become dominant within a sub-category or position
- Companies that have poor position or are stuck in a low profit, undifferentiated segment of the market and seek to expand market share and raise profitability

In many competitive environments involving automotive or consumer electronics, a dominant firm finds new entrants from lower-cost producing countries, most notably China entering the business at the low end of the market. Within several years, a few of the better funded, more talented, and sometimes innovative firms have moved to higher price points and have increased market share by offering attractive value propositions to the consumer. With improvements in quality and volume, these firms move closer in market share to industry leaders, improved profitability, and the ability to fund expanded competitive threats.

In consumer products like CPG, there are often emerging trends associated with themes like %Organic+, %Natural+, %Clean+, %Non-GMO+, or %Gluten-Free+that attempt to reposition and differentiate through reformulating existing categories or to disrupt established category leaders. Established category leaders face the challenge of evolving a portfolio of products, losing some scale-advantage economics, or competing with existing products and face share erosion.

In both cases, the barriers to entry which allowed market leaders with higher market shares and better economies of scale to produce higher margins have diminished over time. Even for products with advanced technologies such as smartphones or companies with well-known brand names, the differentiation between the market leaders and their competitors has declined. This %commoditization+results in a decline in the ability of the leader to exact a premium for their product in the market and an increased susceptibility to price competition.

Product development teams and innovators at these leading firms are often under increasing pressure to find the solution to these competitive threats. Finding the "killer product", the next breakthrough feature, and the value-added function become imperative. New use cases are also in demand.

This challenge is typically viewed as a product engineering one in technology-based consumer products. It is viewed more broadly as a marketing problem in most consumer products. From beauty products to consumer snack foods, products that were once viewed as innovative and possibly disruptive now find themselves late in their product life cycles facing increased competition. Common themes along this life-cycle path include:

- The initial phase as the emerging, high growth alternative that offers an innovative solution
- A phase where regular performance improvements, feature/benefit additions, and incremental product evolutions provide continued growth and differentiation
- A phase where reductions in barriers to entry, lower cost competitive offerings, and the introduction of targeted variants of the product fragment the market, lower margins, and compromise market shares of leaders.
- A phase of increasing commoditization, further market share declines, and reduced product differentiation dominate the business.

As marketing researchers addressing insights on consumer behaviors, Strategy Analytics often hears questions from product managers, developers, and strategists facing these issues. Key questions include:

- How do I provide guidance to product development teams to improve our performance?
- What strategies are likely to affect consumer choice and drive our performance?
- What themes, benefits, and pain-points can I leverage to improve my position and performance in the markets?
- How do I create a product portfolio that optimizes my performance and position in the market?
- How do I prioritize the large number of potential ideas for new products?

This paper examines the issues associated with developing research to support answers to these questions. In the process of exploring these issues, Strategy Analytics will also share some of the methodological approaches used to create defensible plans for action from the research findings with a particular focus on improved performance for mature product categories.

### 3. The Challenge of Creeping Commoditization

Particularly in the realm of digital solutions that are popularly priced for the consumer, commoditization is the norm. There is only so much advanced technology that can be assembled for a wholesale price of a few hundred dollars. Contract manufacturers in Asia can produce devices with a range of capabilities to meet target price points. White label cloud services can supplement hardware solutions. The barriers to entry continue to erode.

Like the New Improved Laundry Detergent, within the utility delivered by the core value proposition, there is a limit to the strength of any value proposition. No matter how one changes the ingredients, the specific features offered, or the supplemental aspects of the value proposition, there are limits perceived by the consumer. The ability to reduce or limit the advance of competing offerings over time through incremental improvements inevitably declines.

The further into the product life-cycle a product goes, the harder in general it is to affect a sustained differentiation in the general value proposition perceived by the market on average. The challenge often facing all product managers and new product developers is how to compete more effectively through better targeted products and a more competitive product portfolio. Key to this discussion is understanding the nature of competition and the competitive dynamics a product faces.

Particularly for consumer products, competition is often at two levels:

- Competition at the rational economic level where feature/benefit/price value propositions deliver economic utility and face other value propositions competing for consumer choices
- Competition at the emotional, less rational level where implicit, often hidden aspects of forces is driving decisions

Marketing people in cars, perfume, athletic shoes, and a wide range of traditional consumer products seem to have a good grip on the importance of the emotional factors driving decisions. They embrace the famous Charles Revson (Revlon) quote "In the factory we make cosmetics. In the stores, we sell hope." Marketing people in technology-based products and services tend to assume that the primary if not only basis for competition is on the feature driven, rational factor side where engineers in product development feel comfortable.

The best quantitative description for both aspects of this battle for consumer choice is found in Discrete Choice Modeling where Share of Preference of the market based on perceived utility of product Value Propositions is the working predictor. The Share Preferences are driven by:

- Perceived utility of the various product attributes usually in terms of rational factors
- Emotional utility associated with experiential aspects of the product as experienced or anticipated
- Brand Equity including both experienced and anticipated experiential value
- Price and relative price of the competing value propositions

For all consumer products, the key to success is in optimizing the Share Preference using both the economic and emotional values associated with a given product.

## 4. Options for Attack

Even for wildly successful consumer products, it is extraordinary for a specific company offering to enjoy more than 50% of the available market. Many leading products have a 40% to 50% share. Although most companies quite naturally focus their research efforts on how to expand market share and beat the competition, SA's experience in support of these strategic efforts indicates a different approach often yields better insights and begins with a few basic questions:

- Are there options for strengthening the basis for choosing the product for existing customers? What are the rational and emotional factors which the current customer base and potential buyers with similar preferences find most appealing? How can these factors be used to drive performance?
- Which potential customers are not available in the market or are not desirable customers to target for the future? What are the driving factors in their choice of a product? What economic and emotional preferences drive their decisions and preferences?

Research that answers these two categories of questions begins the process of focusing on customer segments that are most likely to produce worthwhile results for a given company in a product sector. The research can also focus on the unmet needs and pain-points of current and prospective buyers. Most importantly, the research can provide insights on potential strategies for refinement and positioning of value propositions within a product portfolio as well as product innovation that can deliver competitive strength and performance against the specific target segments.

The research can also deliver a behavioral segmentation that will identify variations in needs profiles as well as willingness-to-pay that provide guidance in refining products and value propositions for key sub-groups in the market. While this aspect of the strategy effort may tactically improve product positioning relative to the competition, it is unlikely to address the core challenge of increasing commoditization in the product category.

To address the fact that a product category and the product leader find it increasingly difficult to differentiate in a meaningful manner, research must examine the potential for the emotional factors in a buyer decision to create differentiated buying response. This is generally explored in two different aspects:

- Exploration of the ability to reposition the brand in terms of the emotional experiences the brand enables through the product for its buyers, the expectations the brand creates, and the values the brand represents
- Exploration of the specific experiences product functionality enables and the emotional connections to those experiences for the customers that find the product appealing

Particularly in consumer technology products, embracing the concept that consumer choices can be driven through differentiation created by emotional factors can be a serious challenge. Marketing is often dominated by product engineering that believes that another feature added to an already complex product will move the needle and improve performance. Advertising is typically viewed as a way to highlight the beauty of the product, its sleek

industrial design, and its stunning capabilities. The challenge appears when all the top competing products are beautiful, have sleek designs, and stunning capabilities that are hard to differentiate. They are by definition, commodities despite the advanced technology.

It is also interesting to note that at the emergence of the i-device phase of today's most dominant consumer technology firm, Apple, the emphasis was on emotion. Apple's i-pod was not the first digital player. Its ads did not tout its tech specs. They showed silhouettes of people with Apple corded earbuds in a state of rapture being one with their music. Apple had claimed the listening experience as their turf. iTunes became the dominant force as the source of the experience. Control of the experience came with the empowering sweep of a finger on the Steve Jobs inspired interface. The experiential ecosystem evolving with the i-devices family became the source of hundreds of billions of dollars of value. Apple had captured the hearts, minds, and emotions of its market segment in a lasting tour de force.

This is not to say that Apple has not produced a very good product from a technological perspective or that continuous improvement is not necessary for most technology products. It does drive home the observation that as the ability to differentiate products through technology dissipates with time, the emotional part of the equation tied to the user experience and brand becomes increasingly important.

For firms where product competition based on technological advances has been a way of life for many years, evolving from the product-centric competition is a difficult challenge. Indeed the technology can and must evolve in the product. In many cases, the nature of the technology capability has evolved from hardware-defined to software-defined functionality.

The real question is whether a specific vendor can sustain a differentiated value proposition based on product technology. Increasingly, the answer is no. Even when the technology appears to be leading edge such as in the case of emerging 5G network services, the inability to create differentiated experiences for the user on different networks leads to operators all claiming "Best 5G Network" or "Highest Quality 5G Network" and ultimately "Best Value 5G Network Services". The result is increasing commoditization of a technologically intensive service.



## 5. Addressing the Need for Marketing Innovation

Marketing innovation often includes product innovation. As this article has noted, the ability to sustain product innovation as products mature becomes inevitably more difficult. Even more difficult is the adoption of a strategy where continuing advancement of product excellence is required while knowing that an excellent product is necessary but not sufficient to maintain leadership. Excellence in establishing an emotional bond with the consumer is also required.

It is important to note that not all product categories or industries are candidates for significant improvement through marketing innovation. There are many products where the industries they are in have intense competition, have been in that state for a long time, and show low average rates of return dominated by scale economies. The product has not changed much in years and marketing expenses are already significant. A truly disruptive strategy may be required to change the underlying nature of this business with often low probabilities for success.

For products that have relied mainly on product feature improvement as a basis for competition or where a disruptive change is anticipated, Marketing Innovation may hold promise. The dimensions for this change will, at minimum, require significant investment not in product development but in marketing. This often includes:

- The development of a clear understanding of the Behavioral needs of different consumer segments and a focused effort to influence the needs and emotional requirements of specific segments of the market.
- The repositioning of the brand based on an understanding of the key emotional driving forces driving brand perceptions in the market.
- Exploration of changing attitudes towards megatrends affecting consumer lifestyles, use, and adoption of the product category. Repositioning a brand as a leader in this attitudinal shift may provide a window of opportunity.
- Redefining product functionality of value propositions as an acknowledgement of shifts in attitudes within key Behavioral segments may be a way to further reposition brands and products to achieve a competitive edge.

Most important in any of these efforts is management's realization that change is needed and that traditional approaches are no longer as effective as they need to be. This may need to be reflected in a shift in expenditures from R&D for product enhancement to marketing expenses.

## 6. Summary

As products move out along their product lifecycles, competition typically intensifies, commoditization increases, and profit margins are often eroded. Average profitability usually declines and scale economies are the primary factor driving profitability. Particularly for products that have improved their value propositions through feature evolution, there is a strong tendency to continue to seek leadership and improved profitability through feature improvement and technical experience enhancement.

All products find it more difficult to create a new and improved version over time and to continue to differentiate from other commoditized competitors. The tendency for technology-based products with their strong engineering orientation to continue to assume that incremental feature advances will yield effective differentiation is being questioned.

Using consumer choice research, SA has shown that while feature evolution is needed, the larger and more sustainable impact may be from investing in the emotional aspects of choice associated with the brand. In particular:

- Through brand repositioning associated with an examination of desirable white spaces that may exist in the brand perception space for the product
- By exploring segmentation based on the Behavioral and emotional needs related to consumers and their use experiences
- By examining disruptive possibilities associated with megatrends that may have been driving growth until recently and which now show possibilities for counter-cultural repositioning.

The specific solutions for a particular product/brand situation require in-depth examination of both the market in question and the competitive environment engaged.

## 7. How Can We Help You?

Strategy Analytics provides strategic and tactical support to global clients through a range of customized solutions:

- Multi-Country [primary research](#) assignments using leading edge tools and techniques
- [User Experience](#) Design and Innovation engagements
- Real Time Mobile Consumer [On-Device Tracking](#) projects
- [B2B](#) Consulting Projects and Whitepapers

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