Resonance Marketing in the Age of the Truly Informed Consumer:
Changes in Corporate Strategy Resulting from Changes in Customer Behavior

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Abstract

Information availability has increased consumers’ informedness, the degree to which they know what is available in the marketplace, with precisely which attributes and at precisely what price. This informedness has altered the demand side of market behavior: customers discount heavily when comparable products are available from competitors and when products do not meet their wants, needs, cravings and longings, but no longer discount as heavily when purchasing unfamiliar products. Changes in the demand side are producing comparable changes in the supply side: firms earn less than their expectations when competing in traditional mass market fat spots, while earning far more than previously when entering newly created resonance marketing sweet spots. We trace the impact of hyperdifferentiation and resonance marketing on the structure of the supply side, with a clear progression from a limited number of fat spots, through reliance upon line extensions, and ultimately to fully differentiated market sweet spots.

1. Context

The premise of this paper is that there has been change in consumer behavior, the demand side of the market, which has resulted a change in the competitive strategy of firms, the supply side of the market. And yet, consumers’ underlying wants, needs, and desires have not been profoundly altered; likewise, firms have not changed what they want to do, which is to maximize their profits. What has happened? We will demonstrate that a profound change has occurred, not in the objectives of firms or in the motivations of individual consumers, but rather in the information available to consumers. The effortless access to timely and accurate information has enabled consumers to manage increased choices better than ever before; if what they want is available in the marketplace, they now truly find and will find it, and if the price is right they will purchase it. Likewise, since consumers for the first time can find what they really want, for the first time it is now fully possible for firms to provide what consumers want, in all its myriad options. The order of causality is clear: Information is available and the marketplace is more transparent than ever before. Consumers can now optimize their choices. Firms can now optimize their selection of offerings. Consumer choice drives corporate selection, corporate selection drives consumer choice, and both are driven by greatly enhanced information. Firms have divided huge mass market fat spots into highly resonating mass margin sweet spots, and consumers find and pay for what they want.

By now we are all familiar with the long tail of distribution [1], which notes that retailers have greatly increased the set of choices available to consumers, and that more and more consumers are selecting items from among the least popular elements of the set. Not all selections are equally popular with consumers; fermented teas like Earl Grey or minimally processed green teas may not have mass appeal and Hawaiian peaberry coffee may lack the kick of Vienna Roast Colombian. Zappos offers 809 styles of performance running shoes and 367 styles of basketball shoes; the numbers drop to 698 and 349 for size 11 Medium and plummet to 208 and 48 styles for size 15 Medium. Baseball shoes are more popular than wrestling or volleyball (144 styles for baseball, 22 for wrestling or volleyball shoes), and all are more popular than rugby (1 style of rugby shoe). The long tail arises, in part, because although consumers can now find everything with equal ease, they make choices based on preferences that most definitely are not distributed equally. Where once we all selected from the limited selection we could actually find, we now select from all available options and some choices simply are not as popular as others. This change in consumer purchasing behavior is not about trading up, or the sale of luxury goods [21]; it is neither elitist, catering to the wealthiest, nor about mass affluence and catering to the merely wealthy [17]. It is about trading out, or the sale of goods that precisely match the wants and needs, cravings and longings, of small groups of consumers. It is not about being better in any absolute sense; it is about being better for each customer. It is not about the long tail of distribution, but the long tail of informed selection.

This work focuses on the implications of selection and choice for all aspects of the firm’s strategy. All of the four Ps of marketing strategy [18] have been redefined, and the have been redefined by the subtle but inexorable increase in information available to the consumer and to the firm. This change in information is so complete and so profound that we need a new word for it. Economists and game theorists talk about information endowment, or
what players know at the start of a game; that term is too static for the degree of information immersion that we see today. Popular usage refers to awareness, but that does not capture the intensity or the intimacy that we need. Informedness in an online and wired world allows consumers to know everything they want to know about products and services of interest to them:

- What is available?
- At what price?
- Where?
- And with a precisely understood set of attributes

Likewise, producers and retailers know at least as much as consumers, and this allows them to make an all-important inference about the unmet wants and needs, cravings and longings of the marketplace. In world of wired informedness, consumers can find what they want if it is available, and firms can identify the unserved and underserved segments of the market and address them.

The origins of consumer informedness have been the subject of much discussion and debate. Some is no doubt due to the reduction in search costs [2]. Some comes from recommender systems and recommendations made to the consumer by collaborative filtering [19] systems used by retailers like Amazon. And some informedness comes from reviews posted on retailer websites http://www.amazon.com/, or online social networking community rating systems like http://ratebeer.com/, or http://www.tripadvisor.com/ or from third party reviewing sites like http://wordofmouse.com/ or http://www.dpreview.com/reviews/.

2. Hyperdifferentiation and Resonance Marketing

There is now more choice in the marketplace than ever before. Supermarket ice cream now has not just more flavors, but more categories, including premium (Ben & Jerry’s), super-premium (Godiva), and for those willing to search online even hyper-premium (Graeters’). Where once we ate candy bars when hungry, or power bars from PowerBar, we can now choose from several hundred power bar offerings. Power bars’ manufacturers promise weight loss (Atkins) or muscle mass and weight gain (Next Nutrition), for men (Clif) or for women (Luna). Weight lifter power bars (Detour) would never be used in place of golf power bars (1st Tee), and indeed the slow energy release needed for a golfer on the first tee (1st Tee) would never satisfy the energy needs of a golfer rounding the turn (for which he would grab a 10th Tee). A single website (http://www.allstarhealth.com/) now lists over 80 low-carb bars and close to 500 nutrition and power bars. Similar data can be obtained on the number of ice teas, Ben & Jerry ice creams, Starbucks coffees, SUVs, breakfast fast foods, or, indeed, almost any consumer product or service.

The ability of firms to produce almost anything the customer might want is called hyperdifferentiation [9, 11, 12, 13]. Hyperdifferentiation is more than just differentiation, line extensions, or the increased complexity of product portfolios as firms attempt to compete. Hyperdifferentiation is the ability to alter flavors in food and beverage products, vary parameter settings in software that supports service offerings, change colors or styles or options packages in consumer durables, or in some way develop, market, and sell anything the firm chooses to offer.

Hyperdifferentiation is enabled by information, and information allows hyperdifferentiation to generate unprecedented profitability. There is no point in offering new and unique products and services if your potential consumers can’t locate them or don’t know what they are. The Beeryard (http://beeryard.com/) is a small beer wholesaler in western Pennsylvania. Before the creation of its website, 90% of its sales were to customers within 10 miles of the store; that is, virtually all were within the store’s local county. With the development of its website, it became possible for web surfers anywhere in the northeast to search The Beeryard for hard-to-find beers. One click gets you a list of recent arrivals, from the previous week, 2 weeks, month, or two months. A second click gets you access to details on the brewer, the type of beer, and the brewer’s own description of this particular beer. One more click takes you to http://www.ratebeer.com/, a community of beer aficionados, where you can obtain reviews from dozens, or even hundreds of reviewers. Yet another click enables you to examine an individual reviewer's reviewing history, to determine if his impressions are likely to be a good predictor of your own. This website has profoundly altered the sales pattern and the profitability of The Beeryard. Although Pennsylvania state law does not allow beers to be sold and shipped out of state, it is legal for out-of-state shoppers to reserve beer on line and to drive to Pennsylvania to buy beer; management of The Beeryard estimates that more than two thirds of their premium beer sales now arrive outside their 10 mile radius and more than one third is from out of state. Since rare beers suffer little or no competitive price pressure, the margins on a $85 or $120 case of beer are much more attractive than the margins on a $17.95 case of Budweiser. It is important not to underestimate the power of the informedness generated by The Beeryard’s website. Shoppers will not drive up from Virginia to Pennsylvania unless they know the beers they are seeking are actually available.

The essence of resonance marketing is harnessing and guiding the supply side of hyperdifferentiation [7, 11,
12]. Although the firm can now make whatever the firm wants to make, it is most beneficial to produce exactly what the customer wants to buy. It is technically feasible to make products that are so extreme that they have almost no appeal; beers that are too bitter, for example, or fuel efficient cars with too little acceleration, or portable personal televisions with screens that are too small. It is also dangerous to assume that products are too extreme to sell because they have never sold in the past, as the run-away success of American super-hopped India Pale Ales, Prius hybrid automobiles, or 5th Generation iPod Video players has demonstrated. Consumer purchasing behavior truly has changed, and consumers truly are better off as a result [5, 6].

Resonance marketing requires understanding the demand side, so that the firm knows what each customer segment wants, and what each wants to pay for. It is about achieving a precise fit not only with customers’ wants, but also with their previously unsatisfied wants and needs, cravings and longings. It’s about being uniquely better at giving the customer what he truly has always wanted, and about reducing the role of price in the customers’ shopping decisions.

3. Resonance Marketing’s Whole New Mindset

Resonance marketing requires an entirely different mindset from producers and retailers than they have had in the past, and a high degree of confidence in, even passion for, their products. It is no longer sufficient to get the largest number of consumers to like your product. For resonance products, a consumer’s liking the product is not enough reason to buy it; the consumer has to love the product to pay a premium price for it, and without love your product becomes merely a commodity offering.

When Victory Brewing Company launched its first three beers in 1996, it started with Fest (in the style of an Oktoberfest), Victory All Malt (their answer to the popularity of Budweiser, Miller Genuine Draft, and Coors Original), and Hop Devil (the brewmasters’ personal favorite at the time). They had high hopes for the Lager, but were worried about the market response to their audacious Hop Devil. The Lager is actually quite good, and everyone likes it; it scores an average rating of 3.4 out of 5 on ratebeer.com, and places in the 90th percentile of all lagers. Unfortunately, no one buys it; with its higher cost ingredients and resulting higher price, consumers shun it in favor of the adequate and much less expensive offerings from the big three brewers. In the resonance marketing arena, being good enough simply is not good enough.

In contrast, the bitterness of the Hop Devil is striking, as in, “Balance? We don’t need no stinkin’ balance!” In the IBU scale used to measure the bitterness of beers, Hop Devil is 400% as bitter as the average bland but popular American lager. In contrast to the generic hops used in Bud, Coors, and Millers, Hop Devil uses American Northwest Cascade hops, with strong flavors of orange peel, grapefruit, and pine tar. Most people when first exposed to Hop Devil immediately hate it, and many find that they need to spit it out. Few like it. But some love it, and those are Victory’s target market for this beer. Customers who loved Hop Devil could not find anything like it on the East Coast, and the $28 price, nearly twice that of Budweiser, was irrelevant. The beer was an immediate hit, and although significant competition has emerged in the decade since it was introduced, and although Victory has greatly extended its line of beers, Hop Devil still accounts for 47% of Victory’s sales.

Imagine how this must look to a traditional marketing executive observing a focus group: if everyone thinks the beer is good enough, it’s not! Customers who like you will not buy your product. If most of the customers refuse seconds, a few timid souls spit it out, and a small group of rugged consumers line up for more, that’s grounds for enthusiasm. “We have a winner here. Most of them spat it in the sink!”

4. Unrewarded Excellence and Consumer-Imposed Discounts

While resonance marketing is rewarding firms that embrace it, firms that continue with a strategy of being good enough are suffering. General Motors is about to lose its position as the world’s largest car company to Toyota, and yet by any objective measure of quality General Motors’ cars are better than they have ever been. It’s just that Toyota’s cars are more interesting, and consumers are far more likely to be passionate about a Prius hybrid than about a Buick. Supermarket sales in traditional categories like ice cream, coffee, soft drinks, and candies are flat, while sales have exploded among super-premium offerings in ice cream, bagged instead of canned coffee, all fruit smoothies (Naked) and premium ice teas and other non-carbonated beverages, and power bars. Specialty products offered by sub-scale upstarts that are positioned around the edges of major categories account for all the growth in some categories, like coffee and soft drinks; in others, like ice cream, the premium and super premium brands now account for all the retailers’ profits for the entire category. Firms are losing to companies that did not exist until recently, selling products that they seldom if ever advertise, into categories that industry incumbents thought were too small to matter.

Why are growth and profitability stalling in the traditional middle of the market? The problem is that too many firms are competing for the same market fat spots, offering similar products with competitive quality, aimed squarely at huge concentration of consumers in the middle of the market. These products are easy to describe and aimed at the taste of the largest number of consumers. Since competitors have chosen the same fat spots, and are offering similar products, targeted at the same group of consumers, brutal price-based competition has become the
norm. And yet, increasing numbers of customers are selecting highly differentiated products, which were aimed at small sweet spots around the fringes of the category. Whatever profits these products lack due to small market share they more than recover through higher margins combined with the number of them; indeed, that is their intent.

Why has consumers’ purchasing behavior shifted so dramatically? Why are previously successful firms finding their strategies now ineffective, why are their profits declining, and why are they suffering from unrewarded excellence? The answer is that customers finally know … accurately and with certainty … what is available to them. The customer can now trade out, trade up, or trade down because the customer knows what he wants, knows what is available, knows where to find it, and knows what it costs.

• For categories that do not matter to the customer, he is able to find the lowest possible price for an offering he considers adequate; the competition discount is as large as it has ever been. Thirty years ago a discounted airfare between Philadelphia and San Diego on United was close to $500; with excess capacity and easy online price comparisons, the fare today is under $400 on the same carrier, despite an 80% increase in fuel costs.

• The customer can find and get exactly what he wants; he will no longer accept a product that does not fit his preferences unless it is substantially less expensive. With perfect information the customer can determine which airlines fly into Heathrow, a modern airport relatively convenient to the West End of London, and which fly into Gatwick, with much older facilities, and requiring a train ride into a station, and then physically dragging bags off and hunting for a taxi. The customer may still be willing to fly into Gatwick, but he will insist on paying less for this. Perfect information and the increase in choice combine to make the compromise discount as high as it’s ever been. We now see why merely being good enough is no longer good enough.

• Finally, and most importantly to the success of resonance marketing, the customer can find what he truly wants, and can determine what it truly is and what it truly offers. He knows what he is getting and he knows that he is getting exactly what he wants, even for first time purchases and even if he is not familiar with the product or its producer. The customer is no longer paying less because he worries about whether he is getting perfect fit; the customer knows he is getting perfect fit and the uncertainty discount has been eliminated.

(We explain this last point in more detail in section 6 below.)

These changes are so profound they go beyond mere awareness, and become true customer informedness.

While small companies or small brands provide most of the best current examples of resonance strategies, there are enough examples of big company success, like the Toyota Prius or the Apple iPod, to suggest that resonance marketing will be essential to the profitability of all successful consumer product companies.

5. The Theory — How Important is Uncertainty?

It has long been known that customers’ willingness to pay for a specific product is determined both by their willingness to pay for their ideal product and by how closely the product they are considering matches or how much it deviates from this ideal. Hotelling, Salop, and others [15, 20] model the difference between a customer’s ideal choice and an offering being considered as fit, shown by distance between the customer’s ideal selection and the actual offering. A greater distance between customer preferences and a specific product results in worse fit, and higher fit cost, which reduces the customer’s willingness to pay for the offering. We can summarize this by saying the compromise discount simply measures the distance between the customer’s ideal choice and the actual offering.

To make this concrete, consider a student preparing for an interview. His ideal choice might be a 42 regular blue pinstripe suit, represented by the black * in figure 1, with corresponding willingness to pay V, the maximum he will pay for any suit. The student would be less pleased with a gray pinstripe, and a gray 44 would require significant alterations, and both would greatly reduce the student’s willingness to pay for the gray suit. In this figure the horizontal or x-axis represents the set of all possible suits in some hypothetical and abstract suit-description space. Since all consumers will have different preferences, another student, taller, might prefer a larger suit, while a student with a different collection of dress shirts, might prefer a different color. These other students would have their own asterisks located at a different point along the suit-description space, and their willingness to pay curves would peak over their own asterisks.

The horizontal line X in figure 1 measures the distance between the location of the first student’s ideal suit (at the *) and the 44 gray suit in the abstract suit-description space. The vertical bar C measures the reduction in the student’s willingness to pay, caused by the compromise discount that results from the distance X. All suits can be located somewhere in their suit description space, and differences among suits can be captured by their location in this space. Likewise, all consumers have an
ideal suit, and therefore consumers can likewise be located somewhere in suit description space by the position of their ideal suit. This works equally well when describing consumers’ preferences for hotels, sports cars, or beer and coffee; products can be located in their product-category description space, as can consumers’ ideal purchases. We’ve always known that fit matters, both in size and in consumers’ preferences; none of this is new.

Capturing the effects that uncertainty has on consumer behavior has historically been too complex to model precisely. Indeed, it has been complex enough that most economists have not attempted to incorporate it into models of consumer choice, but since the reduction in uncertainty is one of the most important effects of the new network economy it is essential that we at least express qualitatively the effects of uncertainty reduction. Figure 2 shows the same consumer facing the same selection of suits, but now ordering online and unable to view or try on the suits, and now experiencing a considerable band of uncertainty. The consumer believes that the first suit is most likely to be a 42 regular blue pinstripe, but has a considerable range of uncertainty (purple bar) centered around its expected location. There is now a wide range of actual suits that he might receive; some will be a little too big, others will be a little too small, some may be a little too dark, and others may be a little too light. While this range still includes his perfect suit, it now includes some that are certainly not perfect. The range of suits has a range of values to him, and almost all of the values are less than his ideal willingness to pay, \( V \). Consequently, his willingness to pay for the suit is reduced; even though the range is centered at the ideal position, the average over all suits in the range is less than \( V \). The reduction in willingness to pay, or the uncertainty discount, is the vertical bar \( U \) in figure 2.

![Figure 2.—The uncertainty discount \( U \) reduces consumers’ willingness to pay for products where they have a high degree of uncertainty about the product’s exact set of attributes.](image)

How will uncertainty affect the same consumer’s evaluation of the 44 long gray pinstripe? Interestingly, uncertainty has no impact on consumers’ willingness to pay for products that are significantly removed from their ideal product choices. There is still a range of uncertainty, indicated by the purple bar centered around the gray suit. There is thus still a range of suits, each with a value, and once again the value the consumer places on the suit that he thinks will be a 44 long is the average of the set of suits he might receive. Some suits in the range will be closer to his ideal than the 44 long, some suits will be worse, and the average of the range is simply the value of the center of the range. For products that are far removed from a consumer’s ideal uncertainty is as likely to produce an improvement as it is a reduction in value, and thus there is no uncertainty discount.

This last point is quite significant, because it explains how the uncertainty discount defended incumbents and their mass-market fat spots. The only reason to introduce a new sweet spot offering is to attract customers who are currently unserved by the mass market offerings, who will find that the new offering perfectly matches their unmet cravings and longings, and who willingly pay a premium price to be rid of their market compromise. Of course, by definition new offerings are unfamiliar to most customers and would suffer from a large uncertainty discount, which would affect only and precisely those customers who would otherwise be willing to pay for the product. Historically, those mechanisms used to reduce uncertainty, principally promotional advertising accompanied by samples or discounts, are inappropriate for small sweet spot offerings. Bud weiser, Miller, and Coors invested so heavily in promotions that advertising became the single largest cost in the production of beer; smaller companies could not compete, and industry consolidation raged. By the early 1990s it appeared that these three companies would control the entire beer market in the US. With the rise of informedness, craft brewers do not need to promote or advertise their products, the uncertainty discount has been reduced or in other cases has simply vanished, and the dynamics of brewing have been permanently altered. Similar effects are observed in a range of consumer products, where sweet spot offerings in, juices and other soft drinks, coffees and teas, powerbars and other foods, have succeeded without advertising.

6. The Theory — How Has the Reduction in Uncertainty Driven Change in Strategy?

Historically no firm charged its customers \( V \), the maximum that any their customers would be willing to pay for their product. With few exceptions (such as airlines practicing yield management) firms charged all customers the same price, and the profit maximizing price was usually somewhere around \( V \) the maximum that would be paid by anyone. (The proof of this simply involves taking a first derivative, as we all remember from

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2 For example, craft beer represents the fastest growing segment of the brewing industry, but it is still only a small percentage of the market. With less than 4% of the beer market shared among hundreds of small producers, the cost of advertising would be prohibitive, and mass mailing of samples is unlikely to be cost effective since any given beer is unlikely to produce the necessary resonance in any given household. Such mass mailings of beer are of course also illegal.
so the firm set its profit-maximizing price and rolled out its mass-market fat spot offerings. The industrial revolution produced a market as we experienced for over a century; huge firms offering mass market goods and services with minimal variation. Huge scale reduced unit costs, and low cost reduced prices, which in turn increased scale. Consumers had more cars, more clothing, and more food that at any time in human history. Restrictions were not always as draconian as Henry Ford’s famously diktat, “the customer can have the Model T in any color as long as it’s black,” but abundance of products and services did not imply a wide selection or consumers’ freedom of choice. Still, few consumers complained, since abundance without choice was a better option than scarcity without choice!

The scale-leads-to-scale factor was not the only driver reinforcing the power of mass-market fat spots. Offerings were centered in fat spots and through familiarity and repeated purchase consumers’ developed certainty about these offerings. Goods and services competed principally through segmentation of the advertising message directing the same product to different groups of consumers, rather than through segmentation of the product design. Moreover, if companies had tried to develop and promote sweet spot offerings they would have failed; the uncertainty discount that their consumers would have imposed on their new niche offerings would have been lethal to their launch. The world of abundance, limited choice, and the power of mass market offerings pushed through Madison Avenue promotion, was formed.

This is illustrated in figure 3. A new product has been introduced at the * shown in the middle of its product attribute space. Consumers are equally spread along this product attribute space, and consumers’ willingness to pay once again is based on the distance between their location and the product’s location at *. Without an uncertainty discount, consumers close to the * would have high willingness to pay and consumers far from the * would have lower willingness to pay, as depicted by the inverted V centered about the *. Unfortunately, for new product launches the uncertainty discount was always large. The maximum reached by the uncertainty discount associated with introducing a new product was U, which was large for the customers for whom the product would have been ideal; the overall collapse in customers’ willingness to pay can be seen from the inverted flattened curve under the higher inverted-V shaped one. The complexity penalty associated with trying to add to the product line was M, which was also large. The profit-maximizing price P, limited as it was by the large uncertainty discount, would have been below the complexity penalty M. In brief, it would have cost more to add new products than the firm could have earned by selling them. Consumers’ lack of information, and the resulting uncertainty discount and reduction in willingness to pay, reduced innovation, new product introduction, consumer choice, and the profitability of innovative firms.

Figure 3.—The uncertainty discount U reduces consumers’ willingness to pay for unfamiliar new products, while the complexity penalty M makes introducing them more difficult and expensive compared to the firm’s expenses with a simpler product line. The profit-maximizing price P that the firm can charge, given the high uncertainty discount, is less than the complexity penalty.

### 6.1. Incipient Complexity Management and Line Extensions

By the mid 1970s companies had learned to manage at least moderate complexity. Inventory management software was emerging, even if it lacked the power of today’s online tools, and factory scheduling software was developed, even if the plants it managed lacked numerically controlled machinery coordinated with plant-wide local area networks. Of course, the uncertainty associated with new launches could still be lethal.

Line extensions were born in part to deal with the uncertainty discount. If the firm can manufacture one form of oat ring, it can learn to apply a flavored surface coating to make other varieties. If consumers trust Cheerios, then presumably they can quickly learn to trust Honey Nut Cheerios, along with Berry Burst, Yogurt Burst, MultiGrain, Fruity, Frosted, and Apple Cinnamon Cheerios. If the firm knows how to encrust fig paste in a cookie dough to make Fig Newtons, then it can make Fat Free Fig Newtons, Whole Grain Fig Newtons, and a host of other fruit Newtons like Strawberry and Raspberry Newtons, and if customers trust the Newton brand then the extended family should not suffer from an extreme uncertainty discount. A host of other manufacturers, in categories from soft drinks to automobiles and kitchen appliances, rapidly followed with their own line extensions.

We can see this graphically in figure 4. Firms now introduce numerous line extensions because the uncertainty discount U is so small, the complexity penalty M is so small, and the profit-maximizing price is attractively

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3 Consider how similar Coke and Pepsi really are, even if their ad campaigns are significantly different. This was parodied in The New Yorker’s review of a hypothetical new beverage from Pepsi and Coke simultaneously [3]. For contrast, consider how different non-carbonated alternatives are by comparing a Starbucks Frappuccino to a Naked Pomegranalicious.
high. Where once the firm could have extracted only the profit-maximizing price from consumers who really liked basic Cheerios or Fig Newtons, it can now extract this price from a wider range of consumers, including those who want sweeter Cheerios or lower fat Newtons. It can now introduce an array of related products, separated by the small gap between the asterisks in figure 4. The gap between product offerings is small precisely because they are line extensions; the separations among Pepsi, Diet Pepsi, Pepsi Lime, and Diet Pepsi Lime would not be large.

![Figure 4](image)

**Figure 4.** The uncertainty discount \( U \) has almost no impact on consumers’ willingness to pay for familiar line extensions. The complexity penalty \( M \) has limited impact on the cost of introducing them. It is profitable for the firm to introduce a wide array of line extensions and sell them at the profit-maximizing price \( P \).

### 6.2. Full Complexity Management

**And Sweet Spot Marketing**

Sweet Spot marketing and high margins are replacing fat spot marketing and scale, while the long tail may provide a draw for some retailers like Amazon, for others, especially in grocery retailing, the sweet spots account for almost all of a store’s profits. The power of addition, taking high margin profits from one sweet spot after another, has exceeded the power of multiplication and of taking profits from only one large low margin fat spot. Firms can pursue resonance marketing strategies, enabled by customer informedness. And firms do pursue these strategies, allowing them to earn high margins by providing whatever the customer wants.

We can see the power of sweet spot resonance marketing graphically in figure 5. Firms now introduce numerous innovative products, addressing any and all unserved and underserved market segments, because the uncertainty discount \( U \) is so small, the complexity penalty \( M \) is so small, and the profit-maximizing price is attractively high. The firm is not restricted to line extensions, to small improvements in its offerings that exploit its brands and customers’ familiarity with them; the firm can serve any market that it can profitably develop, innovation and creativity are more fully rewarded, and the gap between offerings can be arbitrarily large.

![Figure 5](image)

**Figure 5.** The uncertainty discount \( U \) now has almost no impact on consumers’ willingness to pay for products. Likewise, the complexity penalty \( M \) is now minimal. Firms can introduce products to exploit any sweet spot they identify, and can develop products to meet unserved and underserved market segments.

### 6.3. In Summary — The New Product Strategies Of Resonance Marketing

It is now possible for firms to design and launch new offerings for those customer segments most willing to pay for what they want. Recent work by Steve Barnett, an anthropologist trained in ethnographic observation, provides useful insights on exactly how firms can determine what consumers want, need, and crave, and how firms can locate unserved and underserved market segments. Historically, the most demanding customers, those most willing to pay for what they want, also imposed the greatest discounts in the presence of uncertainty, and historically new offerings always suffered from uncertainty. Fortunately, with online word of mouse information reducing uncertainty, firms’ ability to launch new premium offerings has never been better.

### 7. Impact of Informedness on the Four Ps

Informedness, hyperdifferentiation technologies, and resonance marketing collectively change all of the Four Ps of marketing: price, product, promotion, and physical distribution.

#### 7.1. Changing the Role of Promotion

Ubiquitous informedness profoundly alters the impact of all promotion activities available to firms, which changes the balance of activities that firms should and should not deploy. Three trends are strongly reinforcing (This material is covered more extensively in our work on social networks [8]):

- Fragmentation of media and the decline in viewing of traditional media.
- Consumers distrust and indeed discounting of commercial messages that they see as paid advocacy, pushing self-serving content at them.
- Explosion in trusted, organic informedness.

Additionally, the fragmentation of markets into numerous small sweet spots makes promotion extremely difficult to perform in a cost-effective fashion. Today, a product that hopes to capture 1 or 2% of the market cannot justify undirected mailbox stuffing, requiring far more analysis and far more targeting than is possible for most.
new product launches. Organic informedness is replacing most attempts at seeded informedness basic on distribution of samples.

As organic informedness begins to replace traditional advertising, controllable push-based corporate communication is replaced by uncontrollable discussion among users, and by online communities and user-generated ratings. Consumers just know what is available, and what they know may not be what manufacturers want them to know!

Eventually these three trends may actually kill push-based advertising. Search is improving, from keywords to counting webcrawls, and from webcrawls to understanding the context and intent of the user’s query. Search drives pull-based product selection, and eventually pull replaces push and informedness replaces single directional push-based promotion.

7.2. Changing the Role of Price

Informedness and transparency require a change in pricing strategy. This is seen as a move from a single fixed profit-maximizing price to a family of dynamic pricing strategies. This was first seen in pricing based on differences in customers’ cost to serve and other aspects of customer desirability. This has been practiced in life insurance and property and casualty insurance since the development of actuarial tables, and has become common in credit card issuance. Pricing categories based on customers’ willingness to pay for quality, or vertical segmentation, were introduced, such as the versioning of rail travel as early as the 19th century based on class of service. Next dynamic pricing strategies were developed, such as yield management and congestion pricing. These were first pioneered by airlines and now extended to hotels, and even to toll roads and city center regions. The next round of innovations in pricing were based on trying to capture different individual customers’ different willingness to pay, leading to name-your-own-price strategies like Priceline. Resonance marketing is simply the latest means of exploiting improved transparency, in this case developing mechanisms that allow customers to maximize their own delight from their purchases products while increasing companies’ profits. As noted, customers now know more about available offerings and are willing to pay more for perfect fit, and companies can now implement highly refined differentiation strategies based on horizontal positioning.

While these forms of pricing strategy appear to give producers greater pricing flexibility, there are limitations. Transparency of price and product attributes suggests that it is almost impossible to over-charge a customer later to recover from under-pricing early; that is, while the seller has more options for pricing, promotional pricing and early discounting to encourage trial has become more difficult since customers will not over-pay later to compensate retailers or producers from undercharging initially during promotional events.

7.3. Changing the Role of Product

The increasing complexity of product mix is readily observed and has already been noted. This explosion in choice is largely driven by improved customer informedness. Informedness enables producers, service providers, and retailers to exploit extreme differences in customers’ preferences, creating extreme differences in customers’ willingness to pay. In brief, delight-based product mix is replacing simpler product design strategies. This change is based on resonance marketing and hyperdifferentiation, and thus it is critically tied to informedness and pricing.

7.4. Changing the Role of Physical Distribution

Online distribution now allows for almost universal access for some products like information goods; this is the central thesis of Chris Anderson’s view of the long tail effect. Traditional physical distribution strategies are being replaced by far more complex alternatives with far more complete ranges of offerings. The online impact and ability to enable long tail retailing is slightly more complex for other product categories, but it still has a large impact on products that are shelf stable, easily described, and easily sold online.

7.5. Integrating the Four Aspects of Strategy

The traditional 4Ps have been transformed:

- Dynamic Pricing Strategies replace simple Price
- Universal Access replaces Placement and Product Distribution
- Organic Informedness and Search replace Promotion
- Product portfolios and Delight-based Product Positioning replaces Product

Additionally, they are also far more integrated than the traditional 4 Ps of marketing

- Pricing strategies are driven by customer informedness and willingness to pay, and by delight-based products and willingness to pay. Dynamic pricing strategies driven by transparency of supply and demand
- Access requires retailers’ and producers’ awareness of product turnover and profitability, and it requires customers’ informedness and awareness of attributes
- Customer Informedness is central, replacing traditional promotions, motivating consumer behavior, and thereby motivating changes in the strategy of the firm
- Delight-based product portfolios are again based on informedness, so that consumers can find and assess new offerings, and so that firms can identify and respond to unserved and underserved segments of the market with precisely targeted introductions

This Puts PAID to the old Four Ps [16].

8. The New Generic Strategies

Resonance marketing has produced three new generic strategies. The first, and the most traditional, is the continuation of mass-market fat spot strategies. Established
fat spot brands use their market share for cost control, and exploit their brands to protect their price. There are indeed still some brands that can accomplish this. For example, Tide detergent has defended its position, enhanced by the fact that detergent is not a material expense in most households. More importantly, perhaps, the continuation of two or even three generations of Tide use is strengthened by the fact that we all wish to believe our parents loved us, that they used a detergent that was best for our safety and health, and we of course owe our children no less. To compete effectively with Tide today it would be necessary to go back in time and unseat it half a century ago; unfortunately for incumbents, there are very few products that enjoy this lucky combination of defensive factors.

Sweet spot strategies offer more promise to attackers, and the ability of attackers to target sweet spots makes incumbents increasingly vulnerable. But eternal vigilance is the price of starting a sweet spot strategy. Rocky Road was once a resonance marketing flavor, an extreme ice cream producing delight in a small segment of customers; it is now a commodity offering, and a Google web search for the exact phrase “Rocky Road ice cream” produces over 55,000 pages. Ben & Jerry’s remains actively committed to its resonance strategy and the role of innovation and vigilance is clear. Although it has 16 new flavors for 2007 and 43 flavors in total for the year, its flavor graveyard lists 287 dearly departed favorites. With informedness affecting both consumer and competitor, a well-targeted launch will produce immediate resonance, but if the segment is large enough it will also produce a rapid competitive response.

The third and final generic strategy attempts to obtain more scale than possible with a sweet spot strategy and to reduce the importance of constant vigilance and innovation. It does so by creating platform products, products that allow customers to combine individual elements to create products that precisely match their own strongest preferences. In 1973 Steve Herrell founded Steve’s, an ice cream parlor in Somerville, Massachusetts that allowed customers to combine super premium ice cream with their own choice of "smoosh in" ingredients as customized add-in flavorings rather than as toppings. (http://www.rocheinternet.com/~herrells/design/?lv=6). Cold Stone Creamery has replicated the strategy more recently, and now operates over 1,200 locations. Similar strategies have been tried for products as diverse as shampoos and automobiles. In deference to Steve Herrell and the decade in which his business strategy evolved we call this the “roll your own” sweet spot product platform strategy.

9. But What Do We Really Know?

Is this really new? Some products have always been aimed at achieving resonance through hyperdifferentiation. The millennia-old cosmetics industry has always sought to produce what customers wanted in order to achieve resonance, although promotion and advertising remain quite significant for this category. Some industries have always relied upon consumer informedness to eliminate the uncertainty discount; Robert Parker has achieved enormous influence over the American wine market simply by becoming the source of trusted information on vintage wines [17], and his granting of an unprecedented perfect 100 to the 1982 Chateau Mouton contributed to the phenomenal prices paid for the first growth 1982 Bordeaux.

Do we know that this phenomenon is real, and do we know that consumers really are willing to pay more, and hence really do buy more, when uncertainty is reduced? An early study of music purchases by college students indicated that when dormitories were given high-speed internet connections, the students’ music purchases increased. This study was conducted before online downloads were possible, that is, these students were not buying songs or CDs for download, they were listening to music and then buying more CDs through catalogs or from online retailers than their classmates who could not sample music online before buying it. Informedness reduces the uncertainty discount, and reducing the uncertainty discount greatly increased music sales. Similarly, our study of the beer industry [9] confirms that when consumers are shopping to achieve delight and purchasing products that precisely match cravings and longings, rather than satisfying their most fundamental needs, then new product launches positioned in discrete sweet spots greatly outperform products positioned in central fat spots.

Do consumers always behave this way? Evidence suggests that they do not. There are categories of product for which the consumer is not seeking delight or perfect fit with cravings and longings, but simply adequate matching of basic needs. Sometimes the consumer does trade down, and sometimes being good enough appears to be good enough. Consumers using discount channels like hotels.com or Expedia to find the lowest possible price for a hotel room in New York or Chicago do not expect delight but they do want adequacy. Guys who like you now really are fully equivalent to guys who love you; it is only guys who hate you who will not accept your room even at the lowest possible price [10]. Of course this is a very unattractive way to sell hotel rooms, at the deepest discount, and with the highest commission; being barely good enough for your customers really is barely profitable and barely good enough as a strategy.

Is the mass market ever a good strategy? Of course! Movies don’t compete on price, and the film with the largest number of screenings, and thus the largest possible

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1 By definition, each vintage is unfamiliar when still in cask, and Parker’s ratings determine not only the price of newly released bottlings but also of unreleased wine futures.
market share, is the most profitable. Moreover, achieving blockbuster status is great for advertising tie-ins, future merchandizing, and future sales of DVDs.

10. In Conclusion

Hyperdifferentiation and Resonance Marketing will transform all aspects of the firm’s marketing strategy, including product design, production, distribution, and pricing strategies. Increased customer awareness and increased willingness to pay have increased the role of price when choosing among commodity offerings while allowing firms to reduce the role of price in customers’ choice of products and services that are unique and truly resonate with those customers.

Sweet spots have become more attractive as the uncertainty discount associated with new offerings has been reduced, while fat spots have been made less attractive by the increase in both the competition discount and the compromise discount. Skill in the identification and exploitation of opportunities has become more important, while scale and the value of historical fat spots have become less so. The profits from addition, from summing the profits from numerous high margin sweet spots, now exceeds the value obtained from multiplication, from multiplying the low margins of a fat spot by its huge size.

11. References