Carrying Your Long Tail: Hitting the Sweet Spots, Delighting Your Customers, and Controlling Your Costs

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Abstract

The ability to sell a wider range of goods, in smaller quantities, while still making a profit, is now widely called a long tail strategy. Profiting from greater product diversity represents a significant change in optimal business strategy, which in turn is based on important changes in consumer behavior. Many firms want to develop long tail strategies, avoiding competition in mass-market fat spots, and harvesting the superior margins available from sweet spots. Sweet spot offerings resonate with consumers, allowing consumers to find what they truly want and to avoid compromises; consequently, consumers pay more while remaining happier with their purchases, and firms earn more and are more profitable. Evidence from earlier recessions suggests that competing through resonance offerings may represent an important source of protected profits. And yet, carrying a long tail and selling into sweet spots requires new skills, both for locating targets of opportunities and for controlling costs.

Keywords: Long Tail, Resonance Marketing, Complexity Management

1. The Truth about the Long Tail

The long tail [1] is now easily observed: Where once we had jeans from Levis, Wrangler, or Lee, we now can choose from among dozens of designers, with exotic linen blends or pre-torn knees and cuffs.

There are hundreds of highly specialized powerbars, some for bike riders and tri-athletes, some for people seeking to lose weight, some as dietary supplements for weight lifters trying to gain weight; even some specialized for the first tee or the back nine of a round of golf. While once it appeared that America would soon have only a few beer offerings from a pair of major breweries to choose from, Anheuser-Busch’s and Miller-Coors’s share is actually dropping as hundreds of brewers now offer American consumers thousands of craft brewed beers, making America now one of the best countries for beer selection. Despite the high research and development costs required, even niche market consumer durables have emerged, like the Prius Hybrid or Hummer H-2.

The case for the long tail can be overstated, calling the entire concept into question. Long tail strategies can be expensive to implement. More significantly, there are categories, like movies and other forms of entertainment, where the absence of difference in prices between a blockbuster hit and an average movie clearly support a winner-take-all strategy based on volume. Of greatest interest to us are categories where the market price for offerings in consumers’ sweet spots justifies the higher production and distribution costs; strategies that seek to hit sweet spots are called resonance marketing [5], because of the resonance that successful goods and services produce when offered to the right consumers.

Consumer behavior is changing and consumers are demanding resonance marketing offerings. These changes are placing pressure on the profits of established brands, while at the same time margins on new and previously unknown brands, often in new and previously unknown categories, are exploding. And these trends are certainly economically important; in many categories all the growth in retailers’ profits has been in resonance marketing offerings, as the mass market offerings in these categories have become little more than loss leaders. In addition, serving niches where consumers have strong preferences remains attractive because demand for the long tail effect was strongest, in many categories, such as soft drinks, snack foods, ice cream, and craft brewing, the margins on resonance marketing products are significantly higher than on other offerings. The increased margins and contributions to profits from resonance marketing are newly being felt in industries as diverse as retailing, farming, and consumer electronics.

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1 Anderson developed the concept of the long tail to suggest that with the ease of online distribution firms could earn more and more by selling less and less of each item in an ever-widening array of items. Anderson clearly overstates the ease of implementing a long tail strategy, implying that since it works for shelf-stable products like those sold by Amazon, it readily generalizes to all categories. Likewise, he clearly overstates the contribution to Amazon’s profits from long tail offerings; indeed, he focused almost exclusively on distribution, ignoring both costs and prices. Fortunately, this has been amply demonstrated by Elberse in the Harvard Business Review [10], and does not require further repudiation now. Anderson picked a domain where implementation was easy (information goods) and did not choose to examine profitability improvements. And yet, in many industries long tail strategies are both difficult to execute and significant contributors to profitability when implemented properly. The most profitable long tail offerings are examples of resonance marketing, not just increasing variety but carefully fitting of products to specific, strongly felt, and unmet wants and needs of groups of consumers. Unlike books and movies, the categories where Anderson claimed
resonance offerings is often at least somewhat resistant to recession\(^2\). Sales of traditional carbonated beverages and canned coffee are flat or declining, while sales of premium iced teas, imported bottled waters, and premium bagged coffees are increasing\(^3\). (In contrast, trading up [20, 21] may not be so resistant, as evidenced by retailers’ difficulties in high rent locations throughout the United States during the current recession.)

Both the long tail and resonance marketing offer explanations for changing consumer behavior and the resulting changes on the demand side. We find resonance marketing to be more interesting because (1) it provides a richer explanation of consumer behavior and (2) it applies to goods beyond information and culture goods and (3) it results in sales of higher margin items, making it economically more interesting than focus merely on product proliferation. This paper starts with the changes in consumer behavior and examines the necessary changes in corporate operations and the supply side.

2. Understanding Consumer Behavior

We know why consumers want to buy sweet spot offerings. It helps that consumers can find more products [1, 2]. We make the distinction between the long tail (just increasing variety) and resonance marketing (serving an increasing number of niches where consumers are willing to pay premium prices for perfect fit with their preferences). This is not just pursuit of affordable luxury or trading up [20], like replacing a Nissan Murano with a more elegant Infiniti FX 35. Nor is it simply the greater demand driven by mass affluence [15]. Rather, it is often trading out [5, 6], in which consumers seek products not because they are better in any absolute sense, but because they are better for them. A yeasty, bready American copy of a Belgian Tripel, like an Allagash Interlude (with a score of 3.93 out of 5 on ratebeer.com, for a ranking of 99 percentile) is not a better beer than a malty, extremely bitter, well-hopped American Triple IPA, like Founder’s Devil Dancer (with a nearly identical Ratebeer score of 3.92 and 99 percentile ranking). Both are wildly extreme, have loyal followings, and are quite expensive.

Why do consumers want to engage in the purchase of sweet spot offerings now? The use of the internet for online information in support of selling is turning out to be even more important than the use of the net for online sales. Yes, more consumers can afford resonance offerings [16], and more consumers are rocketing up to luxury in some categories while pinching pennies in others [19, 20]. As importantly, thanks to advances in information technology and the evolution of retail channels [16], and to the development of trusted community content websites and rating services [7] consumers now know what they’re going to be receiving, with a high degree of confidence, even when purchasing products they have never tried before, and even when purchased from unfamiliar manufacturers or retailers.

When contemplating an expensive and unfamiliar purchase, a consumer often rationally imposes an uncertainty discount [5], reducing his willingness to pay for the unknown item. For new entrant offerings, this uncertainty discount in the past could be so high that the product could never be sold; this created a significant barrier to entry, preventing new firms from introducing sweet spot offerings, and protecting mass-market incumbents from attack. Advertising, couponing (to reduce a consumer’s price, compensating for the uncertainty discount) and sampling (making the product free for initial trial) are all time-honored promotional mechanisms for new entrants, but they frequently cannot be used for resonance offerings. All are too expensive for an offering that is expected to capture only a tiny percent of the market; imagine the return on the investment expected from stuffing all the mailboxes in the United States with a sample of a product that expects to capture less than 0.01% of the market, and you understand the problems facing the creation of a new micro-brewery.

And yet online information, online ratings, community content websites, and bloggers have largely eliminated the uncertainty discount [5, 6, 7], to an extent that advertising no longer can. Consumers now just know; they know what is available, at what price, and with a precise understanding of the new offering’s set of attributes. The consumer is now in a state of profound informedness, whether through reliance upon community content reviews (Amazon for books and numerous other consumer products, Ratebeer.com for beers, TripAdvisor.com for travel, ChowHound.com for restaurants, thepmga.com for miniature golf courses) or professional reviewing sites (dpreviews.com for cameras and digital photography products, or nybooks.com for book reviews). These are coming to complement, and may eventually supplant traditional advertising, word of mouth [4, 8, 9, 17, 18] from friends, and organized viral marketing efforts [21].

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\(^2\) For example, see third story under preparedfoods.com\(\text{\textregistered}\) Articles/Column?7ebc0222f62788010VgnVCM100000f932a8c0.  

\(^3\) In bottled waters, it is the most expensive that are growing rapidly; see progressivegrocer.com\(\text{\textregistered}\) progressive\_grocer/content\_display\(_\text{\textregistered}\)/esearch/c3iad46f234a7a686ba53a42 46c75c00c0a.  In contrast, traditional soft drinks, like Pepsi and Coke, continue to slide; see the Wall Street Journal, online.wsj.com\(\text{\textregistered}\)/article/SB123844925751171039.html. The change in coffee sales has been equally dramatic, see progressivegrocer.com\(\text{\textregistered}\)/progressive\_grocer/esearch/article\_display.jsp?vnu_content_id=1003628355.
Consumer content and professional reviewing have reduced the advertising advantage of previously dominant players. Consequently, they have greatly reduced the uncertainty discount as a barrier to entry for resonance offerings. This, and not reduction in distribution costs, may be the largest driver of the explosion in the number, success, and profitability of new products, new firms, and new categories.

3. Why do firms want to implement resonance marketing strategies?

Comparison shopping reduces prices. When consumers can compare alternatives that are largely equivalent they frequently purchase the least expensive, placing pressure on retail prices. At times, Barnes and Noble’s and Amazon’s prices for best sellers, in their highly visible and highly competitive world, have been no higher than their costs. The reduction in consumers’ willingness to pay, created by direct competition, is called the competition discount [5], and it has never been more severe than it is today, placing intolerable pressure on commodity offerings. Since search engines, comparison shopping bots, and the general availability of prices on the internet have greatly increased consumers’ awareness of their options, consumers can usually find the lowest price option available. If they have reasons for strong preferences, or significant brand loyalty, competitive pressures may be alleviated, but for commodity offerings price competition is now extreme. For example, the best published fares for flights from Philadelphia to San Francisco in 2007 were actually 30% lower than the best fares in 1977, even before adjusting for inflation. (Clearly other factors, like deregulation, were also involved; the combination of increased competition due to deregulation, excess capacity, and market transparency inevitably led the airline industry to Bertrand competition, and the same processes will proceed elsewhere.)

Likewise, when consumers can compare similar offerings they reduce their willingness to pay for those that do not represent perfect fit with their own preferences, which we call the compromise discount [5]. Since consumers can find exactly what they want, they are now more aware if something is almost right, and the compromise discount consumers impose on products that are not perfect for them has never been more intense. Companies now find that being good enough is no longer good enough, and that traditional excellence is not enough. It is now necessary not only to be excellent, but also to provide exactly what your consumers want. The experience of General Motors is illustrative: the quality of GM’s cars had never been higher, and yet even before the 2009 recession consumer demand for GMs’ vehicles was collapsing. With the rare exception of marques like Corvette or Hummer, most consumers just considered the cars to be boring.

Resonance marketing strategies and playing for an array of finely tuned high margin market sweet spots offers companies the following advantages when determining their prices [5]:

- It enables them to avoid the competition discount, by being the first firm with an ecologically friendly green car, or the first with a good video internet phone, or the first with a West-Coast-hopped Belgian-style IPA, or with an all natural fruit smoothie made entirely from crushed fruit.
- It enables them to avoid the compromise discount, by giving consumers not just products that they like, but products that they love, and that meet deep wants and needs, cravings and longings.

Some product opportunities can be significant profit generators only when combined in a portfolio of products that address a huge array of smaller sweet spots, such as the range of flavors and segments at Clif powerbars (with bars targeted at men, women, children, body builders, fans of salty snacks or of organic snacks) or the range of extreme beers at Dogfish Head (with offerings in styles ranging from reconstructions of an Babylonian beer (Midas Touch) and an ancient 9000-year-old Chinese (Chateau Jiahu) beer, to beers made with ingredients from all seven continents (Pangea)).

Some brands and some companies successfully make the transition, from small craft producers or niche retailers to full-scale staples, like Snapple or Arizona Ice Tea, Sam Adams brewing, Starbuck’s coffee, or Nike running shoes and Victoria’s Secret lingerie. Others remain niche players.

In some sense, firms don’t just feel they want to do this because of the upside, they also feel they have to do this, to avoid the penalties imposed by consumers through compromise and the competition discounts if they fail to do this [5]. This pressure may be most extreme during a recession, when excess capacity and pressure on consumers to find the lowest possible prices place unbearable stress on companies that provide commodity offerings. These are times that airlines and hotels flirt with bankruptcy and when consumers flock to discount retailers and club stores. At the same time, resonance offerings have unique positioning; the founders of both Dogfish Head and Allagash breweries have assured us that their sales are up as a result of the start of the 2008-2009 recession, because their competitors are not other, cheaper brewers, but the sellers of low-end less resonance-focused Cabernets and Pinot Noirs.

And yet, paradoxically, Anderson’s long tail overstatements may persuade some firms that they can safely delay implementation of a long tail
strategy while Elberse’s analysis [10] and their own intuition may combine to suggest that long tail strategies are not worth the effort. Our own work suggests that when long tail strategies combine high margin resonance offerings with effective cost containment, the results do justify the effort.

4. The Problem with Long Tail Strategies

Firms may feel they have to implement long tail strategies, but may not feel they are able to do so. Complexity adds cost to all aspects of a firm’s operations, leading to the complexity penalty: the more different products and services the firm offers, the greater its operational complexity and the higher its operating costs [11]. Some executives may abandon attempts to implement a high margin sweet spot strategy in favor of high market share fat spots, even if their margins are getting crushed in their existing offerings, simply because of their perceived inability to manage the complexity penalty.

Complexity can affect cost in many ways:
- Adding SKUs complicates manufacturing and production scheduling
- Adding SKUs complicates inventory management and distribution
- The smaller consumer demand for each sweet spot SKU makes random variation in demand more significant, making demand forecasting more difficult than it is for larger, fat spot offerings
- A constant stream of new product introductions complicates marketing to retail consumers
- A constant stream of new product introductions complicates the sales process, and complicates training sales staff to communicate with retailers and to guide customers on the appropriate product mix for them to carry
- Having products that come in and out of the company’s portfolio creates additional complexity for manufacturing, product design, communications with customers and consumers, marketing promotions and advertising, even in addition to the complexities introduced in the sales process
- And finding the opportunities for new offerings requires rethinking product design and innovation

Successfully implementing a resonance marketing strategy requires many changes to control costs. Making the necessary changes requires rethinking incentives, rewards, and possibly even corporate governance, in addition to transforming product research and development, manufacturing, marketing, sales, logistics and distribution. Moreover, benefits are often discounted because of the excessive claims for simple long tail strategies. It’s therefore not surprising that many executives are initially reluctant to embrace resonance marketing and the profit opportunities that resonance marketing strategies represent.

Our search for ways in which companies can successfully overcome this reluctance was guided by two key questions:
- How can the firm make the most profitable use of resonance marketing strategies?
- How can it increase its range of offerings and their fit with customers’ preferences, while controlling complexity and resulting costs?

In addition, if top executives were to truly embrace resonance strategies, we felt it necessary to know:
- How can a company identify gaps in the marketplace and opportunities to create profitable new offerings?
- How can a company maximize the visibility and rapid acceptance of its new offerings?
- How can a company manage the complexity of new offerings and control production, distribution, inventory management, and promotional expenses?
- How frequently should a company revise its portfolio of offerings, dropping legacy products that no longer have a loyal following, produce significant revenues, or generate buzz and halo effects?

5. Creating Resonance Strategies that Work

Our research revealed six management objectives that successful companies are focusing on to reduce or even to eliminate the barriers that hinder dramatically increasing their portfolio of offerings. Many companies are exploring one or more, only a few have mastered combinations, and too many have yet to begin to tackle the business transformations that will allow them to profit from recent changes in consumer behavior. The six are:
- Pick your targets well.
- Manage your buzz and your customer informedness.
- Control your production costs.
- Control your distribution costs.
- Understand the complementarities within your product offerings; some products accomplish far more for you than you might initially believe.
- Understand when and where and why you want to preserve complexity.

The first two deal with targeting consumers, the next two deal with controlling costs, and the final two deal with understanding portfolio effects and complexity. We address each of these in turn below.
While each of these has a strong information technology component, for observing community content, providing opportunities for community content, or managing operations, space does not permit more than a cursory treatment below.

5.1. Pick your targets well

Learn to identify the highly profitable gaps in the existing marketplace. These can later appear as inevitable as the iPod and iPhone; somebody had to be the first to figure out that a small disk and data compression would make personal digital music players a near-necessity for young Americans, or that a good user interface for a smart phone would be a category killer among PDA offerings. They can be as novel and ground breaking as the Toyota Prius hybrid, in response to emerging consumer demand for a green-image car, and, as fuel prices exploded, the even larger demand for a highly fuel efficient car. Or they can be as mundane as the selection of a blend for a new craft beer from a new microbrewery, or a new micro-segment for a powerbar, or the introduction of Naked Beverages smoothies, made entirely from crushed fruit.

Sweet spot offerings do not have to be more expensive to produce and they may not be seen as luxury items even if they carry higher price tags. Avoid confusing a consumer’s trading up in pursuit of luxury for his or her trading out in pursuit of perfect fit with individual preferences. New products don’t have to be better in any absolute sense; they simply have to be targeted to be different enough and better for some consumers.

Avoid dismissing sweet spots because they aren’t fat spots. An opportunity for a new powerbar may never threaten the Oreo cookie, but with enough high margin sweet spots they can affect Nabisco’s sales and profits. Indeed, the craft brewer movement has succeeded in creating a real problem for the major brewers, one sweet spot at a time. Sweet spots don’t have to be large, they just have to have enough customers to justify addressing the segment and to have consumers who will pay attractive margins to someone who addresses their real desires.

Finding unmet sweet spots requires a set of skills different from those required to build market share of a successful existing brand or from those required to identify line extensions. Finding these unserved market opportunities is not done by improving upon a competitor’s offerings or your own, but rather is done by noticing that there are no offerings. As Sherlock Holmes noted, what was most significant was the fact that “the dog did not bark.” Finding silent dogs, audiences not served by the television shows they want, consumers who could not find the heritage breeds of beef or pork, or the heirloom strains of tomato was not easy and was not accomplished by tabulating what was available in the marketplace. Ethnographic observation, the in-depth study and analysis of a cultural anthropologist can accomplish far more than a focus group in this context.

• When the popular candy bar Snickers experienced a sales drop an anthropologist interviewed consumers who had picked up a Snickers but then bought something else. Interviews revealed that consumers thought of Snickers as a treat, not as real food. Snickers responded with an ad campaign that informed consumers you could eat Snickers just because you were hungry, (youtube.com/watch?v=lekpBe0_wfk), and with the introduction of Snickers Marathon in the US, a powerbar to compete with others in the “real” snack food category.

• With the help of a US anthropologist, Lexus was designed not as a car to occupy the empty market segment of a car with quality superior to Mercedes but with a Mercedes price; there was no demand for such a vehicle. Lexus was designed to provide Mercedes-level quality at a lower price than Mercedes could offer. The anthropologist noted that even people wealthy enough for a Mercedes liked to feel smart about their money, and noted that at the time (early 1980s) people assessed quality of consumer durables largely through Consumer Reports. He and his staff analyzed all of the automobile reviews in Consumer Reports, designed what they believed Consumer Reports would find the perfect car, and were rewarded with rave reviews. Ethnographic analysis helped determine the market positioning, the features, and the promotional strategy.

And once we identify unmet desires and gaps in the marketplace, we then need to wonder why they have not been met in the past. Did no one else see the need, in which case we have successfully located a newly vulnerable market, and a way to attack competitors? Or did others try and did every one of them fail? Is the segment too small, or too unwilling or too unable to pay, to create a sufficiently large and sufficiently high margin market? Find out why the market niche is unoccupied by products and why its potential customers remain unserved.

5.2. Manage your buzz and your customer informedness

Make sure your customers know what you are offering and know why they have to have it. It is better to sell single commune-produced Roquefort cheese, or bison rib eye steak at $25.95 a pound, to customers who are delighted to have found it than it is to engage in couponing and deep discounting to get
customers to buy cheeses and meats that they aren’t really excited about. It is better to offer a coupon once to a first-time buyer of Roquefort cheese or a bison rib eye, one who does not yet know how he will respond, than it is to offer the same coupons, over and over, to induce customers to buy products that they already know they really don’t want. The first converts a customer with a latent preference into an active buyer of sweet spot offerings, while the second simply gets a customer to buy something he does not really want, at a price that is not especially attractive to the seller either.

**Learn to work with user generated content.** While advertising and the provision of coupons and samples are just two ways to inform consumers of your new offerings, they are expensive, and are perhaps prohibitively expensive for small, tightly focused sweet spot offerings. Fortunately, consumer-generated content may provide enough information to consumers to enable the introduction of small sweet spot offerings, effectively overcoming the barrier that the cost of advertising previously imposed. There are entire sweet spot categories, from fruit juices and powerbars to iced teas and craft brewing, that never advertise. Community content, user reviews, and organic informedness have taken the place of expensive ad campaigns. Paradoxically, Miller Brewing increased sales 33% in a period in which their formal media spending was reduced by the same amount. Many executives will find it extremely difficult to learn to gain coverage for their products by relinquishing control over what is said about them. Theaters benefit from critics, even though they cannot control them. Many firms will have to learn to gain publicity for their products the same way, and marketing executives will watch for online content with the same excitement and apprehension as Broadway producers await opening night reviews.

When working with community content websites, choose partners as appropriate. Pfizer has explicitly forged a partnership with Sermo, a social networking website for physicians. Hotels.com benefited enormously from the reviews available on tripadvisor.com and the relationship between Zagats.com and OpenTable.com has benefited both.

**Learn to generate buzz.** The craft brewing industry has its major festivals and events, like the Great American Beer Festival, and micros and craft brewers understand the importance of timing their releases to coincide with an opportunity to influence professional critics and passionate amateur bloggers alike. If you had a great play opening on Broadway you would ensure that theatre critics were in the audience; if you have a great new beer you generate marketplace buzz the modern way, organically and genuinely, by getting your beer to influential consumers.

**Manage users’ experience to eliminate lethal reviews.** The worst hotel reviews that have been posted online are the single best predictor of an individual property’s ability or inability to sell online. If the hotel is overbooked and consequently a guest gets a terrible room, or waits long enough for the hotel to misplace his luggage, or is not given adjoining rooms as promised, then predictably, terrible reviews emerge on TripAdvisor. We examined two years’ worth of data for a major hotel chain to see which properties were most or least successful in the use of online channels and then compared this history of online booking success to a number of measures of consumer satisfaction. Our analysis showed that the length, specificity, and detail of negative online reviews were the single best predictor of the chain’s individual properties to sell themselves online [6].

But these brutally negative reviews don’t just happen: the root cause (overbooking to drain the last bit of revenue from an unsuspecting hotels.com customer) and the immediate cause (refusal to honor a reservation in a timely fashion) were both controllable decisions, with predictable outcomes. Neither had to occur; once they did occur, the hotel did still have an opportunity to take defensive action and make things better. In this wired world, when every customer can be a visible advocate or can destroy a brand’s reputation with a well-placed review, all companies need to manage customers’ experiences.

**Understand and work with halo brand extensions.** The Titleist Pro-V1 may be the best ball in golf. As importantly, it creates buzz for Titleist lesser, less unique offerings, like the NXT. The Infiniti G35 creates buzz for the entire line. Vintage Allagash Interlude, with its large corked bottles and complex flavors generated during months of in-the-bottle conditioning and fermentation, creates buzz for the company’s less expensive and less unique ales. Probably the master halo product is the Chevy Corvette, after more than half a century still an American icon.

**Understand and avoid negative halo effects.** Not all products belong together, and negative halo effects create interactions that can damage other offerings in the firm’s portfolio. As good as the current Infiniti G35 and G37 cars are now, the original G20 did not look or feel like a luxury vehicle and it did not serve the company well as an entry-level vehicle. The Infiniti G37 creates buzz for the entire line. Vintage Allagash Interlude, with its large corked bottles and complex flavors generated during months of in-the-bottle conditioning and fermentation, creates buzz for the company’s less expensive and less unique ales. Probably the master halo product is the Chevy Corvette, after more than half a century still an American icon.

**Understand your customers and their preferences and work with them to create unanticipated delight.** We don’t all want the same
thing; I may want a hotel room with a better view while you may want a room with more space. But hotel rooms are not identical. Better room allocation algorithms will enable the hotel to delight more of its guests by assigning rooms that reflect each guest’s preferences, and over time to earn more from each room by filling them with guests who feel they are getting great value.

**Develop industry associations and to the extent that is both legal and effective, work with your competitors to develop buzz together.** This is especially important when new entrants are attacking established category killers. While all craft brewers compete actively against each other they realize that first and foremost their enemy is consumer complacency, leading to continued dominance of brands from Anheuser-Busch, Miller, and Coors. Although the craft brewers compete for the attention and purchases of consumers of premium and super-premium, they know that they must cooperate to develop the interest in this segment, to develop mechanisms like the Great American Beer Festival and others as a means to publicize their offerings, and to counter the power that the giants have over distribution in most states.

### 5.3. Control your production costs

Much has been learned about managing manufacturing costs, and most of this carries over directly into manufacturing in a resonance marketing environment [3, 13]. First and foremost, maintain your economies of scale in manufacturing, even with the broadest product portfolio, the widest range of offerings, and inclusion of some very focused individual sweet spots with very limited demand. This can be done in a variety of ways.

**Share development costs over a wide range of product offerings,** so that no single product has excessive development cost. The now-standard use of common platforms in the automotive industry and the use of versioning in computer offerings are simply the best-known examples. After all, an Infiniti FX is a refined variant of the Nissan Murano, and even the General Motors H-2 Hummer has a close cousin in the Chevy Tahoe. And how different, really, is one customized Dell laptop from the customized machine built for another buyer?

The example of a customized laptop represents what’s called combinatorial assembly. Dell may have a limited number of laptop chassis, into which different screens can be inserted and with which different processors can be used. Different speeds and capacities of hard drives can be added, along with different numbers of memory chips. Bluetooth and high-speed wireless cards can be added. It looks like Dell needs to manufacture and inventory thousands of alternatives; in fact, these can be assembled as needed, using perhaps a range of dozens of components. The idea of combinatorial assembly extended even further, to the point at which there is no platform, chassis, or designated prime starting point for the assembly. Callaway and other high-end golf manufacturers have a limited number of heads for their drivers. There are currently 5 model choices for Callaway drivers, including the newest FT-i driver. The FT-i is available in left and right handed models, weighted for neutral, draw, or fade ball flight, in four loft angles. When each of the different FT-i heads is combined with a selection from one of over 80 shafts, the golfer can select from several hundred driver choices; if the golfer is choosing from the full range, including Big Bertha, Hyper-X, FT-5, and FT-i Tour Low CG, the golfer’s choices now include thousands of options. And yet, so few individual components are actually required to cover the full range the a Callaway fitting truck can assemble almost any club a golfer wants after custom fitting, using a simple bolt-and-click technology to combine shaft and driver head, using parts available in the truck. Yes, a truck can easily and cost effectively carry several dozen driver heads and a range of shafts to a fitting; no, a truck cannot carry several thousand drivers to a fitting.

**Get scale in components even when you can’t get scale in the entire product.** And then outsource the component if you can. How many manufacturers make hard drives or DVD drives for laptops? Laptop manufacturers differentiate and protect their margins in numerous ways, but hard drives, and memory chips are commodities, common to almost all, and are easily outsourced.

**Standardize products where you can,** in order to make it easier to achieve scale. Kohler makes many sinks, but their sinks all have spacing for faucets that come from a very limited set of design alternatives. Kohler gets scale on its sink basins and faucets because each faucet design fits many sinks and each sink can accept many different faucet options.

**Standardize production processes,** and pump as many of your products through the same production processes as you can. A great small brewer like Stone, Rogue, Victory or Dog Fish Head proudly “makes in a year as much beer as Budweiser spills in a day,” and yet they all make dozens of varieties. Each variety uses different hopping, different grains in the malt, even a different combination of Victory’s 30 uniquely different strains of yeast. And yet, they all go through the same initial boiling and brewing equipment, pass through either a top-fermenting (ale) tank or a bottom-fermenting (lager) tank, and flow out through the same bottling line and the same labeling machines. Even a small brewpub like Town Hall in Minneapolis has produced close to 100 beers,
and has done so with limited equipment, without catastrophically increasing its production costs. Vary as little as you need to vary for maximum consumer impact. Pumpkin spice ice cream has a very different following from vanilla, and chocolate chip is very different from mocha chip, but how different can their manufacturing be?

**Maintain a swing brand to act as a flywheel,** using excess capacity when demand for sweet spot brands has been fully met. Some brands are not extremely profitable but they are high volume and sales are consistent and predictable. Such flywheel brands keep the factory busy, absorb excess capacity, and avoid the losses that come from idle capital equipment and personnel.

**And sell to all sides.** Bosch sells to Mercedes and BMW, Intel sells processor chips to Apple and to Windows-based computer makers, and enzyme manufacturers supply both Unilever (Surf) and Procter and Gamble (Tide).

### 5.4. Control your distribution costs

As noted above, it is more difficult to forecast demand for products with limited total sales. If normal fill rates are to be maintained with normal forecasting techniques, then greater inventory would appear to be required. Fortunately, there are less expensive alternatives that do not require maintaining excess buffer stock to meet unanticipated demand.

**Many companies have mastered faster response to variable demand through more flexible manufacturing,** employing a combination of postponement and build to order. Postponement is deferring the completion of a product until it is clear exactly what is needed. A computer manufacturer or golf club manufacturer may offer many thousands of options. A computer manufacturer will allow the customer to select screen size on a laptop, hard disk size, hard disk speed, memory size, and many other hardware or software options. A golf club manufacturer will allow the customer to select brand of shaft and shaft flex, club head weight and club angle, shaft length, and grip size. With thousands of offerings, manufacturers would need to stock an enormous amount of inventory; the alternative, of course, is to stock dozens of components and to produce clubs or computers on demand, in response to customer orders. Indeed, Dell is known for its build to order responsiveness, and Callaway now has mobile fitting trucks that fit customers for their clubs and then do final assembly while the customer waits.

**In contrast to more flexible production, other firms have mastered making the most effective use of available inventory through flexible inventory allocation.** When automobile manufacturers cannot build to order, especially when the cars need to be transported from Germany, Korea, or Japan for American markets, they have mastered the inter-dealer inventory swap. If a customer in New Jersey wants a metallic copper FX 45 and his dealer has the car in red, while a customer in Pennsylvania wants a red car and his dealer has the metallic copper, systems at Infiniti arrange the inter-dealer exchange. Other manufacturing firms have made more flexible allocation of replacement parts a priority.

**Third-party distribution can reduce costs or improve efficiency, relative to a dedicated distribution channel.** The need for third party distribution may be declining but it has not been eliminated. Real estate agents still serve a useful function, reducing the complexity of search in a problem space that has a large number of dimensions. Agents’ expertise greatly reduces the amount of search that an individual homebuyer would otherwise have to perform. They also screen potential buyers and reduce the effort required of the seller. While not all purchases involve the same degree of complexity or need for trust, where these factors are present the sales force will remain essential.

**Online exchanges and even eBay can be used to move excess inventory,** or to sell without the use of an expensive sales force, although they must be approached with caution.

- Orbitz was created by the airlines as a low cost online distribution system, as an alternative to the high cost of distribution through the existing agency-based distribution system, and it retains the discipline that was originally built into it by its creators.
- Hotels.com was created to sell hotels’ excess inventory at a discount, and over time became a mechanism for competing with the hotels’ own distribution systems. Hotels.com also increased its own market share by reducing the perceived differences between hotel chains and increasing the perceived interchangeability of hotel rooms, leading to greater discounting.
- Likewise, online exchanges can create problems for manufacturers. New merchandise, often still in its original packaging, makes its way to eBay where it depresses the manufacturers’ sales of new stock, their prices, or both.

New online channels solve some problems, create others, and leave some unchanged. Online sales channels offer an effective way to reach out and interact directly with consumers, any time the consumer wishes, and often provide mechanisms to bypass traditional expensive intermediaries entirely. Moving the customer interface online makes problems more visible to consumers, and handing off to a third party channel partner does not make the problems simpler but merely shifts responsibility. All of the problems with forecasting, inventory
management, and physical distribution and restocking continue. Additionally, accurate management of inventory counts becomes more critical in an online environment. If the customer can’t find it on the shelf in a store, he knows it’s not there; if he sees it in an old printed catalog he knows that it might no longer be available, since catalogs obviously are not updated after the customer receives them. In contrast to both of the above, if the customer sees an item shown as available to order online he assumes that the website is current and that the item is available, and it may not be acceptable to notify him later that his order cannot be shipped.

5.5. Understand the complementarities within your set of product offerings

The difficulty with understanding complementarities and the problems that come from failure to understand them have been documented for decades, beginning perhaps with Robert Kaplan’s eloquent description in the Harvard Business Review of “Death by cost accounting” [14]. Products that did not appear directly profitable in themselves were indeed essential to maintaining high utilization levels of factories, and therefore were essential elements of the firm’s profitability. When these products were discontinued, and the overhead burden of other products was recalculated, more and more products were dropped until, ultimately, the high fixed costs of under-utilized facilities forced the firm into bankruptcy. Numerous other examples of direct complementarity can be found.

• Feeder routes on airlines — some routes do not appear profitable, but may be essential to bring in customers for other routes, like transatlantic flights, that are extremely profitable.
• The long tail selections that make Amazon so much more complete than physical bookstores or than their more narrow online competitors may not account for a significant portion of sales on their own, and their prices do not create a resonance marketing strategy. Still, they contribute significantly to Amazon’s greater attractiveness as a one-stop source for any book in or out of print, and they help explain Amazon’s continued dominance of online book sales.
• The pretzels that go with beer in a bar, or the aioli dip that goes with moules frites in the Mid-Town Manhattan Belgian restaurant Resto, or the room service and the free health club of a 5-star hotel, may not always be profitable in their own right, but they contribute greatly to the attractiveness of each location and to the profitability of its main offerings.

The halo effects that come from a low volume, high prestige offering likewise contribute to the sales of other, more central product offerings as a form of indirect complementarities. As noted above, this is an essential strategy of automobile manufacturers, beer brewers, and sporting goods manufacturers. Most of us don’t drive Ford Fusions with NASCAR performance, drink vintage Fuller ales every night, or hit the same Nike irons or the same Nike balls that Tiger Woods plays, but Ford, Fullers, and Nike obviously value the buzz that comes from offering these products to the market.

5.6. Understand when and where and why you want to preserve complexity

Complexity within a product line may need to be retained for any of a variety of reasons:

• To offer complementarities, because the offering supports others, which are more profitable.
• To provide scale in manufacturing or distribution. A low-margin offering may not look attractive, but it may help keep a plant busy and at least cover the cost of labor and of capital equipment.
• To capture new customers, by offering something that each new consumer finds better for him or for her [12]. Selling to more sweet spots creates more opportunities for resonance and higher total levels of revenue and of profit.
• To satisfy loyal customers acquired over time, because sometimes a small volume product enjoys a loyal or price-insensitive following and thus generates high margins.

Complexity can be retained for any reason at all, as long as there is indeed a reason.

The greatest danger with product line complexity is creeping and pointless complexity [11]: new products are added to meet emerging demand, and old products are continued because they were profitable once, or because they have historical significance, or because they have champions who remain attached to them because of the role these products once played in their own careers. Companies that seek to implement resonance marketing strategies and to find and exploit sweet spot opportunities must relentlessly cull out and prune offerings that no longer contribute directly or indirectly to profitability. Ben & Jerry’s Dearly Departed Flavors in the Flavor Graveyard can serve as an iconic reminder to all companies that the flip side of creative addition to product line is dropping without regret or remorse those that no longer contribute; the Flavor Graveyard currently has 171 ice cream flavors, plus additional dozens in other categories. Some of the numbers increased over the previous 10 months while others declined, suggesting that at least some flavors were brought back due to customer demand.
6. Conclusion

As we have seen, there are three reasons why executives increasingly are moving their firms towards resonance marketing strategies:

- To avoid the congested middle of the market, where fat spots may be large but frequently offer smaller margins due to extreme competition with other companies’ similar offerings. In a transparent and online world, the consumer can play competitors off against each other to get the lowest possible price. The competition discount and the associated pain of occupying the middle have never been worse.

- To avoid unrewarded excellence caused by the consumers’ compromise discount. The mass market fat spot may be adjacent to many consumers’ ideal choice but may no longer represent an ideal offering for many of them. In a transparent and online world a consumer knows that something is not exactly right for him and his willingness to pay for it is reduced. The compromise discount has, likewise, never been so painful for most companies.

- To enjoy the benefits of sweet spot resonance, offering a consumer exactly what he wants, and to be free from price-based competition with other companies’ nearly identical offerings. In an online and transparent world, consumers can find whatever they want. Without competition to reduce the price of offerings that have unique fit with their preferences, consumers pay significantly more for resonance marketing offerings, which allows the providers of these offerings to enjoy superior margins.

These are the reasons that many companies have begun their forays into resonance marketing. Sill, many executives have elected not to implement resonance marketing strategies, largely because they believe that this will create unnecessary and valueless complexity for the operations of their firms and greatly increase their costs.

We have shown how to address these reservations, enabling companies to tailor their offerings, and to target with precision the wants and needs, cravings and longings of their customers. This leads to superior profits, and to greater wealth for both consumers and for the companies that serve them.

7. References


