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Building Corporate Brands: An Exploratory Study

Gabriel J. Biehal and Daniel A. Sheinin

Faced with significant external pressures, many companies are seeing the advantages of building a strong corporate brand (CB). Surprisingly little research has examined the role of the CB in influencing customers' perceptions of products, though CB development challenges corporate brand managers on several fronts. What are the key factors to consider in defining a CB strategy? Will the CB be designed to influence all the products and services in a company's portfolio, or just a subset of them? How will the CB strategy respond to such market realities as turbulence? And how should corporate and product brand managers implement the CB throughout the organization?

Authors Gabriel Biehal and Daniel Sheinin addressed those and other questions through 42 in-depth, elite interviews with managers at 11 Fortune 500 companies.

Findings

Managers offered valuable insights into three areas: the underlying dimensions of a CB strategy, factors that influence the design of a CB strategy, and the influence of CB strategy on implementation.

The data indicate that managers consider *scope, positioning,* and *locus of communication* to be the three dimensions most relevant for designing a CB strategy. Scope is defined as the number of SBUs or products in the portfolio that are subsumed by the corporate brand. Positioning comprises two subdimensions: *diagnosticity* (the degree to which the CB positioning ties in with product positionings) and *variability* (the degree to which the CB positioning is allowed to vary across the defined scope). The third dimension, locus of communication, refers to whether the CB is built primarily through corporate or product marketing activities, or a combination of the two.

Based on managers' comments, the authors propose that three factors—market turbulence, the nature of the company's product portfolio, and the company's degree of organizational decentralization—are particularly important influences on the design of a CB strategy.

Finally, managers' comments suggest that decisions about the three CB strategy dimensions are particularly influential when it comes to such implementation activities as organizational control, managerial coordination, and tactical marketing integration.

Managerial Implications

When designing a CB, managers must make decisions on all three of the CB dimensions. First, they must decide which SBUs or products will be covered by the CB. For example, a company positioned on high-priced, technically innovative products that develops a lower-end, imitative product may decide to exclude that product from the company's CB-building activities.

Second, managers must define the role of the CB in product branding carefully. Will the CB provide a broad emotional halo for the products and services in its purview, or will it attempt to alter customers' perceptions of the attributes or benefits of specific products? Do managers want the CB to have a minimal influence on product equities, or will it help shape those equities? Managers' comments suggest that corporate managers and SBU or product managers have very different perspectives on this issue.

Finally, corporate managers need to consider carefully the pros and cons of the various loci of communication. For example, corporate communications may be easy and quick, but they require spending resources that product managers often feel should be spent on product support. On the other hand, a product locus of communication, while more time-consuming and difficult to coordinate, may be more effective at linking the company name to disparate products in its portfolio.

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Tigers and Dragons: Profiling High Performance Asian Firms

Rohit Deshpandé and John U. Farley

The emergence of several Asian "Tiger" economies during the last decade has spawned considerable interest in developing international models for management and marketing. But differences in language, cultural and economic history, and political orientation significantly complicate crosscultural comparisons and weaken the applicability of global generalizations. For the most part, the prevailing theories have originated in the West, which poses particular difficulty for scholars interested in Asia. Not only do these theories often fail to generalize well across divergent national cultures, they have also met with resistance from many Asian scholars who believe in a distinct Asian business model.

Study

In this report, authors Deshpandé and Farley attempt to uncover the limits of both international and more regional, crosscultural comparisons. They do so by examining the way four key organizational factors—innovation, market orientation, organizational culture, and organizational climate—affect business performance. Their work extends an earlier MSI-supported study, conducted by Deshpandé, Farley, and Webster on five industrial countries, by focusing exclusively on business-to-business firms from cities in six Asian countries—Hong Kong, India, Vietnam, Japan, Thailand, and China.

The results reveal that the difficulties experienced in generating and applying international management models have less to do with a reflexive "not invented here" reaction than they do with the important influence of national cultural differences on choices about organizational structure and management.

Findings and Implications

This study of firms from six Asian countries confirms that what is true for firms in industrial countries is true for Asian firms as well in two significant ways.

On the one hand, the authors find that differences in organizational culture correspond to specific differences in national culture. Firms based in countries just emerging from central planning into a form of market socialism, for instance, tend to be more bureaucratic, while those with stronger private sectors tend to be more entrepreneurial.

Because of the great diversity of national cultures, history, demographics, industry structure, savings rates, and per capita incomes and economic growth in China, Hong Kong, Thailand, Vietnam, India, and Japan, such differences are more pronounced among the Asian firms of this study than they were among the firms from the industrialized countries of the earlier one.

On the other hand, the impact the four organizational factors have on firm performance are generally the same regardless of national differences. Specifically, more competitive and entrepreneurial firms consistently perform better than do more bureaucratic and consensual ones.

Despite these similar conclusions, the study finds significant differences in Asian firms as well. Specifically, they find that while the earlier report identifies the importance of innovation for firms in industrialized countries, their study finds that market orientation is more central to the high performance of Asian firms.

Finally, this study suggests that just as there is no single management model that can be applied unilaterally across cultures, there is no unified Asian style of management. Market orientation, innovation, organizational climate, and organizational culture all affect firm performance in predictable ways.

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Examining the Impact of Destructive Acts in Marketing Channel Relationships

Jonathan D. Hibbard, Nirmalya Kumar, and Louis W. Stern

Today, suppliers and manufacturers increasingly try to meet changing end-user purchasing needs and outlet-preferences by modifying and reconfiguring their distribution channels. Often, however, other members of the channel perceive such acts as destructive to the working relationships in that channel. For example, Compaq attempted to save its struggling PC business by bypassing resellers and selling 60 percent of its business PCs direct. Similarly, Levi Strauss' original e-commerce strategy completely shut out retailers from selling its blue jeans and other clothing online.

The Study

In this study, authors Hibbard, Kumar, and Stern examine such "destructive acts" (DAs), and the reactions they provoke from other channel members. How can managers assess the impact that their firms' DAs might have on existing channel members? What processes are vital to understanding responses to these perceived DAs? Can a firm predict—and possibly mitigate—negative reactions by existing channel members to its DAs?

The authors construct a conceptual model of channel members' responses to a DA by another channel member (disengagement, constructive discussion, passive acceptance, venting). A channel member's subsequent performance as well as relationship quality after the act are also examined.

The marketing channel of a Fortune 500 consumer durables manufacturer was selected as an empirical setting. Data from almost 700 dealerships were matched with supplier's representatives' completed questionnaires to assess the proposed model. Strong support was found for the overall model and the associated 42 hypotheses.

Implications

Nurturing trust and commitment with dealers builds a reservoir of goodwill on which a supplier can draw in the face of perceived destructive events. Dealers with prior positive relationship quality perceptions will remain the supplier's better performers and continue to view the relationship in a positive light. In addition, managing a dealer's perceptions about the intensity of the act and their interpretation of its cause is crucial.

Suppliers must also estimate likely consequences to existing channels prior to enacting new policies, using their predictions to forewarn, justify, or compensate existing channels for potential losses. In terms of "justifying" a DA, a supplier should consider sharing important data (e.g., market trends, changing end-user purchasing patterns) with key dealers or dealer groups. With respect to "compensating" channel members for potential losses, a supplier should consider channel policies or changes that may allow the existing channels to compete on a more level playing field. For example, as a supplier launches new products, allowing existing channels an exclusive time "window" for distributing these products could help reward them.

While business and trade press often describe how more powerful parties in channel relationships are able to extract "premiums" from less powerful parties (e.g., Wal-Mart vs. its suppliers), this study found that asymmetry in relationship dependence actually hinders the more powerful party from achieving performance gains from the less powerful party. Efforts by the more powerful party to shift the relationship to a more mutually dependent state pays off in terms of performance. Also, dealers in a mutually dependent relationship with the supplier continue to view the relationship more positively after a DA.

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What to Say When: Advertising Appeals in Evolving Markets

Rajesh K. Chandy, Gerard J. Tellis, Deborah J. MacInnis, and Pattana Thaivanich

A vast econometric literature examines how various levels of advertising intensity drive consumer purchase. Rarely, however, does this line of research consider the impact of an ad's creative content on consumer behavior. Similarly, a rich literature on consumer behavior examines how various ad cues drive attitudes and intentions. Rarely, however, does this line of research consider the real world, behavioral impact of the ads. This study seeks to bridge these two lines of research.

Study and Findings

Authors Chandy, Tellis, MacInnis, and Thaivanich examine which ad cues are most effective in driving consumers' actual behavior in new versus old markets. They use insights from consumer information processing to argue that the same ad cues can have different effects on consumer behavior, depending on whether the market is new or old.

They test their hypotheses using hourly data on consumer response in 23 markets to a toll-free referral service. Results indicate that argument-based appeals, expert sources, and negatively framed messages are particularly effective in new markets. Emotion-based appeals and positively framed messages are more effective in older markets than in new markets.

Managerial Implications

In young markets, consumers' knowledge of a product may be limited, making their ability to process information from ads low, and their motivation high. Thus, in such markets, consumers would respond to argument-focused appeals, expert sources, and negatively framed messages. In older markets, consumers may have gained knowledge, reducing their motivation to engage in extensive ad processing. Factors that increase their personal involvement with the ad—such as emotion-focused appeals and positively framed messages—are more likely to elicit a response.

These findings suggest that ads should be tailored to fit the age of specific markets, with different ads for different ages. These results are particularly relevant for products that require a local infrastructure and thus involve rollouts over extended periods of time, e.g., digital subscriber lines (DSL), cellular phone services, and airlines. Although anecdotal evidence suggests that current practice is to show roughly the same set of ads across markets of all ages, the study suggest that ads should be tailored to fit the age of specific markets.

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B2B E-Commerce

Prepared by Katrina Hubbard, Pennsylvania State University

This report summarizes the proceedings of the Marketing Science Institute's Conference on "B2B E-Commerce" held March 1–2, 2001, in Austin, Texas.

Questions about B2B e-commerce abound. What is the impact of the new technology? How will it affect the future of markets? How can companies integrate the new technology and succeed in the new economy? How much change is necessary? The participants in this conference brought a combination of business and academic experience to these questions. But while their backgrounds varied, their responses often echoed and confirmed each other.

Several themes appeared throughout the presentations. In particular, almost all of the participants argued that, despite the fact that the proliferation of technological changes has changed business models and required companies to reorient themselves, it has not altered the principles underlying good business. Success still depends on a company's ability to satisfy its customers and generate profits. Technology has the capability to change the way we conduct business, but we must not make the mistake of viewing it as an end in and of itself. As we move into what Mohanbir Sawhney calls the "fifth generation of e-commerce," we must remember that the Internet is an enabling device, nothing more. Above all else, we must take our cues from people, not technology. At the same time, speed defines the world of e-commerce, and companies must be able to keep pace. They must look for ways to innovate and be adept at implementing technological and structural changes.

Although the participants touch on numerous dangers and uncertainties, their presentations convey their essential enthusiasm for and belief in the possibilities afforded by the new technologies.

- ❏ Vertically Challenged: Why Everything Changes the Internet
  Mark Walsh, VerticalNet, Inc.

- ❏ How Do Your Customers Feel about Your B2B Site?
  David Weinstein, INSEAD

- ❏ The Drivers of the Intensity of E-Business Adoption and Its Impact on Firm Performance
  Fang Wu, Vijay Mahajan, and Sridhar Balasubramanian, University of Texas at Austin

- ❏ Lessons Learned from an 800-pound Gorilla: The Formation of Elemica, a Consortium E-Commerce Marketplace for Chemicals
  David Yard and Graham Sparks, Shell Chemical Company, and Christie Patrick, Enron Corporation

- ❏ Something New, Something Old, Something Borrowed, Something Bold: Building B2B Businesses within Hewlett-Packard
  Michael Northcott, Hewlett-Packard Company

Measuring Consumer Willingness to Pay at the Point of Purchase

Klaus Wertenbroch and Bernd Skiera

Market researchers rely on measures of consumers' willingness to pay (WTP) in estimating product demand and in designing optimal price schedules. Existing market research techniques for measuring WTP differ in whether they provide an incentive for consumers to reveal their true WTP and in whether they simulate actual point-of-purchase contexts.

In this study, authors Wertenbroch and Skiera present an empirical comparison of several procedures for eliciting WTP that are applicable directly at the point of purchase. Specifically, they test the applicability of a lottery-based procedure to measuring consumer WTP.

Studies

The researchers sampled target consumers and provided them with an opportunity to buy the product in question. Respondents were asked to announce their true WTP for the product at the particular point of purchase. Next, they randomly drew a price from a prespecified distribution in an urn or envelope. If the drawn price was less than or equal to the WTP they indicated, they were required to buy the product at the price they drew. If the drawn price exceeded their offer, they were not allowed to buy the product. This mechanism ensured that their best response strategy was to announce their true WTP. Rather than receiving a participation fee, respondents actually paid out-of-pocket—but never more than the product was really worth to them, thus ensuring the ethical soundness of the procedure. That is, they never walked away with less value than they had when they began the task.

Findings and Implications

Three studies demonstrate that the lottery procedure provides a feasible, reliable, and valid market research procedure to elicit consumer WTP in specific point-of-purchase settings in fast-moving consumer goods markets. It entails relatively little cost, time, and effort to administer.

A key result across all three studies is that consumers report substantially lower WTP under the lottery procedure than under hypothetical response formats. This suggests that hypothetical methods may lead managers to overprice relative to consumers' true WTP. They also show that the lottery procedure provides a better measure of consumers' true point-of-purchase WTP because consumers tend to round prices when responses are only hypothetical, whereas responses under the lottery procedure are more differentiated.

Hypothetical responses depend on the prices consumers *normally* pay in the category, whereas the incentive constraint under the lottery procedure helps respondents determine their WTP based on the *specific point-of-purchase context*, under the controlled influence of marketing mix variables (e.g., WTP for candy bars on display at supermarket checkout counters, where retailers may try to induce impulse buying). Thus, responses reflect how ready to buy consumers are under real transaction conditions.

A key benefit of the lottery-based method is that it allows market researchers to create opportunities for transactions at real points of purchase under the actual marketing mix conditions that the marketer desires. This is especially useful for new products, for which no actual purchase data yet exist. The method can serve as a stand-alone (off- or online) procedure, or it can be combined with existing preference elicitation techniques and pretest market research to develop better insights into the factors that influence consumer choice and product valuations. It can also provide an alternative to auctions in order to price-discriminate in regular online transactions.

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Marketing, Corporate Social Initiatives, and the Bottom Line

Prepared by Lerzan Aksoy, Koc University, Istanbul, Turkey, and Kiersten M. Elliott, University of Central Florida

The Conference on Marketing, Corporate Social Initiatives, and the Bottom Line took place at the Kenan-Flagler Business School of the University of North Carolina at Chapel Hill in March of 2001. The Marketing Science Institute and The Aspen Institute's Initiative for Social Innovation through Business co-sponsored the conference, with additional support provided by the Boston College Center for Corporate Citizenship, the American Marketing Association Foundation, and the Social Marketing Institute.

The conference brought together academics and practitioners to share recent research findings and discuss new research directions on topics related to how companies can design, implement, and evaluate programs that help both society and the profitability of corporate marketing efforts. Programs involving cause-related marketing, preventive health promotion, environmental protection awareness, corporate philanthropy, and other initiatives were examined. Information about innovative programs at Coca-Cola, Ford, Monsanto, and other companies was shared. Moreover, provocative theoretical and methodological insights were provided on topics such as how social initiatives impact brand equity and brand communities, how these initiatives affect organizational identification, how to measure the effectiveness of these initiatives, and how to influence consumers to respond positively to these initiatives.

The summaries of the presentations provided in this report were prepared by Lerzan Aksoy and Kiersten Elliott with the approval and editing of the original presenters. However, far more occurred during the conference than can be captured on these pages. A major goal of the conference, consistent with the mission of The Aspen Institute's Initiative for Social Innovation through Business, was to stimulate rigorous academic research by people in the marketing field on topics related to how corporations impact society. The discussions that took place during the conference sessions, as well as informally during breaks and meals, shared a sense of excitement and dedication to following-up the conference with a commitment toward doing research on social topics. This report should support efforts to fulfill this commitment, allowing both those who participated in the event and other interested researchers to build on the valuable knowledge base that was established at the conference.

Paul N. Bloom
Conference Organizer and Professor of Marketing
Kenan-Flagler Business School
University of North Carolina at Chapel Hill

Session One: The Impact of Social Initiatives on Brand Equity and Customer Retention: Mechanisms and Measurements

- ❏ Building Brand Equity Through Corporate Societal Marketing
  Stephen Hoeffler, University of North Carolina at Chapel Hill, and Kevin Lane Keller, Dartmouth College

- ❏ Community, Ideology, and Societal Marketing
  Thomas O'Guinn, University of Illinois

Session Two: More on Mechanisms and Measurement

- ❏ Quantifying the Impact of Corporate Ethics on Customer Equity
  Roland Rust, University of Maryland
  Valarie Zeithaml, University of North Carolina at Chapel Hill
  Katherine Lemon, Boston College

Session Three: Social Alliances: Internal and External Influences on Effectiveness

- ❏ Profitable Partnerships Through Cause-Related Marketing
  Sue Adkins, Business in the Community, U.K.

- ❏ Perceptions of Corporate Giving on Customer-Corporation Identification: Beneficial Effects for Customer, Corporation, and Nonprofit
  Donald R. Lichtenstein, University of Colorado
  Minette E. Drumwright, University of Texas
  Bridgette M. Braig, Sterling-Rice Group

- ❏ Corporate Social Initiatives and Marketing: An Insider's Outside Perspective
  James Walsh, University of Michigan

Session Four: Using Consumer Behavior Research to Guide Social Efforts

- ❏ Gaining Freedom to Operate by Anticipating, Understanding, and Responding to Societal Expectations
  Kathryn Schanen Kissam, Pharmacia/Monsanto

- ❏ Effects of "False Alarm Results" on Subsequent Mammography Adherence
  *Barbara E. Kahn and Mary Frances Luce, University of Pennsylvani*a

- ❏ The Impact of Search Agents, Variety, and Size of Selection on Consumer Welfare
  Kristin Diehl and John Lynch, Duke University

- ❏ Where Do We Go from Here?
  Stephen A. Greyser, Harvard Business School

Building Customer-Based Brand Equity: A Blueprint for Creating Strong Brands

Kevin Lane Keller

Building a strong brand has been shown to provide numerous financial rewards to firms, and has become a top priority for many organizations. In this report, author Keller outlines the Customer-Based Brand Equity (CBBE) model to assist management in their brand-building efforts.

According to the model, building a strong brand involves four steps: (1) establishing the proper brand identity, that is, establishing breadth and depth of brand awareness, (2) creating the appropriate brand meaning through strong, favorable, and unique brand associations, (3) eliciting positive, accessible brand responses, and (4) forging brand relationships with customers that are characterized by intense, active loyalty. Achieving these four steps, in turn, involves establishing six brand-building blocks—brand salience, brand performance, brand imagery, brand judgments, brand feelings, and brand resonance.

The most valuable brand-building block, brand resonance, occurs when all the other brand-building blocks are established. With true brand resonance, customers express a high degree of loyalty to the brand such that they actively seek means to interact with the brand and share their experiences with others. Firms that are able to achieve brand resonance should reap a host of benefits, for example, greater price premiums and more efficient and effective marketing programs.

The CBBE model provides a yardstick by which brands can assess their progress in their brand-building efforts as well as a guide for marketing research initiatives. Accordingly, a set of candidate measures for the six brand-building blocks is included in the appendix. In addition, a critical application of the CBBE model is in planning, implementing, and interpreting brand strategies. The model provides a comprehensive means of covering important branding topics, as well as useful insights and guidelines to help marketers set strategic direction and inform their brand-related decisions. To provide perspective, the paper also relates the CBBE model to other leading models of brand equity.

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Driving Customer Equity: Linking Customer Lifetime Value to Strategic Marketing Decisions

Roland T. Rust, Katherine N. Lemon, and Valarie A. Zeithaml

Business success is based on customer relationships; however, because customer equity is difficult to measure, many companies continue to focus on metrics that capture product-based strategies rather than metrics that capture customer-based strategies.

In this study, authors Rust, Lemon, and Zeithaml develop an approach that unifies Value Equity (objective perceptions of the brand), Brand Equity (subjective perceptions of the brand, above and beyond its objective value), and Relationship Equity (the strength of the brand relationship, above and beyond its objective and subjective value) in a strategic "Customer Equity" framework.

Based on the concept of customer lifetime value (CLV), this framework offers a set of new metrics that enable a company to project and explicitly quantify the financial impact of marketing expenditures. Thus, Customer Equity facilitates the evaluation of marketing ROI, including return on service quality, return on advertising, return on loyalty programs, and even return on corporate ethical standards.

Study and Findings

Data were obtained from cross-sectional surveys in five industries (airline, facial tissues, rental cars, electronics, and grocery). These were combined with estimated company data such as the company's discount rate and time horizon, and market data such as the estimated total number of customers. Customer lifetime value was modeled using a brand switching model. For each industry, customer lifetime value for all survey respondents, projected to the aggregate number of customers in the market, was used to estimate the brand's total Customer Equity.

The findings revealed that a firm can measure its performance on the value, brand, and relationship drivers of equity (and their subdrivers) and compare to its competitors' performance on those drivers in order to reveal strategic competitive gaps.

Further, using the framework can provide valuable insights about which Customer Equity drivers are more critical in the industry in which the firm competes, and also which drivers are most important in driving the firm's own Customer Equity.

Most important, the results from the framework enable the firm to determine where to invest its marketing resources for the greatest impact, thereby maximizing return on marketing investment and minimizing wasted resources.

Managerial Findings

Analysis of data from the five industries suggests that Value Equity is more important for business-to-business companies, for which objective performance is more important. Brand Equity is more important for consumer packaged goods companies and other transaction-oriented businesses, and Relationship Equity is more important for relationship businesses.

Many firms already model their customer value, brand equity, and customer relationship management; however they do so separately. The Customer Equity framework offers a CEO-level view that unifies these three areas in a framework that enables quantitative evaluation of strategic marketing alternatives, based on the common criterion of effect on the firm's Customer Equity. This provides the firm a new strategic framework that is customer-centric as well as competitor-cognizant.

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Relationship Governance in a Vertical Network Context

Jan B. Heide and Kenneth H. Wathne

The importance of customer relationship management is widely recognized by both marketing practitioners and academics. Indeed, the ability to show flexibility toward continuously changing customer needs has become a key source of survival in many industries. But while considerable consensus exists regarding the motivation for meeting customer needs in a flexible fashion, there is also evidence showing that such efforts often fail.

In this study, authors Heide and Wathne suggest that a firm's actual ability to provide flexibility vis-à-vis a focal customer depends on how other relationships in the firm's larger network context are governed. These relationships, which involve both (external) suppliers and (internal) departments within the firm itself, must be governed so that they permit the firm to adapt efficiently to changing customer demands. More specifically, the authors argue that if parties in these related relationships lack either the ability or motivation to support the firm's strategy in the downstream market, then the firm's ability to show flexibility in its customer relationships can be compromised.

Study and Findings

Heide and Wathne develop a conceptual framework that demonstrates how such problems with ability and motivation can be managed through the deployment of specific governance mechanisms. They develop three research hypotheses pertaining to supplier qualification, incentive design, and monitoring in the upstream supply market, and two hypotheses pertaining to organizational socialization and compensation within the firm. The hypotheses are tested empirically through surveys of U.S. apparel manufacturers and their retail customers.

Overall, the results show support for their main predictions. Specifically, while uncertainty in the downstream market motivates a manufacturer to show flexibility toward changing customer demands, the actual ability to do so is determined by the deployment of specific governance mechanisms in the relationships outside of the focal customer dyad. The authors find that uncertainty in the downstream market only has a positive effect on manufacturer flexibility for higher levels of supplier qualification efforts, monitoring of supplier behavior, and the dependence symmetry between the apparel manufacturer and the supplier. Dependence symmetry in the upstream market establishes an incentive structure that increases the supplier's motivation to support the relationship.

Interestingly, no support was found for the hypothesized effect of monitoring supplier outcomes. Furthermore, no significant effect was found for organizational socialization or compensation within the firm. Heide and Wathne discuss plausible explanations for these findings in a separate results section.

Managerial Implications

This study has two key implications for marketing practice. First, the authors identify specific governance mechanisms that can be used to promote flexibility at different levels in a vertical marketing network. Second, they link these mechanisms with a firm's strategy toward end customers. As noted in the paper, flexibility is not a goal in itself. In fact, because promoting flexibility requires investments on a firm's part (e.g., in qualification and monitoring), such efforts should be made selectively. The authors identify both the key conditions under which flexibility is required and the specific means by which flexibility can be achieved.

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Managing Customer-Initiated Contacts With Manufacturers: The Impact on Share of Category Requirements and Word-of-Mouth Behavior

Douglas Bowman and Das Narayandas

Traditionally, marketers in industries such as consumer packaged goods have established their customer service organization to be responsive to customer complaints. However, new technologies and changing customer attitudes have resulted in customers initiating contact with manufacturers more frequently, and for reasons such as inquiries about a product's use, availability, and reformulation. Manufacturers who are not able to respond satisfactorily to such customer-initiated contacts (CICs) miss an opportunity to build and manage customer loyalty and influence word-of-mouth.

In this report, authors Bowman and Narayandas study the behavior of customers following CICs with manufacturers in order to suggest guidelines for an integrated approach to managing customer-initiated contacts.

The authors conducted on-site visits with managers and employees of three leading packaged goods manufacturers, and used survey data from 1,700 CICs involving over 60 brands, to develop and test a model of behavioral outcomes (specified in terms of share of customer requirements and word-of-mouth) following a CIC. Among their findings:

- Perceived quality of the brand, disconfirmation of expectations concerning the contact, and perceived fairness in terms of procedures used, interactions, and distributions such as information, brochures and/or product samples received explain customer satisfaction with the outcome of the CIC. Satisfaction, in turn, drives customer's behavioral loyalty measured in the long term as share of category requirements with a focal brand, and in the short term as word-of-mouth following contact.

- Customer responsiveness to factors under a firm's control varies across CICs depending on CIC-specific factors such as customer characteristics and the context of the interaction. Thus, managers who customize their responses to CICs can improve the efficiency and effectiveness of their firm's CIC management effort.

- In CICs involving manufacturers of consumer products, distributions and rewards are important to heavy category users. However, highly loyal customers value how they have been treated over distributions and rewards. In addition, mismanagement of a CIC with a loyal customer can significantly hurt the firm by reducing behavioral loyalty (in term of share of customer purchases in the category) and word-of-mouth.

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Winners and Losers in the E-Commerce Shakeout

Prepared by Sendil Ethiraj, University of Pennsylvania

This report summarizes the proceedings of "Winners and Losers in the E-Commerce Shakeout" cosponsored by the Mack Center for Managing Technological Innovation, the Marketing Science Institute, and the Wharton E-Business Initiative (WEBI) and held at the Wharton School on October 19-20, 2000.

For the last couple of years, the Internet has been the hottest sector for new investment opportunities. In 1998, 11,000 U.S. companies engaged in Internet commerce, generating revenues of $101.89 billion. U.S. venture capital investment in Internet companies grew from $520 million in 1995 to $31.9 billion in 1999. The NASDAQ index, home to this growing sector, rose from about 1,000 in January 1996 to over 5,100 in March 2000. As venture capital flowed, startups mushroomed, and valuations in the capital market soared, it seemed as if the only requirement for a company to be successful was to have a "dot.com" attached to its name. For a brief while, everyone appeared to believe that e-businesses could survive without profits.

However, the fairy tale beginning seems to have turned into a horror story for most e-businesses. The shakeout in the Internet stock valuations began in April 2000, after the NASDAQ crashed, falling from a high of 5,132 to 2,500 between March and November. The Dow Jones Internet Commerce Index with 15 components including Amazon.com and Yahoo! has lost more than 60 percent of its value. Although a select few are still maintaining their high valuations, scores of other e-businesses have scaled back growth plans, over 100 Internet companies have declared bankruptcy, and many others are struggling to survive. A similar trend is seen in venture financing activity. In 1999, e-commerce or B2C received the bulk of venture financing. In the first three quarters of 2000, however, the bulk of venture financing went to communications infrastructure and online software and services (B2B) companies.

The meteoric rise of the Internet sector and its equally dramatic fall raises the following questions: (1) What are the reasons for the shakeout? (2) What will it now take to succeed? (3) What will the future bring? These questions were the focus of the conference, which drew participation from 90 corporate members of the Mack Center and brought together leading academics and practitioners, including:

- John Hagel, Chief Strategy Officer, 12 Entrepreneuring, and author of *Net Gain* and *Net Worth*

- ❏ George Day, Codirector, Mack Center on Managing Technological Innovation; Boisi Professor of Marketing, University of Pennsylvania; and co-editor of *Wharton on Managing Emerging Technologies*
- ❏ Adam Fein, President, Pembroke Consulting
- ❏ Raffi Amit, Director, Wharton E-Business Initiative and Goergen Professor of Entrepreneurship, University of Pennsylvania
- ❏ David Reibstein, Executive Director, Marketing Science Institute and Woodside Professor of Marketing, University of Pennsylvania
- ❏ Stephen J. Andriole, Senior Vice President and Chief Technology Officer, Safeguard Scientifics, Inc.
- ❏ Joel Koppelman, Chief Executive Officer, Primavera Systems, Inc.

The conference began on the evening of October 19 with an agenda-setting address by John Hagel entitled "Surviving the Shakeout: Fundamentals, Fads, and the Future." The group convened again the following morning to explore the three questions in depth. A notable feature of the conference was the high involvement of participants, who gathered in small groups to select examples of winners and losers in the shakeout and offer reasons for their prognoses, which were then presented to and debated in the larger group during the afternoon session.

This paper reports the proceedings of the conference and is organized under three broad headings corresponding to the three questions that the conference was designed to address. Each presentation is summarized under the appropriate head. The paper concludes with a list of research questions raised in the conference.

Cross-functional Product Development Teams and the Innovativeness of New Consumer Products

Rajesh Sethi, Daniel C. Smith, and C. Whan Park

Numerous studies demonstrate that the primary determinant of new product success or failure is innovativeness—the extent to which a new product provides meaningfully unique benefits. While firms are increasingly using cross-functional teams for product development in hopes of improving outcomes, we know little about how such teams affect innovativeness.

In this study, authors Sethi, Smith, and Park examine how new product innovativeness is affected by the characteristics of the team and contextual influences on the team. Their study is based on a survey of 141 cross-functional new product development teams in the consumer goods industry.

Managerial Findings

The study reveals that the mere inclusion of more functional areas in the team does not improve innovativeness; rather new product innovativeness is enhanced when team members develop a strong sense of superordinate identity (which refers to the extent to which members identify with the team rather than merely with their functional areas). One way to create strong superordinate identity is to make team members responsible for the overall project rather than merely their functional tasks, and to link their rewards to the overall project success. Similarly, granting autonomy to the team can facilitate the development of superordinate identity.

Although many managers consider strong interpersonal ties among team members an important criterion in team formation, these findings show that high social cohesion in the team has a negative effect on the innovativeness of new consumer products. Furthermore, some researchers argue that information from customers has a limited role in improving new product innovativeness because customers can provide ideas for only incremental improvements. However, this study finds that teams that rely more on customers' input during new product development produce innovative outcomes.

Contrary to the belief that senior management's involvement in the project is generally considered as interference and is likely to reduce the team's creativity, these results suggest that such involvement, if not excessive, helps the team develop more innovative new products.

Finally, this research highlights that in the absence of strong encouragement to take risk, it is difficult to realize the full potential of cross-functional teams. If senior managers want unique products, they need to ensure that they do not subtly discourage such risk taking. For instance, in their search for improved product quality, firms are emphasizing the continuous improvement of existing products and processes. Such improvements are based on the removal of variation in and high standardization of these processes. Innovativeness, on the other hand, requires a climate in which variation is accepted. It is important for senior managers to recognize this trade-off in the new product development process.

Rajesh Sethi is Assistant Professor of Marketing, School of Business, Clarkson University. Daniel C. Smith is the Clare W. Barker Chair in Marketing and MBA Program Chair, School of Business, Indiana University. C. Whan Park is Joseph A. DeBell Distinguished Professor of Marketing, School of Business, University of Southern California.

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Consumption Symbols as Carriers of Culture: A Study of Japanese, Spanish, and North American Brand Personality Dimensions

Jennifer Lynn Aaker, Verónica Benet-Martínez, and Jordi Garolera

Although previous research suggests that cultural differences are significant enough that companies should adapt product marketing to each local culture, some managers argue that cultural differences among consumers are receding and that the globalization of brands and marketing communications is an increasingly viable strategy. The current research attempts to address this issue; the results show that important differences exist in the way in which consumers across distinct cultural contexts view brands, lending support for the argument of localization.

Study and Findings

Four studies examined how symbolic and expressive attributes associated with commercial brands are structured, and how this structure varies across Japan, Spain, and the U.S. In each study, consumers were asked to rate the extent to which a battery of personality traits described a specific brand. To increase generalizability, the study relied on multiple sets of brands representing a variety of product categories and services. A set of exploratory and confirmatory factor analyses yielded five key "personality dimensions" in each of the countries.

Studies 1 and 2 revealed a set of brand personality dimensions common to both Japan and the United States (sincerity, excitement, competence, and sophistication), but important culture-specific Japanese (peacefulness) and American (ruggedness) dimensions as well. Studies 3 and 4 found dimensions common to both Spain and the United States (sincerity, excitement, and sophistication), plus culture-specific Spanish (passion) and American (competence and ruggedness) dimensions.

These results suggest that a brand can have a common meaning across cultures which may guide a global marketing strategy. At the same time, the brand's culture-specific meaning can be used to strengthen the relationship between a brand and the consumers in a particular culture.

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Global Innovation of New Products and Services

Prepared by Gerald Gruber, Frank Lateur, and Mariana Revesz, London Business School

Overview

This report summarizes the proceedings of the Marketing Science Institute's conference on "Global Innovation of New Products and Services" held October 1-2, 2001 in London.

Creating innovative products and services on a global scale is a complex challenge, and the presentations summarized here offered a variety of viewpoints. Several examined the organizational processes, structures, and systems that foster innovation. Others offered insights and models for understanding new product diffusion across countries, as well as consumers' perceptions of innovative products.

Case studies from Unilever, Royal Philips Electronics, IDEO, and the Innovation Exchange at the London Business School offered insights into best practice. The potential of "mobile marketing" for improving consumer e-commerce was the focus of several presentations.

The two-day conference offered constructive insight and useful data for firms endeavoring to master international innovation while serving highly distributed enterprises. The academic and business "learnings" summarized here will be of interest to researchers and marketing professionals alike.

- ❐ Turning Knowledge into Action: The Future of Marketing Communications
  Martin Sorrell, WPP

- ❐ An Approach to Global Innovation: Consumer Products Industry
  Mehmood Khan, Unilever

- ❐ New Product Innovation in High Technology Clusters: An Examination of the Role of Geographic and Virtual Proximity
  Shankar Ganesan, University of Arizona, Aric Rindfleisch, University of Arizona, and Alan Malter, University of Arizona

- ❐ Innovation and New Product Success: Recent Learnings from the Black Box
  D. Mitchell Barns, BASES

- ❐ Turning up the Sound and Vision: Innovation in Consumer Electronics
  Randy Emond, Royal Philips Electronics

- ❐ Creative New Product Design: The Influence of Visualization, Intrinsic Motivation, and Extrinsic Rewards
  Amitava Chattopadhyay, INSEAD, Darren Dahl, University of Manitoba, Gerald Gorn, HKUST, and Page Moreau, Southern Methodist University

- ❐ Mobile Marketing—Creating the First Interactive Mass Advertising Channel
  Roeding, 12Snap

- ❐ Global Innovation of New Products and Services: Creating the Right Conditions for Creativity and Innovation
  Martin G. Hoenle, IDEO

- ❐ Investigating Innovation Diffusion Across Products and Countries
  K. Sudhir, Yale University

- ❐ Permission-Based Mobile Advertising
  Patrick Barwise, London Business School

- ❐ Innovation in Japan's Information Technology Industry: A Comparative Analysis
  Hiroshi Kosaka, Chuo University

- ❐ Global Innovation—No Such Thing? Insights into Best Practice for Global Innovation
  Bettina von Stamm, London Business School

Capturing Evolving Visit Behavior in Clickstream Data

Wendy W. Moe and Peter S. Fader

Many online retailers monitor visitor traffic as a measure of their store's success. However, summary measures such as the total number of visits per month provide little insight about individual-level shopping behavior. Additionally, behavior may evolve over time, especially in a changing environment like the Internet. Understanding the nature of this evolution provides valuable knowledge that can influence how a retail store is managed and marketed.

In this report authors Moe and Fader develop an individual-level model for store visiting behavior based on Internet clickstream data. They capture cross-sectional variation in store-visit behavior as well as changes over time as visitors gain experience with the store. That is, as someone makes more visits to a site, his or her latent rate of visit may increase, decrease, or remain unchanged as in the case of static, mature markets. So as the composition of the customer population changes (e.g., as customers mature or as large numbers of new and inexperienced Internet shoppers enter the market), the overall degree of visitor heterogeneity that each store faces may shift.

The study also examines the relationship between visiting frequency and purchasing propensity. Previous studies suggest that customers who shop frequently may be more likely to make a purchase on any given shopping occasion. As a result, frequent shoppers often comprise the preferred target segment. Moe and Fader find evidence supporting the fact that people who visit a store more frequently are more likely to buy. However, they also show that changes (i.e., evolution) in an individual's visit frequency over time provide further information regarding which customer segments are more likely to buy. That is, frequent visitors who are increasing their visiting rates over time are more likely to purchase something at any given visit than those who are slowing down. Rather than simply targeting all frequent shoppers, these results suggest that a more refined segmentation approach that incorporates how much an individual's behavior is changing could more efficiently identify a profitable target segment.

Wendy W. Moe is Assistant Professor of Marketing, University of Texas at Austin. Peter S. Fader is Associate Professor of Marketing, The Wharton School, University of Pennsylvania.

Consumer Trust, Value, and Loyalty in Relational Exchanges

Deepak Sirdeshmukh, Jagdip Singh, and Barry Sabol

Contemporary thought in marketing recognizes that trust is a critical factor in relational exchanges between consumers and service providers. Most studies have focused on the consequences of perceived trust for outcomes such as loyalty and cooperation. Few have examined company behaviors and practices that build or deplete consumer trust, or the mechanisms by which these behaviors and practices contribute to trust enhancement and/or depletion.

In this study, authors Sirdeshmukh, Singh, and Sabol address this gap in our understanding by modeling trust-building and trust-depletion processes as dynamic and asymmetric. Their framework includes multiple dimensions of trustworthiness—operational competence, operational benevolence, and problem-solving orientation—and incorporates two distinct facets of consumer trust judgments—frontline employees and management policies and practices. In addition, it specifies value as a key mediator of the trust-loyalty relationship.

Study Findings

The model is tested using data from two service contexts—retail clothing and non-business airline travel, and the results find strong support for the conceptual model. Other managerial findings include the following:

- For frontline employees, benevolent behaviors demonstrate a dominant "negativity" effect (that is, negative performance has a stronger effect than positive performance), while problem-solving orientation has a dominant "positivity" effect (positive performance has a stronger effect than negative performance).
- Frontline employee behaviors emerge as more critical in the retail industry, while management policies and practices play the dominant role in the airlines industry.
- The effect of trust on consumer loyalty is conditional on its ability to enhance value. Without net increments in value, investing in consumer trust may do little for the bottom line. Value completely mediates the effect of frontline employee trust on loyalty in the retailing context, and partially mediates the effect of management trust on loyalty in the airlines context.

These results provide compelling evidence to counter conventional beliefs that consumer trust translates directly into loyalty. The conversion of trust to loyalty involves complex processes that depend on (a) how specific trustworthiness dimensions build greater consumer trust in frontline employees, management policies and practices, or both, (b) how increased consumer trust can enhance value for consumers, and (c) how value translates into loyalty. Such processes are sensitive to contextual and industry factors and are likely to involve asymmetric influences. In sum, while there are significant payoffs from building consumer trust in relational exchanges, realizing them is neither straightforward nor inevitable.

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Pricing Process as a Capability: A Case Study

Shantanu Dutta, Mark Zbaracki, and Mark Bergen

The pricing literature in marketing, strategy, and economics has tended to focus on what prices are or should be, rather on the process by which firms set prices. Further, pricing is often seen as a tactical, rather than strategic, decision that does not require the involvement of senior management.

This report offers a very different view of pricing. Using a resource-based perspective, authors Dutta, Zbaracki, and Bergen argue that the price-setting process is a capability based on a combination of routines, coordination mechanisms, systems, skills, and other complementary resources that are difficult to imitate. In a study of the pricing process of a large, Midwestern manufacturing firm, they offer evidence that the process by which prices are set is a "value-extractive" capability, and hence can be a source of competitive advantage.

Case Study

Using in-depth interviews, on-site observation, and recorded data the researchers delineated two major dimensions of price-setting capabilities at the focal firm: internal price-setting capability within the firm and external pricing-setting capability vis-à-vis customers. The internal price-setting process had three major components: identifying competitor prices, setting pricing strategy, and performing analysis of proposed prices and gaining commitment to the new prices. Each of these involved a series of nested routines and sub-routines involving various members of the firm.

Similarly, external price-setting capability required resources, skills, and routines, first, to convince customers of the logic behind a price change and, second, to negotiate specific prices with major customers. The process of "selling" prices to customers required that the firm develop routines to gather and disseminate information on the pricing norms of its distributors and immediate customers and also its customers' customers.

Managerial Implications

Any firm can match a single price. This task is complicated when a firm sells hundreds or thousands of products to multiple differentiated customers and multiple competitors—the typical reality of any large producer. In order to extract value created, the pricing process should consist of a variety of routines and procedures that cut across multiple conflicting groups and involve members of the firm and the various customers purchasing the firm's products.

Pricing decisions depend on the ability to respond adaptively to the decisions of competitors and customers. Firms compete on price not solely in setting day-to-day prices, but also in building and developing price-setting capabilities that define the pricing outcomes well into the future for the firm.

Viewing the process by which prices are set as a capability suggests that the real pricing questions in marketing lie in the decisions a firm makes about its pricing process capabilities. In that context, any particular pricing decision matters much less than the resources, skills, and routines—the capabilities—applied to enhance the effectiveness of the price-setting process.

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The Impact of Business Objectives and the Time Horizon of Performance Evaluation on Pricing Behavior

Sev K. Keil, David Reibstein, and Dick R. Wittink

Brand managers frequently use market share data to formulate their marketing activities. In fact, short-term competitive reactions to share gains and losses are often described as excessive and, thus, detrimental to long-term profits.

In this report, authors Keil, Reibstein, and Wittink suggest that the nature of business objectives and the frequency of performance evaluation will affect managers' pricing decisions. Specifically, they argue that a profit-maximization objective and a long time frame for performance evaluation will lead to less intense competitive reactions and to increased pricing experimentation—both leading to more profitable behavior.

Study Findings

The study used a market simulation game with 54 executive program participants from multinational companies. Overall, the researchers found higher prices, lower market shares, and higher cumulative profits for respondents with longer time-frame performance evaluations and profit-maximization business objectives. Specifically:

- ❒ Managers who were evaluated on a yearly, rather than quarterly, basis displayed less intensive reactions to competitive moves (thus reducing the likelihood of costly price wars). The intensity of competitive reactions was also reduced if the business objective was profit maximization, rather than "do the best you can," which led to a market share focus.

- ❒ Managers who were evaluated yearly, rather than quarterly, were more likely to experiment with prices in order to estimate consumers' price sensitivities. However, a business objective of profit maximization, compared with "do the best you can," did not result in greater pricing experimentation.

Managerial Implications

These findings suggest that firms should reconsider both the time horizon of managers' performance evaluations and the specification of business objectives.

In addition, current feedback systems for managers in many industries focus primarily on changes in market shares and competitive activities, and these systems may encourage managers to be excessively competitor-oriented. The authors suggest that a new information environment—one that starts at the household level and combines information about product choices, satisfaction with the purchase and consumption/use, and unmet needs—would enhance managers' customer focus, and positively affect brand performance.

The uncertainty about the effects of own and competitors' actions on own-brand sales, as well as the nature of competitive reactions, suggests that managers would benefit from simulating various "what if" scenarios before undertaking new marketing initiatives or reactions. With knowledge about the expected impact of a new action, the firm can then contemplate its best approach.

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Valuing Customers

Sunil Gupta, Donald R. Lehmann, and Jennifer Ames Stuart

Although traditional accounting has focused on tangible assets, intangible assets—among them brand, customer, and employee equity—are critical and often dominant determinants of firm value. In this report, authors Gupta, Lehmann, and Stuart merge traditional financial valuation methods based on discounted earnings with the key marketing concept of the value of the customer to the firm.

The premise of their customer-based valuation approach is this: If the long-term value of a customer can be estimated by the lifetime value framework, and the growth in number of customers can be forecast, then the current and future customer base of a company can be valued. To the extent that this customer base forms a large part of a company's overall value, it can provide a useful proxy for firm value.

Study

The approach is based on customer lifetime value, the discounted future income stream based on acquisition, retention, and expansion projections and their associated costs. The researchers define the value of an existing customer to a firm as the expected sum of discounted future earnings, which is based on key assumptions concerning retention rate and profit margin. The value of all customers includes future customers as determined by the acquisition rate and cost of acquiring new customers.

They demonstrate the method by using publicly available data for four Internet firms—Amazon, Ameritrade, eBay, and E*TRADE. The results show a close relation between customer value and stock market value for three of the four companies.

Managerial Findings

First, the estimates of customer value obtained by this approach were reasonably close to the current market valuation of three of the four Internet firms. In contrast, traditional valuation methods had difficulty valuing these firms since most of them have negative earnings. These results indicate that customer-based metrics are value relevant.

Second, unlike the wide fluctuations in market value of these firms over the last year, estimates of customer value are quite stable over time since the patterns estimated do not change radically with a single new data point. This suggests that the customer-based valuation approach may be a more stable indicator of intrinsic firm value.

Third, consistent with previous studies in marketing, this study finds that retention has a very large impact on customer value. Specifically, a 10 percent improvement in retention increases the value of a firm's customer base by about 30 percent. In contrast, a 10 percent improvement in acquisition cost improves value by only 1 percent, and a 10 percent improvement in margin increases value by about 11 percent.

Interestingly, the market treated marketing (and customer acquisition) expenditures as investments before the Internet crash but now treats these expenditures as expenses. These results indicate that cutting acquisition costs may not be the most effective way to improve value. Further, to the extent that customers are assets, the market may be incorrect in treating customer acquisition costs as current expenses rather than as investments.

Fourth, the study finds that the retention rate has a significantly larger impact on customer and firm value than the discount rate or firm's cost of capital. Financial analysts and company managers spend considerable time and effort to measure and manage discount rate because they understand its impact on firm value. However, it may be more important for senior managers and financial analysts as well as marketing managers to pay close attention to a firm's customer retention rate.

Sunil Gupta is Meyer Feldberg Professor of Business, Columbia University. Donald R. Lehmann is George E. Warren Professor of Business, Columbia University, and Executive Director, Marketing Science Institute. Jennifer Ames Stuart is a Ph.D. candidate at Columbia Business School, Columbia University.

Do Promotions Benefit Manufacturers, Retailers, or Both?

Shuba Srinivasan, Koen Pauwels, Dominique M. Hanssens, and Marnik G. Dekimpe

While there has been strong managerial and academic interest in price promotions, much of the focus has been on the impact of such promotions on category sales, brand sales, and brand choice. Although little is known about the long-run impact of price promotions on manufacturer and retailer revenues and margins, marketing researchers and practitioners consider this a priority area.

In this report, authors Srinivasan, Pauwels, Hanssens, and Dekimpe address these important questions: Do promotions generate additional revenue, and for whom? Which brand, category, and market conditions influence promotional benefits and their allocation across manufacturers and retailers?

They conduct a large-scale econometric investigation of the effects of price promotions on manufacturer revenues and retailer revenues and margins. This investigation proceeds in two steps. First, persistence modeling reveals the short- and long-run effects of price promotions on these performance measures. Second, weighted least-squares analysis shows to what extent brand and promotion policies, as well as market structure and category characteristics, influence promotional impact.

Findings

The authors find that price promotions do not have permanent monetary effects for either party. Consequently, promotional planning is more tactical than strategic.

Second, there are significant differences between the manufacturer and retailer in terms of the cumulative impact of promotions on their revenues. Price promotions have a predominantly positive impact on manufacturer revenues, but their effects on retailer revenues are mixed. Retailer (category) margins are typically reduced by price promotions. Consequently, manufacturer side payments are needed in order to offset retailer losses. However, only in a small fraction of the cases is there sufficient manufacturer surplus to fully compensate for the retailer's losses. Even when accounting for cross-category and store-traffic effects, the study still finds evidence that price promotions are typically not beneficial to the retailer.

Third, the results indicate that manufacturer revenue elasticities are higher for promotions of small-share brands and for frequently promoted brands. Moreover, they are higher for storable products and lower in categories with a high degree of brand proliferation. Retailer revenue elasticities, in turn, are higher for brands with frequent and shallow promotions, for storable products, and in categories with low brand proliferation.

Finally, retailer margin elasticities are higher for promotions of small-share brands and for brands with infrequent and shallow promotions. Thus, managerial implications with respect to the optimal frequency of promotions depend upon the performance measure the retailer chooses to emphasize.

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Competitive Reactions and Modes of Competitive Reasoning: Downplaying the Unpredictable?

Joel E. Urbany, David B. Montgomery, and Marian Moore

Understanding and anticipating interdependent competitor reactions is critical to firm performance. However, the literature suggests that decision makers often do not effectively conjecture about competitors' future behavior and that firms know far less about competitor behavior than economic theory assumes.

In this report, authors Urbany, Montgomery, and Moore focus on how and under what circumstances managers incorporate predictions of future competitor reactions into their decision making. They first identify three general modes of competitive conjecture: (1) ignoring the competition, (2) extrapolating a competitor's past behavior, and (3) anticipating a competitor's reactions to the firm's moves. They examine the incidence of the third mode—strategic competitive reasoning—in two studies that examine the factors driving decisions by approximately 150 responding managers. They found that strategic competitive thinking was quite rare, but was more common for pricing than for market entry, new product, and advertising budgeting decisions.

A third study asked nearly 100 executives (including MSI Trustees at a trustees' meeting) to suggest why the results of the first two studies found such a paucity of consideration of competitor reactions. Their responses explaining the results showed substantially greater weighting given to more certain, measurable, justifiable internal factors than to uncertain competitor behavior. Surprisingly, the dominant explanations indicate that managers do not see the value of competitor analysis, rather than that they find it too costly in terms of time, cognitive effort, and money.

This latter result suggests that if firms would like to enhance their managers' willingness to consider potential competitor reactions, they can probably get maximum leverage by focusing on ways to enhance the perception of the value of competitor reaction analysis. Efforts to increase senior management attention to competitive analysis and manager training in the tools, methods, and results of competitive analysis should help address this issue. Of course, efforts to reduce the cost of competitor intelligence collection and analysis are also in order.

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Marketing to and Serving Customers Through the Internet

Edited by George Zinkhan, University of Georgia
Prepared by Kishore Gopalakrishna Pillai, University of Miami, and
Melanie Provost and Yue Pan, University of Georgia

Overview

This report summarizes the proceedings of the Marketing Science Institute conference, "Marketing to and Serving Customers Through the Internet" held December 6-7, 2001, in Boca Raton, Florida.

In the early 21st century, emerging technology has the potential to revolutionize human behavior and business practice. For instance, it has been proposed that the Internet causes every power relationship on the planet to be re-negotiated. At the same time that the Internet provides organizations with radical new ways to forge partnerships, reduce costs, and gather information, it also offers consumers more possibilities for banding together to demand better services, to complain, or to seek more competitive prices. The purpose of this conference was to bring together a group of scholars and managers in order to understand the implications of the Internet and the possible directions that this technology might take us in the near future.

Several broad themes were developed in this conference, including: (a) industry differences; (b) successful business models and the underlying economics; (c) emerging technologies (e.g., mobile commerce, ubiquitous commerce); (d) new methods for communicating and selling; (e) implications for service delivery and service quality; and (f) new pricing models. The papers in this conference address one or more of these important themes. Based upon feedback from audience members, the authors plan to submit their expanded papers to a special issue of the *Journal of the Academy of Marketing Science* (JAMS). The papers will pass through the review process at this journal and subsequently be published as a JAMS special issue that will be co-sponsored by MSI.

A. Parasuraman, Conference Organizer and Professor of Marketing
School of Business Administration
University of Miami

George Zinkhan, Conference Organizer and Professor of Marketing
Terry College of Business
University of Georgia

Session 1: E-tailing Successes and Failures

- ❏ What Brings Them in and What Keeps Them Coming Back?
  David J. Reibstein, University of Pennsylvania

- ❏ The Dot-Com Retail Failures of 2000: Were There Any Winners?
  Vijay Mahajan and Raji Srinivasan, University of Texas-Austin, and Jerry Wind, University of Pennsylvania

- ❏ Lessons from the E-tailing Wars: Conceptual Frameworks for Retailing to Consumers on the Internet
  Kirthi Kalyanam and Shelby McIntyre, University of Santa Clara

Session 2: Electronic Interfaces: New Insights and Information

- ❏ Service Quality Delivery Through Websites: A Critical Review of Extant Knowledge
  V*alarie Zeithaml, University of North Carolina-Chapel Hill, A. Parasuraman, University of Miami, and Arvind Malhotra, University of North Carolina-Chapel Hill*

- ❏ Exploring the Implications of M-Commerce for Markets and Marketing
  Sridhar Balasubramanian, Robert A. Peterson, and Sirkka Jarvenpaa, University of Texas-Austin

Session 3: The Effectiveness of Customer Interface Technologies

- ❏ Substitution and Complementarity: Measuring the Effectiveness of Interactive Media
  David Stewart and Paul Pavlou, University of Southern California

- ❏ Cross-cultural Website Effectiveness: Antecedents and Consequences of Flow
  David Luna, University of Wisconsin-Whitewater, Laura Peracchio, University of Wisconsin-Milwaukee, and María D. de Juan Vigaray, Universidad de Alicante (Spain)

Session 4: Pricing and Privacy in Electronic Markets

- ❏ Can Price Dispersion in Online Markets Be Explained by Differences in E-tailer Service Quality?
  Xing Pan, Brian Ratchford, and Venkatesh Shankar, University of Maryland

- ❏ Toward an Understanding of the Influence of Shopbots on Electronic Markets
  Michael Smith, Carnegie Mellon University

- ❏ The Consumer Economics of Internet Privacy
  Roland Rust, P. K. Kannan, and Na Peng, University of Maryland

Session 5: Relationships in a Computer-Mediated Interactive Environment: Implications for Marketing Strategy

- ❑ Competing in the Physical and the Electronic Marketplace: Marketing Strategy Drivers and Outcomes
  Rajan Varadarajan and Manjit Yadav, Texas A&M University

- ❑ Managing and Measuring Relational Equity in the Network Economy
  Mohanbir Sawhney, Northwestern University, and Jeff Zabin, Seurat Company

- ❑ U-Commerce: Broadening the Universe of Marketing
  Richard Watson, University of Georgia, Leyland Pitt, Curtin University (Australia), Pierre Berthon, Bentley College, and George Zinkhan, University of Georgia

Session 6: Electronic B2B Relationships

- ❑ Markets or Cartels: The Prospects for B2B Internet Exchanges
  Das Narayanadas, Mary Caravella, and John Deighton, Harvard University

- ❑ On the Strategic Use of Reverse Auctions in Supply Chains
  Sandy D. Jap, Emory University

- ❑ Technology and the Customer Interface
  Raymond R. Burke, Indiana University

Young Scholars Program

Overview

This report summarizes the proceedings of the Marketing Science Institute Young Scholars Program, held January 11-14, 2001, in Park City, Utah.

This first-ever event brought together promising young faculty members to present current or recent research. This report compiles the abstracts that formed the basis for the conference sessions; they represent work-in-progress at that time and should be interpreted as such.

Together, these abstracts offer a survey of the intellectual terrain being traveled by some of marketing academia's future leaders. Although primarily aimed at an academic audience, the thinking, research, and findings discussed here will be of interest to forward-looking marketing professionals as well.

Note: Many of the abstracts found in this reports have several authors. In cases of multiple authorship, the individual who was invited to present research at the Young Scholars Program is denoted with an asterisk.

- ❑ Revealing the Information in Zipcodes: Massively Categorical Variables in Targeted Marketing
  Thomas J. Steenburgh, Yale University, Andrew Ainslie, University of California at Los Angeles, and Peder Hans Engebretson, University of Chicago*

- ❑ Price Learning and Marketing Cues
  Eric Anderson and Stijn M. J. van Osselaer, University of Chicago*

- ❑ The Effect of Price Advertising and Consumer Search on Price Dispersion
  David R. Bell, University of Pennsylvania

- ❑ Spatio-temporal Diffusion of Distribution in Domestic Retail Markets
  Bart Bronnenberg, University of California, Los Angeles, and Carl Mela, Duke University*

- ❑ Choosing Change or Persistence in Preference: The Effect of Decision Context
  Aimee Drolet, University of California at Los Angeles

- ❑ When Is Asking Questions the Answer?
  Gavan J. Fitzsimons, University of Pennsylvania

- ❏ Bonding with Brands: The Role of Product Categories in Long-Term Leadership Persistence
  Peter N. Golder, New York University, and Julie R. Irwin, University of Texas, Austin*

- ❏ The Influence of Broad-Scope Trust on the Development of Narrow-Scope Trust in a Financial Services Context 35
  Kent Grayson, London Business School, and Devon Johnson, Emory University*

- ❏ An Integrated Model for the Sales of New Consumer Packaged Goods Products
  Bruce G. S. Hardie, London Business School

- ❏ Referral Infomediaries and Retail Competition
  Yuxin Chen, New York University, Ganesh Iyer, University of California at Berkeley, and V. Padmanabhan, Washington University*

- ❏ Determinants and Effects of Price Expectations on Retail Competition: An Econometric Analysis
  Ramya Neelamegham, University of Colorado at Boulder, and Vrinda Kadiyali, Cornell University*

- ❏ "I" Seek Pleasures and "We" Avoid Pains: The Role of Self in Information Processing and Persuasion
  Angela Y. Lee, Northwestern University, Jennifer Aaker, Stanford University, and Wendi Gardner, Northwestern University*

- ❏ A Structural Model of Cross-Selling
  Eric Anderson, Puneet Manchanda,* and Surendra Rajiv, University of Chicago*

- ❏ E-Customization
  Asim Ansari, Columbia University, and Carl Mela, Duke University*

- ❏ Incidental Prices and Their Effect on Consumers' Willingness to Pay
  Joseph C. Nunes, University of Southern California, and Peter Boatwright, Carnegie Mellon University*

- ❏ Beyond the Obvious: Chronic Vividness of Imagery and the Use of Information in Decision-making
  Michel Tuan Pham, Columbia University

- ❏ Biases in Spatial Judgments1
  Priya Raghubir, University of California at Berkeley, Aradhna Krishna, University of Michigan, Robert E. Krider, Simon Fraser University, Sanjiv Das, Santa Clara University, Sha Yang, University of California, Riverside, and Eric Greenleaf, New York University*

- ❏ Dynamic Stability of Markets
  Paul Farris and Phil Pfeifer, University of Virginia, David Reibstein, University of Pennsylvania and Marketing Science Institute, and Erjen van Nierop, Erasmus University*

- ❏ Role of Stimulus-Induced Affect on Choice: The Affective-Cognitive Model
  Baba Shiv, University of Iowa

- ❏ Fast Polyhedral Adaptive Conjoint Analysis
  Olivier Toubia, Duncan Simester, and John Hauser, Massachusetts Institute of Technology*

- ❏ The Marketing of Political Platforms
  Loïc Sadoulet, Université Libre de Bruxelles, Belgium, and David Soberman, INSEAD*

- ❏ An Empirical and Experimental Investigation of Price-Matching Refund Policies
  Joydeep Srivastava, University of California, Berkeley

- ❏ Scripted Thought
  Nader Tavassoli, Massachusetts Institute of Technology

- ❏ Debt Aversion as a Precommitment Not to Overconsume
  Klaus Wertenbroch, INSEAD, Joseph Nunes, University of Southern California, and Dilip Soman, HKUST*

- ❏ Emotional Dissonance
  Patti Williams, University of Pennsylvania, and Jennifer Aaker, Stanford University*

- ❏ Internet Car Retailing
  Florian Zettelmeyer, University of California at Berkeley, Fiona Scott Morton, Yale University and National Bureau of Economic Research, and Jorge Silva Risso, J. D. Power and Associates*

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