Strategic Challenges of the New Consumer Market Realities

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Abstract

"The trouble with our times is that the future is not what it used to be."
Paul Valery (French critic & poet)

This paper takes a look at the new realities that are shaping up our consumer markets in which we live, interact, and operate. A thorough understanding and appreciation of these new realities is key to our abilities as managers to properly react to them, interact with them, refine them, and more importantly, define them. The author characterizes the time and age in which we live as being an: Age of Personalization, an Age of Mobility, and an Age of Paradox. The concept of Value Innovation is then proposed as a prescription.

The author hopes that the paper would not only present the reader with those realities, but also get them to appreciate the potential that the realization of such realities brings into the market. Those who fail to realize the presence of those new realities and their effect on market dynamics, or, even worse, ignore them and discount their presence, will soon find themselves out of touch with their markets and essentially blinded by the dust generated by the vehicles of those companies who do.

Age of Personalization – The Power of the Consumer

Customers have always been at the heart of Marketing thought and practice. As business management perspectives moved from predominantly being concerned and driven by Production, to the Product itself, to the Sales function, and ultimately to Marketing as a philosophy, business focus progressed from being primarily cost-containment-focused, to that of resource and R&D-focused, to immediate-share-focused, to ultimately becoming customer-focused. Sooner than later the financial, managerial, and social rewards of Marketing philosophy and practice where felt by institutions. We satisfy a customer, he/she will come back, and bring others too, resulting in turnover, revenues, and profits. At the end of the day, we are all happy. A win-win situation where by each party has satisfied its needs.

With time, customers realized their power. Businesses have helped customers realize their power. Businesses did that as means of differentiation; powerful ammunition to use in their Competitive battles. Businesses mastered that to the extent that now, they sort of regretted it. Successful communication messages and customer relation practices by businesses opened the customer's eyes into a new reality. I am important in my own right. Not as part of a 'market' or a 'segment', but in my own right as 'a' customer. It is now the 'I' rather than the 'We'. Businesses are no longer interested in just satisfying me now through offering me value for my money (moment of truth), but also in my repeat satisfaction at all such moments through

consistently delivering to my increasing expectations of value (customer life-time value); they are interested in developing a longer term rather than a shorter term relationship (and we came up with buzz words such as CRM – customer relationship management and customer-intimacy).

While, as customers, we do still identify with, and perhaps define ourselves through, a group; yet, each one of us looks for his/her own rights as a customer in that group. A sort of marriage of Maslow's Affiliation, Esteem, and Actualization needs.

Consumers undoubtedly now feel that they have much greater power in the ongoing fight-for-control of the exchange process. And this power is by no means confined to that tug of war between business providers (be it business entities or their personnel) and recipients. Consumers are realizing their influence on the other players involved in one way or another in this exchange process, such as the government, the legislature, and the media. Indeed, consumers are acting upon this realization of their potency.

All this has affected business definition of what a market is. Businesses have to realize this new reality and respond to it.

Age of Mobility - The Power of Technology

Technology has brought people together (from mobile telecommunication, internet, satellite technology, GPS, to e-mail and SMS messaging, to the social networking sites of the likes of facebook and myspace).

Not only people are now more mobile. More people are now mobile. And a reminder that people mobility is not confined to geographic mobility. Perhaps as important for us as businesses is 'social mobility'. There is an increased likelihood for people to move up (or, unfortunately) down the social class structure.

Needless to say, information is mobile too. Businesses and their business models are mobile. And, even Cultures are mobile.

This also has affected the way businesses should define their markets.

Few years back Kellogg's Graduate School of Management at Northwestern University ignited a heated discussion among marketing scholars and practitioners through a collection of cutting-edge articles on various aspects of Marketing Strategy. In one of the articles, marketing guru Philip Kotler and co-author Mohanbir Sawhney declared that the Industrial Age is but gone, giving way to a new Age of Information Democracy – an age in which customers are empowered with information. They called for reversing the conventional wisdom on the marketing concept, the marketing process, and the marketing organization. "Companies that continue their Industrial Age thinking will lose the race for market leadership" (p.386). Needless to say, technology is a main culprit in this "coup d'etat".

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The Age of Paradox

The first two realities give way to a very interesting third. A disturbing third, if I may say so, from a business perspective. The Age of Paradox.

As customers, we want something and its antonym. And we expect to get both.

We want powerful attractive cars, but cars that are cheap, do not consume a lot of gas, and are environmentally friendly. Go figure.

We want to own prestigious luxury brands that only a few can afford to buy; yet, we want them at bargain prices. Go figure.

We want the 'Champaign taste, at beer money'.

We want to feel healthy, look healthy, stay healthy, yet we love to indulge in food and social food outings. Go figure.

We want to have the means to reach people when we want to connect with them. Yet, we do not want them to reach us when we do not want to be reached. Go figure.

We want courier mail delivery service, at snail-mail rates. Go figure.

We want to come first in the sprint, and win the marathon at the same time.

In investments, we defy economic theories and justifications. We want high-returns on low-risk, capital guaranteed investments. Go figure.

We are increasingly disinterested in what we get "for a fee", and more and more look for and ask about what we do get "for free".

We want to 'Dance with the Stars', but we also want to be 'Smarter than a Fifth Grader'.

The market challenges us with those paradoxes, and it is up to us as managers to 'go figure'. At least those of us who want to prosper or stay around for a while, have to.

The Prescription: Value Innovation

"The best way to predict the future is to invent it."

Alan Curtis Kay

How can businesses prosper under those realities and paradoxes?

Technology is both the villain and the hero; the curse as well as the blessing. It allows businesses to have access to detailed customer knowledge and information, and provides businesses with the flexibility needed to act and respond to customer needs and wants. This is core of one of the more recent proposed paths to market leadership: the Customer Intimacy value discipline (first proposed by Treacy & Wiersema in HBR in 1993).

In a somewhat recent study by IBM of some top Fortune 500 companies, about 70% said that Innovation is the surest path to growth. About 30% said that they believe innovation to be focused on the business model rather than on any product, brand, or formula.

Innovation is to be looked at as a discipline – as a collaborative effort of various stakeholders: starting with management & employees, to business partners, consultants, and customers (in that order). By the way, R&D as a unit ranked 7th in that list. This reminds me of what one marketing guru once said: "Innovation is too important to be left to only R&D."

Let's pause a little bit and think about the following:

> What kept Kodak from introducing the digital camera? Sony did; and ruled the business too.
>
> But then what kept Sony from coming up with the ipod? Apple, a troubled computer company back then, did.
>
> Why didn't the ABC's, NBC's, and CBS's of the world think of a 24-hour news network? An unknown dreamer called Ted Truner did with his CNN.
>
> Why didn't Nestle think of the coffee-store model? A newcomer Starbucks did.

The answer is but the same. Those who 'did not' simply 'did not' challenge the status-quo. And I am not referring to simply challenging the way we as managers run our daily operations; but rather about a drastic change in our strategic thinking, bringing a fresh alternate perspective in approaching the mission of our organizations – an innovative manifestation of our "raison d'etre".

There is no better support for those IBM findings about the role of innovation and the importance of the business model on the one hand, and the challenges of market paradoxes on the other, than the value-innovation model put forward by the Blue Ocean Strategy of Kim & Mauborgne. A model that focuses on both value and innovation together to create a new uncontested market space that makes competition irrelevant. Innovation that is linked to what buyers value (p192). Its corner stone is the ability to "drive costs down while simultaneously driving value up for buyers" (p.17). Perhaps one can say that it is a management paradox prescription to handle the consumer reality paradox.

Blue Ocean strategy framework attempts to break the traditionally cast-in-stone doctrine of a trade-off between differentiation and low cost (Porter's framework) by challenging the status-quo, the industry's conventional wisdom, through asking the following questions: (p.29)

> "Which of the factors that the industry takes for granted should be eliminated?
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> Which factors should be reduced well below industry standards?
>
> Which factors should be raised well above industry standards?
>
> Which factors should be created that the industry has never offered?"

All of the success stories in the examples above did just that, and successfully came up with new market defining innovations: CNN news network, Sony digital cameras, Starbucks Coffee franchise, Apple's ipod (and later the iphone). Other examples include Southwest Airlines and more recently, Toyota's hybrid car Prius.

Be a market-driving company not a market-driven company.

As Kim and Mauborgne put it: Blue Ocean's value innovation model "It challenges the conventional practice of aiming for finer segmentation to better meet existing customer preferences, … not by focusing on the differences that separate customers but by building on the powerful commonalities.." (p.20)

Selected References

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