

# Consumer informedness and diverse consumer purchasing behaviors: Traditional mass-market, trading down, and trading out into the long tail

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## Abstract

As truly informed consumers are increasingly able to find exactly what they want and willing to pay premium prices to obtain products with perfect fit for them, companies have responded with new product portfolio strategies and new pricing strategies, based on the concepts of resonance marketing and hyperdifferentiation. This is not just consumers' pursuit of products that are *better*, but rather *better for them*. It is not *trading up*, but rather *trading out*. In this paper we offer a more complete explanation of changes in consumer behavior, based on consumers' new-found *informedness*, and an understanding of consumers' pursuit of products that truly meet their individual wants and needs, cravings and longings.

This paper also contributes to a deeper understanding of how online reviews are linked to sales. Recent empirical studies suggest that consumers use information in different ways in different shopping experiences, and that consumers' purchasing behavior varies across different online shopping experiences; consequently, the best predictors of the success of different online products will therefore vary depending on what consumers are buying and why and how they are buying it.

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## 1. Introduction

With the publication of *The Long Tail* [2] our earlier work on resonance marketing and hyperdifferentiation [13–15] has become more relevant, and the problems have become of greater interest to more scholars in the field of information economics (c.f. [9,10]). However, *The Long Tail*, at least as Anderson has popularized it, focuses exclusively on retailing; more specifically, within the long tail of retailing Anderson largely focuses on

information goods, goods that can be sold online, or both<sup>1</sup>; after reflection the limitations of this work become clear:

<sup>1</sup> Of course, interest in the long tail predates internet marketing, its application to retailing, and the publication of *The Long Tail* by over a century. Quoting directly from one of the paper's reviewers: "...the long tail is the colloquial name for a long-studied feature of what have been called Zipf, Yule, Pareto, and so forth distributions (all the same formulation) identified independently by Willis and Yule [53] in connection with biological genera, Auerback [3] in connection with size of cities, Pareto [39] in income distribution and Zipf [55] in connection with word usage. We believe that the underlying long tail in retailing is driven by the fact that the populations of regions in product attribute space, like the population of regions in physical space, follows this same distribution. Likewise, we believe that the emergence of the long tail in actual sales is enabled by hyperdifferentiation and resonance marketing, as described in Section 2.

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- An online vendor like Amazon does not worry about inventory holding costs or turnover rates, since Amazon frequently does not take possession of long tail goods before shipment to the customer. Both Amazon and their suppliers benefit from the fact that information goods like books, CDs, and DVDs, are shelf-stable and do not spoil. A traditional grocer has to worry about both holding costs and turnover rates. Products that do not sell, or that do not sell quickly, occupy critical floor space and can destroy profitability in a number of ways. Those that code out (spoil or pass sell-by dates) before sale can be even worse for profitability.
- A pure information good often has minimal per copy production costs. For example, stocking all Indian movies in the US because they cost nothing to produce ignores the fact that the original production cost was justified by a large domestic market for Bollywood films, for which the movie was not a long tail offering. The per copy cost for a pound of Roquefort cheese, or for a pound of dry aged USDA prime New York strip steak, or for a rose gold Patek Philippe Grand Complications wrist watch will be quite significant.<sup>2</sup>
- Some products really do succeed in defending the mass in the middle, which has not vanished. While retailers may earn very little selling Tide laundry detergent or Hellmann's Real Mayonnaise due to competition from other retailers, these products are dominant in their marketplace and remain profitable for their manufacturers.

We feel that it is especially valuable at this time to examine the assumptions of resonance marketing and to explore how improved customer information endowments alter the strategies of new entrants and established incumbents. We believe that it is likewise valuable to examine where improved customer information endowment does and does not drive customers out of the established middle and into the long tails. This paper reviews our earlier work on hyperdifferentiation and resonance marketing only to the extent needed to then perform some empirical testing of a purchasing situation in which consumers appear to behave in a way that is counter to our earlier findings. It is not a general review of resonance marketing nor a comprehensive test of our

assumptions under a complete range of purchasing situations.

## 2. Resonance marketing and hyperdifferentiation

### 2.1. Traditional marketing strategies – occupy the center of the board

Traditional marketing strategy suggests that the first firms to enter a market will occupy the center of the market:

- That is where most consumers actually are. In its weakest form this statement is true because boundary conditions limit the size of the market available to firms that locate near the edges of the product attribute space. In a more extreme form, this statement also notes that consumers may not be located uniformly in the product attribute space, but rather will observe some form of peaked distribution, with the bulk of the mass near the center. This assumption in its weak form is consistent with the standard Linear City model [31].
- Moreover, customers expect the successful initial entrants to provide high quality products near the center of the products' attribute space, for two reasons. Initially, with no information on a product's positioning in product attribute space, consumers will assume the product is located in the center of their zone of uncertainty. This is a fundamental Bayesian assumption that we feel is both useful and valid. As consumers gain more experience, and note that indeed products actually are located in the center, their zones of uncertainty will contract and they will strongly come to expect products to be located in the center of their product attribute spaces; again, this is a simple Bayesian assumption that we believe is useful and valid. This assumption provides motivation for observed corporate behavior but is not required for our formal analysis of consumer behavior, the topic of this paper.

Throughout this paper we will use a linear city model, in which the product attribute space is a unit line, spanning all possible choices. For simplicity this model assumes that products are of uniform absolute quality, and that all competition is based on horizontal differentiation and positioning within attribute space. Also for simplicity, this model assumes that products can be described along a single linear dimension, even if the description requires multiple attributes; such as cars that are *fast-and-large-and-gas-guzzling* or cars that are *small-and-slow-and-fuel-efficient*. Unlike Salop's Circular City Model [45], when modeling extremes using the Linear City Model it is possible to ensure that extreme conditions do not merge. Realistically speaking, it is not possible for a car to move so far in the direction of being environ-

<sup>2</sup> Interestingly, an extremely zealous referee determined that all three of these items *were* available from Amazon. Of course all three are shipped by a traditional retailer trying to deal with being so far out on the thin end of the long tail by using Amazon to increase sales velocity of these expensive products. And significantly, the Roquefort cheese appears to have spoiled anyway (<http://www.amazon.com/Societe-Roquefort-Cheese-Whole-Wedge/dp/B0008JEYO6>).

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