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Bringing product and consumer ecosystems to the strategic forefront

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Abstract   The widespread adoption of technology and electronic media has dramatically altered the set of products consumers compare before making a purchase decision. Online platforms have succeeded at drawing linkages among products by highlighting those that are preferred, evaluated, or purchased together. However, despite the increase in both product and customer inter-connectedness across markets, managers continue to make decisions based largely on the dynamics of competition within narrow product categories. In this article, we raise the call for a migration from a category-focused mindset to an ecosystem-focused strategic mindset that acknowledges and accounts for the network of related or unrelated entities that a specific product resides within. We illustrate the importance of this shift using examples of preference, choice, and customer networks from popular online platforms. We then discuss the impact of the shift in strategic mindset toward ecosystems on competitive structure analysis, market research, brand footprint analysis, intra-band ecosystems, promotion planning, new product development, customer valuation, strategic alliances, and market segmentation.
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1. Bringing product and consumer ecosystems to the strategic forefront

Interconnect and succeed or wither away alone: That seems to be one of the emerging themes across various parts of the business landscape. But how to bring a connectedness-based mindset to the forefront of all market-based strategic thinking remains an open question. While it is becoming increasingly apparent to strategists that it is virtually impossible to build successful products by thinking of markets in isolation, ecosystem-based strategic processes have not yet evolved in the majority of corporations. For example, while most executives acknowledge the inter-connectivity among customers, as well as the interdependence among unrelated product categories, the mere realization has not generally

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translated itself into a coherent strategic approach that takes advantages of these inter-customer and inter-product linkages.

However, the signs of inter-connectedness are unmistakable. Customers are leveraging the power of social media to learn about and disseminate information regarding their purchase and service experiences (Kaplan & Haenlein, 2010: Mangold & Faulds, 2009). Posts on blogging and micro-blogging sites are disseminating single-customer experiences to wide audiences. These pieces of unstructured, unpredictable, and vicarious information are linking current and potential customers like never before. Along the same lines, widely used rating and review systems are pitching products against competitors of all shapes and sizes (Zhu & Zhang, 2010). Similarly, a multitude of recommender systems are capturing browsing and purchase data to navigate customers toward an ensemble of products that defy conventional definitions of product markets or categories (Ansari, Essegaier, & Kohli, 2000). For example, systems deployed by large retailers from Amazon to Netflix are continuously evaluating customers' product co-purchase and co-evaluation patterns and acting on them by building micro-promotion plans. Similarly, social interaction sites such as Facebook and Twitter are leveraging information about inter-customer connectivity for product promotions. Finally, comparison-shopping systems are placing products among local competitive sets whose composition changes based on a number of factors including the sorting mechanism employed by customers (Marmorstein, Grewal, & Fishe, 1992).

The challenges to brands from increasing inter-connectivity go beyond the online world. The emergence of retail power and private labels has raised a new set of competitors for branded products. Product portfolio rationalization processes under way at big retailers including Wal-Mart and Kroger have increased the cascading risk of discontinuation or elimination for many brands. The surviving brands are by no means safe, however; they face headwinds from sophisticated brand and category management systems that are being set up by the retailers themselves.

In this article, we suggest that the time has come for shifting the strategic brand management perspective away from a product-market-based approach toward an ecosystems-based approach (Tobias, 2007) both in real and virtual markets. Brands have to manage themselves in the customer ecosystem where the composition of advocates and adversaries changes by the moment. They also have to survive in the retail ecosystem where the structure of competition changes shape by the day. In

addition, they must protect their pricing power that is being ceded to comparison engines and shopping robots. Of course, none of this takes away from the strategic imperative to ward off traditional competitors from within their own, traditionally defined product categories.

2. Thinking about ecosystems

The new market reality calls for a multi-modal approach to define and evaluate the nature of competitive threats to a brand and set up a portfolio of offense and defense systems. It also requires identifying the facilitators of brand adoption that might belong to completely unrelated product markets. In other words, the threat from traditional competitors that vie for a share of the sales from within the brand's own category is only one aspect of a brand's 'competitive system.' Various threats and opportunities emerge from a variety of additional sources. These include influential, satisfied or dissatisfied customers who have the power to sway the preferences of many others, much more than the efforts of direct competitors (Mudambi & Schuff, 2010).

The private label and category management systems set up by retailers are also threatening brands as the adoption of store brands in one category is increasingly influencing the rejection of national brands in others. Moreover, a variety of online platforms—including product evaluation, comparison, or recommender systems—are placing brands in a variety of competitive contexts across which the portfolio of competitors is vastly different. We suggest that it is time to stretch strategic thinking and market planning by changing the definition of a brand's competition from just other brands present in its narrowly defined category. It is more appropriate now to plan brand strategy across multiple ecosystems and think in terms of webs of links with other products and customers that either facilitate or hinder the adoption or continued usage of the brand. In a world of multi-modal competition, it is imperative to structure brand strategy in terms of offensive and defensive moves within brand ecosystems rather than merely within product markets.

3. What are product ecosystems?

A brand is a part of a larger product ecosystem when the likelihood that it will be accepted by customers is linked, either positively or negatively, to the likelihood of acceptance of other products that