Photograph by Opto Design

Recent Studies

On straw-man marketing, leadership and meaning, acquired innovation, and other topics of interest.

Research Notes by Des Dearlove and Stuart Crainer

The Power of Choice

A.V. Muthukrishnan (mkmuthu@ust.hk) and Luc Wathieu (lwathieu@hbs.edu), "Superfluous Choices and Persistent Brand Preferences," Harvard Business School Marketing Research Paper No. 05-01. http://ssrn.com/abstract=668041

A central idea behind such popular marketing concepts as relationship marketing, global branding, and one-to-one marketing — all of which seek to present consumers with finely targeted offerings — is that the more narrowly directed marketing is, the more effective it will be. But is it possible that targeting consumer demands too narrowly weakens brand loyalty rather than solidifies it?

That's the position of A.V. Muthukrishnan, an associate professor in the marketing department at the Hong Kong University of Science and Technology, and Luc Wathieu, an associate professor at Harvard Business School. Instead of offering consumers more of what they want most, they say, companies should deliberately provide consumers with "superfluous choices."

Des Dearlove (des.dearlove@suntopmedia.com) is a business writer based in the U.K. He is the author of a number of management books and a regular contributor to *strategy+business* and *The (London) Times.*

Stuart Crainer (stuart.crainer@suntopmedia.com) is a business writer based in the U.K. and a regular contributor to *strategy+business.* He and Des Dearlove founded Suntop Media, a publishing and training company providing business content for online and print publications.

This gives customers the illusion that their purchase decisions are more valid, increasing the likelihood of repeat purchases and strengthening brand loyalty.

Superfluous choices can be either inferior products and services or unnecessary options that can be added or removed without affecting final choices. For example, if a consumer is browsing for a personal computer to use for multimedia, the PC company might offer a comparison chart that includes personal digital assistants (PDAs) and digital music players, which contain some but not all of the functions that the PC has. The company could also suggest "specials" that bundle PC peripherals, such as printers and software, with the computer for a higher price.

The inclusion of these potentially less-than-desirable offerings has a twofold effect. First, it shows the targeted product or service in context — making its advantages more vivid. So, in the example above, the company highlights the advantages of the PC over the unwanted alternative, helping to justify its cost. Second, by offering a wider spectrum of choice, the company generates confidence among consumers that their final selection is more valid because they have considered a range of options. This, in turn, strengthens brand loyalty and increases the likelihood of repeat purchases.

To test their hypothesis, the authors carried out a series of experiments involving a number of different products such as MP3 players, CDs, highlighter pens, and general-purpose scissors. In the MP3 experiment, for example, participants were split into groups and asked to select an MP3 player from among several brands. One group was given a choice of six brands that were very similar across four attributes — recording time, playing time, battery life, and jukebox space. Another group was given a choice of six brands among which one was clearly superior across the four attributes and the other five represented superfluous choices.

Having made their selection, both sets of participants were then told that their MP3 player had been lost, so they had to choose a replacement machine. By a wide margin, those in the group with the superfluous choices picked the same brand again more often than those in the group that was faced with six similar products.

Some companies have already successfully put the conclusions of this research to the test, the authors contend. One-brand stores, for example, often feature superfluous accessories or "overpriced" products to make consumers feel they have more choice. And Coca-Cola's introduction of the niche product Cherry Coke could be viewed as a way to reinvigorate classic Coke among mainstream consumers.

Perhaps the most intriguing question is what these findings mean for global brands. Professors Muthukrishnan and Wathieu claim that "the proof of a global product's superiority will vanish at the very instant its local ('inferior') contenders are washed out of the marketplace."

The Meaning of Leadership

Joel Podolny (jpodolny@hbs.edu), Rakesh Khurana (rkhurana@hbs.edu), and Marya Hill-Popper (mhillpopper@hbs.edu), "Revisiting the Meaning of Leadership," Harvard Business School Working Paper No. 05-030. www.hbs.edu/research/facpubs/workingpapers/papers0405.html#05-030

Is it possible that targeting consumer demands too narrowly weakens brand loyalty?

How should we judge the success of CEOs? The most common answer is by their results. That is, the financial performance of the company. But should that be the sole standard for evaluating and rewarding the effectiveness of leaders?

Not according to three Harvard Business School scholars. Joel Podolny, the Novartis Professor of Leadership and Management; Rakesh Khurana, an associate professor; and Marya Hill-Popper, a doctoral student, argue, perhaps controversially, that the ability to provide meaning and purpose for employees is an equally important measure of leadership.

Meaning and *purpose* are admittedly squishy terms, but the authors offer tangible explanations for the role CEOs play in generating these feelings. First, they make structural choices: They organize the company, design jobs, and allocate responsibilities. These decisions affect how employees experience their work. Second, CEOs engage in symbolic actions — through the stories they tell, the company rituals they create, the morality they espouse, and other visible actions. In other words, the leader is both architect and visionary, and these roles affect the meaning individuals gain from their employment.

This concept would be no surprise to earlier scholars, the authors note. In the first part of the 20th century, for example, such noted business sociologists as Max Weber and Emile Durkheim were preoccupied with "the meaning and organization problem." They identified a trend toward larger organizations, driven by capitalism's need for greater economic efficiency, which dominated the lives of individual workers.

Weber, in particular, felt that the emergence of these organizations eroded the influence of religion and family as meaningful institutions. He feared that this trend would lead to human beings' imprisonment in an "iron cage," in which work was reduced to nothing more than economic rationality. The antidote, he thought, was charismatic leadership: visionary leaders who could provide workers with purpose and meaning.

In the 1930s, Chester Barnard, a retired AT&T executive who became a lecturer at Harvard, arrived at the same conclusion. He expressed his views in the text *The Functions of the Executive,* which became a classic of organizational behavior. Mr. Barnard defined the role of the organizational leader as "the creator and steward of the purpose and values." For him, an important aspect of leadership was balancing the short-term efficiency concerns of the organization with the enduring purpose and values that are the foundation for meaningful action.

But after WWII, the authors argue, the meaning-making aspect of leadership was downplayed for a number of reasons. The most important was that it was easier to measure economic performance than to quantify the meaning individuals derived from their work. An obsession with shareholder value from the 1980s exacerbated this trend.

Perhaps, though, there is a connection between meaning-making leadership and financial performance after all, these authors say. They point to research such as that presented in the 1994 book *Built to Last,* in which Jim Collins and Jerry Porras found that high-performing companies shared certain characteristics, including visionary leaders who articulated a bigger purpose than simply making money. The 18

Alarms should have gone off when the phrase "You are *so* Martha Stewart" gained currency.

companies Mr. Collins and Professor Porras studied had outperformed the general stock market by a factor of 12 since 1925.

But even if meaning creation does not have a significant impact on performance, the authors maintain that greater attention should be given to this aspect of leadership: "Meaning creation is an important phenomenon regardless of its relation to economic performance," the authors write. "Indeed, we can think of no other phenomenon that is more worthy of explanation."

Leveraging Technology Acquisitions

Phanish Puranam (ppuranam@london.edu) and Srikanth Kannan (KSrikanth.PHD2002@london.edu), "What They Know Vs. What They Do: How Acquirers Leverage Technology Acquisitions," London Business School Working Paper. http://ssrn.com/abstract=616630

Acquisitions of small technology-based firms by large established firms are commonplace. However, the track record for these types of deals is poor. One survey by Pricewaterhouse Coopers found that about 80 percent of technologically motivated acquisitions failed to achieve their objectives, and another by the Hay Group reported that 60 percent encountered severe problems in the post-merger integration phase.

Phanish Puranam, an assistant professor at the London Business School, and Srikanth Kannan, a doctoral student at the same school, argue that integrating two companies can be much more beneficial if the acquiring firm clearly determines whether it is making the acquisition to buy what the smaller company *knows* (the knowledge underlying a particular technology) or what it *does* (the capability to produce new technologies). The reality is, according to the authors, that achieving both is extremely difficult and atypical.

The implementation of common procedures, incentives, compensation plans, and communication channels allows merging companies to share existing knowledge with relative ease. The trouble is that the same cannot be said of the production of new technology. It is hard for most companies to use an acquired firm as an independent source of ongoing innovation — that is, to leverage what it does.

Professor Puranam and Mr. Kannan examined the patent activity of 97 acquired companies in the information technology and pharmaceutical industries. The acquisitions took place between 1989 and 1998, and the patents were tracked until 2002. The researchers looked for patents emerging from existing knowledge and those that resulted from leveraging the acquirer's capabilities for innovation. If the author of a patent was originally employed by the acquired firm, this was categorized as leveraging the innovative capabilities of the acquired firm. If the patent cited was one that the acquired firm already had, this was regarded as leveraging existing knowledge. In about 44 percent of the acquisitions, no patent activity could be linked to leveraging both knowledge and innovation.

What can be done to more effectively exploit both knowledge and innovative capabilities after these acquisitions? One possibility is to precisely identify what the acquirer hopes to leverage. Is the acquisition an exercise in knowledge transfer or a means of securing continuing innovation through a particular research team or process? Leveraging knowledge may involve an element of teaching by knowledgeable individuals within the acquired company; leveraging innovation may involve continuing to allow individuals or teams to do what they were already doing.

Another tactic that might help to better leverage knowledge and innovative capabilities is to retain the inventors of a particular technology. They are the source of the technological developments underlying what the company knows and the key to the continuing innovation process. Take them away and knowledge, processes, teamwork, and social systems are likely to be adversely affected; retain them and an acquired company's chance of successful integration is enhanced.

Branding Lessons from Martha Stewart

Susan M. Fournier (susan.m.fournier@dartmouth.edu) and Kerry Herman (kherman@hbs.edu), "Taking Stock in Martha Stewart," Tuck School of Business Working Paper No. 2004-10. http://ssrn.com/abstract=610423

Despite a rising stock price, Martha Stewart Living Omnimedia Inc. (MSLO) recorded losses of $59.6 million in the 2004 fiscal year. Susan M. Fournier, visiting associate professor of business administration at Dartmouth College's Tuck School of Business, and Kerry Herman, a research associate at Harvard Business School, suggest that the company's troubles go beyond its eponymous founder's investment misfortunes. Instead, some critical branding basics were neglected in the evolution of Martha Stewart from an individual to a brand.

The authors identify four branding takeaways from MSLO's woes. The first lesson is to understand your brand's cultural center of gravity — what the authors call "its guiding and foundational force." According to Professor Fournier and Ms. Herman, "brands do not exist in the minds of consumers: they live in cultures." This suggests that culture provides the context for marketing's four Cs — company, competition, consumers, and collaborators.

The trouble with culture is that it is a continuously moving feast. Social mores and people's tastes and aspirations constantly change. As a result, executives and organizations can lose touch with culture. The authors cite Coca-Cola's introduction of New Coke as a failure to acknowledge the cultural processes driving brand value creation. Market research supported New Coke, but overlooked the cultural significance of the original recipe. In the case of MSLO, the authors suggest that alarms should have gone off when the phrase "You are *so* Martha Stewart" gained currency. The domestic diva was becoming a caricature. Culture had moved on and the brand hadn't.

Second, take into account the complex processes of *meaning making* that surround the brand. What the brand means to people, and what the brand stands for, is shaped by an array of forces — the media, Hollywood, the Internet, commentators, and so on. By tuning in to these makers of meaning, marketers can reach broad swaths of consumers rather than simply narrow segments. This is a perfect marketing approach for a brand like Starbucks, which defies conventional segmentation and is attractive to a diverse audience. It is also a good approach for MSLO and one of the few ways that the company's branding strategy has been apt, according to the authors. Martha Stewart connected well with the Kmart crowd as well as with urban party planners. A primary reason for the success of the Martha Stewart brand is that it resonated with a wide audience, and MSLO never made the mistake of narrowly targeting this brand at confining consumer segments.

Third, companies must craft, and diligently follow, a detailed brand development plan. For a while, MSLO had discussed moving beyond its identification with Martha Stewart, but it did not have a coherent plan to do so. When the CEO was indicted and then convicted, the company finally separated from its namesake to a degree, but by then it was too late.

The final takeaway is that shrewdly managed brands develop metrics to gauge, track, and monitor the brand's development over time. Although most corporate activities are built around notions of risk, marketers tend not to think in terms of risk management. Brands are termed assets rather than risks. But as MSLO proves, branding can be risky business. +