THE ROLE OF DIFFERENTIATION IN MARKETS DRIVEN BY ADVERTISING

by

D. SOBERMAN*

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* Assistant Professor of Marketing, INSEAD, Boulevard de Constance, 77305, Fontainebleau Cedex, France.

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David A. Soberman*
INSEAD

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* David Soberman is an Assistant Professor at INSEAD, Boulevard de Constance, Fontainbleau Cedex, France. Tel: 33-1-6072-4412. E-mail david.soberman@insead.edu
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Summary

Firms put enormous intellectual and financial resources into creating differentiated products or services for their consumers. In today’s business theology, the creation of a differentiated offering is perceived to be a cornerstone of a successful sustainable business. However, in many situations, differentiation may not a profitable strategy. The objective of this article is thus, to spell out the conditions under which it is profitable to differentiate and those where it is not. The theories that support the value of differentiation are all based on the assumption that consumers have automatic access to information on the best alternatives in a category. The reality of most categories is that many consumers do not have automatic access to this information. Consumers learn about alternatives from advertising and many consumers do not see advertising for all relevant alternatives. As a result, a significant fraction of consumers make decisions with limited information about the available alternatives. The article argues that the value of creating differentiated products is ambiguous when the awareness of products and their characteristics is the key determinant of consumer behaviour.
Creating differentiation is a mantra of strategic management and firms put enormous intellectual and financial resources into creating differentiated products or services for their consumers. As noted by Michael Porter, a critical ingredient of leadership is not only deciding which customers to serve but also deciding which customers not to serve. In fact, strategic management scholars have defined differentiation as one of three or four generic strategies (e.g. being the low-cost producer in an industry, being the technology leader, or that of creating a highly differentiated good or service) that an organization must pursue in order to sustain long-term competitive advantage and profits.

The literature in strategy has now evolved to consider the internal capabilities (or core competencies) of firms in choosing strategy. However, capabilities effectively act as constraints on the choices faced by firms and do not necessarily indicate which of several strategies is best. A basic message is that unless a firm develops a distinctive offering it will find itself in dire straights due to an inability to manage competition. In fact, economists would predict that undifferentiated firms will find their market reduced to conditions of marginal cost competition.

The purpose of this article is to question the value of differentiation and suggest that in many markets, it may be less advantageous than argued by academics, marketers and business strategy gurus. The theories that support the value of differentiation are all based on the assumption that consumers have automatic access to information on the best alternatives in a category. The reality of most categories is that consumers do not have automatic access to this information. The average consumer makes decisions in more than 100 categories in a given month and is
exposed (on average) to more than 1600 commercial message in a day\(^4\). Moreover, consumers are also highly skilled at ignoring and forgetting advertising. It is hardly surprising that consumers frequently lack fundamental information in a given category about the leading products, their physical characteristics and their prices. In many categories, a key determinant of what consumers do is based on the information they have at hand when they need to make a decision. This can mean that a leading brand does not receive consideration in a consumer’s purchase decision if the consumer has not been exposed recently to advertising or information about the brand. The bottom line is that a significant fraction of consumers make decisions with limited information about the available alternatives.

In this situation, differentiation may not be a profitable strategy. Simplifying the argument somewhat, each firm faces some consumers who are aware of suitable alternatives and some consumers who are not. Each firm will choose a price to maximise overall profits from these various segments. The basic insight is that this price can actually be driven down by higher levels of differentiation. The objective of this article is to spell out the conditions under which it is profitable to differentiate and those where it is not.

Before presenting the detailed argument, it is useful to discuss the characteristics of markets that are driven by advertising and what makes them unique. In particular, I discuss how advertising itself creates different segments of consumers. I then define differentiation and explain why it has become a cornerstone of management philosophy. Interestingly, the arguments supporting the value of differentiation all hinge on consumers being fully informed of about the available alternatives. In markets “driven by advertising”, this assumption cannot be justified. This naturally leads to the question “what is the impact of differentiation if consumers
are not informed of all alternatives?" The discussion that follows is devoted to answering this question and to explaining why increased differentiation may lead to reduced profit. Finally, I discuss the implications and limitations of the finding.

**Marketing Contexts driven by Advertising**

As noted in their famous book on positioning, Ries and Trout argue that the most important role of advertising is to create a position for a product (or service) in the consumer’s mind. In other words, the marketer makes the consumer aware of the brand and what it stands for through communication activity. Moreover, if consumers are not aware of the brand and what it stands for, the brand stands little chance of being successful. In some categories, advertising is used to provide information about the physical characteristics of the product or service. In other categories, advertising is used to create a personality or image for the product or offering. Regardless of the nature of the message, the information in the advertising is used to allow consumers to see if the product or offering matches their needs.

While, there is significant divergence of opinion about how advertising works, most experts agree the main role of a brand’s advertising is to create awareness of the brand and what it stands for in terms of key “category” attributes (depending on the category these can be physical, emotional or psychological). For example, Duracell advertising makes consumers aware of Duracell (as a brand of batteries) and it conveys a message to consumers about the key strength of Duracell batteries (their durability and expected lifetime compared to other batteries). In many categories, this type of information is sufficient to create demand for the product. Think of the market share Duracell would enjoy if it were perceived to be the only battery that lasted a long time!
On the other hand, there are many sources of information that consumers utilize to obtain information about products and services. When consumers are highly involved in a purchase decision, information sources such as talking to friends, searching for information in libraries, reading reports, or going to retailers and asking for product demonstrations may be as important as advertising. Nevertheless, in many categories, these activities are either insignificant or highly correlated with the quantity of advertising made by each firm. There are at least three typical buying situations where advertising is the primary driver of demand.

First, there are purchases made on impulse such as buying a chocolate bar or a candy from a newsstand in the morning. Even on regular shopping trips, certain items are impulse purchases. For example, batteries such as Duracell are typically purchased on impulse and this explains why they are invariably merchandised near the checkout in supermarkets. Research shows that the primary driver of purchase in these situations is awareness of products and their positionings and this is generally created through advertising.

Second, certain items are chosen as a result of memory-based decision-making. These refer to situations where a decision to purchase is based on a consumer making a choice from options that she has in her memory. A typical example might be a mother making a decision about where she would like to take her family to dinner. The children express a desire for seafood and the mother generates a set of alternatives based on the seafood restaurants that she remembers. From the advertising, she remembers that both Red Lobster and Long John Silver are acceptable family seafood restaurants. She then makes a decision based on specific attributes that she knows about. She is unlikely to visit both restaurants to obtain information to make a decision. In all likelihood, she will have made a decision
before she loads her family into the car. Note the importance of advertising in this example. If the mother has only seen advertising from Red Lobster as the family restaurant for seafood, then it is straightforward to predict which restaurant she will go to.

Finally, many purchases made as part of regular shopping trips are planned, yet the brand choice is highly affected by shoppers’ awareness of brands and their characteristics. For example, a consumer may have products like cookies, potato chips or Ready-To-Eat cereal on his shopping list. Research has shown that the average consumer spends less than 30 seconds making choices such as these. Here, awareness of brands and their key attributes is an excellent predictor of brand choice.

Quite simply, in many categories, the main source of information for brands and their positioning is advertising in the mass-media. In these categories, it is possible to analyse competition and market outcomes by assuming that advertising is the only source of such information. Note that this assumption has broad application since it applies to many small-ticket purchases made by consumers.

**What makes markets driven by advertising unique?**

Assuming that advertising is the main source of information for brands and their characteristics, I now move to the firm’s challenge of using advertising to inform consumers. Marketers buy media to maximise the likelihood that “category users” are exposed to the commercials. In general, mass-media advertising can be described as a series of messages directed towards a target audience defined by a series of demographic guidelines. In a category with two key competitors, the media guidelines for each firm will be very similar. As shown in Figure 1, the two competitors will
direct their advertising to the same target i.e. people who are believed to be high potential consumers in the category.

The challenge for advertising agencies (with an allocated budget) is to achieve a desired number of exposures (frequency) with as large a fraction of the target audience as possible (reach). In spite of the similarity in the guidelines given to the agencies by competing firms, the groups of consumers that see each firm’s advertising are different. This is because there are a limited number of advertising slots available in any media (television broadcasts, radio broadcasts, outdoor sign locations, or back pages of popular publications). The slots are sold exclusively to a one firm or another. Thus, the very nature of advertising means that two competitive firms while targeting the same demographic segment will run their advertising at different times and in different places. As a result, the people that are exposed to the advertising of the two firms will be different.

For example, on any given Sunday, there will be a percentage of young males that watch football in the afternoon and baseball at night. But there will also be some males who were busy in the afternoon and only saw the baseball and others who were busy at night and only saw the football. If Becks sponsored the football game and
Heineken sponsored the baseball game, it is apparent that the media activity of the two imported brewers naturally creates three groups of young informed males: those who saw both Becks and Heineken advertising and those who only saw one brewery’s advertising and not the other’s. When both brands advertise at low levels, a relatively small percentage of the target market will have seen advertising from both firms. As shown in Figure 2, a large percent of the target will have seen advertising from just one firm and even larger percent will not have seen any advertising⁹.

![Figure 2: Advertising Partitions the Market* (low levels of advertising)](image)

*the likelihood of a consumer seeing advertising from each firm is assumed independent

In contrast, when both firms advertise heavily, the likelihood is high that a given consumer has seen advertising from both firms. This situation is represented in Figure 3. For a market that is similar in size to that of Figure 2, it demonstrates how the mix of consumers changes as advertising levels rise.
Figures 2 and 3 consider a market with two firms but the same logic applies to an industry with three or more firms. The higher the base level of advertising from all firms, the higher the likelihood that any given consumer will be aware of all brands. In contrast, the lower the base level of advertising, the higher the likelihood that a consumer has only seen advertising from one firm.

It is important to note that Figures 2 and 3 are based on the assumption that the likelihood that a consumer in the potential target sees advertising from a given firm is independent. In many cases, this may be reasonable. However, if there are significant differences in the media habits of consumers within the target market, the probabilities that a consumer sees advertising from different firms may be positively correlated. Returning to the imported beer example, there may be some young males who are heavy television viewers and some who are light television viewers. Even at low levels of advertising, heavy television viewers are more likely to have seen advertising from both firms and light television viewers are more likely to have seen neither (see Figure 4). When the likelihoods are positively correlated as on the right
side of Figure 4, the group of consumers that has seen advertising from both firms is larger than it is in the independent-likelihood case (on the left side of Figure 4).

**Figure 4**

*Advertising Partitions when the Likelihood of Seeing a Firm's Advertising is not independent*

Figure 4 demonstrates that advertising creates more heterogeneity when the likelihoods that a consumer sees advertising from a given firm are independent. For the rest of the discussion, I assume that these likelihoods are independent recognizing that in certain categories, this assumption may not be justified. Before analysing how firms compete in markets driven by advertising, I will return briefly to the topic of differentiation and why it such a revered strategy amongst business people.

**Definition: What do we mean when we speak of differentiation**

In markets ranging from soft drinks to fast food restaurants, firms make significant efforts to create distinct positions for themselves. This is not simply a case of a firm arguing that its product is better than the competition though there are firms that do make this argument. For example, Heinz clearly positions its ketchup as superior to competitive products with slogans like “Heinz, there are no other kinds”. However, to employ such positioning, the product must have either clearly superior performance or
a commanding market position (if not both). As a result, this type of positioning is not feasible for the vast majority of firms and products.

It is much more common for firms to choose differentiated positionings. These are typified by products like 7-Up or by companies like Red Lobster restaurants (in the service sector). 7-Up has traditionally positioned itself as the Uncola. This positioning is distinctive yet it implies that 7-Up is unsuitable for cola drinkers (cola drinkers make up more than 70% of the soft drink market in North America)\(^\text{10}\). Similarly, Red Lobster positions itself as the family seafood restaurant. This suggests that Red Lobster is the ideal restaurant for families who want to eat seafood. However, it also suggests that Red Lobster is not the restaurant for people who do not like seafood. In both of these cases, the positioning of the product is saying to a significant percent of the relevant market that “this IS NOT the product for you” (cola drinkers in the case of 7-Up and more than 70% of the fast food patrons that prefer hamburger restaurants). The purpose of this paragraph is to underline the reality or cost of differentiation. Firms are effectively telling a significant percent of potential customers “we do not want you as customers”.

**Why expend so much effort and resources to create a differentiated offering?**

Why do firms spend money to tell some consumers “we do not want you as customers”? The reason lies in the constraints that firms face due to being part of a competitive environment. When products or services are perceived to be almost identical, the primary dimension of competition is price and firms find themselves reduced to cutthroat competition. We also have the reality of markets where consumers can easily compare the offerings of competing firms and the products themselves are extremely similar. Most notorious is the US airline industry where the
major competitors (United, American, Delta, Northwest, TWA, and Continental) offer products that are difficult to distinguish from each other. The ease by which consumers can compare the prices of alternative airlines (either through travel agents or on internet reservation services such as Travelocity or Expedia) has led to an industry where the average return is less than what could be earned by investing in treasury notes. Interestingly, a firm like Southwest has managed to differentiate itself from other carriers and is able to report impressive performance year after year.

The rationale for the value of differentiation is that it allows a firm to obtain an advantage with a distinct group of customers. This advantage allows the differentiated firm to charge higher prices to this distinct group of customers without having to worry that those customers will defect to a competitor (even if that competitor offers an attractive lower price). The idea is that it is better to have a small group of consumers to which a firm can charge high prices than to have a large group of consumers that swings back and forth between firms based on whichever firm offers the lowest price. Effectively, differentiation allows a firm to create a local monopoly over a set of customers who have a distinct preference for its product.

It is important to note that all the ideas described above are based on markets where it is easy for customers to compare the key products or offerings in the market. Said differently, the customers are assumed to be fully aware of all the options and prices available in a market. However, the earlier discussion about markets that are driven by advertising shows that in general, consumers do not have complete information about the products they are buying. In fact, much of modern economic theory focuses on situations where consumers lack complete information about the products they buy. It is curious that the theories and reasoning that support the value of creating differentiated products and services ignore this fundamental characteristic.
of markets. They are all based on the assumption that consumers have automatic access to the relevant information for the best alternatives in any category. In the next section, I explain how the value of creating differentiated products can be ambiguous when consumers do not have automatic access to the relevant information on all product alternatives.

Why Differentiation might Reduce Profits

In categories “driven by advertising”, I have argued that there are different groups of consumers based on the products about which they are informed. This provides a strong case for relaxing the assumption that all consumers have automatic access to the relevant information for the best alternatives in any category. My goal is to demonstrate that the effect of the different groups of consumers that constitute each firm’s demand can lead to a negative relationship between the level of differentiation and the profits generated by firms.

To explain this relationship, let us return to the example from the imported beer market where a) many potential consumers are not informed about the products and their characteristics and b) advertising is critical for informing consumers about the brands and the benefits they offer versus alternatives (such as domestic products). To simplify the discussion, I will assume that Becks and Heineken are the only two competitors in the imported beer market worth discussing. As shown in Figures 2 and 3, three distinct groups of informed consumers are created by advertising.

From the perspective of Becks, there are two groups of consumers to consider: those who have seen only Becks advertising and those who have seen advertising from both firms. Of course, Heineken faces a situation that mirrors the situation faced by Becks. The pricing that firms choose contingent on the awareness
that has been created by advertising, depends on balancing the profitability generated by each of the two groups of consumers. Note that each firm has monopoly-like power over the consumers who have seen only its advertising. (Recall the assumption that a consumer will not consider an alternative product if he is uninformed about it.) In contrast, Becks and Heineken will compete for those consumers who have seen advertising from both firms, since these consumers will make a comparison of the two products.

Here is where differentiation comes in. Within the group of consumers who have seen advertising for both brands, there will be a range of tastes. Some of the consumers will have a natural preference for the Becks product and others will have a natural preference for the Heineken product. In fact, a whole range of tastes might exist including some consumers who are almost completely indifferent given equivalent prices. The key point here is that wider the range of preferences for the two products, the less fierce the competition will be for the consumers who are aware of both brands. In fact, the breadth of preferences that exists between the two brands is the direct analogue of the degree of differentiation between the brands. Note that when the breadth of preferences is narrow (and most consumers are indifferent between the two brands given equivalent prices), the competition for the group of consumers aware of both brands is entirely based on price. In fact, were the market comprised entirely of fully informed consumers who had a narrow breadth of preferences, the competitors would become engaged in cutthroat competition and find the profitability of their business significantly reduced. In this context, the so-called Principle of Differentiation (where the more the firms are differentiated, the better is their profitability) is recovered.
Of course, this is only part of the story because the market is not comprised entirely of consumers who are aware of both products. Even when both brands in our example have awareness of 66%, the fraction of informed consumers aware of both brands is only half of all informed consumers\textsuperscript{11}. The firms are choosing prices to take advantage of the consumers who have only seen their respective advertising as well as those consumers who have seen advertising from both brands. As noted earlier, each firm has monopoly-like power over the consumers who have only seen its advertising. How does differentiation affect the market dynamics for this group of consumers? When the breadth of preferences is narrow, the firm can charge a high price and almost all consumers in the group will buy. However, when the breadth of preferences is wide, a lower price is necessary if the firm wishes to get business from the consumers who have a natural preference for a product with different attribute levels. Moreover, this price is significantly less than the price that consumers who have a natural preference for the firm’s brand are willing to pay i.e. a consumer who has natural preference for Becks would be willing to pay a higher price (for Becks) if Becks priced in order to sell to consumers who do not have a natural preference for Becks.

For example, suppose that Becks had a stronger and more bitter taste than Heineken and that some beer drinkers prefer a mild and less bitter taste. If those beer drinkers were only informed about Becks (and hence only considered Becks), but also knew its taste was quite strong and bitter, the product would have to be more attractively priced to get them to buy than it would be for the consumers who naturally like a stronger taste. When the breadth of preferences (or differentiation) is high, there will be large differences in the amount that each consumer within the captive consumer group is willing to pay for either brand in our example. To fully
capitalize on consumers that are captive, a firm will need to charge a lower price, the greater is the level of differentiation between brands.

Thus, we have a situation where differentiation is positively related to profitability in the group of consumers that are informed of both Becks and Heineken and negatively related to profitability in the group of consumer that are only informed of one brand. Ultimately, it is these two countervailing effects, that make the relationship between differentiation and profitability more ambiguous than is typically believed. As noted earlier, the positive effects of differentiation highlighted in the literature are based on consumers being fully informed about the options that are available. In a sense, they are based on all consumers belonging to the group of consumers who have seen advertising from both firms in the market i.e. that both firms in the market have 100% awareness!

We now consider the actual relationship between differentiation and profits. A naïve inference might be that the valence of the relationship (positive or negative) depends on the relative size of the two groups of consumers considered in a two brand example i.e. when the group of consumers that has only seen advertising from one brand is bigger than the group of consumers that has seen advertising from both brands then differentiation should be negatively related to profits and vice versa. This is part of the story but it is incomplete. The relationship is also strongly related to the natural level of differentiation that exists within the category.

Firms in markets from detergents to automobiles have differentiated products and marketing managers make strong efforts to distinguish their products from competitors and establish unique clienteles. However, the ability to differentiate is not absolute and depends to a large extent on the nature of the category. For example, it is easier to differentiate a complex product like an automobile than a simple product
like laundry detergent. So in a sense, this discussion relates to marginal effect of increasing differentiation given the differentiation that is more or less natural to the category.

Lets discuss two canonical cases in a market where all consumers shop at the same retailer and are charged the same price. First, consider a category like laundry detergent where products are difficult to differentiate. One could say that breadth of preferences in laundry detergent is lower than the breadth of preferences in categories such as automobiles. If there were only two detergents in the category, there are two sources of profit: profit from consumers who are captive consumers and profit from consumers who have seen advertising from both firms. In this situation, the profits from the consumers who are captive are much greater because the low level of differentiation in the fully informed group means that competition there is fierce and this dissipates much of the profit from this group.

So how do firms capture the added profit from captive consumers but still compete for fully informed consumers? They do it by switching back and forth between high prices and low prices. That is one reason why there is lot of discounting, daily specials, and special offers on products like laundry detergent. This type of pricing allows firms to balance the needs of the two groups. However, because almost all the profits in this type of market are due to the prices that captive consumers pay, differentiation is negatively related to profit except when awareness levels approach 100% for both brands.

Now consider a category where the breadth of preferences (or natural level of differentiation) between products is higher. In a two firm market, the profit maximising prices for the two groups of consumers (from which each firm generates demand) are closer and firms will choose a single price that is a compromise for the
two groups of consumers. The difference here is that the profit earned from the fully informed group of consumers is much more important. As a result, the relationship of differentiation to profitability in these conditions is more closely related to the relative size of the groups. In fact, when the partitions created by advertising are similar to Figure 3 (i.e. the group of consumers who have seen advertising from both firms is larger than the segment of consumers who have seen advertising from just one firm), differentiation is positively related to profitability. With two firms, this happens when awareness levels are higher than 65-70%. Of course, this also implies that for awareness levels less than 65-70%, the relationship is negative.

To conclude, the basic insight provided by this discussion is that when one considers the heterogeneity that mass advertising creates naturally in markets, the relationship of differentiation to profits is quite ambiguous. In fact, for a significant fraction of the cases that might occur in a two firm market, I find that differentiation is negatively related to profitability. This should raise red flags about the unquestioning belief that many practitioners and academics have in the value of differentiation.

The Implications of a Negative Relationship between Differentiation and Profits
The discussion certainly suggests a strong caveat to the wisdom of blindly pursuing differentiation as a managerial strategy. In fact, it suggests that in markets where advertising is important for activating consumers, not only can differentiation be ineffective for increasing profit, it may actually lead to reduced profits. Frequently managers know a) that a significant fraction of consumers will not see their advertising (or that of their competitors) and b) that awareness levels in the category are significantly less than 100% (many reasons prevent firms from achieving total
awareness notably the cost of advertising and limited media options)\textsuperscript{14}. These points imply that when consumer awareness of products and their characteristics is a key determinant of demand, it is highly probable that competing firms do not benefit by increasing the degree of differentiation between them. This finding stands in contrast to conventional wisdom and the well-known Principle of Differentiation.

It is mass advertising's ability to create heterogeneity that leads to an inverse relationship between differentiation and profitability. My discussion shows how advertising naturally creates distinct groups of consumers. When a consumer has only seen one brand’s advertising, that brand has monopoly-like power over her. This stands in contrast to the group of consumers who have seen advertising from several brands. Mass-media advertising creates different groups of consumers whenever it is the primary vehicle that consumers use to learn about products and their characteristics.

This implies that managers need to consider whether policies designed to increase differentiation in their category are advisable. In markets driven by advertising, the analysis shows that there are many situations where differentiation is negatively related to profit. In these conditions, the path to increased profits might be to market a product that is as widely acceptable as possible. Perhaps, it is no accident that the leading products in many categories are extremely similar.

Second, managers need to understand the strategic costs of high levels of advertising within a category. Not only are there high costs of purchasing media but there may also be costs in terms of reducing the number of captive consumers that each brand has. The model shows that captive consumers are the most important source of profit in markets with low natural levels of differentiation. High levels of
Third, managers need to understand that the natural mechanics of mass-media advertising do marketers a great service by selling advertising spots exclusively. It is the independence of the groups of consumers that see each brand’s advertising that creates a second level of customer heterogeneity beyond fundamental preferences (such as a preferences for a stronger tasting product). The discussion above demonstrates how important this heterogeneity is for explaining why firms make positive profits in markets where the products or services are relatively undifferentiated. The discussion further suggests that competing firms gain by sponsoring events exclusively. If competing firms shared the sponsorship of major events, there would be much less heterogeneity created by advertising. When exclusivity by category is provided for media events, it means that the groups of consumers that are being informed of competing brands are independent and have less overlap. This leads to reduced competition between firms and provides an explanation for the prevalence of exclusive sponsorships at major sporting and entertainment events.

Limitations of the Arguments Presented Here

The discussion presented here focuses on markets “driven by advertising”. There are of course, markets that are not driven by advertising. At bazaars and trade shows, demand is driven primarily by pricing. In such situations, the typical “positive” relationship between differentiation and profits is recovered. In my discussion, I also highlight situations where differentiation is positively related to downstream profits e.g, in a two-brand market, when awareness levels are high and the natural level of
differentiation in the category is significant. Here, a majority of consumers are informed about both brands and the relative profitability of this fully informed group of consumers dominates those consumers who have only seen one brand’s advertising. In a market with 2 or more brands, where firms inform (almost) everybody about their brands, advertising creates demand but it does not create customer heterogeneity.

Second, there are many categories where awareness levels are built up over time. By using multiple media and multiple campaigns, firms can achieve close to full awareness. Nevertheless beyond colas and domestic beer brands, there are few categories where 2 or 3 major brands enjoy close to 100% awareness. Most brand managers operate in categories where awareness levels (even for major brands) are less than 50%. As a result, the insight provided here is useful to understand the relationship between differentiation and profitability. Moreover, managers do make changes to the positioning of products (physical, psychological and emotional) from time to time. In this context, a key question is “should I change to be more or less like my competitor?”


6 Kotler, op. cit.

7 See Nedungadi, Prakash (1990), "Recall and consumer consideration sets: influencing choice without altering brand evaluations," Journal of Consumer Research, Vol. 17, No. 3) (December, 263-376 for examples of memory-based decision making.


9 In this framework, a viewer who did not see advertising for Becks or Heineken would not participate in the imported beer market i.e. he would remain with a domestic brand since he is uninformed about the characteristics and potential benefits of an imported brand.

10 In some markets, there are buyers (variety-seekers) that consume several brands because they meet different needs. As long as this group is not too large, the battle for market share is primarily determined by the fraction of the market that is loyal.

11 When the advertising reach for each firm in a two firm market is at 66.7% and the likelihoods of having seen advertising from are independent, half of all informed consumers will have seen advertising from both firms.

12 Kotler, op. cit.

13 Technically, firms will employ mixed pricing strategies when the natural level of differentiation in the category is low.

14 As mentioned earlier, a significant barrier to achieving awareness levels of close to 100% is the amount of media that is wasted to reach the last few consumers in a target group.