Consumer Adoption and Diffusion Process

Adoption is an individual's decision to become a regular user of a product. According to early-adopter theory, persons within a target market differ in the amount of elapsed time between their exposure to a new product and their trying it.

Innovation refers to any product perceived by someone as new. Everett Rogers defines the innovation diffusion process as "the spread of a new idea from its source of invention or creation to its ultimate users or adopters."

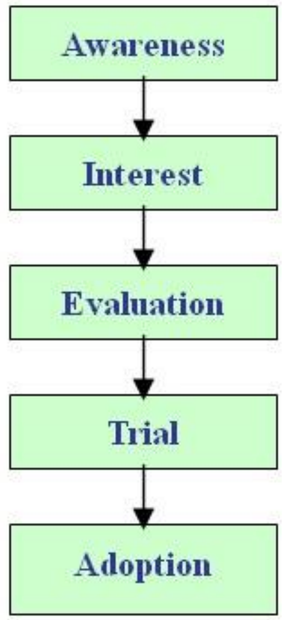
Characteristics of diffusion or innovation are:

- Competitive advantage of the product
- Compatibility
- Complexity
- Trial ability
- Observability and visibility of the product
- Cost effective

Stages in the adoption process include:

- Awareness
- Interest
- Evaluation
- Trial
- Adoption

Adopters of new products move through 5 stages:



1) **Awareness:** The consumer is aware of the innovation but lacks detailed information. The marketers try to create awareness form the promotional actions or by 'word of mouth' or by other means.

2) **Interest:** The consumer is stimulated to seek information about the innovation. This phase is supplemented with adequate information form the company in the form of demonstrations, advertising and other promotional appeals.

3) **Evaluation:** The consumer considers whether to try the innovation.

4) **Trial:** The consumer tries the innovation to improve his or her estimate of its value that might involve goods on approval, free samples or perhaps a demonstration in the case of a durable product.

5) **Adoption:** The consumer decides to make full and regular use of the innovation. Continues adoption might also feature in the case of a repeat purchase of fast-moving consumer goods (FMCG). Post adoption confirmation is similar to the post purchase behaviour phase of previously described consumer purchase decision process. This is especially relevant in the case of a major purchase when customers will be seeking to allay cognitive dissonance. For FMCG products, post adoption confirmation will depend upon whether or not repeat purchases are made. This also concerns the brand loyalty issues.

Factors influencing the adoption process

- Innovation characteristics
- Organisations
- People
- Personal influence

Innovation characteristics:

Some products catch on immediately but some takes a long time to gain acceptance. 5 characteristics influence the rate of adoption:

Relative advantage: It is the degree to which the innovation appears superior to existing products. The greater the perceived relative advantage, the more quickly products will be adopted. The advantages of two-way communication of mobiles compared to one-way communication of pagers have made the mobiles easily adopted by people.

Compatibility: It is degree to which the innovation matches the values and experiences of the individuals. Mobile is highly compatible with the lifestyles of working people, especially for those who need to spend a lot of time on the field and want to communicate to others.

Complexity: It is the degree to which the innovation is relatively difficult to understand or use. Windows made PC application popular with the help of its GUI facility

Divisibility: It is degree to which the innovation can be tried on a limited basis. EMI facility in PC purchase has made retail computer purchase much popular.

Communicability: It is the degree to which the beneficial results of use are observable or describable to others. E-mail is such an example.

Organizations:

Adoption is associated with following variables of the organizations:

6) Environment
7) Community progressiveness
8) Community income
9) Education level
10) Organization itself
11) Size
12) Profits
13) Ability and motivation for change
14) Management
15) Age
16) Sophistication
17) Understanding of the market situation

People:

Everett Rogers defined a person's innovativeness as "the degree to which an individual is relatively earlier in adopting new ideas than the other members of his or her social system." The diffusion process refers to the rate at which various members of society adopt a new product. There are 5

adopter groups who differ in their value orientations.

Personal influence:

It is the effect one person has on another's attitude or purchase probability. This factor is very much relevant on certain situations and/or for some individuals than others. It is more important in the evaluation stage of the adoption process than the other stages and also in case of uncertain, risky situations.

Classification of Adopters

Innovators: They are 2.5% of the population. They are venturesome and keen to try out new innovative products; they are usually form higher social and economic backgrounds.

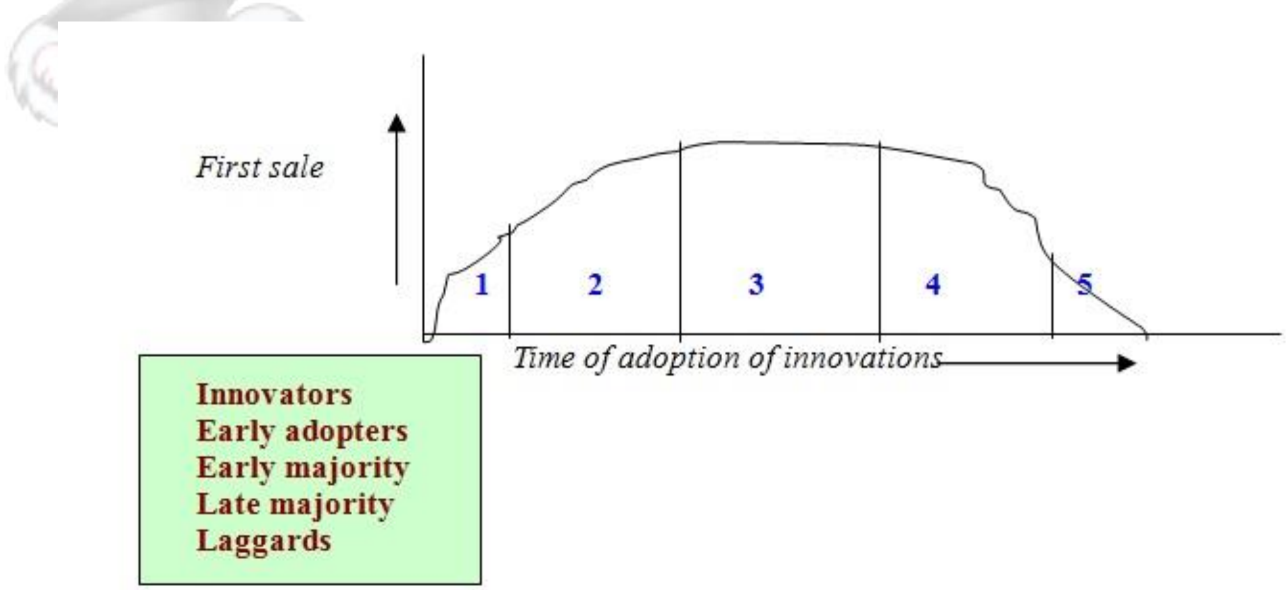
Early adopters: They are 13.5% of the population. Early adopters share some traits that differentiate them from late adopters. Efficient media should exist for reaching early adopters. Early adopters tend to be opinion leaders and generally guided by respect; thus are quite helpful in advertising the new product to other potential buyers. They adopt new ideas early but carefully. They tend to be younger in age. They must have much favourable financial positions and also may have higher social status. They tend to belong to local groups than innovators, but still purchase early. Their role as opinion leaders who influence later adopter categories is important to marketers.

Early majority: They are 34% of the population, who are more cautious than the previous group. They are deliberate, rarely the leaders, but adopt new products before the average person. They normally tend to be largely the middle and lower middle class. Now that *the* product has become more widely accepted and consolidated in the market, they feel more complacent about making a purchase and rely largely upon manufacturers' promotional material before they purchase.

Late majority: They are 34% of the population. They generally belong to working class groups and more cautious and sceptical about purchasing, especially because of financial constraints. They adopt innovation only after a majority of people has tried it. They are, however, subject to social demands and this frequently motivates their first time purchase.

Laggards: They are 16% of the population. They are very careful, tradition-bound, generally older and usually form the lower social groups. They are suspicious of change and newer things. They adopt innovation when it itself becomes a tradition.

The adopter groups



A final category is the 'non-adopter' group who do not appear in the above categories. They may be a very small portion of target audience, but still form a significant, whatever little part of the market. A relevant example could be a very small section of families who do not purchase televisions to avoid its intrusion into family life.

Diffusion describes the speed of market take-up of the innovation and this will determine the length of the time axis. This rate of adoption is governed by:

- ***Relative advantage*****:** This is how the potential users feel about the new product or service in terms of what it will do for them.
- ***Compatibility***: This is how the new product accords with current products in the market.
- ***Complexity:*** It relates to how complicated the product is. The more complex, the slower will be the rate of diffusion.
- ***Divisibility:*** This relates to how complicated the product is. The more complex, the slower will be the rate of diffusion.
- ***Communicability***: This is also linked to the above and it means the ease at which the new product can be promoted through communication mix activities to potential customers

Companies should analyse properly the time to introduce the product. The early entrants enjoy **first-mover advantage**, also known as pioneer advantage. Although early entry is desired, but it also involves the high expense of launching and the risk of being copied. The late entry is necessary when the firm can mobilise superior technology, quality, brand equity and financial strength.

First Mover Advantage

Market pioneers generally enjoy a substantially higher market share than do early followers and late entrants. Amazon.com, Coca-Cola and Xerox are such few examples. A study found out that second and third entrant obtained only 71% and 58% of the pioneer's market share respectively. 19 out of 25 companies who were US market leaders in 1923 were still market leaders 60 years later. The research also has shown that consumers often prefer pioneering brands. The advantages of pioneering brands are:

- Economies of scale
- Technological leadership
- Ownership of scarce assets

- They establish the attributes of the product class

But, there are several weaknesses of pioneering which are as follows:

- Too crude new products
- Improper positioning
- Wrong time of launching
- A lack of resources to compete against entering larger companies
- Managerial incompetence
- Unhealthy complacency
- Successful imitators can thrive by offering low prices, improving the product more continuously or can use market power and acumen to overtake the pioneer

But pioneering does not necessarily guarantee success. In relation to this, let us try to distinguish between 3 types:

- Inventor: First to develop patents in a new product category
- Product pioneer: First to develop a working model
- Market pioneer: First to sell in the new product category

Many market pioneers failed whereas a large number of early market leaders succeed through proper, decisive entry strategy and deployment of substantial resources. The examples of late entrants overtaking market pioneers are:

- IBM over Sperry (mainframe computers)
- Matsushita over Sony (video recorders)
- Texas Instruments over Bowmar (hand calculators)
- GE over EMI (CAT scan equipment)

Hence, pioneers should apply various strategies to prevent late entrants from snatching away the leadership. The best way to do this is to apply a long-range product market expansion strategy. The pioneer should decide on which of the product market/s it could initially enter for the reason that it is not wise to enter all market segments at once. The pioneer should analyse the profit potential of each product market singly and in combination and then decide on a market expansion path.

Real Life Case Scenario

Sony

Only Sony has the breadth of offering – consumer electronics, movies, music, computing, robotics, and gaming and communications capabilities to make a truly state of the art theme park. Imagine the rides and roller-coasters based on Sony movies or on PlayStation games, the concerts given by Sony artists, the virtual reality experiences, and the circus shows of robot animals. Imagine the zones devoted to people's own personal creativity, with video, audio and computing technology linked together so that visitors could make their own movies and games with which to remember their visit. Thinking about Sony in this way brings home just how extraordinary they are at managing their most important intangible assets – their brand, their culture, and their knowledge. Right from the outset, Sony understood better than its competition the importance of branding. The two founders, Akio Morita and Masaru Ibuka deliberately set out to find a name that would work in every country around the world. The name is based on the Latin 'Sonus' (sound) and it also looks a little like the word 'sonny' (i.e. 'little son'). Today it has been wonderfully post-rationalised on their website as being "used to show that Sony is a very small group of young people who have the energy and passion toward unlimited creation". Those elements of entertainment, youthfulness, and invention have remained consistently central to Sony's brand. The way that the name itself was created is indicative of a culture that values simplicity and usability as well as the potential for globalisation.

That 'passion towards unlimited creation' was there right at the outset. A culture that encourages innovation and the development of new knowledge within the corporation was there from the outset. Morita was the academic physics student and Ibuka was the commercial electronics engineer. That heritage of mixing academic research and practicability shines through today.

Sony's greatest inventions, the Walkman, the PlayStation were both developed in-house by long-term employees of Sony. The Walkman became an icon of global youth culture in the 1980s, and remains the gold standard for innovation. The Sony PlayStation saw off competition from established games console manufacturers soon after it was launched like Sega, Nintendo or more recently Microsoft X-box. But, Sony is indomitable when its culture of internal staff development and technological innovation and its desire to create new knowledge are linked to deep consumer insight about how people wish to be entertained. Young people want to listen to their music on the move. Games consoles are about the games, not the consoles. In Japan, Sony has stood for years as a symbol of success, personal achievement and independence against the bureaucracy of post-war Japan. As a generation of Sony consumers has grown up, Sony has been able to successfully launch a life assurance company, Sony Life that appeals directly to those values.

But strength can become weakness. Sony fails when it is held back by its strong, sometimes monolithic, internal culture or when it doesn't make an insightful connection to the personal entertainment needs of its consumers and thus breaks the brand bond that it has made with them. Moving into content (movies and music) was strategically essential to Sony's long-term vision and survival, but it has taken a few years for Sony to get to grips with these industries. Sony's first personal computers were straightforward windows PCs and were not a success. Only when Sony recaptured their heritage with the VAIO (the name VAIO stands for Video Audio Input Output) range did they build a personal computing business of any scale. The VAIO range builds on Sony's reputation for sleek design (hitherto noticeably absent from the PC market) and also for integration with entertainment products. Betamax is another example. This video recording standard of Sony lost out to VHS as it failed to understand consumers. Sony's Betamax could only record for one hour, and VHS could record for two, which was crucial for consumers. The result was VHS has been able to command 95% market share and Sony finally abandoned Betamax in 1987.

So you see how Sony capitalised the pioneering advantage in case of Walkman and failed in case of VHS.

The pioneer also has to remember that it cannot enjoy the first-mover advantage forever. Depending on the attractiveness of the market, the competitors will enter. There are 5 stages of the **competitive cycle** that involves the pioneer and its competitors.

- Sole supplier: This is the initial stage where the pioneer has 100% of production capacity and sales
- Competitive penetration: In this stage, the competitor builds production capacity and starts sales. As more competitors enter in the market and charge a lower price, the perceived relative value of the leader's offer declines thus enforcing a reduction in premium price being charged by the leaders
- Share stability: Capacity tends to be overbuilt during rapid growth. When a cyclical slowdown occurs, industry overcapacity drives down margins to lower levels. New competitors decide not to enter the market and the existing ones try to consolidate their positions.
- Commodity competition: The product is seen as commodity and buyers no longer pay the price premium. The companies in this stage earn just the average rate of return.
- Withdrawal: In this final stage, either pioneer or its competitor/s decide to withdraw product form the market by either launching the advanced version of existing product or a totally new product.

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