OVERchoice

Why Variety Can Backfire

by Dilip Soman and John T. Gourville

Companies often assume that when it comes to product offerings, 'variety is good'. But product assortments differ in type – which can negatively impact consumer choice and brand share.

For years, companies have expanded their product lines in an attempt to better meet the needs of target customers. Typically, they do so by adding new flavours, package sizes, formulations, features, and options. As a result, whereas **The Coca-Cola Company** once sold a single formulation of cola, it now sells over ten, including Classic Coke, Diet Coke, Caffeine-Free Diet Coke, and Cherry Coke.

It has long been believed that, given diversity in tastes, product variety is beneficial to consumers, and that a wider assortment will logically better-meet their varied preferences than a narrower assortment. However, research is now calling this 'variety-is-good' belief into question: in cases where choice deferral is an option, adding a second attractive alternative to what had been a one-alternative 'consideration set' has been shown to increase the frequency of not making a choice. And for at least one online grocer, *decreasing* assortment by 20 to 80 per cent across product categories increased revenues by 11 per cent. These results speak to the potential negative impact of product assortment on consumer choice – an effect we refer to as 'overchoice'.

Assortment Size and Consumer Choice

Research shows that consumers benefit from a wide product assortment in several important ways. First, a wider assortment increases the likelihood that a consumer will find exactly what he or she is looking for. Thus, she is more likely to find a pair of jeans that fits when selecting from among 20 different sizes than when selecting from among ten. Second, due to satiation, curiosity, or fluctuating requirements, an individual consumer will often seek variety within and across consumption occasions. As a result, a selection of ten different styles of beer better meets the variety-seeking tendencies inherent in some beer drinkers than a selection of three.

In a between-brand choice context, this 'variety is good' premise suggests that a manufacturer stands to gain market share by adopting a 'larger assortment strategy'. By offering both a two-door and a larger-four-door model of its Explorer sport utility vehicle, for instance, **Ford Motor Company** can meet the needs of both individuals and families, selling more cars and increasing its share of the SUV market in the process. The same should be true in a between-store choice context, where variety or selection has been shown to be a key factor in choosing one store over another. With these store-level benefits in mind, researchers have begun looking at ways to increase or to maintain a consumer's perception of store variety while reducing actual variety.

A complementary perspective from which to view assortment size involves the rational choice principle of 'regularity'. Regularity dictates that the probability of choosing an alternative from a choice set should never increase with the addition of another alternative to that choice set. In a between-brand choice context, this implies that increasing the size of one brand's assortment should never serve to increase the market share of a competing brand whose assortment remains stable. More formally, if Brand A and Brand B each start out by offering one alternative in a particular product category, Brand B should never lose share by adding a second variant to the market. While not as strong a claim as 'variety is good', regularity dictates that increasing variety should never be *bad* for a brand.

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Evidence to the Contrary: Overchoice

Recent research calls these claims into question. Across a series of studies, researchers found that subjects' preferences for a 'no-choice option' (i.e., the decision to defer choice until later) increased significantly with the addition of a second attractive alternative to what had been a one-alternative choice set. For example, subjects presented with one answering machine deferred choice 42 per cent of the time, while subjects presented with a second equally attractive answering machine deferred choice 58 per cent of the time.

In one particularly compelling demonstration of the phenomenon, consumers in an upscale grocery store encountered a tasting table on which were either 24 flavours of jam, or a subset of six of those flavours. While a slightly larger percentage of shoppers stopped to sample the jams when there were 24 as opposed to six flavours (60 per cent vs. 40 per cent), a much smaller percentage of those who sampled from the 24 jams went on to make a purchase (three per cent vs. 30 per cent).

To make sense of these conflicting perspectives, we propose that product assortments can differ not only in size, but also in type. We introduce the concept of 'assortment type' and differentiate between *alignable assortments* and *non-alignable assortments.*

Assortment Alignability

We define an 'alignable assortment' as a set of brand variants that differ along a single, compensatory dimension, such that each variant has a specific quantity of that attribute. Examples would be several bottles of Advil-brand ibuprofen that vary in tablet count; air conditioners that vary in cooling capacity; and milk that varies in fat content. Such assortments require tradeoffs *within* a single attribute, such as the quantity, capacity, or amount of an ingredient.

In contrast, we define a 'non-alignable' assortment as one in which the brand variants vary along multiple, non-compensatory dimensions, such that while one alternative possesses one desirable feature, a second alternative possesses another desirable feature, with these features being 'all or nothing' in nature. Laptop computers that differ in configuration, with one having a CD-Rom drive, the second a floppy drive, and a third having a zip drive, would constitute such a non-alignable assortment: to obtain one feature (e.g., a zip drive), one must give up another feature (e.g., a CD-Rom drive). Other examples would include restaurant entrees (e.g., salmon vs. steak vs. lasagna) and college majors (e.g., biology vs. philosophy), where choosing one alternative delivers a level of features not available in another. Unlike alignable assortments, non-alignable assortments require tradeoffs across attributes.

Several aspects of this categorization are worth noting. First, the categorization takes place at the level of the assortment, and not at the level of the attribute. In other words, the alignability of an assortment depends on the makeup of the alternatives within that assortment. Thus, the attribute 'warranty' can result in an alignable assortment if all alternatives within the assortment possess a warranty of a specific length (e.g., 24 months vs. 36 months vs. 60 months). But 'warranty' can also contribute to the non-alignability of the assortment if one alternative within the assortment has a warranty and the others do not.

Second, the desired benefits of a considered assortment may play a role in that assortment's classification as alignable or non-alignable. Consider three automobiles – a two-seat sports car, a mid-sized sedan, and a minivan. For most individuals, this grouping would represent a non-alignable assortment, requiring consumers to tradeoff sportiness and image for passenger capacity and safety. However, if a consumer needs to rent a vehicle to move his belongings from one apartment to another, these same three alternatives might be evaluated on the single dimension of cargo capacity, rendering the assortment alignable. Similarly, consider colours of paint. A consumer deciding between three shades of yellow may focus on the single dimension of 'ability to brighten up a room', resulting in an alignable assortment. But another consumer deciding between light yellow and dark blue may consider tradeoffs such as 'ability to brighten up a room' versus 'ability to hide dirt' versus 'wear', resulting in a non-alignable assortment.

These examples suggest that assortment type, while obvious in many cases, can depend upon the goals of the decision maker (as in the case of the three cars) or on the alternatives in the choice set (as in the case of the paints). In the end, however, it comes down to whether consumers are being asked to make tradeoffs within a single, compensatory dimension or across multiple, non-compensatory dimensions.

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The Impact of Assortment Alignability

When one option is better than another in all essential respects, there is no conflict, and choice is easy. However, when each option has significant advantages and disadvantages, people often experience conflict that makes choice aversive and compels them to delay their decision and seek additional information or options. Thus, people are more likely to defer choice when conflict is high than when conflict is low.

In one study, subjects presented with larger assortments reported greater levels of frustration with the choice process and greater levels of regret and lower satisfaction with their chosen item than did subjects presented with smaller assortments.

Just as consumers defer choice rather than choose from alternatives that entail conflict, they may opt out of a brand that entails conflict and into another brand that does not; if Brand B offers an assortment that fosters high conflict and Brand A does not, consumers may avoid the Brand B alternatives and choose a Brand A alternative.

Assortment type contributes to this conflict, with a non-alignable assortment fostering far greater conflict than an alignable assortment, and with this conflict increasing with assortment size. First, consider an alignable assortment. Alternatives within an alignable assortment vary along a single dimension that is continuous and compensatory in nature, allowing for a within-attribute, low-risk tradeoff between alternatives. In choosing between an automobile that gets 24 MPG and another that gets 28 MPG, for instance, a consumer need

only know her relative preference along the single attribute 'fuel economy'. While the decision weight for the attribute 'fuel economy' may be in question, the ordering of alternatives on that attribute should be straightforward, regardless of assortment size. Additionally, the tradeoff between alternatives in an alignable assortment is incremental in nature – i.e., in most cases, the absolute difference between a car that gets 24 MPG and a car that gets 28 MPG is relatively minor. These factors – comparison on a single dimension and the incremental nature of the tradeoff – combine to minimize the conflict inherent in the assortment.

For non-alignable assortments, however, the tradeoffs between variants are no longer one-dimensional and low risk. A non-alignable assortment requires a consumer to make tradeoffs both within and across attributes. In choosing between laptop computers, for instance, a consumer needs to assess her preference for a floppy drive, her preference for a zip drive, and her relative preference for a floppy drive versus a zip drive. Additionally, given the discrete nature of the features in this choice set, the tradeoffs between these alternatives will be 'all-or-nothing' – to get one option, you must give up another.

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The conflict inherent in making a choice from a non-alignable assortment should be much greater than from an alignable assortment and should increase with assortment size.

With these points in mind, in a between-brand choice setting, assortment type will moderate the effect of assortment size on brand choice. Specifically, assortment size should positively impact brand choice in the case of an alignable assortment, but negatively impact brand choice in the case of a non-alignable assortment.

Managerial Implications

It is becoming clear that an increasingly large assortment can negatively impact consumer choice and brand share. Further, if an assortment forces consumers to make choices that have the potential for regret or that force them to process large amounts of information, this negative impact of variety can occur in assortment sizes that are quite small in number, clearly within the range of many existing product assortments. In light of these effects, managers should be aware of the moderating effect of assortment type

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Finding Your Profit Zone

by Chris Zook and Alistair Corbett

Ninety per cent of companies have failed to achieve sustained, profitable growth over the past decade, and only one in five growth initiatives succeeds. Growth is tough, because many competitors are pursuing the same opportunities. This is well illustrated in a recent **Bain & Company** survey of the three-year plans of large companies: most mature industries grow at approximately three per cent per year; but our survey showed that companies typically aim to grow revenues at twice the rate of their industry, and grow profits twice as fast. Clearly, not all of them can succeed.

The best growth comes from strengthening a company's core business, in one of two ways: winning profitable new customers in the core product lines by finding ways to provide better value to customers than competitors – and being able to deliver it profitably; or deepening the relationship with existing customers, offering additional, profitable, products or services.

The average strong business typically has 80 to 110 possible 'adjacent moves' surrounding it at any one time. The key to identifying them is to systematically track them. Most companies don't even consider some of the potential growth vectors – additional products or services, new customer segments, new distribution channels, new geographies, internal capabilities they could develop into external businesses. The next step is to seek ideas and input from all sources: from customers, suppliers, employees; and to study competitors.

Redefining your core business is sometimes both necessary and advantageous. If your core business is truly in decline, you must seek new markets. **Nokia** is often quoted as the ultimate example of this – a company that switched from being a forest products company to a high-tech cell phone manufacturer. But this comes with a warning: statistically, Nokia's success is the exception to the rule. The odds of success for these endeavours is frighteningly low.

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on consumer choice and develop strategies to deal with it.

Several strategies come to mind. One would be to increase the perceived alignability of any given assortment through 'feature bundling'. For instance, rather than promote its home computers solely on their features and specifications, **Dell** promotes them in a 'good, better, best' type of arrangement, effectively turning a large, non-alignable assortment into a more manageable, alignable assortment. Some car companies have also chosen to do this, as when **Honda** offers an increasingly outfitted DX, LX, and EX version of its popular Accord sedan. Such bundling of features should make consumer decision making easier and reduce the potential for regret, providing a rationale for bundling beyond that of traditional price discrimination.

Second, one could simplify the cognitive effort required to make a given choice. This might be done through a strategic simplification of information presentation. Some manufacturers have opted to lead the consumer through the decision making process. At one point, for instance, **Titleist** used a very simple interactive program to lead people through the golf ball choice process, asking a series of questions, such as, "Do you hit most of your shots in the fairway?" and "How far do you hit your drive?", and would recommend which of its ten or so golf balls would best meet the needs of the golfer. *Consumer Reports* magazine often provides similar templates to help people deal with non-alignable assortments, such as which cellular telephone plan to choose or whether to lease or buy a car.

Third, a marketer could reduce the potential for regret by instituting a liberal exchange policy. Money-back guarantees could serve the same purpose. Interestingly, while such policies are broadly used in practice to encourage sales, we would argue that these policies will be significantly more effective in the case of increasing non-alignable assortments than increasing alignable assortments.

Finally, a manufacturer could simply recognize the potential shortcomings of a large, non-alignable assortment and reduce its offerings. In recent years, **Procter & Gamble** has taken to rationalizing its product lines in many packaged-good categories. While done primarily for operational reasons (i.e. to reduce stockouts and increase turnover), such a strategy could also increase demand for P&G alternatives within those categories.

In the end, any strategy that reduces the conflict inherent in a brand's assortment, whether it be a reduction in the number of non-alignable alternatives offered, a reduction in possible regret, a simplification of information processing, or a reduction in the underlying non-alignability, should help to decrease the negative effects of overchoice.

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And often if a company tries too hard to develop new businesses to replace the core, it under-invests and misses growth opportunities within.

About two thirds of successful, sustained-growth companies have one or two powerful, repeatable formulas. For instance, **Nike** has a simple repeatable formula. They started with basketball shoes and **Michael Jordan**. Then they expanded into basketball apparel and other equipment. Next, they entered other sports – running, golf, and soccer, starting out each time with shoes and a star (**Tiger Woods** in golf), then expanding into apparel (golf clothing) and equipment (clubs and the now unmistakeable Nike golf ball.) For many years, **Loblaws** had a simple, repeatable formula: they would drive organic growth through larger new format stores; they would acquire grocery chains in different geographies and integrate them. And all the time, they would increase their purchasing power and their distribution scale; they would improve the store format and product offerings (including the **President's Choice** brand). **Procter & Gamble** has recently found an interesting formula to reinvigorate growth from its existing brands: they studied intensely how customers use their products and found new ways to provide value, leading to Crest White Strips and numerous other innovations.

Meeting customer needs isn't always enough to guarantee growth. A great example is **Dewar's Scotch Whisky**. In 1965, they discovered they had a very attractive core set of customers, all aged around 20 -30, and they focused on meeting their needs. In 1975, they discovered they had a different target age group – all aged 30 -40. A decade later they discovered another target age group – all aged 40 -50. They did a fabulous job of marketing to this target customer base, but it didn't grow. Now their aging customer base is shrinking, and they are finally looking for new customers.

Beware of succumbing to 'adjacencies gone wild': once you start mapping adjacencies, it is easy to be seduced by all the wonderful growth opportunities and to underestimate the challenges in pursuing them – internally and externally. **Anheuser-Busch** spent years developing its **Eagle Snack Food** business, which seemed like a natural complement to beer (and **Frito-Lay** was making huge profits) – but it ultimately failed. Far worse than the losses and write-offs incurred by Eagle, the company lost focus on its core beer market, underperformed during that period and missed the emergence of the premium beer market in the U.S. Companies would do well to remember that the best opportunities typically lie within their core business.

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