

## IRRATIONALITY: SOURCE OF SUSTAINABLE COMPETITIVE ADVANTAGE?

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### ABSTRACT

This paper examines the possibility to combine intuitive marketing with rationalistic marketing approach in a structured way to create competitive advantage that would last longer. Firstly, it explores different models available to understand competitive advantage (e.g. Porters five forces model), then it tries to analyze the effect these model has on competitive advantage if irrationality (e.g. aesthetics, symbolism) is included in these models. From rationalistic view, we took Michael Porters Five Forces model and then we applied a new model on five forces model which includes irrationality. We conclude that if beauty or irrationality is applied on the rationalistic models in a proper way, firms have a better chance of creating competitive advantage that is sustainable.

**Key words:** Competitive Advantage, Brand Management, Irrationality, Sustainability

## **1. Introduction**

As today's business organizations are facing fierce competition and an extremely volatile consumer demand, there is an increasing attention both from academics and practitioner toward sustainable competitive advantage. However, this does not mean all the preceding models and frameworks for competitive advantage are obsolete in today's business context. In fact, some classic framework like Michael Porters five forces model is still used by business organizations around the world. If analyzing different frameworks prevailing today, it can be categorized in two – the so called “Inside-out” and “Outside-in” views.

The “Inside-out” view suggests that firms should look at their own strength and weakness first and then go to the outside environment (competition). According to this view, firms own assets (strength) are what shape the strategy and competitive position. In contrast to this view, the “Outside-in” view suggests that any industry's attractiveness is shaped by forces outside the scope of a firm, so, firms should always look at outside environment first (competition) and then decide on their strategy.

This paper attempts to analyze these two mainstream views along with sets of other views and to figure out how to utilize these views in creating competitive advantage. One interesting aspect of this paper is to combine the effect of irrationality or the emotional part of the human brain into the rationalistic view of the business (e.g. five forces model). In doing so, this paper tries to show that irrationality (emotion, intuition) can serve as a vital source of competitive advantage that would last longer. This paper should act as a starting point to understand the role of irrationality in business strategy and the effect it brings when we combine it with one of the rationalistic views.

## **2. Purpose & Methodology**

The purpose of this paper is to act as a starting point toward understanding the significance of irrationality in creating sustainable competitive advantage. The scope of this paper is limited toward developing an understanding what irrationality can do, rather than developing a complete model of how irrationality would be used to create sustainable competitive advantage. Based on the analysis of this paper substantive research could be undertaken in order to develop a complete model. Due to time constraints, not so much information could be included which would make information in this paper more reliable. We have used literature review and two case study to develop this paper in order to have a combination of both theoretical and empirical evidence.

### **3. Theoretical Framework**

To serve as a basis for our analysis, we first seek to analyze different mainstream theoretical frameworks available to us to understand competitive advantage. The following section describes these different frameworks:

#### ***3.1 Porter's Five Forces Model:***

Five Forces Model was introduced by Michael Porter in 1979 suggests that in order to understand industry profitability and intensity of competition, one must first understand the underlying structure that shape competition in any given industry (Porter, 2008). This structure is expressed in terms of five forces and is identical for any sort of industry (see Porter, 2008). These five forces include the rivalry, the threat of entry, the threat of substitutes, buyer power and supplier power (Grant, 1990:69). According to Porter, one must keep track of these forces to understand competition which in turn would help him to create competitive position in the industry. Understanding competition in terms of five forces before looking into firms own capability is of supreme importance in this view.

#### ***3.2 Business Model Approach to Competitive Advantage:***

Business model analysis also explains a sense of firms in action (McGrath, 2010:248). This model provides an alternative to the two mainstream idea of competitive advantage; the industry positioning view (Porters five forces) and the resource-based or dynamic capability view (McGrath, 2010: 249). Business model approach suggests that instead of looking at industry forces or firms' resources, firms can create competitive advantage through changing business models. In this approach, business models are said to be not totally predictable in advance and are learned over time through experimentation. So this approach is discovery driven rather than planning oriented (McGrath, 2010: 253).

This model relies on two core components – the basic 'unit of business' which comprises of the physical product or service or what the business sell and 'key metrics' which are the critical dimensions for a firm's superior performance (McGrath, 2010:252). What is an interesting development through this approach is that it advocates a business model based on what they called 'free economics' (Anderson, 2008). In this idea, firms collect revenue from a third party rather than the consumer or the end user of the 'unit of the business' or the physical product. Take for example the case of Google, which provides millions of thousands of data for free to its end consumers but collect money from advertisers or other parties. This business model approach does not require an in-depth understanding of the resources and the capabilities of the firm; instead, one can consider the transactions in which the firms engage in the marketplace, which are both less complex and inconspicuous to interpret (McGrath, 2010). And finally competitive advantage can straight come from business model analysis.

#### **4. Beauty: Tapping Into Irrational Mind**

So far, what we analyzed deals only with rational content and mind. Meaning, the models we talked about above, suggest ways to create competitive advantage in a way which are straight forward, easy to understand and appeals to human mind in a rational way. In contrast to this view, authors and practitioners of marketing have suggested ways to tap into irrational or the emotional side of the human brain that can generate competitive advantage. Authors like Al Ries and Jack Trout (1980) suggest that the battle for market share is not out in the physical market place; rather it is in the minds of the customer (Trout and Ries, 1980). According to Trout & Ries (1980) in their book '*Positioning: The Battle For Your Mind*' if firms fails to create a favorable position in the minds of the consumer, it loses its competitive position in the market. It is the somewhat unexplainable human brain (the so called left side of the brain which deals with perception) where exist irrationality like emotions and perceptions about reality in minds of the consumers that matters, not what firms do in the form of value propositions (Ries and Ries, 2009).

This view opens up interesting landscape for both academics and practitioners who are interested in competitive advantage as it provides with an alternative way to create competitive advantage. This paper is more interested in exploring the possibility of paving way for competitive advantage through use of "Beauty" or "Aesthetic" & "Symbolic" value. The following sections begin with an attempt to define beauty in general and then the following sections discuss the implication of beauty in competitive advantage.

##### ***4.1 Beauty: What is it and why is it***

In an attempt to define beauty, we thought it would be wise to look in the subject matter of arts and music in order to understand what beauty is. We took the view of Greek philosopher Aristotle and Plato on beauty and aesthetic as these two philosopher became the greatest influence in western art (Suite101.com, retrieved: 101103). Beauty (Content) according to Plato, is the form by which celestial ideas otherwise hidden from mere mortals are made visible, whereas, Aristotle cares a great deal about likeness (form) of real appearances here on earth (Suite101.com, retrieved: 101103). Aristotle in his work *Politics* and elsewhere recognizes that the aim of beauty with respect to art is simply to give pleasure (1902encyclopedia.com, retrieved: 101103). Aristotle gives us some interesting speculation on the nature of the artist's mind, and distinguishes two varieties of the poetic imagination -- the easy and versatile conceptive power of a man of natural genius (*enphues*), and the more emotional and lively temperament of an inspired man (*manikos*) (1902encyclopedia.com, retrieved: 101103). Apart from these two philosophers, other school of thoughts offers an explanation of aesthetics which appeals to us. For instance, in the eighteenth century, there developed a wild romanticism in art and literature. The aesthetic concept which came to be more appreciated in this period was associated with this, namely sublimity, which Edmund Burke theorized about in his

“A Philosophical Enquiry into the Origin of our ideas of the Sublime and Beautiful.” This “sublime” & “Beautiful” are the two words among many to describe the “Aesthetic” experience. Along with these two words, there also came the “ridiculous” & “ugly”. Frank Sibley wrote a notable series of articles, starting in 1959, defending a view of aesthetic concepts as a whole. He said that they were not rule- or condition-governed, but required a heightened form of perception, which one might call taste, sensitivity, or judgment (iep.utm.edu, retrieved: 101103). From the discussion we define beauty the abstract ideas or object that brings out the “Wow” from within us.

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#### ***4.2 Linking beauty to business:***

Combined with art philosophy perspective, Polaroid Creativity Lab initially explores a connection between beauty and business (Merritt, 2010:70). Based on an art-based process, the methods organizations use would help company connect to the secret power of beauty in order to improve your business and people in it (Merritt, 2010:70). With the deeply research, Polaroid Creativity Lab discovers art-based methods place an authentic source of creative energy in individuals and organization by connecting them to their work in more meaningful way (Merritt, 2010:71). With creative process, the company would explore the connection with the word and each other, fostering both insights into customer needs and creative responses to them (Merritt, 2010:71).

In Merritt (2010:72) article, it also explains the sense of awareness of the elusive aesthetic factor, which called the “A Factor”. The A factors are embedded into a product or idea to make company success in the fierce marketing. Such A Factor expressed by Merritt comprised of vitality, luminosity, unity in variety, complexity, utility, simplicity, synchronicity, and sublimity.

This art-based method suggests that, applying skills of observation, connection-making and aesthetic judgment often resulted in higher quality ideas that in turn help to generate new product and ideas that “got it right from the start”(Merritt, 2010: 72). This approach, which engages imagination and intellect simultaneously, works when innovators invest something of themselves into producing and perceiving works of art. Having aesthetic experience more is the best way to create “A factor” in the work (Merritt, 2010: 72).

#### **5. In Search of competitive advantage**

It is evident from the discussion above, that aesthetic or the use of beauty in product ideas can serve as a vital source of competitive advantage. This notion is interesting in the sense that it requires managers and academics to think outside the logical realm and force to think in terms of irrationality. We analyzed two cases namely “Harley Davidson” and “The failure of New Coke” to provide empirical evidence on how emotion or irrationality helps to break the rule of logic.

### ***5.1 The Failure of New Coke***

In 1985, coca-cola introduced a new flavored cola drink which was supposed to replace the old traditional coca-cola. New Coke came out because in blind taste tests, people preferred Pepsi to Coke. The revelation was startling and Coca Cola decided that it was time to change their formula to make it sweeter like Pepsi. After months of tweaking the formula, doing blind taste tests, research and changing their packaging, New Coke was launched. Spending millions of dollars and extensively measuring consumer opinion, Coca Cola's market research failed to predict a high level of brand loyalty to the original formula, however. As a result, the company did not expect a consumer backlash against the new formula nor declining consumer interest in new Coke soon after its introduction on the market. How did Coca Cola misjudge the market so much after spending \$4 million and more than two years to test a reformulation of Coke.

According to some analysts, the company made serious methodological mistakes in constructing its taste tests. Also, Coca Cola failed to take adequate account of psychological aspects of brand loyalty which are difficult to gauge using normal marketing research. In taste testing a new Coke formula, Coca Cola Company used three different formulations, which it tested against traditional Coke and Pepsi. Of the 200,000 consumers who took the test, however, only 30,000 or 40,000 actually tasted the new formula which was finally introduced. In addition, most consumers were not informed what they were tasting. In other words, most consumers simply had no idea that their preferences were helping the Coca Cola Company to decide whether it should introduce a new formula for Coke. If informed of the full ramifications of their preferences- in other words, a vote for new Coke also meant choosing to get rid of the old, standard Coca Cola – perhaps many consumers, moved by an emotional attachment to the familiar drink, would have registered a preference for the old Coke.

(This case is an excerpt adapted from the original case found at [http address: http://imcetys.files.wordpress.com/2006/12/caso-newcoke.pdf](http://imcetys.files.wordpress.com/2006/12/caso-newcoke.pdf) : retrieved 101103)

### ***5.2 Harley Davidson: An Example of Lifestyle Branding***

Another positive classic example supporting by Harley Davidson, which suggests excellent brand image is critical determinant for firms to compete with other competitors. Harley Davidson Moto Cycle Company was established in 1903. During 1973 to 1983, the company suffered from the shrinking the economic pie, due to the emergence of Japanese manufactures and new competitors like Honda. Unlike Coca-Cola's new product strategy, Harley Davidson expanded its company's philosophy through its customer desires, customer needs, and marketing, which includes continuing to expand the brand globally.

The brand value of Harley-Davidson is the power to market to consumer to love the product, and is one of the most respected brands in the world, inspiring loyalty and

devotion like no other brand can( Harley-Davidson Official Website, retrieved: 101103). Brand loyalty for Harley-Davidson is emotional. They provide consumers the unique experiences rather than simply motorcycles. Moreover, the symbol of this American iconic brand reflects the passion and freedom Americans enjoy( Harley-Davidson Annual Report, 2009).

The brand strategy is multi-generational and multi-cultural. People of all ages and backgrounds still dream about the Harley-Davidson experience. It makes company to attract new customers and deliver the commitment to core customers.

Furthermore, Harley-Davidson also positively builds the bridge with its customers. When a person buys a Harley-Davidson motorcycle, they receive a free 1-year membership to the Harley Owners Group (HOG), which was developed in 1983 as a program to keep people active with their Harley. Simultaneously, it keeps the company close to its customer ( Harley-Davidson Official Website, retrieved: 101103). According to Michael D. Keefe, director of HOG, these rallies are considered "more like customer bonding. If people use the motorcycle, they'll stay involved"(Gambla, 2004). Thus, customers and the company co-construct its brand experience (Hackley, 2001).

These two cases provide an excellent starting point to understand the role of irrationality in creating brand experience that last longer. Firstly considering the case of Coke, which unknowingly did something with its brand that, the brand became the social identity or the brand is diluted into the everyday life of the consumer. Thus, when coke tried to change the brand consumers did not accept it, and to Coca-Colas surprise the introduction of new Coke was a failure even though blind tasting showed a different result. On the other hand, Harley Davidson did the same thing; they did it successfully by knowing what they are doing. Harley's image is carefully built by marketing programs such as HOG (Harley Owner Group) which objective is to provide the consumer with a sense of community. However, we need to be aware of the fact that what Coke and Harley did, they did it with creativity and aesthetics which made their brand legend.

### **5.3 Competitive Advantage: A New Model**

Based on the discussion above, it can be concluded as aesthetic value is produced with anything that has the element "Sublime" and "Beauty" in it. As Polaroid creativity lab suggest, having aesthetic judgment is the best way to create "A factor" in the work. With creative process, firms would explore the connection with the word and each other, fostering both insights into customer needs and creative responses to them (Merritt, 2010:72). This aesthetic value we conclude to be an experience which can be expressed in words such as "sublime" and "beautiful". To create this aesthetic experience the innovator needs to have a sense of a heightened form of perception, which one might call taste, sensitivity, or judgment as Frank Sibley wrote in a notable series of articles, starting in 1959. In light of this, we conclude that any business idea or product or service could be beautiful if it can create a sense of community and can influence its consumer's perception, like the "Coke" brand did with its consumer.

As a function of symbolic value, brand can effectively position a product in terms of unique functional benefit (Aaker, 1991; Gradner and levy, 1955). This early view is now advanced to the point where it makes a product meaningful (Kay, 2006). As Fournier (1998) suggests, brand choice is not about choosing brands but rather the meaning that brands bring to consumers' lives. According to Fournier (1998), the brand is an active relationship partner for consumers, with the animation and personification of brands legitimizing this partnership. As Firat and Venkatesh (1995: 251) explain, "It is not to brands that consumers will be loyal but to images and symbols, especially to images and symbols that they produce while they consume." Through the brand, Harley-Davidson generates its unique symbolic meanings namely the rider and Harley (Schembri, 2009: 1300). The meaning of each brand becomes the key factors of customers purchasing behavior. Symbolic value empowers consumers in a meaningful ways that in turn can serve as a locking mechanism for firms. As is evident from Harley Davidson case, because of this symbolic value embedded in the brand "Harley Davidson" has become a spectacular (postmodern) symbol of freedom (Schembri, 2009:1299).

#### 5.4 The Search for a Model

If combining with the symbolic and aesthetic value, we can create a locking mechanism which has the potential to serve as a source of competitive advantage. We in this paper conclude that beauty or the aesthetic experience (both aesthetics and symbolic value) is an abstract term and depends entirely on the innovator who creates it. The success of using "Beauty" depends on the judgment of the creator. To see how "Beauty" can serve as a source of competitive advantage, we use it with the business model concept discussed in previous section (Business Model Concept to Competitive Advantage). We conclude that the idea of "Free Economics" can be beautiful if it has the necessary element (sublime and beauty). And if executed properly this model can influence "Buyer Bargaining power" which will in turn result in Loyalty. This can be shown in a graphical model:



Figure 01: Beauty systematically creates brand loyalty.

The purpose of this model is to show that, utilization of symbolic and aesthetic value along with “Freemium” business model as an input, if used properly (denoted with  $<$  symbol) will decrease the price sensitivity and thus will decrease (denoted with  $>$  symbol) the Buyer Bargaining Power. And this would prevent buyers from switching products. In other words, as a result of inputs we get emotionally attached brand loyalty or loyalty.

Considering this model as stimuli, we apply it in Porters five forces model and get a new model where effects of each of the five forces is eliminated or decreased. The figure is as following:

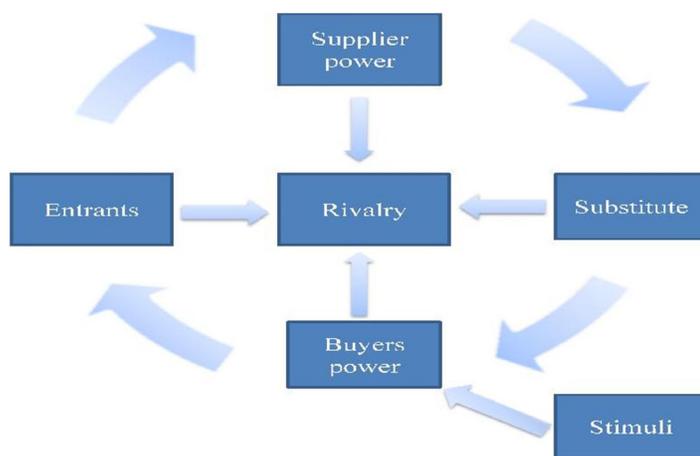


Figure 02: A New Five Forces Model

As a consequence of using this model (shown as stimuli) we are able to play with the “buyer power” variable where firms are able to have more bargaining power with its buyers which in turn decrease the threat of substitute as consumers will not switch between products. This again in turn, will enable the firm to have more bargaining power as because of a strong customer base; firms will be in stronger financial position to bargain with their suppliers. Last but not least, this will provide a unique standing in the competitive landscape that will decrease the threats of new entrance. This stimuli model would provide the firms with an isolating mechanism to create competitive advantage which would last longer.

## **6. Conclusion**

The aim of this paper as stated in the purpose is to act as a starting point on how we can create competitive advantage using irrationality or intuitive marketing in the long term. Should be evident by now, that we consider Porters five forces model to still be a realistic choice to begin with; in search for competitive advantage, we need to consider the power of beauty as stimuli in Porters model and then see for ourselves the real effect it has on our business. After considering the effect of the stimuli, we will be able to calculate our real position in the competitive landscape and thus creating competitive position in the industry would be easier for us. The real action is in the creation and usage of beauty which mostly relies on the judgment of the creator and also the central element in creating competitive advantage.

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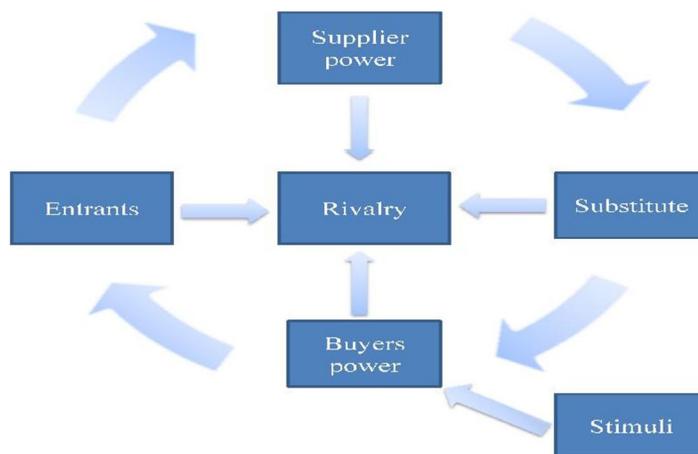


Figure 02: A New Five Forces Model