Commoditization in Food Retailing: Is Differentiation a futile Strategy?

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Abstract

This paper addresses commoditization in food retailing whereby competition has a tendency to lead to a continuous addition of new but similar products in a category. This often results in products that are more homogeneous and may make it more difficult for firms to gain unique market positions. In light of this development, we ask whether product differentiation is a futile strategy in food products marketing. We also address how consumers perceive and react to the seemingly ever-increasing number of similar products. These questions are explored through insights from relevant literature and a small-scale study of a seemingly highly differentiated category, smoked salmon, sold at the flagship store of an up-market UK supermarket chain. It was concluded that no product attributes could be described as truly innovative, unique or difficult to imitate. Implications are highlighted and discussed.

Keywords Commoditization, product differentiation, smoked salmon, supermarkets, UK

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Introduction

Increasingly new or modified food products are introduced to, and removed from, supermarkets within ever shorter time periods. These may emphasize various new physical aspects of the product, its quality or packaging and non-physical claims regarding healthiness, care for the environment, provenance, origin, and so on. From the manufacturers point of view this can be seen as attempts to develop favorable market positions where it is hoped that the new products will successfully out-compete alternative products and brands and lead to higher consumer loyalty and profits.

If successful, however, new products will normally attract competitors which hope to share, if not wholly capture, similar benefits. Due to the transparent nature of food retailing it can be relatively easy for competitors to imitate and even improve on existing products and introduce modified versions, often at lower costs (hence price) than the original. Depending on retailers' satisfaction with product profitability in a category, a new product may or may not replace existing ones. In this way, competition contributes to numerous more or less similar products in each category making it difficult to create new products that really stand out. In addition, over time consumers will get used to attributes possibly contributing to weakening of any unique position a product might have gained initially.

This dynamic process of commoditization – also referred to as the "commodity magnet" – is a force that works against firms' attempts to differentiate their products from the competition (Rangan and Bowman, 1992). Clearly, if new successful products are quickly imitated, any short-lived benefits may be outweighed by the innovation costs involved. But does this mean that product differentiation is a futile strategy in food products marketing? Can anything be done to avoid imitation and the tendency towards commoditization? Moreover, how do

consumers perceive and react to the seemingly ever-increasing number of more or less similar products?

In this paper, we shed light on these important questions. We do so by initially reviewing relevant strategy and marketing literature pertaining to how firms might gain competitive advantage through differentiation. This includes identification of key requirements for developing unique market positions. We then review research literature relating to how the seemingly ever-increasing number of new products may affect both retailers and consumers. The insights from the literature review are used to guide and interpret the results of an in-depth study of smoked salmon in an up-market UK supermarket chain, where the purpose is to explore the uniqueness of any differentiating attributes and degree of product homogeneity in a seemingly highly differentiated product category.

The remainder of the paper is organized as follows: the rationale and benefits of product differentiation are outlined as well as key requirements for gaining unique market positions. In addition, some implications of the ever-increasing number of new products and attributes and the enhanced product variety are considered for both retailers and consumers. The subsequent sections present the research methods and their findings. The final section discusses the results and highlights their implications.

Literature Review

According to Carpenter, Glazer, and Nakamoto (1994) successful product differentiation requires a product or brand to be distinguished from competitors on an attribute that is meaningful, relevant, and valuable for customers. In addition, successful product

differentiation requires that the number of customers who buy the new product/brand is sufficient to at least cover the marginal costs involved, including any losses through cannibalization of the products now rejected. Over time, successful companies may achieve brand identification and customer loyalty, which implies that barriers to entry can be generated because entrants must spend heavily to overcome existing customer loyalties (Porter, 1980).

The core benefit of product differentiation is profit, gained by providing benefits not readily available from other substitutes thus making customers, *inter alia*, less sensitive to price differentials (Barney, 2007). In addition, access to shelf space in supermarkets can be gained by offering unique products and brands, which are sought by consumers. However, product differentiation may only provide a temporary advantage (Rangan and Bowman, 1992). Customers tend to get used to additional benefits and so, over time, may lower their willingness to pay any premium. In addition, competitors may imitate new products, possibly introduce superior attributes, or launch lower priced versions and thus dilute positional advantages earlier gained (Porter, 1980).

The degree of imitation by competitors depends on the ease and cost of imitating differentiating features. For food products sold in supermarkets competitors can easily observe key product attributes such as packaging, product form, labeling and copy attributes by "reverse engineering" (Zander and Kogut, 1995). Such imitation is commonly observed in product categories; often the majority of products in any category will have the same or similar packaging, product form and size (Sharp and Dawes, 2001). It should, however, be more difficult to imitate intangible attributes such as a company's long established tradition and reputation as a high quality supplier because this usually takes decades to build. Products

that are based on organizational knowledge and capabilities that are difficult to identify and observe are similarly difficult to copy (Reed and DeFillipi, 1990). Notwithstanding the barriers to simply copying the product observed, garnering brand identification and loyalty may also be problematical, time-consuming and costly because existing brand loyalties must usually be changed. Switching consumers' loyalty also requires knowledge of the internal and external factors that promulgate existing behavior, and then understanding and delivery of any changes required to shift allegiance.

Differentiation of anything

It has been convincingly argued that any product, including the most basic commodities such as steel and grain can be differentiated (Levitt, 1980). This relates to the fact that any product can be differentiated along a range of different dimensions including its attributes, performance, conformance, durability, reliability, reparability, style, and design (Garvin, 1987). In this paper, we focus on product attributes or features, which are characteristics that supplement a product's basic functioning. Such attributes can be both physical and non-physical, for example providing various health benefits or being organically produced.

For manufacturers a common differentiation strategy today is to increase the number of product attributes (Thompson *et al*., 2005). Because of increasing competition and technological advances, many consumer goods are now heavily laden with attributes. For example, a pack of cereal may satisfy basic needs for food whilst being rich in fiber, low in calories, low in fat, high in vitamins, organically produced, based on ethical trade and be conveniently packaged for a series of further demographic target segments.

Similarly, a common strategy for grocery retailers is to compete by offering a wide variety of items within each product category (Huffman and Kahn, 1998). Often grocery categories in supermarkets may contain thirty or more different product items. For the supermarket, this implies high logistical costs and may thus appear to create a pressure to reduce the number of items so to reduce inventory costs. However, supermarkets often resist this because reducing variety may lessen their ability to cater for the needs and preferences of existing and potential consumers. In addition, lower product assortment may lead variety-seeking consumers to choose other stores with higher product assortment (Broniarczyk *et al*., 1998).

Variety – too much of a good thing?

Consumers faced with a high number of product attributes may become overwhelmed; for example, consumer durables such as digital cameras, smart phones and MP3 players may promote a perception amongst some that the products are too complex or demand too much effort to use to their full advantage. Consumers may also experience stress in response to product complexity (Mick and Fournier, 1998). In an intriguing article, Thompson, Hamilton and Rust (2005) argue that consumers give more weight to capability and less weight to usability before use than after use, which can lead them to choose overly complex products, resulting in dissatisfaction and "feature fatigue".

Arguably, from a consumer's point of view, some of the individual attributes offered may cause more confusion and uncertainty than the number of products and attributes in a product category. Today, many food products are differentiated based on credence characteristics, which refer to product attributes that cannot normally be evaluated, even after purchase and use (Darby and Karni, 1973). Examples of this are functional food health claims such as being

rich in Omega-3 fatty acids, organic labeling, and claims regarding sustainability or environmentally friendly carbon footprints.

In the case of some claims, such as health benefits or sustainable production methods, verification clearly might take longer than individual consumers could realistically be expected to undertake, or indeed have the scientific and technical knowledge to complete. For grocery products, this might well be the case for claims regarding organic product status, animal welfare or the various sustainability labels certified by non-governmental organizations such as the Marine Stewardship Council (MSC) and RSPCA's Freedom Foods. However, consumers are commonly unable to verify or assess such claims independently and thus rely on trust in the information provided or the credibility of the source of that information (Smith *et al*., 1999).

Similarly, a large product assortment may be problematic where selection amongst say thirty seemingly similar food products could create perceived difficulties for consumers. It is, however, well known that consumers often simply seek variety (Kahn, 1995); but the actual, or absolute, variety is not necessarily equal to the variety perceived by consumers (Kahn, 1998). For example, consumers may only be interested in just one subset of products in a category, such as organic cereal or only Scottish smoked salmon. In other words, their consideration set may be significantly smaller than the actual number of items available in a product category. A key finding from past research is also that most choices consumers make in grocery stores invoke very low involvement, implying limited information processing (Broniarczyk *et al*., 1998). Extensive empirical research shows that consumers often display "split loyalty", that is, consumers stay with a limited repertoire of similar brands within a product category (Ehrenberg, 1988; Ehrenberg *et al*., 2004). By choosing from a limited

number of brands within a category consumers exercise some choice but save much of the mental effort involved in re-evaluating all brands at every purchase decision (Ehrenberg *et al*., 2004).

Research methodology

In order to explore degree of product homogeneity and price differences in a seemingly highly differentiated product category a small-scale study of smoked salmon in an up-market UK supermarket chain was conducted. With the direction of the chain's chief fish buyer and the consent of the store manager, the 15 different fresh smoked salmon products identified in the flagship Waitrose store, (http://www.waitrose.com/bf_home/bf/664.html?source=ppc_g-17463310552-c), located in London's international financial and banking district, were photographed. All sides of the packs and any associated price information on the shelves were captured in this way. Thus, the photos contain the key product cues encountered by consumers in the store at the point of sale, namely product/ brand and pricing information within the product category. These photos, representing the imagery and information the consumer encounters in-store, constitute the primary source of data.

Initially the study of one product category in one store only may appear to contain too few observations and be too specific to be able to say anything meaningful about the degree of commoditization in a product category. However, as will be shown in the results section, the study allows identification and analysis of a wide range of different physical and non-physical product attributes seemingly used in attempts to differentiate salmon. It should also be noted that the study deliberately sought an extreme case by choosing the product category (smoked salmon) with the greatest variety in terms of number of different product attributes as well as a high number of products and brands compared to other categories such as fresh salmon

fillets/steaks or ready meals. This research strategy is in line with the recommendations of Siggelkow (2007) who argues that choosing particular cases can be desirable because they may give insights that other cases would not provide. The exploratory purpose and preference for in-depth insights justifies the limited number of stores (and chains) and product categories included (e.g., Yin, 1989). The data, generated from a photographic census of the smoked salmon brands and products in the store, were analyzed by identifying and describing various physical and non-physical product attributes. The theoretical perspectives outlined above guided the analysis.

Findings

In this section, the main product attributes identified are described and analyzed. Discussion then ensues about the extent to which products can be distinguished from each other by unique attributes and the ease with which competitors might imitate them. Traditionally salmon has been cold smoked and thus remains the focus of this paper.

Smoked salmon at Waitrose, Canary Wharf, London

As is typical for most British supermarkets, smoked salmon was displayed in one shelf/refrigerated cabinet. The assortment was substantial with 15 products represented by 6 different brands; the Waitrose own brand dominated and was represented with 9 products. The products were priced relatively high with an average price of £34.63/kg GBP but ranged from £21/kg GBP to £48/kg GBP, a differential of almost 130%.

Product attributes

In Tables 1 and 2, the main physical and non-physical product attributes identified are presented. These show the product category to provide a wide range of attributes. A key

feature of the products is their appearance in terms of brand name and vivid use of drawings, logos, photos and colors as well as considerable amounts of printed information presented on the packaging.

- Insert Table 1 about here -

- Insert Table 2 about here -

In terms of non-physical product attributes, there is a strong emphasis on health and the environment as 9 of the 15 products emphasized health issues and 5 environmental issues whilst 4 emphasized both. In terms of health issues, all nine products focused on salmon as a good source of Omega 3 fatty acids.

Interestingly, four of the six own brand products emphasized neither health nor environmental benefits. However, in contrast to the Waitrose brand, the independent brands have a strong focus on describing their long company history and traditions (e.g., "H. Foreman & Sons is Britain's oldest salmon smokery"), high quality (justified by various food awards) and location (e.g., "smokehouse in the heart of Yorkshire Dales"). The 'Ghillie and Glen' brand name also carries clear connotations to the hunting of wild salmon in rural locations.

The country of origin of the salmon is included in the product name of 14 of the 15 products whilst the residual focused on "Organic" rather than emphasizing its geographical origin. Interestingly, 11 of these 14 products have "Scottish" in their product names, suggesting that Scottish origin has some appeals in the UK market at least.

Distinguishing attributes

Given the range of different product attributes of smoked salmon identified, it raises the question as to what extent, if any, might these attributes distinguish individual products from their rivals? Related to this question is the ease with which competitors might imitate the various attributes. In Tables 3 and 4, the various physical and non-physical product attributes are assessed in terms of their uniqueness and ease of imitation. Uniqueness of attributes is assessed as "low", "moderate", or "high" simply by considering the number of products that have the same attribute. Ease of imitation is assessed as "low", "moderate", or "difficult" by considering how easily observable the attributes are as well as the anticipated cost, complexity and transferability of the knowledge and technology required to copy the attribute (cf. Reed and DeFillipi, 1990; Zander and Kogut, 1995).

- Insert Table 3 about here -

Inspection of Table 3 shows that five out of the seven attributes are considered low in uniqueness and easy to imitate. In terms of the general appearance of products, there are six different brand names, which obviously add to the uniqueness of the products, and may be legally protected. However imitating a brand name should be relatively easy although imitating the stories behind the brands, their quality reputations, or the "bundle of benefits" associated with a brand may be more difficult as it will indeed be difficult to gain the same level of consumer loyalty as the original brand(s). This is because it is both costly and time consuming to build loyalty, which is partly explained by the time and cost of changing existing loyalty patterns among consumers.

The product names are very similar with “smoked” and “salmon” appearing in all 15 products and, as noted above, “Scottish” in 11 of the 15 names. Thus imitating product names seems commonplace and easily achieved. Packaging, product form and product weight are also very similar for all products. These of course are readily visible in the store and considered easy to imitate. The smoking process may be unique in the sense that it in some cases it builds on specific recipes. These are often claimed to be longstanding company secrets, often a “traditional company recipe”, and as such are difficult to imitate exactly. For example, it is stated on Bleiker’s “Finest Smoked Scottish Salmon” that: “Here at Bleiker’s we’re passionate about creating innovative and above all tasty smoked salmon whilst remaining faithful to the authentic recipes & know-how brought to Britain by our founder Jürg Bleiker.” Arguably, however, new brands may provide imitations by drawing on the idea of a traditional recipe and making more general or diffuse claims, which may give a similar impression of quality and provenance albeit more difficult to verify. For instance, a new smokehouse may state that the product draws on the long traditions of high quality and hand labor skills of a particular area or region. Doubts may however be raised about the actual and consistent variations that are imparted upon different brands.

- Insert Table 4 about here -

Turning to non-physical attributes, inspection of Table 4 shows that uniqueness is low for five out of six attributes and imitation is considered easy for four out of the six. Regarding health claims the emphasis on salmon as a good source of Omega-3 fatty acids is strong and the same across almost half of the products. Thus, the uniqueness of this attribute is low. Imitation is easy, and arguably, to the point of being unavoidably ubiquitous, because all

salmon is a good source of Omega-3 fatty acids – all that is needed is possibly a reminder or reinforcement statement on the pack. However, it should be noted that whilst Omega-3 is not a major discriminant amongst smoked salmon products it may well help differentiate the category from other competing foods; for example, meat products with similar intended usage such as ham for sandwiches or salads. In terms of health claims, Young's "Scottish smoked salmon" is unique in their claim of using both less salt and of a more healthy type.

Sustainable use of natural resources is claimed by five products and thus is not particularly unique. Imitating this attribute is not considered difficult in itself but is not free of costs and requires time and resources to possibly change farming or smoking practices so that claims can be justified or certified by a third party. Certification bodies also charge a significant fee for their verification, use of logos and related services.

Farming location is frequently emphasized on the products. However, it may be argued that all farmed salmon have been farmed in areas that have some positive connotations such as "fast flowing currents" or "wild and pristine waters of Scottish Isles". Put differently, an important requirement for farming is indeed fast-flowing currents and the wider hydrographic and environmental constraints for salmon farming are such that it is commonly done in pristine scenic landscapes found in the main producer countries Scotland, Chile and Norway. Thus, whilst there is again little unique in relative terms about general provenance within the category; these characteristics could certainly help the image of the category in competition with other foodstuffs.

The country of origin of salmon seems important, as it is included in all but one of the product names. However, since 11 out of 15 products are based on Scottish salmon there is not actual

differentiation within the category and it should be easy for any smokehouse to imitate, or approximate, by simply purchasing Scottish salmon.

Five of the smokers' brands emphasize history and tradition as discussed above. This may help differentiate these products from the supermarket's range of own label products by promoting an image of independent authenticity, provenance, unique taste and high quality. For new entrants, without such an established heritage, these attributes may be difficult to imitate.

Discussion

Due to its wide product breadth, large number of attributes and high prices, smoked salmon might initially appear to be a highly differentiated product category. However, with the exception of the actual brands and any associated benefits, the research did not identify any product attributes that could be described as truly innovative, unique and difficult to imitate. Although the category (in one up-market supermarket) contains considerable variety with 15 products, 6 brands and a range of physical and non-physical product attributes, the majority of product attributes were shared by two or more products. The most important distinguishing attribute identified was the smokers' brands with their distinct focus on company and product history, high quality and unique curing and smoking recipes. Because the different brands have gained positive reputations and loyalty among consumers their market positions will be costly and difficult to substitute. The supermarket brand, which does not emphasize distinct company and product history, does include most other attributes in its range of different products.

These observations give rise to several intriguing questions. Notably, the wide sharing of product attributes indicates that the dominant strategy is one of imitation – not innovation and differentiation as might be inferred from an apparently highly differentiated category. But how can an imitation strategy be sustainable and indeed profitable in a highly competitive setting such as grocery retailing? Another related question, given the apparent similarity between products, is how the large price differences can be explained? In the following, these questions are addressed before discussing the limitations and implications of the study.

Although few attributes are unique, they are usually not shared by all 15 products within the category. For example, there are several organic products, and products emphasizing Omega-3 fatty acids as a source of good health (whereas in fact all salmon is a good source of Omega-3) and two products are based on wild salmon. An important implication is that products within the category represent unique bundles of benefits and thus cater to a range of different consumer needs. Importantly, consumers might only be interested in a subset of products such as those based on organic production methods or presentations, e.g. interleaved slices, suited for specific usage situations. That the category contains so many (slightly) different products suggests there are numerous different preferences among shoppers. Through repeated shopping and eating experiences, consumers may develop preferences and loyalty for certain brands and products. As noted in the theory section consumers often stay with a limited repertoire of similar brands within a product category (Ehrenberg, 1988; Ehrenberg *et al*., 2004).

How can the strong focus on imitation be explained? One possible explanation is that smoked salmon is a very traditional product in the UK market and has reached maturation in the sense that it is difficult to find new and unique attributes that can be added to the product category.

However, new attributes have been added recently, such as emphasis on Omega-3 fatty acids and organic production. However, evidently these have been readily imitated by other brands. Another possible explanation for the plethora of imitations is that, even though the gains are usually smaller, imitation is much safer and cheaper than innovation by exploring new, more radical ways of product differentiation (cf. Ofek and Turut, 2008). Producer firms also monitor each other closely, which may lead to imitative behavior (White, 1981). Management might also fear that their value proposition lags behind that of other brands, which are adding new attributes, and thus encourages yet more imitative behavior (cf. Thomson *et al*., 2005). This could lead to an overly strong focus on competitors possibly at the expense of consumer needs and wants (cf. Day and Wensley, 1988). Focusing upon attributes that are less meaningful and/or difficult for consumers to assess suggests this may be the case with the salmon sector, and is an issue worthy of further exploration.

Yet given the confluence of attributes noted, how can the large price variation be explained? One likely explanation is that consumers pay a substantial price premium for strong brands. This corresponds well with studies based on scanner data that has revealed substantial price premiums paid for brands. For example, Roheim et al. (2011) in a study of frozen processed Alaska pollock products in the London metropolitan area found price premiums of 56 and 35 per cent for the two main brands in the category. This indicates that the development of strong brands is one of few differentiation strategies that really work in this context.

Another possible explanation is that price itself is used as part of a differentiation strategy. Porter (1985), however, implicitly argues that price is not a differentiating attribute as he states “A firm differentiates itself from competitors when it provides something unique that is valuable to buyers beyond simply offering a low price” (p. 120). However, it has been opined

convincingly elsewhere that price can be an important quality cue for consumers when it is difficult to assess product quality directly (Gerstner, 1985). Thus, a high price may be used to communicate and reinforce a high quality position. Logically, in order to provide consistency in offerings, a high quality level should be supported by a high price and vice versa. In addition, price may induce perception of other values by consumers. For example, an expensive product would be more likely to be considered apposite for special occasions such as festive meals, or moments of indulgence. Similarly, the same consumers might choose cheaper products for everyday usage, indicating that low price can also be a way to differentiate products (Sharp and Dawes, 2001). In conclusion, the evidence from this study suggests that the response to our over-riding query of the futility of differentiation as a means to avert commodization would be negative; albeit not an infallible strategy.

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Table 1. Physical product attributes.

Attribute	Description
General appearance	Brand and product name; vivid use of drawings, logos, photos and colours; various written information
Packaging	Cardboard envelops with see-through window; vacuum sealed plastic with see-through window; and transparent plastic box.
Product form	Sliced fillets; interleaved slices; whole sides/ fillets not sliced; trimmings; and flakes
Product weight	Range from 140 to 400 grams
Smoking process	Cured with different types of salt and sugar; type of wood/smoke used (e.g., oak, birch, peat)
Functional benefits	Suitable for freezing; flakes and trimmings for use in quiches, stir-fries, pates, risotto, pasta, salads, etc.; slices suitable for sandwiches; cooking instructions
Type of salmon	Farmed Atlantic salmon (*Salmo salar*); wild Coho salmon (*Oncorhynchus kisu)*; and *w*ild Sockeye salmon (*Oncorhynchus nerka)*

Table 2. Non-physical product attributes.

Attributes	Description
Health claims	Good source of omega 3 fatty acids; low in salt; low sodium salt; no artificial additives
Environmental issues	Certified as sustainable by MSC or RSPCA Freedom Food; fishing method for wild salmon (line caught); certified as organically farmed by the Irish Organic Farmers & Growers Association or Soil Association; smoking in an environmentally friendly way (not certified by third party)
Farming location	Characteristics of farming location such as "fast flowing currents and tidal waters"; "wild and pristine waters of the Scottish Isles"
Country of origin of salmon	Scotland; (Orkney Islands); Ireland; and Alaska
Smoking company history/tradition	Long tradition of smoking; location of smoking plant and use of hand labour (cutting, salting, trimming and packing)
Quality	Claims of high quality often supported by attainment of stipulated standards and food awards

Table 3. Physical product attributes, uniqueness and ease of imitation.

Attributes	Uniqueness	Imitation
General Appearance	High	Difficult
Packaging	Low	Easy
Product form	Low	Easy
Product weight	Low	Easy
Smoking process	Moderate	Moderate
Functional benefits	Low	Easy
Type of salmon	Low	Easy

Table 4. Non-physical product attributes, uniqueness and ease of imitation.

Attributes	Uniqueness	Imitation
Health claims	Low	Easy
Environmental issues	Low	Moderate
Farming location	Low	Easy
Country of origin of salmon	Low	Easy
Smoking company history/tradition	High	Difficult
Quality	Low	Easy