New products, failure and a company's reputation

The up -and downside of a company's reputation

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Abstract

A company's reputation has an upside and a downside. Especially for newly introduced products an advantage can be created against competitors with a strong reputation. Since customers have no experience with the product, they will have to rely on strategic signals like reputation, to form expectations about the quality.

In contrast to this advantage, a strong reputation also has its downside. If companies with a strong reputation make a mistake, they suffer more than companies with a less strong reputation. Due to a higher expectation of the product performance, product failure will lead to a greater dissatisfaction.

In this paper product failure has been explained by the absence of customer acceptance. In order to reach customer acceptance, the customer must be aware of a specific usefulness that outweighs the potential disadvantages of the new product and customers must believe that the new product is secure.

This research examines whether the toleration of such product failure differs per customer group. In order to define the customer groups, this literature study relied on Rogers's New Product Diffusion Curve (1971), distinguishing: innovators, early adopters, early majority, late majority and laggards.

The most reputation damage will take place when a newly introduced product fails within the group of the early majority. The group of laggards is the most tolerant group and will therefore create the least reputation damage for companies. At the end of this literature study a top five has been conducted of different customer types and their tolerance towards a company's final reputation. The top five was formed by studying the differences in tolerance, financial lucidity, reliance and opinion leaderships between the customer groups.

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Chapter 1: Introduction

§1.1 Background information

Failure is defined as "the state or condition of not meeting a desirable or intended objective, and may be viewed as the opposite of success" (BNET dictionary, 2010). This is an interesting definition of failure in general, but the definition of "product failure" is obviously more complicated to explain. Product failure does not mean the same to consumers, retailers and manufacturers, because of their different intentions regarding the use of the product (Blodgett, Granbois and Walters, 1993).

In order to explain product failure, this study focuses on customer acceptance; one of the factors that contributes to success of a newly introduced product (Griffin and Page, 1993).

This research will define customer acceptance as a determinant for product success; meaning the absence of customer acceptance equals product failure. Furthermore the core of this study concentrates on the relationship between a company's initial reputation and the reputation after a newly introduced product has failed.

This leads to the following problem statement:

Is there a difference between a company's initial reputation and its reputation after a newly introduced product fails?

Along with the problem statement, the following research questions will be answered:

- *What is the influence of a company's reputation on the expectation of a newly introduced product?*
- *What is the influence of disconfirmation of the expectation on customer satisfaction?*
- *Are there any differences between customer types and their compassion with a company's reputation?*

In this paper it is posited that a company's reputation has an upside and a downside. For example both the customer's expectation as well as the trialability of a newly introduced product by Philips will be higher than when a less known company introduces the same product. In addition, it is expected that when people buy this new Philips product and it turns out into a failure, they are more disappointed in Philips, leading to reputation damage, than when the same would have occurred with a less familiar brand.

In other words: an excellent reputation leads to a high expectation, high trialability, but it also leads to a bigger disappointment at product failure and eventually leads to reputation damage. Looking at these hypotheses a reputation can have both positive and negative sides regarding a newly introduced product and a company's reputation.

Finally this study examines whether there are differences between customer types and their compassion with a company's reputation. The moderator 'customer type' will be described with Rogers' "New Product Diffusion Curve" (Rogers, 1971).

In the conceptual framework below, the coherence of the paper is shown. In the upper part of the model, the relationship between the initial reputation and the final reputation is depicted, as it is hypothesized that former reputation carries over to a certain extent. This is the baseline reputation, which will not be treated in detail any further in this thesis.

The conceptual framework shows that it is hypothesized that product failure affects reputation. On the left side of the model, the relationship between the (initial) reputation of the firm, the product expectation and the expectation of this product expectation on customer satisfaction is depicted, which is dependent on the magnitude of the disconfirmation.

On the right part of the model, the effect of customer satisfaction on reputation is shown, which is posited to depend on the customer type.

Fig. 1: Conceptual framework

§1.2 Managerial relevance

It is of managerial importance to research the customer’s satisfaction after the failure of newly introduced product, as this knowledge will create opportunities for several parties. For example, starting companies will get insights in their barriers when entering an existing market with a new product. Existing companies or even well-known companies can learn the influence of their reputation on customer satisfaction - after the failure of newly introduced product - and their final reputation.

§1.3 Academic relevance

Rhee and Haunschild (2006) confirm the academic relevance of this study, as they have revealed that firms with a good reputation suffered more than those with poor reputation when they make mistakes. This may be due to the contrast effect from disconfirmation of high expectation (Herr, 1989; Zeithaml and Bitner 2008), but this has not been proven yet.
This literature study is going to examine whether there is a difference between a company’s initial reputation and its reputation after a newly introduced product fails; with the magnitude of the product failure and customer type set as moderators.

§1.4 Thesis structure

Chapter two combines different theories on a company’s reputation and its influence on the customer’s expectation of newly introduced products. Chapter three will look into the “disconfirmation of the expectation’’ theory and the influence of this assumption on costumer satisfaction. Chapter four involves the moderator customer type. In this chapter the differences of each customer type and their compassion with a company’s reputation are studied. Finally chapter five contains the overall conclusion, the research limitations and suggestions for future research.

Chapter 2: The influence of a company’s reputation on the expectation of a newly introduced product

In this chapter the definition and the influence of a company’s reputation in general will be explained. Through some examples and earlier research it has become clear that a reputation has an upside and a downside. Subsequently customer expectation and satisfaction will be explained and finally the first research question will be answered: *what is the influence of a company’s reputation on the expectation of a newly introduced product?*

§2.1 Company reputation

The concept of a company’s reputation draws academic attention from the management, economics, sociology, and marketing areas (Brown, Dacin, Pratt, and Whetten, 2006). In general, researchers conceptualize a company’s reputation from either an economics perspective that regards a company’s reputation as insiders' or/and outsiders' expectations and estimations of specific organizational attributes. For example, Weigelt and Camerer (1988) proposed that a company’s reputation is based on past transactions, and people use past observations and history as signals to form beliefs and perceptions. Previous consumer feedback greatly shapes market reputation and affects potential consumers' purchase decisions.

Alternative literature relies on institutional theory that characterizes reputation as a global impression reflecting the perception of a collective stakeholder group, for example, customers, employees, and investors (Deephouse, 2000; Fombrun and Shanley, 1990; Olins, 1990). Consistent with the institutional view, a company’s reputation can be defined as an overall evaluation of the extent to which a firm is substantially “good” or “bad” (Weiss, Anderson, and MacInnis (1999); Roberts and Dowling, 2002).

Past research indicates that a company’s reputation has a positive effect on financial performance (e.g. Podolny, 1993; Fombrun, 1996; Roberts and Dowling, 1997). In addition, a good company reputation can greatly benefit firms in different ways and in different branches. For example Fombrun (1996) stated a favourable reputation can benefit in: (1) delaying rival mobility in the industry, (2) charging price premium on customers, at least in highly uncertain markets, (3) attracting higher-quality and larger amounts of investments from the stock market, (4) maintaining a high spirit among employees, (5) enjoying a cost advantage due to less contracting and monitoring costs with suppliers and lower remuneration rate among employees, and (6) supporting and enhancing new product introduction and recovery strategies in the event of a crisis (Fombrun and Shanley, 1990; Fombrun, 1996).

Yet, a good reputation is not a cure-all. In a recent study, Page and Fearn (2005) suggested that while a bad reputation makes building brand equity difficult, a good reputation does not guarantee strong brands. Having a strong company reputation has a downside, particularly when firms get into trouble. Rhee and Haunschild (2006) illustrated the liability of a good reputation through a study of product recalls in the U.S. automobile industry. Specifically, their findings revealed that firms with a good reputation suffered more than those with poor reputation when they make mistakes. This may be due to the contrast effect from disconfirmation of high expectation (Herr, 1989; Zeithaml and Bitner 2008).

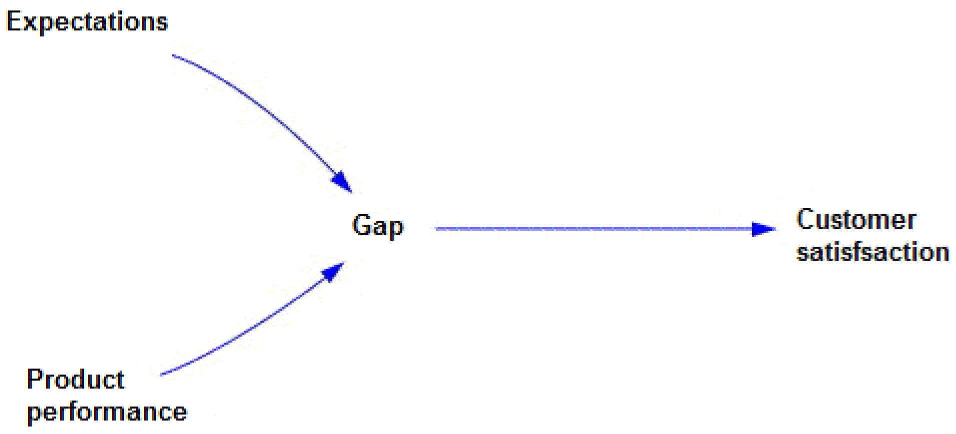
§2.2 Customer expectation and customer satisfaction

Consumers form expectations based on their own past experiences, word-of-mouth communications, and the firm's external marketing communication efforts (Zeithaml, Berry, Parasuraman, 1993). According to Oliver's disconfirmation paradigm (Oliver, 1980), these expectations then serve as a salient reference point when evaluating the current consumption experience. In the dominant paradigm, expectations are viewed as predictions made by customers about what is likely to happen during an impending transaction or exchange. According to Oliver (1981, p. 13): "It is generally agreed that expectations are consumer-defined probabilities of the occurrence of positive and negative events if the consumer engages in some behaviour."

From the perspective of the customer satisfaction model, the increase in the customers' expectation directly leads to discrepancy between the expectation and the perceived service quality (Anderson, Fornell and Lehmann, 1994).

Parasuraman, Zeithaml and Berry (1994) already showed the relationship between expectation, perceived quality and customer satisfaction in a so-called "gap-model". In this research the same model has been used, but "product performance" has been used as a term of "perceived quality", although the constructs are related (see fig. 2). In this concept the increase of expectations enlarges the gap between product performance and vice versa. In other words if a customer has got high expectations and perceives a bad product performance, the customer satisfaction will decrease.

Fig. 2: Gap-model of customer expectation, satisfaction and product performance



§2.3 The influence of a company's reputation on the customer's expectation of a newly introduced product

The differentiating role of reputation on market penalties is predicted by the proposition that firm reputation helps create expectations about a firm's products among potential buyers (Shapiro, 1983). A good reputation enhances a buyer's expectation that the firm's products will be of high quality, which in turn increases the buyer's quality reliance. However, buyers do not place high expectations on a product from a firm with a low reputation.
In order to link customer expectation and a newly introduced product to each other, it is necessary to determine the antecedents of 'perceived quality', which in this research will be considered as an equivalent for 'product performance'.

To evaluate the quality they can expect from a provider of goods, customers rely on signals that reveal the unobservable attributes that affect the ability of a firm to produce quality products. Although economists stress that "uncertainty about quality is a widespread and important feature of markets for most firms' goods and services" (Shapiro, 1983, p.20), products and services differ in the amount of uncertainty about quality they present buyers with. The more difficult it is for customers to assess product quality prior to purchase, the more they are likely to rely on strategic signals - like reputation - to form expectations about quality.

Prior research has shown that information and word of mouth play a critical role in the adoption and diffusion of new products (Mahajan, Muller, and Bass 1995; Rogers 2003). Specifically, research on diffusion theory suggests that social systems and communication channels influence the adoption of products by shaping the information to which people are exposed (Gatignon and Robertson 1985; Rogers 2003).

When customers have no experience with a product yet they will have to rely on other factors that can tell them something about the quality. Especially for newly introduced products, reputation is an important factor that raises a customer's expectation of the quality of this product and helps customers with their purchase decisions (Shapiro, 1983).

§2.4 Conclusion

In this chapter it has become clear that a higher reputation creates a higher customer expectation of the company's product performance. Especially for newly introduced products, customers will have to rely on strategic signals, like reputation to form expectations about quality. This means that the gap between expectation and product performance increases, which indirectly influences the customer's satisfaction. The next chapter will focus on the influence of disconfirmation of the expectation on customer satisfaction.

Chapter 3: What is the influence of disconfirmation of the expectation on customer satisfaction?

This chapter focuses on customer acceptance, disconfirmation of the expectation and the influence of these aspects on customer satisfaction. In this research the term "customer acceptance" is only used to explain product failure. In other words, if there is no customer acceptance a product will be considered as a failure.

§3.1 Customer acceptance

To get a better insight of product failure, it is good to look at what factors contribute in product success in the first place. Griffin and Page (1993 and 1996) already determined some dimensions for product success (table 1) regarding new products.

Table 1: dimensions for product success (Huang, Geoffrey and Brown, 2004)

Author	Dimensions
Cooper & Kleinschmidt 1987	Financial performance Market impact Opportunity window
Haunschidt 1991	Economic Technical
Hart 1993	Beating competition technologically Beating the competition to market Technological breakthrough
Griffin and Page 1993	Customer acceptance Financial performance Product-level measures

Table 1 illustrates several dimensions that are crucial for product success. The current research concentrates on one dimension to explain product failure; the customer acceptance.
Customer acceptance is the most important criterion, because it has the greatest impact on product success and is more or less related to all the other dimensions (Griffin and Page, 1996 Lipovestsky et al., 1997).

Customer acceptance has always been a difficult concept to understand, because it can be split in different determinants. There are two important determinants that help explain customer acceptance: (perceived) product usefulness and (perceived) product security (Adams et al., 1992; Davis, 1989; Venkatesh and Davis, 2000). In order to reach customer acceptance

(1) the customers must be aware of a specific usefulness that outweighs the potential disadvantages of the new product and (2) customers must believe that the new product is secure. If this is not the case, we can assume that a product has failed as it will not be accepted by the market.

These two determinants are strongly linked with Rogers' theory of customer acceptance on new products (Rogers, 1971). According to Rogers customer acceptance on newly introduced products can be divided into six traits:

Relative Advantage

The degree to which potential consumers perceive the innovation as superior to existing substitutes. It can also be expressed as the intensity of the reward or penalty by adopting or rejecting the technology. Some of the factors involved could include economic profitability, low initial costs, lower perceived risk, decrease in discomfort, savings in time and effort and immediacy of reward.

Compatibility

The degree to which potential consumers feel that the innovation is consistent with their sociocultural norms or is consistent with existing values, experiences, and needs.

Complexity

The degree to which the new innovation is perceived as difficult to comprehend or use. Complexity is also related to the number of decisions required as well as the number of decisions that must be repeated. Those that require frequent repeated decisions may be less attractive than those which require one or infrequent decisions.

Trialability

The degree to which a new product is capable of being sampled on a limited basis by consumers.

Observability

The ease with which a product's benefits or attributes can be observed, imagined, or described to others.

Risk

The degree of perceived risk associated with using the innovation.

In conclusion, Relative Advantage, Compatibility, Complexity, Observability, Trialability, and the customer's Perceived Risk can be used to predict whether consumers actively accept or reject an innovation.

§3.2 Customer satisfaction

Zeithaml and Bitner (2008) said that satisfaction is the customer's evaluation of a product or service in terms of whether that product or service has met the customer's needs and expectations. Failure to meet needs and expectations is assumed to result in dissatisfaction with the product or service.

Zeithaml and Bitner also mentioned that customer satisfaction is influenced by specific product or service features, perceptions of product and service quality, and price. In addition, personal factors such as the customer's mood or emotional state and situational factors such as family member opinions will also influence satisfaction.

Within the literature, two principle interpretations of satisfaction exist, satisfaction as a process and satisfaction as an outcome (Parker and Mathews, 2001). As an outcome, satisfaction results from the consumption experience, thus customer satisfaction has been defined as a "post-choice evaluative judgment concerning a specific purchase decision" (Lin, 2003 p. 203). The process school of thought however stresses that satisfaction or dissatisfaction are not inherent in the product or service but instead it is an "individual's perceptions of that product/service's attributes as they relate to the individual". Thus satisfaction or dissatisfaction is formed by the interaction of perceptual interpretations of the service and customer expectations of that service (Boshoff and Gray 2004). Customer expectation determines the level of a customer's perceived quality, perceived value and overall customer satisfaction.

There is very little information available on customer satisfaction regarding new products. Although some empirical studies give some information on a similar subject: new services. Burke, Kovar and Prenshaw (2003) said that unlike most existing services, the satisfaction for new services does not seem to be reliant on consumer's priori expectations. Their findings suggest that consumer satisfaction with new services is dominated by post-service perceptions of disconfirmation and performance. Specifically, disconfirmation has the strongest direct effect on satisfaction, but performance also has a significant effect. Furthermore they found that evaluation of performance outcomes is influenced approximately equally by attitude toward the advertisement of an organisation i.e. the company's promises towards the product's performance.

The current research assumes the findings of Burke et al. also embraces newly introduced products. In doing so it can be said that disconfirmation has got a strong influence on satisfaction. More detailed information on this topic will be explained in the next paragraph.

§3.3 The influence of disconfirmation on satisfaction

The disconfirmation – expectation theory is based on disconfirmation and contrast theories (Churchill and Surprenant,1982; Sherif and Hovland, 1961), with studies in a variety of domains. The model suggests that satisfaction is influenced by the level of disconfirmation (in this paper the magnitude of the failure of a newly introduced product), or the degree to which expectations are unmet. Disconfirmation suggests that whenever experiences fall short of expectations, such experiences reduce satisfaction i.e., a disappointment effect. When experiences exceed expectations, expectations exert a positive influence on satisfaction i.e., a positive surprise effect. These effects are consistent with the met expectations hypothesis that suggests satisfaction is a function of the difference between experiences and expectations (e.g., Porter and Steers, 1973; Wanous, 1992).

In this view, a high confirmation, or the degree to which expectations are exceeded, leads to greater satisfaction while a high disconfirmation leads to lower satisfaction (Kopalle and Lehmann, 2001; Yi, 1990).

Olson and Dover (1979) studied the disconfirmation magnitude regarding product trial. In their research expectations were negatively disconfirmed by a controlled trial experience with the product. For a wide range of cognitive variables, the disconfirmation caused negative changes in product evaluations. However, postdisconfirmation evaluations were not so negative as the product ratings of a nondisconfirmed control group that merely evaluated the product in absence of manipulated expectations. As said in the previous chapter it has become evident that a good reputation, increases product expectation. Therefore a disconfirmation of a newly introduced product for organisations with a good reputation will lead to a greater disappointments for the customer, compared to organisations with a bad reputation.

§3.4 Conclusion

In this chapter product failure has been explained by the absence of customer acceptance and has been combined with customer satisfaction; the customer’s evaluation of a product or service in terms of whether that product or service has met the customer’s needs and expectations. If a product or service can not meet the customer’s needs and expectations, we can speak of ‘disconfirmation’ of the expectation. The disconfirmation – expectation theory suggests that whenever experiences fall short of expectations, such experiences reduce satisfaction i.e., a disappointment effect.

In the next chapter we will see whether different customer types also act differently on a disconfirmation (failure of a newly purchased product). Furthermore we will study whether there are any differences in their compassion with a company’s reputation.

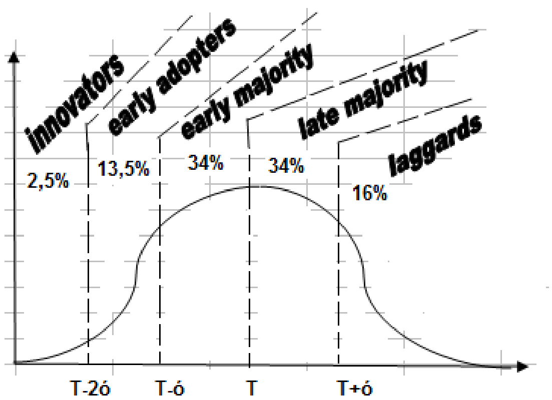
Chapter 4: Differences between customer types with respect to their compassion with a company's reputation

In this chapter the moderator variable "customer type" will be explained. Furthermore the process of purchasing a newly introduced product will be outlined in order to identify if there are any differences between customer types. Finally Moore's study on product diffusion has been used in order to understand the key factors different customer types rely on in their adoption of a newly introduced product.

§4.1 Customer types

The current study investigates if there are any differences between customer types and their satisfaction after the failure of a newly purchased product. In addition, the study examines if there are any differences between the customer types and their compassion with company's reputation. In doing so, Rogers' "New Product Diffusion Curve" will be used (See fig. 2).

Fig.2: New product diffusion curve



Rogers (1962) categorizes five customer groups who are different in their propensity to adopt new products:

Innovators

Innovators are the first individuals to adopt an innovation. Innovators are willing to take risks, youngest in age, have the highest social class, have great financial lucidity, very social and have closest contact to scientific sources and interaction with other innovators.

Early Adopters

This is the second fastest category of individuals who adopt an innovation. These individuals have the highest degree of opinion leadership among the other adopter categories. Early adopters are typically younger in age, have a higher social status, have more financial lucidity, advanced education, and are more socially forward than late adopters.

Early Majority

Individuals in this category adopt an innovation after a varying degree of time. This time of adoption is significantly longer than the innovators and early adopters. The Early Majority tend to be slower in the adoption process, has above average social status, has contact with early adopters, and shows some opinion leadership

Late Majority

Individuals in this category will adopt an innovation after the average member of the society. These individuals approach an innovation with a high degree of scepticism and after the majority of society has adopted the innovation. Late Majority are typically sceptical about an innovation, have below average social status, very little financial lucidity, in contact with others in late majority and early majority, very little opinion leadership.

Laggards

Individuals in this category are the last to adopt an innovation. Unlike some of the previous categories, individuals in this category show little to no opinion leadership. These individuals typically have an aversion to change-agents and tend to be advanced in age. Laggards typically tend to be focused on “traditions”, have lowest social status, lowest financial fluidity, oldest of all other adopters, in contact with only family and close friends, very little to no opinion leadership. (Rogers, 1962; Flynn and Goldsmith,1993)

Age is an important variable in many studies regarding the new product diffusion curve. For instance, Rosen and Weil (1995) found that older adults tend to avoid even the most basic consumer entertainment technologies and use a limited range of functions and capabilities. In a study of age-related patterns in faculty members' computer usage Rousseau and Rogers (1998) found that members of the oldest faculty group used fewer technological devices than those in younger groups. Furthermore rapidly evolving high-tech applications make it much more difficult for older people to learn and use those products (Mead, Batsakes, Fisk and Mykityshyn, 1999; Morrell and Echt, 1996).

Research has shown that age also influences the timing of new technology adoption, with younger people being faster in adopting innovations (Akhter, 2003). The elderly are relatively more disinclined to try new technologies and exhibit more negative perceptions toward them than younger people do (Gilly and Zeithaml, 1985 and Phillips and Sternthal, 1977). Moreover, many industry reports support the notion that younger people tend to replace their high-tech products earlier than older people (Pommer, Berkowitz and Walton, 1980).

In the new product diffusion curve, innovators and early adopters are the youngest in age, thus faster in adopting innovations and faster in using and learning from technological devices. The early majority takes its place between the early adopters and the late majority. There is a literature gap here, because it is unknown which group needs to be reached with a new product in order to achieve market success. In this paper we assume that when a new product has reached the early majority there is a product success; if not, the product has failed.

§4.2 Purchasing a newly introduced product

Adoption of a new product by an individual can be viewed as a process involving a number of stages that must be passed through in the individuals' decision to adopt (Turnbull and Meenaghan, 1980). The duration of the adoption process is much shorter for early adopters than for the late adopters. The process can be viewed as one in which early adopters influence other potential adopters to try a new product. This may be direct, through dialogues between the two groups, or indirect, via role models from early to late adopters. The most important concept developed and discussed in studies of new product adoption is opinion leadership.

The concept of opinion leadership emerges from the assumption that individuals influence each other through interpersonal communication. Based on Rogers and Cartano (1962), opinion leaders are “individuals who exert an unequal amount of influence on the decisions of others.” They can influence their peers in several ways: (1) acting as role models who inspire imitation; (2) spreading information via word of mouth; and (3) giving advice and verbal direction for search, purchase, and use (Flynn, Goldsmith and Eastman, 1996).

Many studies have demonstrated that this influence is significant in the communication of ideas and new product adoption diffusion (Goldsmith and Desborde, 1991). Flynn et al. further say that consumers appear to trust the opinions of others more than they do formal marketer-dominated sources of information such as advertising, and they use interpersonal sources to reduce risk and to make both store and brand choices.

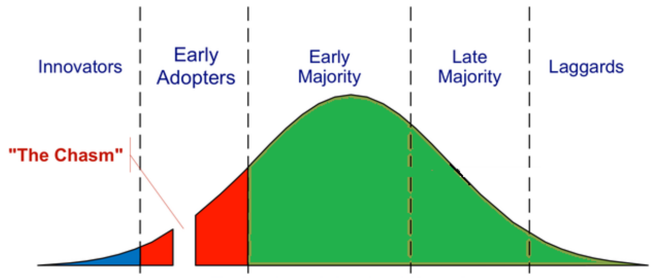
Turnbull and Meenaghan (1980) said that the opinion leader in a social system can use his/her influence to exert positive or negative impact on the new product diffusion process. The opinion leader can be viewed as a ‘gate-keeper' when he/she uses influence to hinder the progress of the adoption. Significant negative correlations between negative comments on a product and subsequent purchase of the product were found in their studies.

§4.3 Differences between customer types and their compassion with a company’s reputation

In the first paragraph of this chapter it has become clear what the five different customer groups in new product adoption are. In this paragraph different approaches of customers regarding newly introduced products and their acceptance of failure will be broad to light. According to Rogers (1962) innovators are willing to take more risks in purchasing a newly introduced product than other customer types. Therefore this customer type can also be considered as the ‘triability group’. Because they are not afraid to take risks, it can be assumed that this group is less vulnerable to product failure than other groups.

According to Moore (2002), a marketer should focus on one group of customers at a time, using each group as a base for marketing to the next group. The most difficult step is making the transition between the early adopters and early majority. Moore calls this ‘the chasm’ (see fig. 3) . If a firm crosses this chasm with its product, then the product becomes a success.

Fig. 3: the chasm



”The early adopters are prepared to bear with the inevitable bugs and glitches that accompany any innovation just coming to market. By contrast the early majority want to buy a productivity improvement for existing operations. They want evolution, not revolution. They want technology to enhance, not overthrow, the established ways of doing business. And above all, they do not want to debug somebody else’s product. By the time they adopt it, they want it to work properly and to integrate appropriately with their existing technology base” (Moore, 2002, p. 20).

Because of the above described differences between the early adopters and the early majority, the early adopters are no good references for the early majority. The early majority need good references though for buying decisions, because they do not want to disrupt their organizations. The only suitable reference for an early majority customer is therefore another member of the early majority. There is a problem though: *“no upstanding member of the early majority will buy without first having consulted with several suitable references.” (Moore, 2002, p. 20).*

This is where the organisation needs to come in action. There are several ways to reach the early majority, for example by sending free products to opinion leaders for reviewing, advertising and/or using their reputation in order to convince the early majority to purchase the newly introduced product. Because of the strong reliance of the early majority on reference groups (word-of-mouth) and their demands for properly working products, it can be assumed that this group will be more disappointed when a product fails. Eventually this will lead to a larger reputation damage for a company than when product failure occurs within any other customer group as a result of their unexpected disappointment.

If a product fails within the group of innovators or within the group of early adopters, a company does not have to worry about their final reputation, because this group is willing to take the risk of product failure. Therefore they will be more tolerant towards the company than other customer groups.

In the case of a product failure in the early majority stadium, the late majority and the laggards will also be affected, because their 'word-of-mouth-information' comes from the early majority. In total this affects 84% of the customers (see fig. 2). This means that the most reputation damage will occur if a product fails within the group of the early majority.

Late majority are sceptical about innovations. This means that this group will always pass judgments on newly introduced products. Therefore it is inevitable for a company to receive complaints from this customer group. Because of their below average social status, price sensitivity (due to very little financial lucidity) and very little opinion leadership a company does not have to be afraid of serious reputation damage at product failure. This group could also be described as the sceptical part of the market that always needs to complain.

Laggards can be compared to the late majority, because they tend to be focused on "traditions" and do not like change. This group has the lowest social status, lowest financial fluidity and is the oldest of all other adopters. A company does not have to be afraid that failure of a newly introduced product in this group causes reputation damage, because this group has the least opinion leadership. They are only in contact with family and close friends, which ensures the word-of-mouth communication to stay within a small area. Therefore the reputation damage due to product failure will be the smallest in this group.

§4.4 Conclusion

In this chapter it has become clear that different customer types purchase newly introduced products for different reasons and conditions. Innovators (or the triability group) are willing to take more risks in purchasing a newly introduced product than other customer types. Because they are not afraid to take risks, it can be assumed that this group is less vulnerable to product failure than other groups. The early adopters are the second group in the product diffusion curve (see fig. 2). This group is prepared to bear with the inevitable bugs and glitches that accompany any innovation. Unlike the early adopters, the early majority want the product to work properly and want it to integrate appropriately with their existing technology base.

The early majority demand properly working products and rely on word-of-mouth communication. Therefore it can be assumed that this group will be more disappointed when a product fails. In the case of a product failure in the early majority stadium, the late majority and the laggards will also be affected, because the ‘word-of-mouth-information’ form these groups comes from the early majority. Eventually this will lead to a reputation damage for a company that affects 84% of the customers within the product diffusion curve.

Overall it can be said that the most reputation damage will occur when a newly introduced product fails within the group of the early majority, the second most damage at product failure within the group of early adopters, then the group of the late majority, the group of innovators and the least reputation damage within the group of laggards. This top five has been conducted by studying the differences in tolerance, financial lucidity, reliance and opinion leaderships between the customer groups.

Chapter 5: Conclusion, limitations and suggestions for future research

§5.1 Conclusion

Is there a difference between a company's initial reputation and its reputation after a newly introduced product fails? In this literature study it can be assumed as a "yes". A strong reputation creates a higher customer expectation of the company's product performance. This happens especially for newly introduced products. Since customers have no experience with the product, they will have to rely on strategic signals like reputation, to form expectations about the quality. This creates an advantage against competitors in new product adoption.

A strong reputation also has its downside. Rhee and Haunschild (2006) found that companies with a strong reputation suffer more than companies with a less strong reputation when they make a mistake. A strong reputation creates a higher expectation of the product performance and therefore product failure can lead to a greater dissatisfaction.

In this paper product failure has been explained by the absence of customer acceptance. Customer acceptance means that the customer must be aware of a specific usefulness that outweighs the potential disadvantages of the new product and customers must believe that the new product is secure.

The toleration of product failure differs per customer group, as they purchase products for different reasons and conditions. Innovators are willing to take more risks in purchasing a newly introduced product than other customer types. Because they are not afraid to take risks, it can be assumed that this group is less vulnerable to product failure than other groups. The early adopters are prepared to bear with bugs and glitches of innovations. Unlike the early adopters, the early majority wants the product to work properly and wants it to integrate appropriately with their existing technology base.

The early majority needs good references for buying decisions, but the only suitable reference for an early majority customer is another member of the early majority. The problem is that no upstanding member of the early majority will buy without first having consulted with several suitable references.

Because of the strong reliance of the early majority on word-of-mouth and their demands for properly working products, it can be assumed that this group will be more disappointed when a product fails. In the case of a product failure in the early majority stadium, the late majority and the laggards will also be affected, because their 'word-of-mouth-information' comes from the early majority. Eventually this will lead to a reputation damage for a company that affects 84% of the customers within the product diffusion curve.

Finally a top five can be made of the customer types and their judgement towards a company's final reputation when a newly introduced product fails:

Fig.4: Top five of customer types and their toleration to a company's final reputation

1. Early majority
2. Early adopters
3. Late majority
4. Innovators
5. Laggards

§5.2 Limitations and suggestions for future research

The most important limitation of this research is that this is a literature study and nothing actually has been tested. Answers to the research questions have been given by studying and analysing existing literature. Furthermore this paper explains product failure as the absence of customer acceptance, which is just one determinant of product success.

In this paper it has also come clear that there is a relation between reputation and customer satisfaction, but the differences between customer types and their reliance on reputation has not been studied. Furthermore this paper only relied on the customer types Rogers (1971) has defined. Different theories on customer types could be used for future research.

This study only focussed on a newly introduced product, but the degree of innovation or a newly introduced service has not been discussed in this paper. During this literature study it has also come clear that different customer types show different levels of satisfaction when a newly introduced product fails; this has not been discussed either.

§5.3 Managerial recommendations

Existing companies with a strong reputation have an advantage in contrast to young companies and companies with a less strong reputation, because customers prefer these companies in their decision making process. These companies are known by their quality and performance. However these companies have to be careful and do not want to make a mistake, as they will suffer more from these mistakes than the younger companies. A strong reputation creates a high expectation and will therefore create a big disappointment when a newly introduced product fails. Customers within the group of the early majority will cause the most reputation damage for these companies, as they are the reference group for most of the market and they demand for proper working products.

It is recommended to managers to thoroughly test products before launching them on a big scale in order to avoid reputation damage. They could use the group of innovators to test the product and receive feedback about it. Furthermore in order to reach the rest of the market they will have to find a way to communicate or express the relative advantage of the newly introduced products, in order to reach customer acceptance.

For younger companies or even starters there is also an advantage. The barrier to launch a new product for them is lower than for existing companies with a strong reputation, as customers are more tolerant to companies with a less strong reputation. However the main problem with starters is that they are financially weaker than existing companies with a strong reputation. The best thing to do for starters therefore is to wait for the big companies to launch their product and then make a substitute with a better customer price in order to survive the first years of existence.

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