Mastering the ‘Name Your Product Category’ Game

If you’re launching an innovative product in a nascent industry, it’s important to understand — and take advantage of — the dynamics through which new product category labels emerge.

BY FERNANDO F. SUAREZ AND STINE GRODAL

HAVE YOU EVER bought a snuffer? Probably not, although in 1966, the snuffer was advertised as “the greatest word in downhill fun” and described as combining the “thrills of skiing” and the “skills of surfing.” It’s much more likely that you have bought a similar product under a different name — a snowboard — which was the category label introduced in the 1970s by Jake Burton Carpenter. His company, Burton Snowboards, went on to dominate the snowboard industry.

What’s in a name? Although Shakespeare claimed that a rose “by any other name would smell as sweet,” over the last five to 10 years, significant research on category labels has shown the opposite to be true. This research finds that a company’s labeling strategy can have important performance implications for products in nascent markets. As part of our research in this growing field, we followed the more than 200 category labels that smartphone producers used to introduce new products since roughly the beginning of the 21st century. (See “About the Research,” p. 24.) We also studied the labels used in almost a dozen other industries. What we found may surprise you.

Category labels are not the same as company brands. Brands create unique relationships between customers and your particular company; they build your company’s distinctiveness in customers’ minds. Category labels, however, are a way to identify a product’s commonality with others of its type. For example, Tesla Motors Inc. markets and maintains its distinctive “Tesla” brand, but the category label the company uses to introduce its products is “electric cars.” As we will demonstrate,
categories, like brands, do matter, in ways that are subtle and profound.

“Snurfers” illustrates what can happen if your company doesn’t get its category labeling right, especially in a nascent market. Companies that embrace and sponsor category labels that later lose appeal and/or are abandoned are seldom industry winners.³ The success of the “snowboard” category label, and the Burton company that coined it, illustrates that the opposite is also true: It pays to link your products to a label that sticks. (See “Winners and Losers in the Category Label Game.”) This is not to say that coining or adopting a label that sticks will guarantee you success; other factors such as the quality of your product and your company’s capabilities in areas such as manufacturing and distribution of course play important roles.⁴ However, in emerging industries marked with significant uncertainty, getting the categorical label right may help propel your company in the direction of success. Also, understanding how labels evolve can be particularly helpful in choosing the right time to enter a new industry. Knowing some key facts about how categories are created and how they work and then using those insights to craft a powerful labeling strategy for your products can help your company outperform its rivals.

**How Category Labels Evolve**

New industries are characterized by an early period of confusion and uncertainty about use and meaning, which brings about a proliferation of category labels that attempt to describe the new products. During the automobile industry’s earliest stages, labels for the new product category included “locomobile” (evoking a concern with mobility), “electric buggy” (emphasizing the new technology) and “horseless carriage” (calling to mind what the automobile does not have).⁵ This proliferation of possible labels for a new product category still happens today. For instance, the industry that we know today as “cloud computing” started decades ago under labels such as “utility computing,” “time sharing,” “application services provider” and “software as a service.”

As an industry matures, the struggle between different category labels quiets down as one label gradually becomes dominant. (See “How ‘Credit Card’ Became a Dominant Category Label,” p. 26.) Our research suggests that this dominant category label typically is introduced right before the industry starts a phase of rapid growth and consolidation.⁶ Thus, knowing when a dominant category label is emerging can give your company valuable information advantages.

A dominant category label reduces the uncertainty and confusion surrounding the meaning of a new type of product, making it clearer to customers and producers what the new product is for and how it should be used. While the category label “smartphone” is ubiquitous today, in the late 1990s no one was sure how to make sense of a cellular phone that had additional functions. Was it, as Samsung at one point proposed, a “camera phone,” a device that evoked fun and entertainment? Others, such as Taiwanese manufacturer HTC Corp., called it a “PDA phone,” emphasizing productivity and responsibility. Or was it a “gaming deck,” a label Nokia used in an effort to highlight the advanced gaming capabilities of one of its phones? Or was it, as Ericsson proposed, a “smart phone” capable of performing multiple advanced functions simultaneously? As is often the case
in a new industry, the different labels used to describe the early products meant different things to different people, bringing much confusion and prompting many customers to adopt a “wait and see” attitude. Indeed, more than 200 categorical labels were introduced to describe the more than 1,500 devices that 50 companies produced for the U.S. market. Most of these labels are no longer in use today.

The meaning of the dominant category label — the word or concept we use to refer to products that address similar needs and compete for the same customers — is collectively created and socially negotiated. Producers, users, innovators and industry commentators — bloggers, advertisers, writers, analysts and so on — all contribute to the iterative, dynamic process by which a label becomes dominant and is infused with specific meaning. Once a categorical label achieves dominance, people know what to expect from a product in that category. Only a few years ago, people did not associate the category label “smartphone” with turn-by-turn navigation and social networking. Today, those two functions are some of the most popular uses of a smartphone. Indeed, as category labels become better understood, they develop implicit “rules of membership” in the minds of consumers — that is, specific characteristics that products must have to be considered as belonging to the category. Products that do not conform to these characteristics face penalties in the market. Insights into how the meaning of the dominant category labels evolves are, therefore, important when thinking about your new product strategy.

**Labels and Entry-Timing Strategy**

Using the right label to describe your product is not only important for its direct effect on product sales. A sound understanding of the dynamics of label creation in a new industry can also help your company determine the best entry-timing strategy. By tracking the dynamics of categorical labels, you can determine when a window of opportunity for entry opens up, thereby giving your company the best shot at succeeding in the new market. Much as musicians need to enter a melody at the right tempo (speed or pace), companies need to enter an industry at the right tempo to achieve a successful performance. *Tempo Movers*, as we explain later in this article, enter the market at the most advantageous stage. However, even if you miss a beat and enter at a suboptimal time, you can compensate by adjusting your labeling strategy.

In the past, the business press largely praised the first or early movers in a new industry. Subsequent research, however, has stressed the disadvantages to being an early mover and suggested that entering early can be very risky, as pioneers can make costly mistakes when choosing which technology or customer type to focus on. This has revived a central question in management: When is the best time to enter a new industry? More specifically, is there a “window of opportunity” to enter, and how can we identify it? As it turns out, understanding the product category dynamics in an emerging industry and when a dominant category label has been introduced are key pieces of the puzzle.

Studies of technological innovation have established a pattern that most industries follow; we have long known that when an industry matures, fundamental changes follow for competitive requirements and conditions. The emergence of a new industry prompts the entry of a flurry of producers that in turn introduce many different technological designs. Typically, the number of companies in a new industry increases over time, reaches a peak, and then experiences a shakeout that reduces the number of players until they stabilize at a relatively low number; this process is often referred to as the “industry life cycle.” The initiation of the shakeout marks the onset of maturity in the

**WINNERS AND LOSERS IN THE CATEGORY LABEL GAME**

Until a dominant category label emerges, new industries are characterized by a proliferation of labels that attempt to describe the new product category. Here are some examples of attempted category labels that didn’t stick — along with the dominant label that emerged victorious for that product category.

<table>
<thead>
<tr>
<th>FAILED CATEGORY LABELS</th>
<th>DOMINANT CATEGORY LABEL</th>
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<tbody>
<tr>
<td>Snurfer</td>
<td>Snowboard</td>
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<tr>
<td>Horseless carriage</td>
<td>Automobile</td>
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<tr>
<td>PDA phone</td>
<td>Smartphone</td>
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<tr>
<td>Charge plate</td>
<td>Credit card</td>
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<td>Velocipede</td>
<td>Bicycle</td>
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<td>Mezzo-level physics</td>
<td>Nanotechnology</td>
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<td>Barn engine</td>
<td>Tractor</td>
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<tr>
<td>Business computer language</td>
<td>Spreadsheet</td>
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<td>Utility computing</td>
<td>Cloud computing</td>
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HOW "CREDIT CARD" BECAME A DOMINANT CATEGORY LABEL

The "Charge-Plate," developed in the 1920s, was a small metal plate embossed with a customer's name, city and state that was used to make a paper receipt at the point of purchase. This reduced bookkeeping errors made by the earlier method of copying handwritten records from a ledger. Next came the Diners Club "charge card," which arose from co-founder Frank McNamara's experience of not having cash to settle a bill for dinner. His "charge card" provided club members with credit that could be used instead of cash in restaurants whose owners had agreed to this form of payment. Customers were required to pay their monthly charge card bill in full. The third design, introduced by Bank of America in 1958, allowed consumers to receive revolving credit from a third-party bank. The introduction of this design resulted in the dominant category label "credit card."

industry and is associated with the emergence of what is called the dominant design, which is a specific product architecture that is quickly adopted by the producers in the industry. Dominant designs can emerge both in products and services. For instance, most smartphone competitors today follow the iPhone's basic design characteristics, while most express couriers today follow the service design that FedEx introduced many years ago.

Any advantage to entering a nascent market early has to be realized before the onset of industry maturity, which in turn starts when product designs begin to standardize around a dominant design. In other words, we know that the end point of the best window of opportunity to enter a new market is the introduction of the dominant design into the market. However, until now we have had no way of determining the start point of the window. That's where identifying the dominant category label comes in.

The introduction of the dominant category label marks the start point of the best window of opportunity for entry, because it represents the start of a process that will culminate with the emergence of a shared understanding among consumers, producers and industry commentators about the purpose and meaning of the new industry and its products. Before the introduction of the dominant category, most consumers are reluctant to commit, which often results in a difficult time period for early-entry producers seeking to convince customers to try their products.

In a pattern that has been observed in a number of industries, the number of category labels and the number of companies in an emerging industry both increase over time. Each reaches a peak that is followed by a shakeout — although the shakeout in category labels typically occurs before the shakeout in number of companies. (See "Milestones in the Emergence of a New Industry.") The introduction of the dominant category label (occurring at the peak of the blue curve) can be used together with the introduction of the dominant design (occurring at the peak of the green curve) to represent key milestones in a new industry's life cycle. An ideal window of opportunity for market entry exists in the time period between the introduction of the dominant category label and the introduction of the dominant design; at that point, the dominant category label starts to shape what is expected in the product category — and thus reduces uncertainty for both customers and producers — but a dominant design for fulfilling those expectations has yet to emerge.

Labeling Strategies for Market Entry

Ideally, you want to time your company's entry into a new industry to be within the window of opportunity that begins with the introduction of the dominant category label; that is, you want to be what we call a Tempo Mover. However, this is not always possible. You might be pressured by investors to enter the market early, or your research and development might be taking longer than anticipated, leaving your company one beat behind the industry's tempo. Depending on when you enter the industry, our research suggests that there are three distinct strategies your company can use to optimize performance. (See "Choosing the Best Labeling Strategy," p. 28.)

Tempo Mover: Shaping the Industry

Tempo Movers, which are companies that introduce their products during the optimal window of opportunity, have the highest chances of success in an emerging industry. However, to succeed, these companies' labeling strategies have to be sharp and effective, because the ideal window of opportunity does not stay open long. A Tempo Mover can shape the industry by identifying the dominant category label soon after it has been introduced and working proactively to infuse that label with meaning that is consistent with and easily associated with its products. The best scenario for a Tempo Mover would be to enter the industry by introducing the label that will become dominant (that is, enter right at the peak in the number of category labels). As we discuss below, Burton used this strategy in the snowboard industry: It introduced the label that became dominant, and it cleverly infused that label with meaning that was very consistent with the products the company made. The strategy paid off: Burton's revenues grew fast, and the company became the major player in the industry with more than 40% market share. However, coming up with labels that stick and, even more, dominate can be a tricky business. (See "How to Create Successful Category Labels," p. 29.)

Successful category labels balance the inherent tension between the familiar and the novel. They must be distinctive to attract attention, yet familiar enough to convey how a new product will be used. Because the
many labels in use in a nascent industry are still relatively shallow in meaning and confusing for customers, Tempo Movers have the opportunity to shape customer understanding.

Most Tempo Movers do not coin the dominant category label; instead, they carefully observe the category dynamics within an industry to identify which category label is emerging as dominant, and they use this opportunity to shape the meaning of the dominant category label. Tempo Movers can shape the dominant category label by strategically providing information (through marketing and customer service, for instance) to infuse the label with meaning. When that is done well, customers will strongly associate your company and products with the label they use to describe the industry.

“Surfer” scored high on novelty, but not high on familiarity. Because people did not instantaneously link the category label to “snow” and “surfer,” they could not imagine themselves boarding downhill in a blizzard. Burton, on the other hand, in addition to having great products, was able to shape the industry in part by coining the successful category label “snowboard.” The label clearly connoted two familiar items combined for a novel activity: a board that could be used in the snow. Scoring high on both novelty and familiarity, the term was quickly adopted.

The snowboarding industry, Burton both introduced the dominant category label and was active in shaping the label’s meaning in a way that was advantageous for the company. Burton popularized the verb “to shred” to signify a fast and aggressive style of snowboarding. One of the strengths of Burton’s binder design in comparison to that of its competitors was the degree of control riders could maintain at high speeds — in other words, while “shredding.” Burton leveraged this design advantage to shape the meaning of how the sport was practiced. Following Burtons lead, the industry began to emphasize the aggressive speed aspects of the sport (rather than, for example, its appeal as a winter recreational activity for families or the physical grace riders could develop). Burton’s advantage was to capture the consumer’s mind by linking the company’s product design with the new term “shredding” and the new category label, “snowboard.”

Industry leaders need to continue to shape the meaning of the category if they hope to maintain dominance; otherwise, they risk losing the connection between the category and their brand and products. For instance, Burton continued to shape the meaning of the category along with the aggressive aspects of the sport by becoming a major sponsor of both extreme snowboard events and elite riders. Among other things, Burton sponsored the creation of challenging terrain parks with rocks, stumps and other obstacles in major snowboarding resorts in the United States, Europe and Asia.

What if your company is not a Tempo Mover? In that case, your chances to shape the industry are lower, but you can still make the most out of the time you enter the industry. We highlight the most advantageous labeling strategy that Early Movers or Late Movers can follow and describe the rationale for each of them below.

**Early Mover: Hedging Your Bets** A hedging strategy is advantageous in the earliest phase of a new industry, which is characterized by significant market and technological uncertainty. While it might seem advantageous to commit to only one category label and to communicate that choice clearly, we suggest that companies that enter a market early can better manage the uncertainty by associating their products or companies with several category labels simultaneously.

We found several early entrants to the nanotechnology industry that advantageously signaled multiple category labels. For example, the CEO of one company we studied positioned his company variously as “nanotechnology,” “microfluidics,” or “nano-biology” depending on what he believed the
CHOOSING THE BEST LABELING STRATEGY
The strategy you take in labeling a new product in an emerging industry should vary depending on whether you launch the product before, after or in tempo with the emergence of a dominant category label.

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<th>Early Mover</th>
<th>Tempo Mover</th>
<th>Late Mover</th>
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<td>Hedging: Associate a product with several category labels simultaneously.</td>
<td>Shaping: Create or identify the dominant category label and shape it by infusing it with meaning.</td>
<td>Conforming: Associate a product with a front-runner category label.</td>
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customer or partner was most interested in. Only after “nanotechnology” became the dominant category label in the industry did the CEO commit to positioning his company only with that label. The company survived in a very fast-changing environment and had a successful initial public offering in 2011.

Late Mover: Conforming to the Dominant Category Label Late Movers enter the market after the introduction of the dominant design. During this period, the dominant category label has become obvious to most participants in the industry, and the most advantageous strategy is to conform to this label. When a company conforms it simply adopts a label that other companies are using, without active participation in shaping or infusing meaning into the label. After the consolidation of both the dominant category and the dominant design, there is no longer much room to shape the dominant category label; by definition, it has already been “shaped” and infused with meaning. If a company tries to “hedge” at this late stage, it will most likely be penalized because customers and industry commentators, already converging in the use of the dominant category, will discount products that are positioned in other categories. For example, Hewlett-Packard Co. recently announced plans to reenter the phone market. CEO Meg Whitman was quoted saying, “HP has to do a smartphone,” thus firmly conforming to the smartphone category. In contrast, HP’s first product in this industry, the Jornada 928, launched in 2002, was labeled a “communicator.” This was followed by the iPaq h6315 in 2004, which was labeled an “all in one device.” HP did not use a hedging strategy in the early years of the industry, but now that the industry has matured, it is conforming to the dominant category. HP may have learned the lesson, although it might prove a bit too late.

Tracking Category Labels
Once you understand the nature of category labels and how they evolve, you can fairly easily track them. But few companies do. We believe that if companies became serious about using data to understand how customers and others are categorizing emerging technologies, they could use that information to fine-tune their market strategy.

Technology makes it increasingly possible to collect data on how categories are used in everyday parlance. To track the trends and dynamics over time within an emerging industry, the easiest method is to use Google Trends. For example, to track the various labels used over a period of time for “tablet computers,” you would search for categories such as “eBook,” “e-reader” and “iPad.” This enables you to tap into quantitative data on how consumers search for products online. You can break searches down by region, or search through your competitors’ product press releases, annual reports and trademark and patent applications. All contain a plethora of category labels that can be collected, coded and studied. Specialized textual analysis software will help you extract the category labels used in each document.

In the future, it may become the norm rather than the exception for companies to routinely track category labels before introducing their products in a nascent industry. If you want to pioneer this new strategic tool, we suggest that you don’t solely focus on your competitors when tracking labels. Remember that not only companies create category labels; users, journalists, analysts and even visionaries often play an active role. For example, a bicycle aficionado looking for new adventures created the “mountain bike” category. “Robot” (derived from robota, the Czech word for slave) was first introduced by Karel Capek, a Czech science fiction writer, in the 1920s. Twenty years later, when writer and industry commentator Isaac Asimov published his best-selling novel, I, Robot, about the relationships between humans and machines, he began to shape the meaning of that category label. The label these individuals coined and the meaning they infused into that label through their writings no doubt influenced the evolution of the robotics industry in the decades to come.

The lesson here is that the scanning of category labels over time has to be far and wide, a task that technology now makes feasible. Identifying key
labels as they are created, evolve and gain acceptance can help your company better position your products. It can be a fun learning experience as well. After all, it is now quite clear that a rose, when given another name, may not smell as sweet.

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REFERENCES


11. This figure is adapted from Suarez, Grodal and Gotsopoulos, “Perfect Timing.”


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