by the entire family. Different people are playing different roles, but all are crucial in the decision process and ultimate consumer satisfaction.

USER AND USAGE—REAL USER AND USAGE-RELATED VARIABLES Many marketers believe variables related to various aspects of users or their usage—occasions, user status, usage rate, buyer-readiness stage, and loyalty status—are good starting points for constructing market segments.

Occasions Occasions mark a time of day, week, month, year, or other well-defined temporal aspects of a consumer's life. We can distinguish buyers according to the occasions when they develop a need, purchase a product, or use a product. For example, air travel is triggered by occasions related to business, vacation, or family. Occasion segmentation can help expand product usage.

User Status Every product has its nonusers, ex-users, potential users, first-time users, and regular users. Blood banks cannot rely only on regular donors to supply blood; they must also recruit new first-time donors and contact ex-donors, each with a different marketing strategy. The key to attracting potential users, or even possibly nonusers, is understanding the reasons they are not using. Do they have deeply held attitudes, beliefs, or behaviors or just lack knowledge of the product or brand benefits and usage?

Included in the potential-user group are consumers who will become users in connection with some life stage or life event. Mothers-to-be are potential users who will turn into heavy users. Producers of infant products and services learn their names and shower them with products and ads to capture a share of their future purchases. Market-share leaders tend to focus on attracting potential users because they have the most to gain. Smaller firms focus on trying to attract current users away from the market leader.

Usage Rate We can segment markets into light, medium, and heavy product users. Heavy users are often a small slice but account for a high percentage of total consumption. Heavy beer drinkers account for 87 percent of beer consumption—almost seven times as much as light drinkers. Marketers would rather attract one heavy user than several light users. A potential problem, however, is that heavy users are often either extremely loyal to one brand or never loyal to any brand and always looking for the lowest price. They also may have less room to expand their purchase and consumption.

Buyer-Readiness Stage Some people are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. To help characterize how many people are at different stages and how well they have converted people from one stage to another, marketers can employ a *marketing funnel* to break down the market into different buyer-readiness stages.

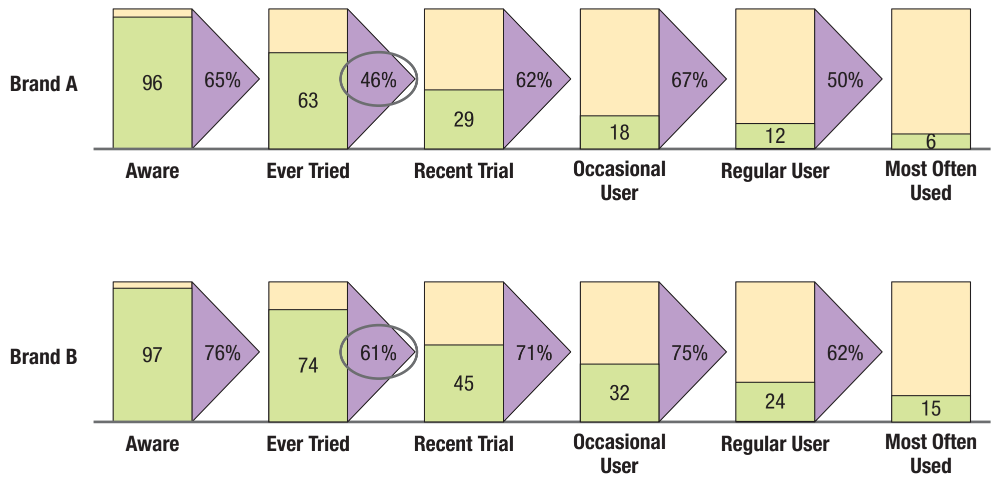
The proportions of consumers at different stages make a big difference in designing the marketing program. Suppose a health agency wants to encourage women to have an annual Pap test to detect cervical cancer. At the beginning, most women may be unaware of the Pap test. The marketing effort should go into awareness-building advertising using a simple message. Later, the advertising should dramatize the benefits of the Pap test and the risks of not getting it. A special offer of a free health examination might motivate women to actually sign up for the test.

Figure 8.2 displays a funnel for two hypothetical brands. Compared to Brand B, Brand A performs poorly at converting one-time users to more recent users (only 46 percent convert for Brand A compared to 61 percent for Brand B). Depending on the reasons consumers didn't use again, a marketing campaign could introduce more relevant products, find more accessible retail outlets, or dispel rumors or incorrect beliefs consumers hold.

Loyalty Status Marketers usually envision four groups based on brand loyalty status:

1. ***Hard-core loyals***—Consumers who buy only one brand all the time
2. ***Split loyals***—Consumers who are loyal to two or three brands
3. ***Shifting loyals***—Consumers who shift loyalty from one brand to another
4. ***Switchers***—Consumers who show no loyalty to any brand[51]

A company can learn a great deal by analyzing degrees of brand loyalty: Hard-core loyals can help identify the products' strengths; split loyals can show the firm which brands are most competitive with its own; and by looking at customers dropping its brand, the company can learn about its marketing weaknesses and attempt to correct them. One caution: What appear to be



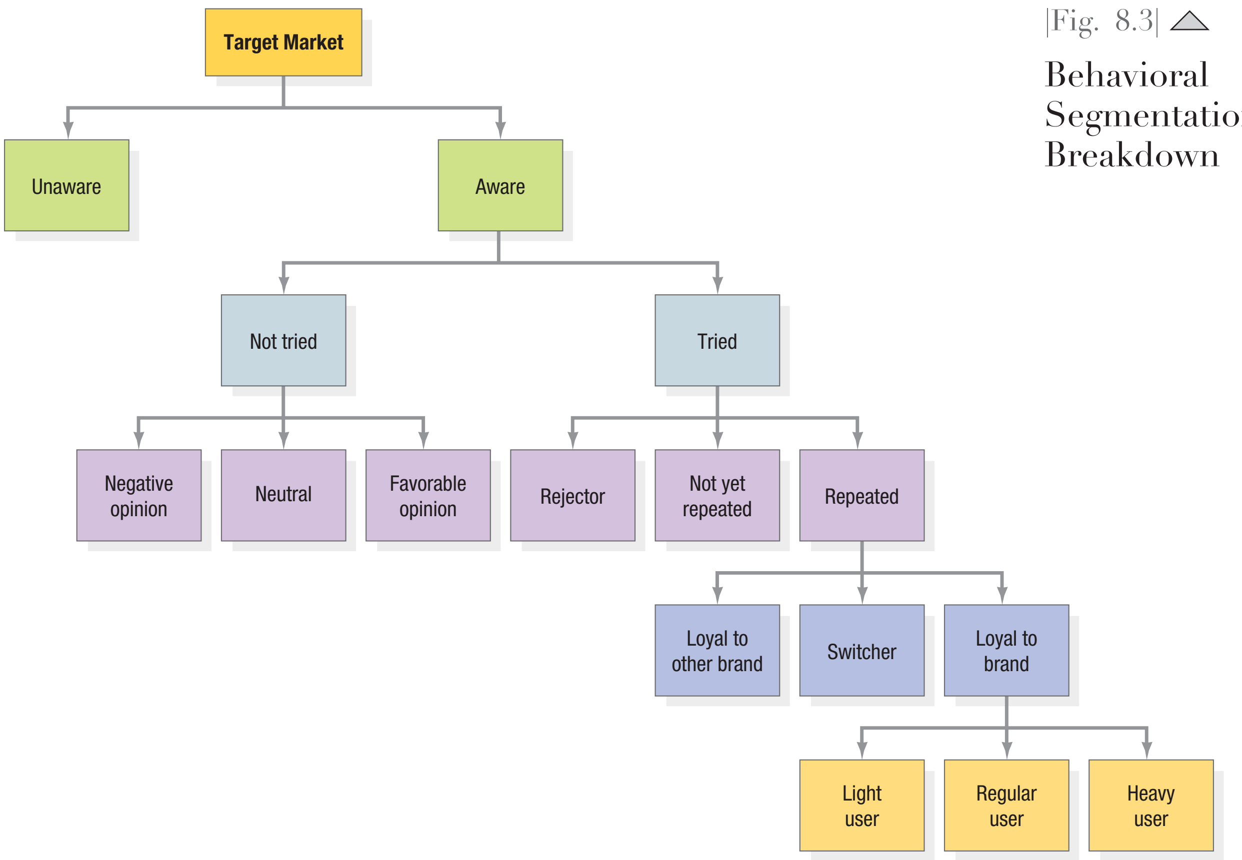
|Fig. 8.2|

Example of Marketing Funnel

brand-loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost, or the unavailability of other brands.

Attitude Five consumer attitudes about products are enthusiastic, positive, indifferent, negative, and hostile. Door-to-door workers in a political campaign use attitude to determine how much time to spend with each voter. They thank enthusiastic voters and remind them to vote, reinforce those who are positively disposed, try to win the votes of indifferent voters, and spend no time trying to change the attitudes of negative and hostile voters.

Multiple Bases Combining different behavioral bases can provide a more comprehensive and cohesive view of a market and its segments. Figure 8.3 depicts one possible way to break down a target market by various behavioral segmentation bases.



|Fig. 8.3|

Behavioral Segmentation Breakdown

Bases for Segmenting Business Markets

We can segment business markets with some of the same variables we use in consumer markets, such as geography, benefits sought, and usage rate, but business marketers also use other variables. Table 8.5 shows one set of these. The demographic variables are the most important, followed by the operating variables—down to the personal characteristics of the buyer.

The table lists major questions that business marketers should ask in determining which segments and customers to serve. A rubber-tire company can sell tires to manufacturers of automobiles, trucks, farm tractors, forklift trucks, or aircraft. Within a chosen target industry, it can further segment by company size and set up separate operations for selling to large and small customers.

A company can segment further by purchase criteria. Government laboratories need low prices and service contracts for scientific equipment, university laboratories need equipment that requires little service, and industrial labs need equipment that is highly reliable and accurate.

Business marketers generally identify segments through a sequential process. Consider an aluminum company: The company first undertook macrosegmentation. It looked at which end-use market to serve: automobile, residential, or beverage containers. It chose the residential market, and it needed to determine the most attractive product application: semifinished material, building components, or aluminum mobile homes. Deciding to focus on building components, it considered the best customer size and chose large customers. The second stage consisted of microsegmentation. The

TABLE 8.5 Major Segmentation Variables for Business Markets

Demographic

1. *Industry:* Which industries should we serve?
2. *Company size:* What size companies should we serve?
3. *Location:* What geographical areas should we serve?

Operating Variables

4. *Technology:* What customer technologies should we focus on?
5. *User or nonuser status:* Should we serve heavy users, medium users, light users, or nonusers?
6. *Customer capabilities:* Should we serve customers needing many or few services?

Purchasing Approaches

7. *Purchasing-function organization:* Should we serve companies with a highly centralized or decentralized purchasing organization?
8. *Power structure:* Should we serve companies that are engineering dominated, financially dominated, and so on?
9. *Nature of existing relationship:* Should we serve companies with which we have strong relationships or simply go after the most desirable companies?
10. *General purchasing policies:* Should we serve companies that prefer leasing? Service contract? Systems purchases? Sealed bidding?
11. *Purchasing criteria:* Should we serve companies that are seeking quality? Service? Price?

Situational Factors

12. *Urgency:* Should we serve companies that need quick and sudden delivery or service?
13. *Specific application:* Should we focus on a certain application of our product rather than all applications?
14. *Size or order:* Should we focus on large or small orders?

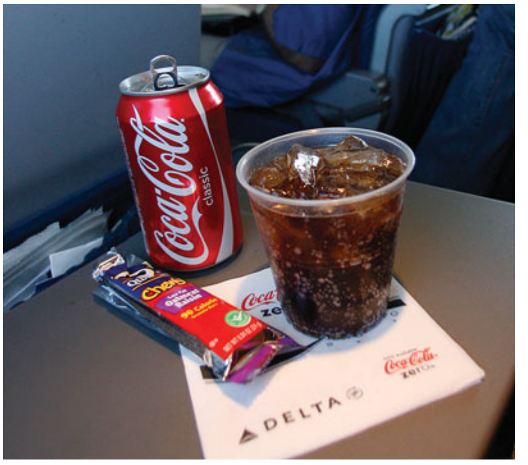
Personal Characteristics

15. *Buyer-seller similarity:* Should we serve companies whose people and values are similar to ours?
16. *Attitude toward risk:* Should we serve risk-taking or risk-avoiding customers?
17. *Loyalty:* Should we serve companies that show high loyalty to their suppliers?

Source: Adapted from Thomas V. Bonoma and Benson P. Shapiro, *Segmenting the Industrial Market* (Lexington, MA: Lexington Books, 1983).

company distinguished among customers buying on price, service, or quality. Because it had a high-service profile, the firm decided to concentrate on the service-motivated segment of the market.

Business-to-business marketing experts James C. Anderson and James A. Narus have urged marketers to present flexible market offerings to all members of a segment.[52] A **flexible market offering** consists of two parts: a *naked solution* containing the product and service elements that all segment members value, and *discretionary options* that some segment members value. Each option might carry an additional charge. Siemens Electrical Apparatus Division sells metal-clad boxes to small manufacturers at prices that include free delivery and a warranty, but it also offers installation, tests, and communication peripherals as extra-cost options. Delta Airlines offers all economy passengers a seat, small snack and soft drinks and charges extra for alcoholic beverages and meals.



Delta Airlines uses flexible market offerings; it offers some products on board for free, such as soft drinks and small snacks, but charges for other items, such as meals.

Market Targeting

There are many statistical techniques for developing market segments.[53] Once the firm has identified its market-segment opportunities, it must decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups. Thus, a bank may not only identify a group of wealthy retired adults but within that group distinguish several segments depending on current income, assets, savings, and risk preferences. This has led some market researchers to advocate a *needs-based market segmentation approach*, as introduced previously. Roger Best proposed the seven-step approach shown in Table 8.6.

Effective Segmentation Criteria

Not all segmentation schemes are useful. We could divide buyers of table salt into blond and brunette customers, but hair color is undoubtedly irrelevant to the purchase of salt. Furthermore, if all salt buyers buy the same amount of salt each month, believe all salt is the same, and would pay only one price for salt, this market is minimally segmentable from a marketing point of view.

To be useful, market segments must rate favorably on five key criteria:

- ***Measurable.*** The size, purchasing power, and characteristics of the segments can be measured.
- ***Substantial.*** The segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing program. It would not pay, for example, for an automobile manufacturer to develop cars for people who are less than four feet tall.
- ***Accessible.*** The segments can be effectively reached and served.

TABLE 8.6 Steps in the Segmentation Process

	Description
1. Needs-Based Segmentation	Group customers into segments based on similar needs and benefits sought by customers in solving a particular consumption problem.
2. Segment Identification	For each needs-based segment, determine which demographics, lifestyles, and usage behaviors make the segment distinct and identifiable (actionable).
3. Segment Attractiveness	Using predetermined segment attractiveness criteria (such as market growth, competitive intensity, and market access), determine the overall attractiveness of each segment.
4. Segment Profitability	Determine segment profitability.
5. Segment Positioning	For each segment, create a "value proposition" and product-price positioning strategy based on that segment's unique customer needs and characteristics.
6. Segment "Acid Test"	Create "segment storyboard" to test the attractiveness of each segment's positioning strategy.
7. Marketing-Mix Strategy	Expand segment positioning strategy to include all aspects of the marketing mix: product, price, promotion, and place.

Source: Adapted from Roger J. Best, *Market-Based Management,* 5th ed. (Upper Saddle River NJ: Prentice Hall, 2009). ©2009. Printed and electronically reproduced by permission of Pearson Education, Inc. Upper Saddle River, New Jersey.

- ***Differentiable.*** The segments are conceptually distinguishable and respond differently to different marketing-mix elements and programs. If married and unmarried women respond similarly to a sale on perfume, they do not constitute separate segments.
- ***Actionable.*** Effective programs can be formulated for attracting and serving the segments.

Michael Porter has identified five forces that determine the intrinsic long-run attractiveness of a market or market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers. The threats these forces pose are as follows:

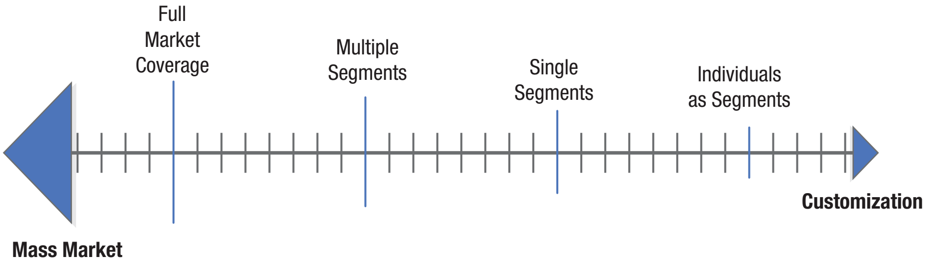
1. ***Threat of intense segment rivalry***—A segment is unattractive if it already contains numerous, strong, or aggressive competitors. It's even more unattractive if it's stable or declining, if plant capacity must be added in large increments, if fixed costs or exit barriers are high, or if competitors have high stakes in staying in the segment. These conditions will lead to frequent price wars, advertising battles, and new-product introductions and will make it expensive to compete. The cellular phone market has seen fierce competition due to segment rivalry.
2. ***Threat of new entrants***—The most attractive segment is one in which entry barriers are high and exit barriers are low.[54] Few new firms can enter the industry, and poorly performing firms can easily exit. When both entry and exit barriers are high, profit potential is high, but firms face more risk because poorer-performing firms stay in and fight it out. When both entry and exit barriers are low, firms easily enter and leave the industry, and returns are stable but low. The worst case is when entry barriers are low and exit barriers are high: Here firms enter during good times but find it hard to leave during bad times. The result is chronic overcapacity and depressed earnings for all. The airline industry has low entry barriers but high exit barriers, leaving all carriers struggling during economic downturns.
3. ***Threat of substitute products***—A segment is unattractive when there are actual or potential substitutes for the product. Substitutes place a limit on prices and on profits. If technology advances or competition increases in these substitute industries, prices and profits are likely to fall. Air travel has severely challenged profitability for Greyhound and Amtrak.
4. ***Threat of buyers' growing bargaining power***—A segment is unattractive if buyers possess strong or growing bargaining power. The rise of retail giants such as Walmart has led some analysts to conclude that the potential profitability of packaged-goods companies will become curtailed. Buyers' bargaining power grows when they become more concentrated or organized, when the product represents a significant fraction of their costs, when the product is undifferentiated, when buyers' switching costs are low, when buyers are price-sensitive because of low profits, or when they can integrate upstream. To protect themselves, sellers might select buyers who have the least power to negotiate or switch suppliers. A better defense is developing superior offers that strong buyers cannot refuse.
5. ***Threat of suppliers' growing bargaining power***—A segment is unattractive if the company's suppliers are able to raise prices or reduce quantity supplied. Suppliers tend to be powerful when they are concentrated or organized, when they can integrate downstream, when there are few substitutes, when the supplied product is an important input, and when the costs of switching suppliers are high. The best defenses are to build win-win relationships with suppliers or use multiple supply sources.

Evaluating and Selecting the Market Segments

In evaluating different market segments, the firm must look at two factors: the segment's overall attractiveness and the company's objectives and resources. How well does a potential segment score on the five criteria? Does it have characteristics that make it generally attractive, such as size, growth, profitability, scale economies, and low risk? Does investing in the segment make sense given the firm's objectives, competencies, and resources? Some attractive segments may not mesh with the company's long-run objectives, or the company may lack one or more necessary competencies to offer superior value.

Marketers have a range or continuum of possible levels of segmentation that can guide their target market decisions. As Figure 8.4 shows, at one end is a mass market of essentially one segment; at the other are individuals or segments of one person. Between lie multiple segments and single segments. We describe each of the four approaches next.

FULL MARKET COVERAGE With full market coverage, a firm attempts to serve all customer groups with all the products they might need. Only very large firms such as Microsoft (software



|Fig. 8.4|

Possible Levels of Segmentation

market), General Motors (vehicle market), and Coca-Cola (nonalcoholic beverage market) can undertake a full market coverage strategy. Large firms can cover a whole market in two broad ways: through differentiated or undifferentiated marketing.

In *undifferentiated* or *mass marketing*, the firm ignores segment differences and goes after the whole market with one offer. It designs a marketing program for a product with a superior image that can be sold to the broadest number of buyers via mass distribution and mass communications. Undifferentiated marketing is appropriate when all consumers have roughly the same preferences and the market shows no natural segments. Henry Ford epitomized this strategy when he offered the Model-T Ford in one color, black.

The argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can lead to lower prices or higher margins. The narrow product line keeps down the costs of research and development, production, inventory, transportation, marketing research, advertising, and product management. The undifferentiated communication program also reduces costs. However, many critics point to the increasing splintering of the market, and the proliferation of marketing channels and communication, which make it difficult and increasingly expensive to reach a mass audience.

When different groups of consumers have different needs and wants, marketers can define multiple segments. The company can often better design, price, disclose, and deliver the product or service and also fine-tune the marketing program and activities to better reflect competitors' marketing. In *differentiated marketing*, the firm sells different products to all the different segments of the market. Cosmetics firm Estée Lauder markets brands that appeal to women (and men) of different tastes: The flagship brand, the original Estée Lauder, appeals to older consumers; Clinique caters to middle-aged women; M.A.C. to youthful hipsters; Aveda to aromatherapy enthusiasts; and Origins to ecoconscious consumers who want cosmetics made from natural ingredients.[55] Perhaps no firm practices differentiated marketing like Hallmark Cards, which celebrated its 100th birthday in 2010.

Hallmark

Hallmark Hallmark's personal expression products are sold in more than 41,500 retail outlets nationwide and account for almost one of every two greeting cards purchased in the United States. Each year Hallmark produces 19,000 new and redesigned greeting cards and related products including party goods, gift wrap, and ornaments. Its success is due in part to its vigorous segmentation of the greeting card business. In addition to popular sub-branded card lines such as the humorous Shoebox Greetings, Hallmark has introduced lines targeting specific market segments. Fresh Ink targets 18- to 39-year-old women. Hallmark Warm Wishes offers hundreds of 99-cent cards. Hallmark's three ethnic lines—Mahogany, Sinceramente Hallmark, and Tree of Life—target African American, Hispanic, and Jewish consumers, respectively. Hallmark's newer Journeys line of encouragement cards focused on such challenges as fighting cancer, coming out, and battling depression. Specific greeting cards also benefit charities such as (PRODUCT) RED™, UNICEF, and the Susan G. Komen Race for the Cure. Hallmark has also embraced technology. Musical greeting cards incorporate sound clips from popular movies, TV shows, and songs. Online, Hallmark offers e-cards as well as personalized printed greeting cards that it mails for consumers. For business needs, Hallmark Business Expressions offers personalized corporate holiday cards and greeting cards for all occasions and events.[56]

Differentiated marketing typically creates more total sales than undifferentiated marketing. However, it also increases the costs of doing business. Because differentiated marketing leads to both higher sales and higher costs, no generalizations about its profitability are valid.

Although P&G initially targeted very specific segments with its Crest Whitestrips tooth-whitening product, it later expanded both its product offerings and its target markets.

MULTIPLE SEGMENT SPECIALIZATION With *selective specialization*, a firm selects a subset of all the possible segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each promises to be a moneymaker. When Procter & Gamble launched Crest Whitestrips, initial target segments included newly engaged women and brides-to-be as well as gay males. The multisegment strategy also has the advantage of diversifying the firm's risk.

Keeping synergies in mind, companies can try to operate in supersegments rather than in isolated segments. A **supersegment** is a set of segments sharing some exploitable similarity. For example, many symphony orchestras target people who have broad cultural interests, rather than only those who regularly attend concerts. A firm can also attempt to achieve some synergy with product or market specialization.

- With *product specialization*, the firm sells a certain product to several different market segments. A microscope manufacturer, for instance, sells to university, government, and commercial laboratories, making different instruments for each and building a strong reputation in the specific product area. The downside risk is that the product may be supplanted by an entirely new technology.
- With *market specialization*, the firm concentrates on serving many needs of a particular customer group, such as by selling an assortment of products only to university laboratories. The firm gains a strong reputation among this customer group and becomes a channel for additional products its members can use. The downside risk is that the customer group may suffer budget cuts or shrink in size.

SINGLE-SEGMENT CONCENTRATION With single-segment concentration, the firm markets to only one particular segment. Porsche concentrates on the sports car market and Volkswagen on the small-car market—its foray into the large-car market with the Phaeton was a failure in the United States. Through concentrated marketing, the firm gains deep knowledge of the segment's needs and achieves a strong market presence. It also enjoys operating economies by specializing its production, distribution, and promotion. If it captures segment leadership, the firm can earn a high return on its investment.

A *niche* is a more narrowly defined customer group seeking a distinctive mix of benefits within a segment. Marketers usually identify niches by dividing a segment into subsegments. Whereas Hertz, Avis, Alamo, and others specialize in airport rental cars for business and leisure travelers, Enterprise has attacked the low-budget, insurance-replacement market by primarily renting to customers whose cars have been wrecked or stolen. By creating unique associations to low cost and convenience in an overlooked niche market, Enterprise has been highly profitable.

Niche marketers aim to understand their customers' needs so well that customers willingly pay a premium. Tom's of Maine was acquired by Colgate-Palmolive for $100 million in part because its all-natural personal care products and charitable donation programs appeal to consumers turned off by big businesses. The brand commands a 30 percent price premium as a result.[57]

What does an attractive niche look like? Customers have a distinct set of needs; they will pay a premium to the firm that best satisfies them; the niche is fairly small but has size, profit, and growth potential and is unlikely to attract many competitors; and the niche gains certain economies through specialization. As marketing efficiency increases, niches that were seemingly too small may become more profitable.[58] See "Marketing Insight: Chasing the Long Tail."

INDIVIDUAL MARKETING The ultimate level of segmentation leads to "segments of one," "customized marketing," or "one-to-one marketing."[59] Today, customers are taking more individual initiative in determining what and how to buy. They log onto the Internet; look up information and evaluations of product or service offerings; conduct dialogue with suppliers, users, and product critics; and in many cases design the product they want.

Tom's of Maine has developed a very successful niche with its all-natural personal care products.

Jerry Wind and Arvind Rangaswamy see a movement toward "customerizing" the firm.[60] **Customerization** combines operationally driven mass customization with customized marketing in a way that empowers consumers to design the product and service offering of their choice. The firm no longer requires prior information about the customer, nor does it need to own manufacturing. It provides a platform and tools and "rents"

Marketing Insight

Chasing the Long Tail

The advent of online commerce, made possible by technology and epitomized by Amazon.com, eBay, iTunes, and Netflix, has led to a shift in consumer buying patterns, according to Chris Anderson, editor-in-chief of *Wired* magazine and author of *The Long Tail*.

In most markets, the distribution of product sales conforms to a curve weighted heavily to one side—the "head"—where the bulk of sales are generated by a few products. The curve falls rapidly toward zero and hovers just above it far along the X-axis—the "long tail"—where the vast majority of products generate very little sales. The mass market traditionally focused on generating "hit" products that occupy the head, disdaining the low-revenue market niches comprising the tail. The Pareto principle–based "80–20" rule—that 80 percent of a firm's revenue is generated by 20 percent of a firm's products—epitomizes this thinking.

Anderson asserts that as a result of consumers' enthusiastic adoption of the Internet as a shopping medium, the long tail holds significantly more value than before. In fact, Anderson argues, the Internet has directly contributed to the shifting of demand "down the tail, from hits to niches" in a number of product categories including music, books, clothing, and movies. According to this view, the rule that now prevails is more like "50–50," with smaller-selling products adding up to half a firm's revenue.

Anderson's long tail theory is based on three premises: (1) Lower costs of distribution make it economically easier to sell products without precise predictions of demand; (2) The more products available for sale, the greater the likelihood of tapping into latent demand for niche tastes unreachable through traditional retail channels; and (3) If enough niche tastes are aggregated, a big new market can result.

Anderson identifies two aspects of Internet shopping that support these premises. First, the increased inventory and variety afforded online permit greater choice. Second, the search costs for relevant new products are lowered due to the wealth of information online, the filtering of product recommendations based on user preferences that vendors can provide, and the word-of-mouth network of Internet users.

Some critics challenge the notion that old business paradigms have changed as much as Anderson suggests. Especially in entertainment, they say, the "head" where hits are concentrated is valuable also to consumers, not only to the content creators. One critique argued that "most hits are popular because they are of high quality," and another noted that the majority of products and services making up the long tail originate from a small concentration of online "long-tail aggregators."

Although some academic research supports the long tail theory, other research is more challenging, finding that poor recommendation systems render many very low-share products in the tail so obscure and hard to find they disappear before they can be purchased frequently enough to justify their existence. For companies selling physical products, inventory, stocking, and handling costs can outweigh any financial benefits of such products.

Sources: Chris Anderson, *The Long Tail* (New York: Hyperion, 2006); "Reading the Tail," interview with Chris Anderson, *Wired*, July 8, 2006, p. 30; "Wag the Dog: What the Long Tail Will Do," *The Economist*, July 8, 2006, p. 77; Erik Brynjolfsson, Yu "Jeffrey" Hu, and Michael D. Smith, "From Niches to Riches: Anatomy of a Long Tail," *MIT Sloan Management Review* (Summer 2006), p. 67; John Cassidy, "Going Long," *New Yorker*, July 10, 2006; www.longtail.com; "Rethinking the Long Tail Theory: How to Define 'Hits' and 'Niches,'" *Knowledge@Wharton*, September 16, 2009.

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to customers the means to design their own products. A company is customerized when it is able to respond to individual customers by customizing its products, services, and messages on a one-to-one basis.[61]

Customization is certainly not for every company.[62] It may be very difficult to implement for complex products such as automobiles. It can also raise the cost of goods by more than the customer is willing to pay. Some customers don't know what they want until they see actual products, but they also cannot cancel the order after the company has started to work on it. The product may be hard to repair and have little sales value. In spite of this, customization has worked well for some products.

ETHICAL CHOICE OF MARKET TARGETS Marketers must target carefully to avoid consumer backlash. Some consumers resist being labeled. Singles may reject single-serve food packaging because they don't want to be reminded they are eating alone. Elderly consumers who don't feel their age may not appreciate products that label them "old."

Market targeting also can generate public controversy when marketers take unfair advantage of vulnerable groups (such as children) or disadvantaged groups (such as inner-city poor people) or promote potentially harmful products.[63] The cereal industry has been heavily criticized for marketing efforts directed toward children. Critics worry that high-powered appeals presented through the mouths of lovable animated characters will overwhelm children's defenses and lead them to want sugared cereals or poorly balanced breakfasts. Toy marketers have been similarly criticized.

Another area of concern is the millions of kids under the age of 17 who are online. Marketers have jumped online with them, offering freebies in exchange for personal information. Many have come under fire for this practice and for not clearly differentiating ads from games or entertainment. Establishing ethical and legal boundaries in marketing to children online and offline continues to be a hot topic as consumer advocates decry the commercialism they believe such marketing engenders.

Not all attempts to target children, minorities, or other special segments draw criticism. Colgate-Palmolive's Colgate Junior toothpaste has special features designed to get children to brush longer and more often. Other companies are responding to the special needs of minority segments. Black-owned ICE theaters noticed that although moviegoing by blacks has surged, there were few inner-city theaters. Starting in Chicago, ICE partnered with the black communities in which it operates theaters, using local radio stations to promote films and featuring favorite food items at concession stands.[64] Thus, the issue is not who is targeted, but how and for what. Socially responsible marketing calls for targeting that serves not only the company's interests, but also the interests of those targeted.

This is the case many companies make in marketing to the nation's preschoolers. With nearly 4 million youngsters attending some kind of organized child care, the potential market—including kids and parents—is too great to pass up. So in addition to standards such as art easels, gerbil cages, and blocks, the nation's preschools are likely to have Care Bear worksheets, Pizza Hut reading programs, and Nickelodeon magazines.

Teachers and parents are divided about the ethics of this increasing preschool marketing push. Some side with groups such as Stop Commercial Exploitation of Children, whose members feel preschoolers are incredibly susceptible to advertising and that schools' endorsements of products make children believe the product is good for them—no matter what it is. Yet many preschools and day care centers operating on tight budgets welcome the free resources.[65]

Summary

1. Target marketing includes three activities: market segmentation, market targeting, and market positioning. Market segments are large, identifiable groups within a market.
2. Two bases for segmenting consumer markets are consumer characteristics and consumer responses. The major segmentation variables for consumer markets are geographic, demographic, psychographic, and behavioral. Marketers use them singly or in combination.
3. Business marketers use all these variables along with operating variables, purchasing approaches, and situational factors.
4. To be useful, market segments must be measurable, substantial, accessible, differentiable, and actionable.
5. We can target markets at four main levels: mass, multiple segments, single (or niche) segment, and individuals.
6. A mass market targeting approach is adopted only by the biggest companies. Many companies target multiple segments defined in various ways such as various demographic groups who seek the same product benefit.
7. A niche is a more narrowly defined group. Globalization and the Internet have made niche marketing more feasible to many.
8. More companies now practice individual and mass customization. The future is likely to see more individual consumers take the initiative in designing products and brands.
9. Marketers must choose target markets in a socially responsible manner at all times.

Applications

Marketing Debate

Is Mass Marketing Dead?

With marketers increasingly adopting more and more refined market segmentation schemes—fueled by the Internet and other customization efforts—some claim mass marketing is dead. Others counter there will always be room for large brands employing marketing programs to target the mass market.

Take a position: **Mass marketing is dead *versus* Mass marketing is still a viable way to build a profitable brand.**

Marketing Discussion

Marketing Segmentation Schemes

Think of various product categories. In each segmentation scheme, to which segment do you feel you belong? How would marketing be more or less effective for you depending on the segment? How would you contrast demographic and behavioral segment schemes? Which one(s) do you think would be most effective for marketers trying to sell to you?

Marketing Excellence

>>HSBC

HSBC wants to be known as the "world's local bank." This tagline reflects HSBC's positioning as a globe-spanning financial institution with a unique focus on serving local markets. Originally the Hong Kong and Shanghai Banking Corporation Limited, HSBC was established in 1865 to finance the growing trade between China and the United Kingdom. It's now the second-largest bank in the world.

Despite serving over 100 million customers through 9,500 branches in 85 countries, the bank works hard to maintain a local presence and local knowledge in each area. Its fundamental operating strategy is to remain close to its customers. As HSBC's former chairman, Sir John Bond, stated, "Our position as the world's local bank enables us to approach each country uniquely, blending local knowledge with a worldwide operating platform."

Ads for the "World's Local Bank" campaign have depicted the way different cultures or people interpret the same objects or events. One TV spot showed a U.S. businessman hitting a hole-in-one during a round in Japan with his Japanese counterparts. He is surprised to find that rather than paying for a round of drinks in the clubhouse, as in the United States, by Japanese custom he must buy expensive gifts for his playing partners. In another international TV spot, a group of Chinese businessmen take a British businessman out to an elaborate dinner where live eels are presented to the diners and then served sliced and cooked. Clearly disgusted by the meal, the British businessman finishes the dish as the voice-over explains, "The English believe it's a slur on your hosts' food if you don't clear your plate." His Chinese host then orders another live eel for him as the voice-over explained, "Whereas the Chinese feel that it's questioning their generosity if you do."

HSBC demonstrated its local knowledge with marketing efforts dedicated to specific locations. In 2005 it set out to prove to jaded New Yorkers that the London-based financial behemoth was a bank with local knowledge. The company held a "New York City's Most Knowledgeable Cabbie" contest, in which the winning cabbie got paid to drive an HSBC-branded BankCab full-time for a year. HSBC customers could win, too. Any customer showing an HSBC bank card, checkbook, or bank statement was able to get a free ride in the BankCab. HSBC also ran an integrated campaign highlighting the diversity of New Yorkers, which appeared throughout the city.

More than 8,000 miles away, HSBC undertook a two-part "Support Hong Kong" campaign to revitalize a local economy hit hard by the 2003 SARS outbreak. First, HSBC delayed interest payments for personal-loan customers who worked in industries most affected by SARS (cinemas, hotels, restaurants, and travel agencies). Second, the bank offered discounts and rebates for HSBC credit card users when they shopped and dined out. More than 1,500 local merchants participated in the promotion.

HSBC also targets consumer niches with unique products and services. It found a little-known product area growing at 125 percent a year: pet insurance. The bank now distributes nationwide pet insurance to its depositors through its HSBC Insurance agency. In Malaysia, HSBC offered a "smart card" and no-frills credit cards to the underserved student segment and targeted high-value customers with special "Premium Centers" bank branches.

In order to connect with different people and communities, HSBC sponsors more than 250 cultural and sporting events with a special focus on helping the youth, growing education, and embracing communities. These sponsorships also allow the company to learn from different people and cultures around the world.

The bank pulls its worldwide businesses together under a single global brand with the "World's Local Bank" slogan. The aim is to link its international size with close relationships in each of the countries in which it operates. HSBC spends $600 million annually on global marketing, consolidated under the WPP group of agencies.

In 2006, HSBC launched a global campaign entitled "Different Values," which embraced this exact notion of multiple viewpoints and different interpretations. Print ads showed the same picture three times with a different interpretation in each. For example, an old classic car appeared three times with the words, *freedom*, *status symbol*, and *polluter*. Next to the picture reads, "The more you look at the world, the more you realize that what one person values may be different from the next." In another set of print ads, HSBC used three different pictures side by side but with the same word. For example, the word *accomplishment* is first shown on a picture of a woman winning a beauty pageant, then an astronaut walking on the moon, and finally a young child tying his sneaker. The copy reads, "The more you look at the world, the more you realize what really matters to people." Tracy Britton, head of marketing for HSBC Bank, USA, explained the strategy behind the campaign, "It encapsulates our global outlook that acknowledges and respects that people value things in very different ways. HSBC's global footprint gives us the insight and the opportunity not only to be comfortable, but confident in helping people with different values achieve what's really important to them."

HSBC earned $142 billion in sales in 2009, making it the 21st largest company in the world. It hopes its latest campaign and continued position as the "World's Local Bank" will improve its $10.5 billion brand value, which placed it 32nd on the 2009 Interbrand/*BusinessWeek* global brand rankings.

Questions

1. What are the risks and benefits of HSBC's positioning itself as the "World's Local Bank"?
2. Does HSBC's most recent campaign resonate with its target audience? Why or why not?

Sources: Carrick Mollenkamp, "HSBC Stumbles in Bid to Become Global Deal Maker," *Wall Street Journal*, October 5, 2006; Kate Nicholson, "HSBC Aims to Appear Global Yet Approachable," *Campaign*, December 2, 2005, p. 15; Deborah Orr, "New Ledger," *Forbes*, March 1, 2004, pp. 72–73; "HSBC's Global Marketing Head Explains Review Decision," *Adweek*, January 19, 2004; "Now Your Customers Can Afford to Take Fido to the Vet," *Bank Marketing* (December 2003): 47; Kenneth Hein, "HSBC Bank Rides the Coattails of Chatty Cabbies," *Brandweek*, December 1, 2003, p. 30; Sir John Bond and Stephen Green, "HSBC Strategic Overview," presentation to investors, November 27, 2003; "Lafferty Retail Banking Awards 2003," *Retail Banker International*, November 27, 2003, pp. 4–5; "Ideas that Work," *Bank Marketing* (November 2003): 10; "HSBC Enters the Global Branding Big League," *Bank Marketing International* (August 2003): 1–2; Normandy Madden, "HSBC Rolls out Post-SARS Effort," *Advertising Age*, June 16, 2003, p. 12; "www.hsbc.com" Douglas Quenqua, "HSBC Dominates Ad Pages in New York Magazine Issue." *New York Times*, October 20, 2008, pg. B.6; Kimia M. Ansari, "A Different Point of View: HSBC." *Unbound Edition*, July 10, 2009; Press release, "The Evolution of "Your Point of View." October 20, 2008; *Fortune*, Global 500; HSBC.com.

Marketing Excellence

>>BMW

BMW is the ultimate driving machine. Manufactured by the German company, Bayerische Motoren Werke AG, BMW stands for both performance and luxury. The company was founded in 1916 as an aircraft-engine manufacturer and produced engines during World War I and World War II. It evolved into a motorcycle and automobile maker by the mid-20th century, and today it is an internationally respected company and brand with €53 billion (about $76 billion) in revenues in 2008.

BMW's logo is one of the most distinct and globally recognized ever created. The signature BMW roundel *looks* like a spinning propeller blade set against a blue sky background—originally thought to be a tribute to the company's founding days as an aircraft engine manufacturer. Recently, however, a *New York Times* reporter revealed that the logo, which features the letters BMW at the top of the outer ring and a blue-and-white checkered design in the inner ring, was trademarked in 1917 and meant to show the colors of the Free State of Bavaria, where the company is headquartered.

BMW's growth exploded in the 1980s and 1990s, when it successfully targeted the growing market of baby boomers and professional yuppies who put work first and wanted a car that spoke of their success. The result: sporty sedans with exceptional performance and a brand that stood for prestige and achievement. The cars, which came in a 3, 5, or 7 Series, were basically the same design in three different sizes. The 1980s was also a time when yuppies made Beemer and Bimmer, slang terms for BMW's cars and motorcycles, popular names that are still used today. At the turn of the century, consumers' attitudes toward cars changed. Research showed that they cared less about the bragging rights of the BMW brand and instead desired a variety of design, size, price, and style choices. As a result, the company took several steps to grow its product line by targeting specific market segments, which resulted in unique premium-priced cars such as SUVs, convertibles, roadsters, and less expensive compact cars, the 1 Series. In addition, BMW redesigned its 3, 5, and 7 Series cars, making them unique in appearance yet remaining exceptional in performance. BMW's full range of cars now include the 1 Series, 3 Series, 5 Series, 6 Series, 7 Series, X3 SUV, X5 SUV, X6 SUV, Z4 (Roadster), and M. The redesign of the 7 Series, BMW's most luxurious car, targeted a group called "upper conservatives." These wealthy, traditional consumers traditionally don't like sportier cars, so BMW added an influx of electronic components such as multiple options to control the windows, seats, airflow, and lights, a push-button ignition, and night vision, all controlled by a point-and-click system called iDrive. These enhancements were created to add comfort and luxury and attract consumers away from competitors like Jaguar and Mercedes.

BMW successfully launched the X5 by targeting "upper liberals" who achieved success in the 1990s and had gone on to have children and take up extracurricular activities such as biking, golf, and skiing. These consumers needed a bigger car for their active lifestyles and growing families, so BMW created a high-performance luxury SUV. BMW refers to its SUVs as sport *activity* vehicles in order to appeal even more to these active consumers.

BMW created the lower-priced 1 Series and X3 SUV to target the "modern mainstream," a group who are also family-focused and active but had previously avoided BMWs because of the premium cost. The 1 Series reached this group with its lower price point, sporty design, and aspiration to own a luxury brand. The X3 also hit home with its smaller, less expensive SUV design.

BMW introduced convertibles and roadsters to target "post-moderns," a high-income group that continues to attract attention with more showy, flamboyant cars. BMW's 6 Series, a flashier version of the high-end 7 Series, also targeted this group.

BMW uses a wide range of advertising tactics to reach each of its target markets but has kept the tagline "The Ultimate Driving Machine" for over 35 years. During that time, U.S. sales of BMW vehicles have grown from 15,000 units in 1974 to approximately 250,000 in 2009. BMW owners are very loyal to the brand, and enthusiasts host an annual Bimmerfest each year to celebrate their cars. The company nurtures these loyal consumers and continues to research, innovate, and reach out to specific segment groups year after year.

Questions

1. What are the pros and cons to BMW's selective target marketing? What has the firm done well over the years and where could it improve?
2. BMW's sales slipped during the worldwide recession in 2008 and 2009. Is its segmentation strategy too selective? Why or why not?

Sources: Stephen Williams, "BMW Roundel: Not Born from Planes," *New York Times*, January 7, 2010; Gail Edmondson, "BMW: Crashing the Compact Market," *BusinessWeek*, June 28, 2004; Neil Boudette, "BMW's Push to Broaden Line Hits Some Bumps in the Road," *Wall Street Journal*, January 10, 2005; Boston Chapter BMW Club Car of America, boston-bmwcca.org; bmw.org, Annual Report, Company History, January 22, 2010.

PART 4 **Building Strong Brands**

Chapter **9** | **Creating Brand Equity**
Chapter **10** | Crafting the Brand Positioning
Chapter **11** | Competitive Dynamics

Chapter 9

With a unique concept and shrewd grassroots marketing, Lululemon has attracted a loyal customer base and built a strong brand.

In This Chapter, We Will Address the Following Questions

1. What is a brand, and how does branding work?
2. What is brand equity?
3. How is brand equity built, measured, and managed?
4. What are the important brand architecture decisions in developing a branding strategy?

Creating Brand Equity

One of the most valuable intangible assets of a firm is its brands, and it is incumbent on marketing to properly manage their value. Building a strong brand is both an art and a science. It requires careful planning, a deep long-term commitment, and creatively designed and executed marketing. A strong brand commands intense consumer loyalty—at its heart is a great product or service.

While attending yoga classes, Canadian entrepreneur Chip Wilson decided the cotton-polyester blends most fellow students wore were too uncomfortable. After designing a well-fitting, sweat-resistant black garment to sell, he also decided to open a yoga studio, and lululemon was born. The company has taken a grassroots approach to growth that creates a strong emotional connection with its customers. Before it opens a store in a new city, lululemon first identifies influential yoga instructors or other fitness teachers. In exchange for a year's worth of clothing, these yogi serve as "ambassadors," hosting students at lululemon-sponsored classes and product sales events. They also provide product design advice to the company. The cult-like devotion of lululemon's customers is evident in their willingness to pay $92 for a pair of workout pants that might cost only $60 to $70 from Nike or Under Armour. lululemon can sell as much as $1,800 worth of product per square feet in its approximately 100 stores, three times what established retailers Abercrombie & Fitch and J.Crew sell. After coping with some inventory challenges, the company is looking to expand beyond yoga-inspired athletic apparel and accessories into similar products in other sports such as running, swimming, and biking.[1]

Marketers of successful 21st-century brands must excel at the strategic brand management process. *Strategic brand management* combines the design and implementation of marketing activities and programs to build, measure, and manage brands to maximize their value. The strategic brand management process has four main steps:

- **Identifying and establishing brand positioning**
- **Planning and implementing brand marketing**
- **Measuring and interpreting brand performance**
- **Growing and sustaining brand value deals with brand positioning.**

The latter three topics are discussed in this chapter.[2] Chapter 11 reviews important concepts dealing with competitive dynamics.

What Is Brand Equity?

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, enhance, and protect brands. Established brands such as Mercedes, Sony, and Nike have commanded a price premium and elicited deep customer loyalty through the years. Newer brands such as POM Wonderful, SanDisk, and Zappos have captured the imagination of consumers and the interest of the financial community alike.

The American Marketing Association defines a **brand** as "a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors." A brand is thus a product or service whose dimensions differentiate it in some way from other products or services designed to satisfy the same need. These differences may be functional, rational, or tangible—related to product performance of the brand. They may also be more symbolic, emotional, or intangible—related to what the brand represents or means in a more abstract sense.

Branding has been around for centuries as a means to distinguish the goods of one producer from those of another.[3] The earliest signs of branding in Europe were the medieval guilds' requirement that craftspeople put trademarks on their products to protect themselves and their customers against inferior quality. In the fine arts, branding began with artists signing their works. Brands today play a number of important roles that improve consumers' lives and enhance the financial value of firms.

The Role of Brands

Brands identify the source or maker of a product and allow consumers—either individuals or organizations—to assign responsibility for its performance to a particular manufacturer or distributor. Consumers may evaluate the identical product differently depending on how it is branded. They learn about brands through past experiences with the product and its marketing program, finding out which brands satisfy their needs and which do not. As consumers' lives become more complicated, rushed, and time-starved, a brand's ability to simplify decision making and reduce risk becomes invaluable.[4]

Brands also perform valuable functions for firms.[5] First, they simplify product handling or tracing. Brands help to organize inventory and accounting records. A brand also offers the firm legal protection for unique features or aspects of the product.[6] The brand name can be protected through registered trademarks; manufacturing processes can be protected through patents; and packaging can be protected through copyrights and proprietary designs. These intellectual property rights ensure that the firm can safely invest in the brand and reap the benefits of a valuable asset.

A credible brand signals a certain level of quality so that satisfied buyers can easily choose the product again.[7] Brand loyalty provides predictability and security of demand for the firm, and it creates barriers to entry that make it difficult for other firms to enter the market. Loyalty also can translate into customer willingness to pay a higher price—often 20 percent to 25 percent more than competing brands.[8] Although competitors may duplicate manufacturing processes and product designs, they cannot easily match lasting impressions left in the minds of individuals and organizations by years of product experience and marketing activity. In this sense, branding can be a powerful means to secure a competitive advantage.[9] Sometimes marketers don't see the real importance of brand loyalty until they change a crucial element of the brand, as the now-classic tale of New Coke illustrates.

Coca-Cola Battered by a nationwide series of taste-test challenges from the sweeter-tasting Pepsi-Cola, Coca-Cola decided in 1985 to replace its old formula with a sweeter variation, dubbed New Coke. Coca-Cola spent $4 million on market research. Blind taste tests showed that Coke drinkers preferred the new, sweeter formula, but the launch of New Coke provoked a national uproar. Market researchers had measured the taste but failed to measure the emotional attachment consumers had to Coca-Cola. There were angry letters, formal protests, and even lawsuit threats to force the retention of "The Real Thing." Ten weeks later, the company withdrew New Coke and reintroduced its century-old formula as "Classic Coke," a move that ironically might have given the old formula even stronger status in the marketplace.

Coca-Cola learned a valuable lesson about its brand when it changed its formula without seeking sufficient consumer permission.

For better or worse, branding effects are pervasive. One research study that provoked much debate about the effects of marketing on children showed that preschoolers felt identical McDonald's food items—even carrots, milk, and apple juice—tasted better when wrapped in McDonald's familiar packaging than in unmarked wrappers.[10]

To firms, brands represent enormously valuable pieces of legal property that can influence consumer behavior, be bought and sold, and provide their owner the security of sustained future revenues. Companies have paid dearly for brands in mergers or acquisitions, often justifying the price premium on the basis of the extra profits expected and the difficulty and expense of creating similar brands from scratch. Wall Street believes strong brands result in better earnings and profit performance for firms, which, in turn, create greater value for shareholders.[11]

The Scope of Branding

How do you "brand" a product? Although firms provide the impetus to brand creation through marketing programs and other activities, ultimately a brand resides in the minds of consumers. It is a perceptual entity rooted in reality but reflecting the perceptions and idiosyncrasies of consumers.

Branding is endowing products and services with the power of a brand. It's all about creating differences between products. Marketers need to teach consumers "who" the product is—by giving it a name and other brand elements to identify it—as well as what the product does and why consumers should care. Branding creates mental structures that help consumers organize their knowledge about products and services in a way that clarifies their decision making and, in the process, provides value to the firm.

For branding strategies to be successful and brand value to be created, consumers must be convinced there are meaningful differences among brands in the product or service category. Brand differences often relate to attributes or benefits of the product itself. Gillette, Merck, and 3M have led their product categories for decades, due in part to continual innovation. Other brands create competitive advantages through nonproduct-related means. Gucci, Chanel, and Louis Vuitton have become category leaders by understanding consumer motivations and desires and creating relevant and appealing images around their products.

Marketers can apply branding virtually anywhere a consumer has a choice. It's possible to brand a physical good (Ford Flex automobile, or Lipitor cholesterol medication), a service (Singapore Airlines or Blue Cross and Blue Shield medical insurance), a store (Nordstrom or Foot Locker), a person (actress Angelina Jolie or tennis player Roger Federer), a place (the city of Sydney or country of Spain), an organization (U2 or American Automobile Association), or an idea (abortion rights or free trade).[12]

Shaun White

Action sports legend Shaun White survived three open-heart surgeries before he was a year old, and later survived midair collisions and dramatic falls in competition on his way to becoming a champion skateboarder and an Olympic gold medalist in snowboarding. The two-sport legend was signed by gear and apparel maker Burton when he was only 7 years old. His likeability, authenticity, and shrewd business insights have made him one of the most influential endorsers in the $150 billion youth market. Burton's White Collection of high-priced technical winter outerwear is one of the company's hottest sellers; HP has used White to market its laptops and flat-panel TV's (which also showcase his *Shaun White Snowboarding* video game created by Ubisoft); a White-designed signature goggle has become Oakley's biggest seller; Target's Shaun White 4 Target collection focuses on street wear and skateboarding for a mass market; and long-time sponsor Red Bull even filmed White's snowboarding trip to Japan and released the video on MTV and as a retail DVD.[13]

An action-sports hero, Shaun White is one of the most successful product endorsers for the lucrative youth market, and a brand in his own right.

Defining Brand Equity

Brand equity is the added value endowed on products and services. It may be reflected in the way consumers think, feel, and act with respect to the brand, as well as in the prices, market share, and profitability the brand commands.[14]

Marketers and researchers use various perspectives to study brand equity.[15] Customer-based approaches view it from the perspective of the consumer—either an individual or an organization—and recognize that the power of a brand lies in what customers have seen, read, heard, learned, thought, and felt about the brand over time.[16]

To reinforce its luxury image, Louis Vuitton uses iconic celebrities such as legendary Rolling Stones rocker Keith Richards in print and outdoor advertising.

Customer-based brand equity is thus the differential effect brand knowledge has on consumer response to the marketing of that brand.[17] A brand has *positive* customer-based brand equity when consumers react more favorably to a product and the way it is marketed when the brand is *identified,* than when it is not identified. A brand has negative customer-based brand equity if consumers react less favorably to marketing activity for the brand under the same circumstances. There are three key ingredients of customer-based brand equity.

1. Brand equity arises from differences in consumer response. If no differences occur, the brand-name product is essentially a commodity, and competition will probably be based on price.[18]
2. Differences in response are a result of consumers' **brand knowledge**, all the thoughts, feelings, images, experiences, and beliefs associated with the brand. Brands must create strong, favorable, and unique brand associations with customers, as have Toyota *(reliability),* Hallmark *(caring),* and Amazon.com *(convenience).*
3. Brand equity is reflected in perceptions, preferences, and behavior related to all aspects of the marketing of a brand. Stronger brands lead to greater revenue.[19] Table 9.1 summarizes some key benefits of brand equity.

The challenge for marketers is therefore ensuring customers have the right type of experiences with products, services, and marketing programs to create the desired brand knowledge. In an abstract sense, we can think of brand equity as providing marketers with a vital strategic "bridge" from their past to their future.[20]

TABLE 9.1 Marketing Advantages of Strong Brands

Improved perceptions of product performance	Greater trade cooperation and support
Greater loyalty	Increased marketing communications effectiveness
Less vulnerability to competitive marketing actions	Possible licensing opportunities
Less vulnerability to marketing crises	Additional brand extension opportunities
Larger margins	Improved employee recruiting and retention
More inelastic consumer response to price increases	Greater financial market returns
More elastic consumer response to price decreases	

Marketers should also think of the marketing dollars spent on products and services each year as investments in consumer brand knowledge. The *quality* of that investment is the critical factor, not necessarily the *quantity* (beyond some threshold amount). It's actually possible to overspend on brand building, if money is not spent wisely.

Brand knowledge dictates appropriate future directions for the brand. A **brand promise** is the marketer's vision of what the brand must be and do for consumers. Consumers will decide, based on what they think and feel about the brand, where (and how) they believe the brand should go and grant permission (or not) to any marketing action or program. New-product ventures such as BENGAY aspirin, Cracker Jack cereal, Frito-Lay lemonade, Fruit of the Loom laundry detergent, and Smucker's premium ketchup all failed because consumers found them inappropriate extensions for the brand.

Virgin America After flying for only a few years, Virgin America became an award-winning airline that passengers adore *and* that makes money. It is not unusual for the company to receive e-mails from customers saying they actually wished their flights lasted longer! Virgin America set out to reinvent the entire travel experience, starting with an easy-to-use and friendly Web site and check-in. In flight, passengers revel in Wi-Fi, spacious leather seats, mood lighting, and in-seat food and beverage ordering through touch-screen panels. Some passengers remark that Virgin America is like "flying in an iPod or nightclub." Without a national TV ad campaign, Virgin America has relied on PR, word of mouth, social media, and exemplary customer service to create an extraordinary customer experience and build the brand. As VP-marketing Porter Gale notes, "Most of the social-media engagement has been responding, listening and connecting with fans, which is important because it builds loyalty."[21]

By satisfying unmet consumer needs with a little bit of flair, Virgin America has quickly built a strong brand.

Brand Equity Models

Although marketers agree about basic branding principles, a number of models of brand equity offer some differing perspectives. Here we highlight three more-established ones.

BRANDASSET® VALUATOR Advertising agency Young and Rubicam (Y&R) developed a model of brand equity called the BrandAsset® Valuator (BAV). Based on research with almost 800,000 consumers in 51 countries, BAV compares the brand equity of thousands of brands across hundreds of different categories. There are four key components—or pillars—of brand equity, according to BAV (see Figure 9.1):

- ***Energized differentiation*** measures the degree to which a brand is seen as different from others, and its perceived momentum and leadership.
- ***Relevance*** measures the appropriateness and breadth of a brand's appeal.
- ***Esteem*** measures perceptions of quality and loyalty, or how well the brand is regarded and respected.
- ***Knowledge*** measures how aware and familiar consumers are with the brand.

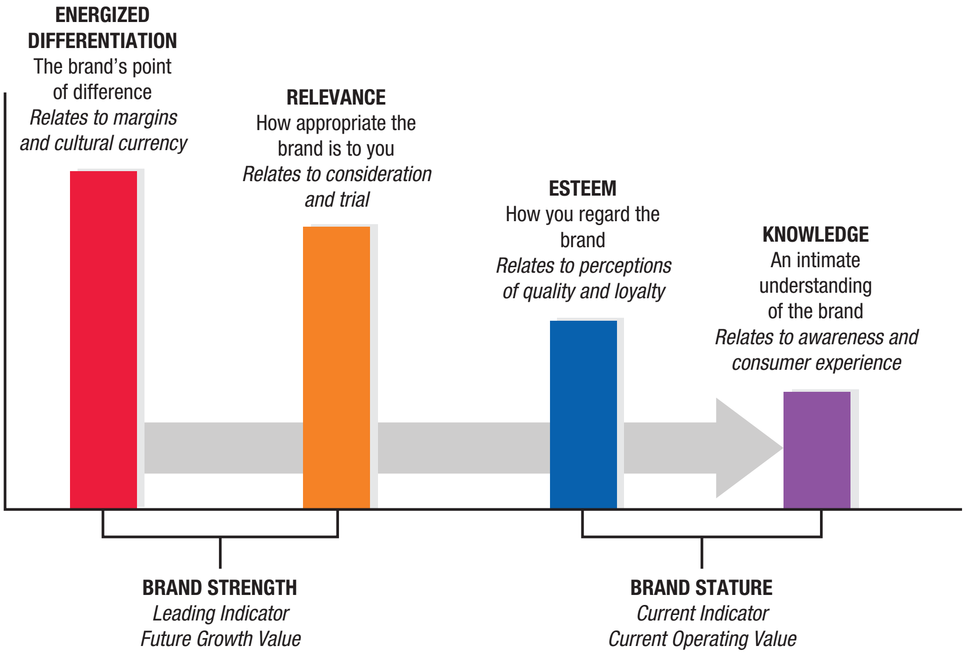
Energized differentiation and relevance combine to determine *brand strength*—a leading indicator that predicts future growth and value. Esteem and knowledge together create *brand stature,* a "report card" on past performance and a current indicator of current value.

The relationships among these dimensions—a brand's "pillar pattern"—reveal much about a brand's current and future status. Energized brand strength and brand stature combine to form the *power grid,* depicting stages in the cycle of brand development in successive quadrants (see Figure 9.2). Strong new brands show higher levels of differentiation and energy than relevance, whereas both esteem and knowledge are lower still. Leadership brands show high levels on all pillars. Finally, declining brands show high knowledge—evidence of past performance—a lower level of esteem, and even lower relevance, energy, and differentiation.

|Fig. 9.1|

BrandAsset® Valuator Model

Source: Courtesy of BrandAsset® Consulting, a division of Young & Rubicam.



According to BAV analysis, consumers are concentrating their devotion and purchasing power on an increasingly smaller portfolio of special brands—brands with energized differentiation that keep evolving. These brands connect better with consumers—commanding greater usage loyalty and pricing power, and creating greater shareholder value. A hypothetical $10,000 invested in the top 50 energy-gaining brands grew 12 percent while the S&P 500 index lost nearly 20 percent between December 31, 2001, and June 30, 2009. Some of the latest insights from the BAV data are summarized in "Marketing Insight: Brand Bubble Trouble."

BRANDZ Marketing research consultants Millward Brown and WPP have developed the BrandZ model of brand strength, at the heart of which is the BrandDynamics pyramid. According to this model, brand building follows a series of steps (see Figure 9.3).

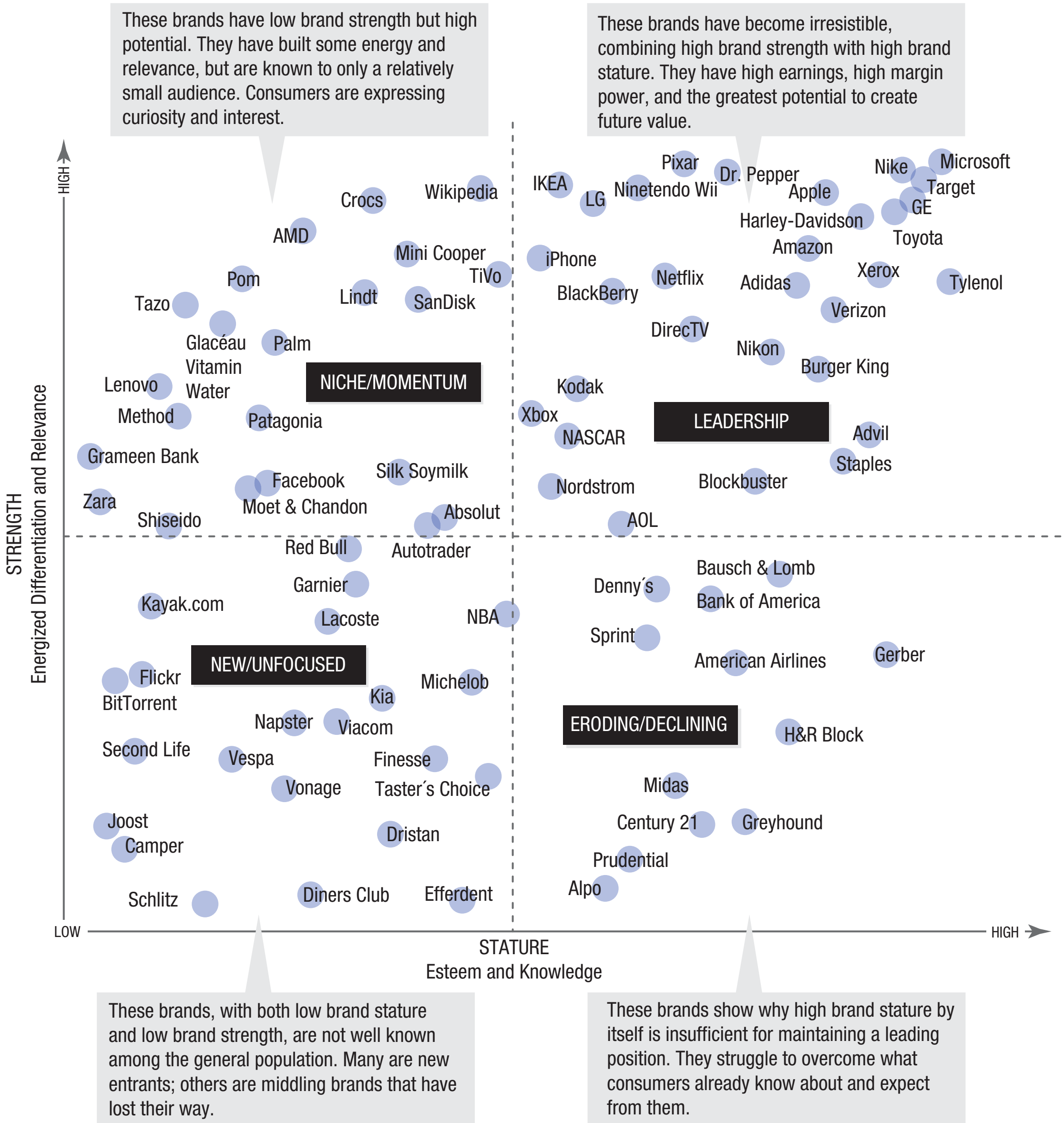
For any one brand, each person interviewed is assigned to one level of the pyramid depending on their responses to a set of questions. The BrandDynamics Pyramid shows the number of consumers who have reached each level.

- ***Presence.*** Active familiarity based on past trial, saliency, or knowledge of brand promise
- ***Relevance.*** Relevance to consumer's needs, in the right price range or in the consideration set
- ***Performance.*** Belief that it delivers acceptable product performance and is on the consumer's short-list
- ***Advantage.*** Belief that the brand has an emotional or rational advantage over other brands in the category
- ***Bonding.*** Rational and emotional attachments to the brand to the exclusion of most other brands

"Bonded" consumers at the top of the pyramid build stronger relationships with and spend more on the brand than those at lower levels. There are more consumers at the lower levels, so the challenge for marketers is to help them move up.

BRAND RESONANCE MODEL The brand resonance model also views brand building as an ascending series of steps, from bottom to top: (1) ensuring customers identify the brand and associate it with a specific product class or need; (2) firmly establishing the brand meaning in customers' minds by strategically linking a host of tangible and intangible brand associations; (3) eliciting the proper customer responses in terms of brand-related judgment and feelings; and (4) converting customers' brand response to an intense, active loyalty.

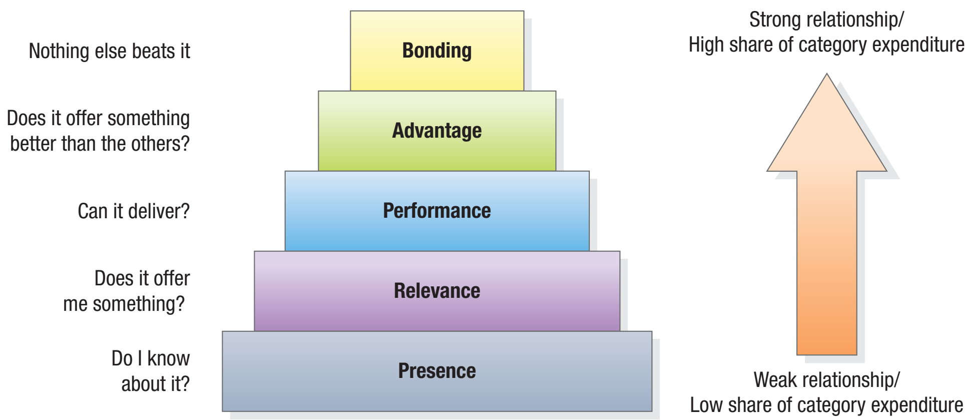
By plotting a representative group of brands' scores for both strength and stature, this matrix derived from the BrandAsset Valuator shows an accurate picture of a brand's status and overall performance.



|Fig. 9.2|

The Universe of Brand Performance

Source: Young & Rubicam BrandAsset Valuator.



|Fig. 9.3|

BrandDynamics™ Pyramid

Source: BrandDynamics™ Pyramid. Reprinted with permission of Millward Brown.

Marketing Insight

Brand Bubble Trouble

In *The Brand Bubble*, brand consultants Ed Lebar and John Gerzema use Y&R's historical BAV database to conduct a comprehensive examination of the state of brands. Beginning with data from mid-2004, they discovered several odd trends. For thousands of consumer goods and services brands, key brand value measures such as consumer "top-of-mind" awareness, trust, regard, and admiration experienced significant drops.

At the same time, however, share prices for a number of years were being driven higher by the intangible value the markets were attributing to consumer brands. Digging deeper, Lebar and Gerzema found the increase was actually due to a very few extremely strong brands such as Google, Apple, and Nike. The value created by the vast majority of brands was stagnating or falling.

The authors viewed this mismatch between the value consumers see in brands and the value the markets were ascribing to them as a recipe for disaster in two ways. At the macroeconomic level, it implied that stock prices of most consumer companies are overstated. At the microeconomic, company level, it pointed to a serious and continuing problem in brand management.

Why have consumer attitudes toward brands declined? The research identified three fundamental causes. First, there has been a proliferation of brands. New product introductions have accelerated, but many fail to register with consumers. Two, consumers expect creative "big ideas" from brands and feel they are just not getting them. Finally, due to corporate scandals, product crises, and executive misbehavior, trust in brands has plummeted.

Yet, vital brands are still being successfully built. Although all four pillars of the BAV model play a role, the strongest brands resonated with consumers in a special way. Amazon.com, Axe, Facebook, Innocent, IKEA, Land Rover, LG, LEGO, Tata, Nano, Twitter, Whole Foods, and Zappos exhibited notable energized differentiation by communicating dynamism and creativity in ways most other brands did not.

Formally, the BAV analysis identified three factors that help define energy and the marketplace momentum it creates:

1. *Vision*—A clear direction and point of view on the world and how it can and should be changed.
2. *Invention*—An intention for the product or service to change the way people think, feel, and behave.
3. *Dynamism*—Excitement and affinity in the way the brand is presented.

The authors offer a five-step framework to infuse brands with more energy.

1. **Perform an "energy audit" on your brand.** Identify the current sources and level of energy to understand your brand's strengths and weaknesses and how well brand management aligns with the dynamics of the new marketplace.
2. **Make your brand an organizing principle for the business.** Find an essential brand idea or thought that can serve as a lens through which you define every aspect of the customer experience, including products, services, and communications.
3. **Create an energized value chain.** Make the organization's goals for the brand real for everyone; all participants must think uniquely from the perspective of the brand and understand how their own actions boost the energy level of the brand and fuel the core.
4. **Become an energy-driven enterprise.** Stakeholders need to transfer their energy and passion to their business units and functions. Once management's aspirations for the brand and business begin becoming part of the culture, the process of building an energized brand enterprise is nearly complete.
5. **Create a loop of constant reinvention.** Finally, keep the organization and its brand in a state of constant renewal. Brand managers must be keenly aware of shifts in consumers' perception and values and be ready to reshape themselves again and again.

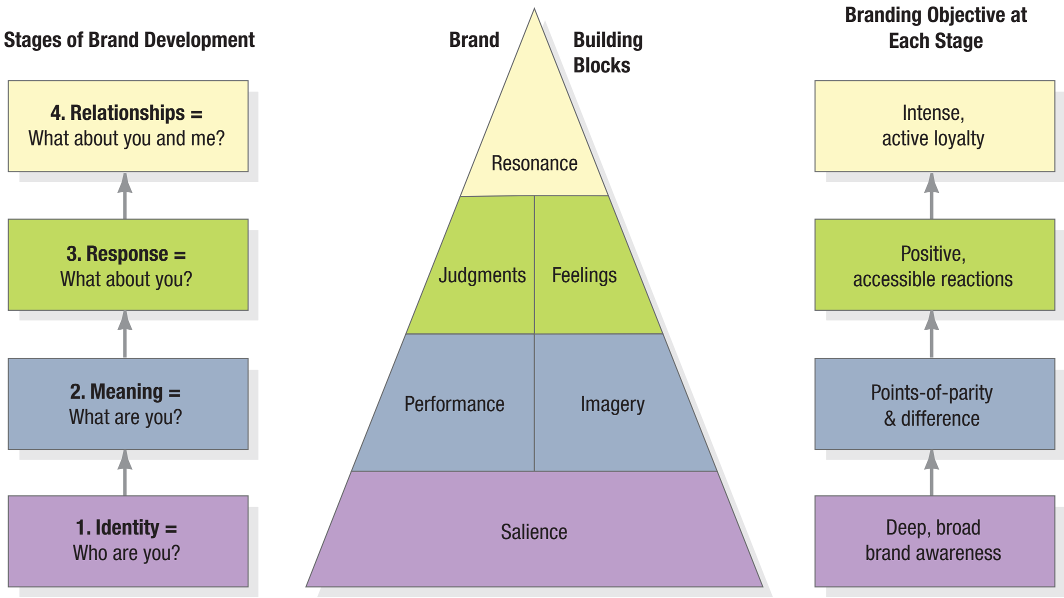
Sources: John Gerzema and Ed Lebar, *The Brand Bubble: The Looming Crisis in Brand Value and How to Avoid It* (New York: Jossey-Bass, 2008); John Gerzema and Ed Lebar, "The Trouble with Brands," *Strategy+Business* 55 (Summer 2009).

According to this model, enacting the four steps means establishing a pyramid of six "brand building blocks" as illustrated in Figure 9.4. The model emphasizes the duality of brands—the rational route to brand building is on the left side of the pyramid and the emotional route is on the right side.[22]

MasterCard is a brand with duality, because it emphasizes both the rational advantages of the credit card—its acceptance at establishments worldwide—as well as the emotional advantages, expressed in the award-winning "Priceless" advertising campaign ("There are some things money can't buy; for everything else, there's MasterCard.").

Creating significant brand equity requires reaching the top of the brand pyramid, which occurs only if the right building blocks are put into place.

- ***Brand salience*** is how often and how easily customers think of the brand under various purchase or consumption situations.
- ***Brand performance*** is how well the product or service meets customers' functional needs.
- ***Brand imagery*** describes the extrinsic properties of the product or service, including the ways in which the brand attempts to meet customers' psychological or social needs.



|Fig. 9.4|

Brand Resonance Pyramid

- ***Brand judgments*** focus on customers' own personal opinions and evaluations.
- ***Brand feelings*** are customers' emotional responses and reactions with respect to the brand.
- ***Brand resonance*** describes the relationship customers have with the brand and the extent to which they feel they're "in sync" with it.

Resonance is the intensity of customers' psychological bond with the brand and the level of activity it engenders.[23] Brands with high resonance include Harley-Davidson, Apple, and eBay. Fox News has found that the higher levels of resonance and engagement its programs engender often lead to greater recall of the ads it runs.[24]

Building Brand Equity

Marketers build brand equity by creating the right brand knowledge structures with the right consumers. This process depends on *all* brand-related contacts—whether marketer-initiated or not.[25] From a marketing management perspective, however, there are three main sets of *brand equity drivers:*

1. ***The initial choices for the brand elements or identities making up the brand (brand names, URLs, logos, symbols, characters, spokespeople, slogans, jingles, packages, and signage)***—Microsoft chose the name Bing for its new search engine because it felt it unambiguously conveyed search and the "aha" moment of finding what a person is looking for. It is also short, appealing, memorable, active, and effective multiculturally.[26]

MasterCard's "Priceless" campaign reinforces the emotional rewards of the brand.

The brand name 42BELOW has both direct product meaning and indirect meaning related to its New Zealand origins.

2. ***The product and service and all accompanying marketing activities and supporting marketing programs***—Liz Claiborne's fastest-growing label is Juicy Couture, whose edgy, contemporary sportswear and accessories have a strong lifestyle appeal to women, men, and kids. Positioned as an affordable luxury, the brand creates its exclusive cachet via limited distribution and a somewhat risqué name and rebellious attitude.[27]
3. ***Other associations indirectly transferred to the brand by linking it to some other entity (a person, place, or thing)***—The brand name of New Zealand vodka 42BELOW refers to both a latitude that runs through New Zealand and the percentage of its alcohol content. The packaging and other visual cues are designed to leverage the perceived purity of the country to communicate the positioning for the brand.[28]

Choosing Brand Elements

Brand elements are devices, which can be trademarked, that identify and differentiate the brand. Most strong brands employ multiple brand elements. Nike has the distinctive "swoosh" logo, the empowering "Just Do It" slogan, and the "Nike" name from the Greek winged goddess of victory.

Marketers should choose brand elements to build as much brand equity as possible. The test is what consumers would think or feel about the product *if* the brand element were all they knew. Based on its name alone, for instance, a consumer might expect SnackWell's products to be healthful snack foods and Panasonic Toughbook laptop computers to be durable and reliable.

BRAND ELEMENT CHOICE CRITERIA There are six criteria for choosing brand elements. The first three—memorable, meaningful, and likable—are "brand building." The latter three—transferable, adaptable, and protectable—are "defensive" and help leverage and preserve brand equity against challenges.

1. ***Memorable***—How easily do consumers recall and recognize the brand element, and when—at both purchase and consumption? Short names such as Tide, Crest, and Puffs are memorable brand elements.
2. ***Meaningful***—Is the brand element credible? Does it suggest the corresponding category and a product ingredient or the type of person who might use the brand? Consider the inherent meaning in names such as DieHard auto batteries, Mop & Glo floor wax, and Lean Cuisine low-calorie frozen entrees.
3. ***Likable***—How aesthetically appealing is the brand element? A recent trend is for playful names that also offer a readily available URL, like Flickr photo sharing, Wakoopa social networking, and Motorola's ROKR and RAZR cell phones.[29]
4. ***Transferable***—Can the brand element introduce new products in the same or different categories? Does it add to brand equity across geographic boundaries and market segments? Although initially an online book seller, Amazon.com was smart enough not to call itself "Books 'R' Us." The Amazon is famous as the world's biggest river, and the name suggests the wide variety of goods that could be shipped, an important descriptor of the diverse range of products the company now sells.
5. ***Adaptable***—How adaptable and updatable is the brand element? The face of Betty Crocker has received more than seven makeovers in 87 years, and she doesn't look a day over 35!
6. ***Protectable***—How legally protectable is the brand element? How competitively protectable? Names that become synonymous with product categories—such as Kleenex, Kitty Litter, Jell-O, Scotch Tape, Xerox, and Fiberglass—should retain their trademark rights and not become generic.

DEVELOPING BRAND ELEMENTS Brand elements can play a number of brand-building roles.[30] If consumers don't examine much information in making product decisions, brand elements should be easy to recall and inherently descriptive and persuasive. The likability of brand elements may also increase awareness and associations.[31] The Keebler elves reinforce home-style baking quality and a sense of magic and fun for their line of cookies; Michelin's friendly tire-shaped Bibendum helps to convey safety for the family.

Often, the less concrete brand benefits are, the more important that brand elements capture intangible characteristics. Many insurance firms use symbols of strength for their brands (the Rock of Gibraltar for Prudential and the stag for Hartford), security (the "good hands" of Allstate and the hard hat of Fireman's Fund), or some combination (the castle for Fortis).

Mountain Dew's Dew Tour is a high-energy sponsorship that reinforces the brand's credentials for the youth market.

Like brand names, slogans are an extremely efficient means to build brand equity.[32] They can function as useful "hooks" to help consumers grasp what the brand is and what makes it special, as in "Like a Good Neighbor, State Farm Is There," "Nothing Runs Like a Deere," "Citi Never Sleeps," "Every Kiss Begins with Kay" for the jeweler, and "We Try Harder" for Avis rental cars. But choosing a name with inherent meaning may make it harder to add a different meaning or update the positioning.[33]

Designing Holistic Marketing Activities

Brands are not built by advertising alone. Customers come to know a brand through a range of contacts and touch points: personal observation and use, word of mouth, interactions with company personnel, online or telephone experiences, and payment transactions. A **brand contact** is any information-bearing experience, whether positive or negative, a customer or prospect has with the brand, its product category, or its market.[34] The company must put as much effort into managing these experiences as into producing its ads.[35]

As we describe throughout this text, marketing strategy and tactics have changed dramatically.[36] Marketers are creating brand contacts and building brand equity through new avenues such as clubs and consumer communities, trade shows, event marketing, sponsorship, factory visits, public relations and press releases, and social cause marketing. Mountain Dew created the multicity Dew Tour in which athletes compete in different skateboarding, BMX, and freestyle motocross events to reach the coveted but fickle 12- to 24-year-old target market.[37]

Integrated marketing is about mixing and matching these marketing activities to maximize their individual and collective effects.[38] To achieve it, marketers need a variety of different marketing activities that consistently reinforce the brand promise. The Olive Garden has become the second-largest casual dining restaurant chain in the United States, with more than $3 billion in sales in 2010 from its more than 700 North American restaurants, in part through establishing a fully integrated marketing program.

The Olive Garden

The Olive Garden brand promise is "the idealized Italian family meal" characterized by "fresh, simple, delicious Italian food," "complemented by a great glass of wine," served by "people who treat you like family," "in a comfortable homelike setting." To live up to that brand promise, The Olive Garden has sent more than 1,100 restaurant General Managers and team members on cultural immersion trips to Italy, launched the Culinary Institute of Tuscany in Italy to inspire new dishes and teach General Managers and team members authentic Italian cooking techniques, conducts wine training workshops for team members and in-restaurant wine sampling for guests, and is remodeling restaurants to give them a Tuscan farmhouse look. Communications include in-store, employee, and mass media messages that all reinforce the brand promise and ad slogan, "When You're Here, You're Family."[39]

Olive Garden goes to extraordinary lengths to live up to its brand promise of offering "the idealized Italian family meal."

We can evaluate integrated marketing activities in terms of the effectiveness and efficiency with which they affect brand awareness and create, maintain, or strengthen brand associations and image. Although Volvo may invest in R&D and engage in advertising, promotions, and other communications to reinforce its "safety" brand association, it may also sponsor events to make sure it is seen as contemporary and up-to-date. Marketing programs should be put together so the whole is greater than the sum of the parts. In other words, marketing activities should work singularly and in combination.

Leveraging Secondary Associations

The third and final way to build brand equity is, in effect, to "borrow" it. That is, create brand equity by linking the brand to other information in memory that conveys meaning to consumers (see Figure 9.5).

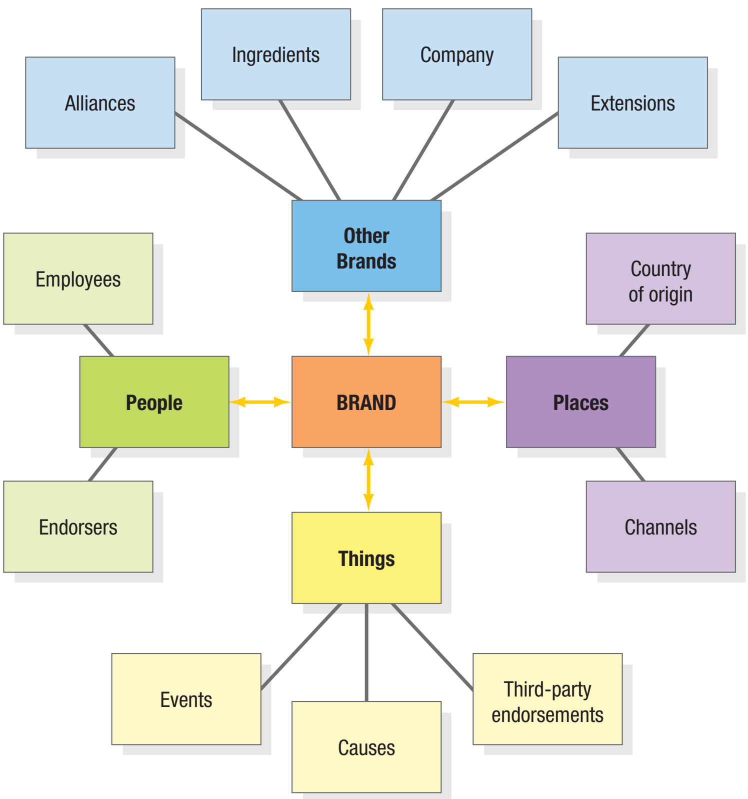
These "secondary" brand associations can link the brand to sources, such as the company itself (through branding strategies), to countries or other geographical regions (through identification of product origin), and to channels of distribution (through channel strategy), as well as to other brands (through ingredient or co-branding), characters (through licensing), spokespeople (through endorsements), sporting or cultural events (through sponsorship), or some other third-party sources (through awards or reviews).

Suppose Burton—the maker of snowboards, ski boots, bindings, clothing, and outerwear—decided to introduce a new surfboard called the "Dominator." Burton has gained over a third of the snowboard market by closely aligning itself with top professional riders and creating a strong amateur snowboarder community around the country. To support the new surfboard, Burton could leverage secondary brand knowledge in a number of ways:

- It could "sub-brand" the product, calling it "Dominator by Burton." Consumers' evaluations of the new product would be influenced by how they felt about Burton and whether they felt that such knowledge predicted the quality of a Burton surfboard.
- Burton could rely on its rural New England origins, but such a geographical location would seem to have little relevance to surfing.

|Fig. 9.5|

Secondary Sources of Brand Knowledge



- Burton could sell through popular surf shops in the hope that its credibility would rub off on the Dominator brand.
- Burton could co-brand by identifying a strong ingredient brand for its foam or fiberglass materials (as Wilson did by incorporating Goodyear tire rubber on the soles of its Pro Staff Classic tennis shoes).
- Burton could find one or more top professional surfers to endorse the surfboard, or it could sponsor a surfing competition or even the entire Association of Surfing Professionals (ASP) World Tour.
- Burton could secure and publicize favorable ratings from third-party sources such as *Surfer* or *Surfing* magazine.

Thus, independent of the associations created by the surfboard itself, its brand name, or any other aspects of the marketing program, Burton could build equity by linking the brand to these other entities.

Successful brands such as Burton Snowboards have to think carefully about how to leverage their strengths with new products and markets, as well as how to "borrow" equity from other people, places, or things.

Internal Branding

Marketers must now "walk the walk" to deliver the brand promise. They must adopt an *internal* perspective to be sure employees and marketing partners appreciate and understand basic branding notions and how they can help—or hurt—brand equity.[40] **Internal branding** consists of activities and processes that help inform and inspire employees about brands.[41] Holistic marketers must go even further and train and encourage distributors and dealers to serve their customers well. Poorly trained dealers can ruin the best efforts to build a strong brand image.

Brand bonding occurs when customers experience the company as delivering on its brand promise. All the customers' contacts with company employees and communications must be positive.[42] *The brand promise will not be delivered unless everyone in the company lives the brand.* Disney is so successful at internal branding that it holds seminars on the "Disney Style" for employees from other companies.

When employees care about and believe in the brand, they're motivated to work harder and feel greater loyalty to the firm. Some important principles for internal branding are:[43]

1. ***Choose the right moment.*** Turning points are ideal opportunities to capture employees' attention and imagination. After it ran an internal branding campaign to accompany its external repositioning, "Beyond Petroleum," BP found most employees were positive about the new brand and thought the company was going in the right direction.
2. ***Link internal and external marketing.*** Internal and external messages must match. IBM's e-business campaign not only helped to change public perceptions of the company in the marketplace, it also signaled to employees that IBM was determined to be a leader in the use of Internet technology.
3. ***Bring the brand alive for employees.*** Internal communications should be informative and energizing. Miller Brewing has tapped into its brewing heritage to generate pride and passion and improve employee morale.

Brand Communities

Thanks to the Internet, companies are interested in collaborating with consumers to create value through communities built around brands. A **brand community** is a specialized community of consumers and employees whose identification and activities focus around the brand.[44] Three characteristics identify brand communities:[45]

1. A "consciousness of kind" or sense of felt connection to the brand, company, product, or other community members;
2. Shared rituals, stories, and traditions that help to convey the meaning of the community; and
3. A shared moral responsibility or duty to both the community as a whole and individual community members.

Brand communities come in many different forms.[46] Some arise organically from brand users, such as the Atlanta MGB riders club, the Apple Newton User Group, and the Porsche Rennlist online discussion group. Others are company-sponsored and facilitated, such as the Club Green Kids (official kids' fan club of the Boston Celtics) and the Harley-Davidson Owner's Group (H.O.G.).

Harley-Davidson

Harley-Davidson Founded in 1903 in Milwaukee, Wisconsin, Harley-Davidson has twice narrowly escaped bankruptcy but is today one of the most recognized motor vehicle brands in the world. In dire financial straits in the 1980s, Harley desperately licensed its name to such ill-advised ventures as cigarettes and wine coolers. Although consumers loved the brand, sales were depressed by product-quality problems, so Harley began its return to greatness by improving manufacturing processes. It also developed a strong brand community in the form of an owners' club, called the Harley Owners Group (H.O.G.), which sponsors bike rallies, charity rides, and other motorcycle events and now numbers 1 million members in over 1,200 chapters. H.O.G. benefits include a magazine called *Hog Tales*, a touring handbook, emergency road service, a specially designed insurance program, theft reward service, discount hotel rates, and a Fly & Ride program enabling members to rent Harleys on vacation. The company also maintains an extensive Web site devoted to H.O.G., with information about club chapters, events, and a special members-only section.[47]

A strong brand community results in a more loyal, committed customer base. Its activities and advocacy can substitute to some degree for activities the firm would otherwise have to engage in, creating greater marketing effectiveness and efficiency.[48] A brand community can also be a constant source of inspiration and feedback for product improvements or innovations.

To better understand how brand communities work, one comprehensive study examined communities around brands as diverse as StriVectin cosmeceutical, BMW Mini auto, *Xena: Warrior Princess* television show, Jones soda, Tom Petty & the Heartbreakers rock and roll band, and Garmin GPS devices. Using multiple research methods such as "netnographic" research with online forums, participant and naturalistic observation of community activities, and in-depth

TABLE 9.2 Value Creation Practices

SOCIAL NETWORKING	
Welcoming	Greeting new members, beckoning them into the fold, and assisting in their brand learning and community socialization.
Empathizing	Lending emotional and/or physical support to other members, including support for brand-related trials (e.g., product failure, customizing) and/or for nonbrand-related life issues (e.g., illness, death, job).
Governing	Articulating the behavioral expectations within the brand community.
IMPRESSION MANAGEMENT	
Evangelizing	Sharing the brand "good news," inspiring others to use, and preaching from the mountaintop.
Justifying	Deploying rationales generally for devoting time and effort to the brand and collectively to outsiders and marginal members in the boundary.
COMMUNITY ENGAGEMENT	
Staking	Recognizing variance within the brand community membership and marking intragroup distinction and similarity.
Milestoning	Noting seminal events in brand ownership and consumption.
Badging	Translating milestones into symbols and artifacts.
Documenting	Detailing the brand relationship journey in a narrative way, often anchored by and peppered with milestones.
BRAND USE	
Grooming	Cleaning, caring for, and maintaining the brand or systematizing optimal use patterns
Customizing	Modifying the brand to suit group-level or individual needs. This includes all efforts to change the factory specs of the product to enhance performance.
Commoditizing	Distancing/approaching the marketplace in positive or negative ways. May be directed at other members (e.g., you should sell/should not sell that) or may be directed at the firm through explicit link or through presumed monitoring of the site (e.g., you should fix this/do this/change this).

Source: Adapted from Hope Jensen Schau, Albert M. Muniz, and Eric J. Arnould, "How Brand Community Practices Create Value," *Journal of Marketing* 73 (September 2009) pp. 30–51.

TABLE 9.3 The Myths and Realities of Brand Communities

Myth: Brand community is a marketing strategy.	**Reality**: Brand community is a business strategy. The entire business model must support the community brand.
Myth: Brand communities exist to serve the business.	**Reality**: Brand communities exist to serve the people that comprise them. Brand communities are a means to an end, not the ends themselves.
Myth: Build the brand, and the community will follow.	**Reality**: Cultivate the community and the brand will grow; engineer the community and the brand will be strong.
Myth: Brand communities should be love fests for faithful brand advocates.	**Reality**: Communities are inherently political and this reality must be confronted with honesty and authenticity head-on; smart companies embrace the conflicts that make communities thrive.
Myth: Focus on opinion leaders to build a strong community.	**Reality**: Strong communities take care of all of their members; everyone in the community plays an important role.
Myth: Online social networks are the best way to build community.	**Reality**: Social networks are one community tool, but the tool is not the strategy.
Myth: Successful brand communities are tightly managed and controlled.	**Reality**: Control is an illusion; brand community success requires opening up and letting go; of and by the people, communities defy managerial control.

Sources: Susan Fournier and Lara Lee, *The Seven Deadly Sins of Brand Community,* Marketing Science Institute Special Report 08-208, 2008; Susan Fournier and Lara Lee, "Getting Brand Communities Right," *Harvard Business Review*, April 2009, pp. 105–11.

interviews with community members, the researchers found 12 value creation practices taking place. They divided them into four categories—social networking, community engagement, impression management, and brand use—summarized in Table 9.2.

Building a positive, productive brand community requires careful thought and implementation. Branding experts Susan Fournier and Lara Lee have identified seven common myths about brand communities and suggest the reality in each case (see Table 9.3).

Measuring Brand Equity

How do we measure brand equity? An *indirect* approach assesses potential sources of brand equity by identifying and tracking consumer brand knowledge structures.[49] A *direct* approach assesses the actual impact of brand knowledge on consumer response to different aspects of the marketing. "Marketing Insight: The Brand Value Chain" shows how to link the two approaches.[50]

Marketing Insight

The Brand Value Chain

The **brand value chain** is a structured approach to assessing the sources and outcomes of brand equity and the way marketing activities create brand value (see Figure 9.6). It is based on several premises.

First, brand value creation begins when the firm targets actual or potential customers by investing in a marketing program to develop the brand, including product research, development, and design; trade or intermediary support; and marketing communications. Next, we assume customers' mind-sets, buying behavior, and response to price will change as a result of the marketing program; the question is how. Finally, the investment community will consider market performance, replacement cost, and purchase price in acquisitions (among other factors) to assess shareholder value in general and the value of a brand in particular.

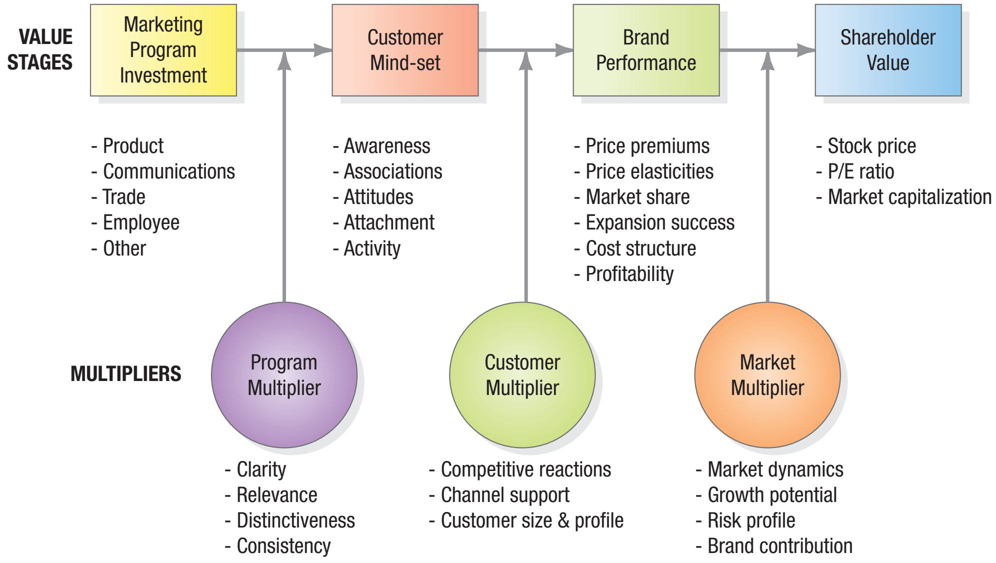
The model also assumes that three multipliers moderate the transfer between the marketing program and the subsequent three value stages.

- The *program multiplier* determines the marketing program's ability to affect the customer mind-set and is a function of the quality of the program investment.
- The *customer multiplier* determines the extent to which value created in the minds of customers affects market performance. This result depends on competitive superiority (how effective the quantity and quality of the marketing investment of other competing brands are), channel and other intermediary support (how much brand

|Fig. 9.6|

Brand Value Chain

Source: Kevin Lane Keller, *Strategic Brand Management*, 3rd ed. (Upper Saddle River, NJ: Prentice Hall, 2008). Printed and electronically reproduced by permission of Pearson Education, Inc. Upper Saddle River, New Jersey.



reinforcement and selling effort various marketing partners are putting forth), and customer size and profile (how many and what types of customers, profitable or not, are attracted to the brand).

- The *market multiplier* determines the extent to which the value shown by the market performance of a brand is manifested in shareholder value. It depends, in part, on the actions of financial analysts and investors.

Sources: Kevin Lane Keller and Don Lehmann, "How Do Brands Create Value," *Marketing Management* (May–June 2003), pp. 27–31. See also Marc J. Epstein and Robert A. Westbrook, "Linking Actions to Profits in Strategic Decision Making," *MIT Sloan Management Review* (Spring 2001), pp. 39–49; Rajendra K. Srivastava, Tasadduq A. Shervani, and Liam Fahey, "Market-Based Assets and Shareholder Value," *Journal of Marketing* 62, no. 1 (January 1998), pp. 2–18; Shuba Srinivasan, Marc Vanheule, and Koen Pauwels, "Mindset Metrics in Market Response Models: An Integrative Approach," *Journal of Marketing Research,* forthcoming.

The two general approaches are complementary, and marketers can employ both. In other words, for brand equity to perform a useful strategic function and guide marketing decisions, marketers need to fully understand (1) the sources of brand equity and how they affect outcomes of interest, and (2) how these sources and outcomes change, if at all, over time. Brand audits are important for the former; brand tracking for the latter.

- A **brand audit** is a consumer-focused series of procedures to assess the health of the brand, uncover its sources of brand equity, and suggest ways to improve and leverage its equity. Marketers should conduct a brand audit when setting up marketing plans and when considering shifts in strategic direction. Conducting brand audits on a regular basis, such as annually, allows marketers to keep their fingers on the pulse of their brands so they can manage them more proactively and responsively.
- **Brand-tracking studies** collect quantitative data from consumers over time to provide consistent, baseline information about how brands and marketing programs are performing. Tracking studies help us understand where, how much, and in what ways brand value is being created, to facilitate day-to-day decision making.

Marketers should distinguish brand equity from **brand valuation**, which is the job of estimating the total financial value of the brand. Table 9.4 displays the world's most valuable brands in 2009 according to one ranking.[51] In these well-known companies, brand value is typically over half the total company market capitalization. John Stuart, cofounder of Quaker Oats, said: "If this business were split up, I would give you the land and bricks and mortar, and I would take the brands and trademarks, and I would fare better than you." U.S. companies do not list brand equity on their balance sheets in part because of differences in opinion about what constitutes a good estimate. However, companies do give it a value in countries such as the United Kingdom, Hong Kong, and Australia. "Marketing Insight: What Is a Brand Worth?" reviews one popular valuation approach.

TABLE 9.4 The World's 10 Most Valuable Brands in 2009

Rank	Brand	2009 Brand Value (Billions)
1	Coca-Cola	$68.7
2	IBM	$60.2
3	Microsoft	$56.6
4	GE	$47.8
5	Nokia	$34.9
6	McDonald's	$32.3
7	Google	$32.0
8	Toyota	$31.3
9	Intel	$30.6
10	Disney	$28.4

Source: Interbrand. Used with permission.

Marketing Insight

What Is a Brand Worth?

Top brand-management firm Interbrand has developed a model to formally estimate the dollar value of a brand. It defines brand value as the net present value of the future earnings that can be attributed to the brand alone. The firm believes marketing and financial analyses are equally important in determining the value of a brand. Its process follows five steps (see Figure 9.7 for a schematic overview):

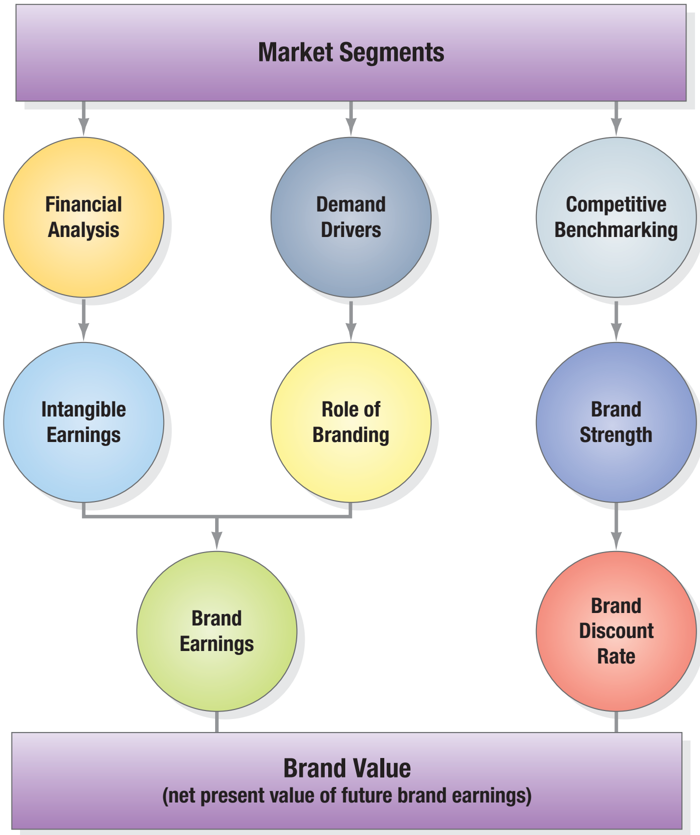
1. **Market Segmentation**—The first step is to divide the market(s) in which the brand is sold into mutually exclusive segments that help determine variances in the brand's different customer groups.
2. **Financial Analysis**—Interbrand assesses purchase price, volume, and frequency to help calculate accurate forecasts of future brand sales and revenues. Once it has established Brand Revenues, it deducts all associated operating costs to derive earnings before interest and tax (EBIT). It also deducts the appropriate taxes and a charge for the capital employed to operate the underlying business, leaving Economic Earnings, that is, the earnings attributed to the branded business.
3. **Role of Branding**—Interbrand next attributes a proportion of Economic Earnings to the brand in each market segment, by first identifying the various drivers of demand, then determining the degree to which the brand directly influences each. The Role of Branding assessment is based on market research, client workshops, and interviews and represents the percentage of Economic Earnings the brand generates. Multiplying the Role of Branding by Economic Earnings yields Brand Earnings.
4. **Brand Strength**—Interbrand then assesses the brand's strength profile to determine the likelihood that the brand will realize forecasted Brand Earnings. This step relies on competitive benchmarking and a structured evaluation of the brand's clarity, commitment, protection, responsiveness, authenticity, relevance, differentiation, consistency, presence, and understanding. For each segment, Interbrand applies industry and brand equity metrics to determine a risk premium for the brand. The company's analysts derive the overall Brand Discount Rate by adding a brand-risk premium to the risk-free rate, represented by the yield on government bonds. The Brand Discount Rate, applied to the forecasted Brand Earnings forecast, yields the net present value of the Brand Earnings. The stronger the brand, the lower the discount rate, and vice versa.
5. **Brand Value Calculation**—Brand Value is the net present value (NPV) of the forecasted Brand Earnings, discounted by the Brand Discount Rate. The NPV calculation comprises both the forecast period and the period beyond, reflecting the ability of brands to continue generating future earnings.

Increasingly, Interbrand uses brand value assessments as a dynamic, strategic tool to identify and maximize return on brand investment across a whole host of areas.

Sources: Interbrand, the Interbrand Brand Glossary, and Interbrand's Nik Stucky and Rita Clifton.

|Fig. 9.7|

Interbrand Brand Valuation Method



Managing Brand Equity

Because consumer responses to marketing activity depend on what they know and remember about a brand, short-term marketing actions, by changing brand knowledge, necessarily increase or decrease the long-term success of future marketing actions.

Brand Reinforcement

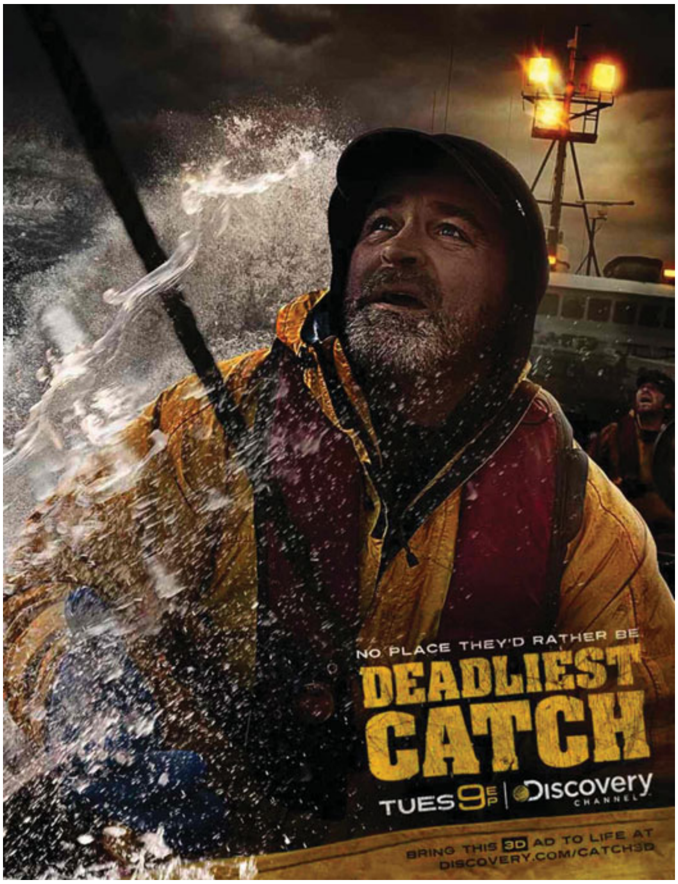
As a company's major enduring asset, a brand needs to be carefully managed so its value does not depreciate.[52] Many brand leaders of 70 years ago remain leaders today—Wrigley's, Coca-Cola, Heinz, and Campbell Soup—but only by constantly striving to improve their products, services, and marketing.

Marketers can reinforce brand equity by consistently conveying the brand's meaning in terms of (1) what products it represents, what core benefits it supplies, and what needs it satisfies; and (2) how the brand makes products superior, and which strong, favorable, and unique brand associations should exist in consumers' minds.[53] NIVEA, one of Europe's strongest brands, has expanded from a skin cream brand to a skin care and personal care brand through carefully designed and implemented brand extensions that reinforce the brand promise of "mild," "gentle," and "caring."

Reinforcing brand equity requires that the brand always be moving forward— in the right direction and with new and compelling offerings and ways to market them. In virtually every product category, once-prominent and admired brands—such as Fila, Oldsmobile, Polaroid, Circuit City—have fallen on hard times or gone out of business.[54]

An important part of reinforcing brands is providing consistent marketing support. Consistency doesn't mean uniformity with no changes: While there is little need to deviate from a successful position, many tactical changes may be necessary to maintain the strategic thrust and direction of the brand. When change *is* necessary, marketers should vigorously preserve and defend sources of brand equity.

Discover Communications In the hypercompetitive marketplace of cable TV channels, having a consistently clear but evolving identity is critical. One of the most successful cable TV programmers, Discovery Communications, operates 13 channels in the United States with such signature shows as *Deadliest Catch* and *MythBusters* (Discovery Channel), *Whale Wars* (Animal Planet), and the once-popular, now-defunct *Jon & Kate Plus 8* (TLC). Positioning itself as the number one nonfiction media company in the world, Discovery Communications is dedicated "to satisfying curiosity and making a difference in people's lives with the highest quality content, services and products that entertain, engage and enlighten—inviting viewers to explore their world." For example, by recognizing that nature and animals harbor mystery and danger, Animal Planet has developed into a more aggressive and compelling brand. New channels in the works include a women's channel with Oprah Winfrey, a kid's channel in partnership with Hasbro, and a possible series of science shows with director Steven Spielberg. Discovery is also increasing its global expansion—including China and India—and now reaches more than 1.5 billion subscribers in 170 countries, generating a third of the company's revenue from overseas.[55]



Deadliest Catch has become a defining program for the Discovery Channel.

Marketers must recognize the trade-offs between activities that fortify the brand and reinforce its meaning, such as a well-received product improvement or a creatively designed ad campaign, and those that leverage or borrow from existing brand equity to reap some financial benefit, such as a short-term promotional discount.[56] At some point, failure to reinforce the brand will diminish brand awareness and weaken brand image.

Brand Revitalization

Any new development in the marketing environment can affect a brand's fortunes. Nevertheless, a number of brands have managed to make impressive comebacks in recent years.[57] After some hard times, Burberry, Fiat, and Volkswagen have all turned their brand fortunes around to varying degrees.

Often, the first thing to do in revitalizing a brand is to understand what the sources of brand equity were to begin with. Are positive associations losing their strength or uniqueness? Have negative associations become linked to the brand? Then decide whether to retain the same positioning or create a new one, and if so, which new one.

Sometimes the actual marketing program is the source of the problem, because it fails to deliver on the brand promise. Then a "back to basics" strategy may make sense. As noted previously, Harley-Davidson regained its market leadership by doing a better job of living up to customer expectations as to product performance. Pabst Brewing Company did it by returning to its roots and leveraging key brand assets.

Pabst Blue Ribbon beer has revitalized itself by tapping into its authentic brand roots via creative grassroots marketing.

Pabst The beginning of the 21st century was not kind to 165-year-old Pabst Brewing Company. Revenue from its portfolio of legacy brands—including Pabst Blue Ribbon, Old Milwaukee, Lone Star, Rainier, Stroh's, and Schlitz—declined from an overall barrelage of 9.5 million in 2000 to 6.5 million in 2005. In response, new management set the company on a new course, including contract brewing with carefully selected partners and a new emphasis on its distributor network. Perhaps the most important strategic asset and advantage, management felt, was the company's trademarks: "Without a doubt our greatest asset is our brands. They have strong residual awareness. They have equity. They are authentic. We have brands that have stood the test of time. New brands don't have credentials—street cred—like our brands do. It's all about leveraging the power of our brands against a focused consumer target with a unique brand message." New grassroots marketing for Pabst Blue Ribbon beer thus emphasized its genuine, no-nonsense qualities in nonmainstream locations such as tattoo parlors, snowboarding venues and pro shops, and underground music scenes. Positive word of mouth—there was essentially no advertising—gave the brand an authentic "retro-chic" image. PBR, as it became known as, was suddenly hip. The brand's resurgence was marked by a 25 percent increase in sales in 2009 that far exceeded even other sub-premium brews.[58]

In other cases, however, the old positioning is just no longer viable and a reinvention strategy is necessary. Mountain Dew completely overhauled its brand image to become a soft drink powerhouse. As its history reveals, it is often easier to revive a brand that is alive but has been more or less forgotten. Old Spice is another example.

Old Spice

Old Spice One of the first mass market fragrances, Old Spice dates back to 1937. Its classic aftershave and cologne combination—with soap on a rope sometimes tossed in for good measure—was the classic Father's Day gift for baby boomers to give, but was largely irrelevant by the time Procter & Gamble acquired the brand in 1990. P&G's revitalization strategy was to abandon the old cologne business to focus on deodorants and other male grooming products. Facing tough competition from Unilever's edgy line of Axe products, the firm reverted to its classic one-two punch of product innovation and new communications to target the 12- to 34-year-old male. New product development resulted in the creation of Old Spice High Endurance, Pro Strength, and Red Zone lines of deodorants, body washes, body sprays, and shaving products. Old Spice's latest line, Ever Clear, arose from focus group participants' "good-bye letters" to their current deodorant. A technological breakthrough allowed Ever Clear to promise the protection of a dry solid without the uncomfortable waxy residue that left white streaks on clothing. All Old Spice products were backed by tongue-in-cheek advertising that stressed the brand's "experience."[59]

There is obviously a continuum of revitalization strategies, with pure "back to basics" at one end, pure "reinvention" at the other, and many combinations in between. The challenge is often to change enough to attract some new customers but not enough to alienate old customers. Brand revitalization of almost any kind starts with the product.[60] General Motors's turnaround of its fading Cadillac brand was fueled by new designs that redefined its look and styling, such as the CTS sedan, XLR roadster, and ESV sport utility vehicle.[61] High-end clothing retailer Paul Stuart introduced its first ever sub-brand, the bolder, sleeker Phineas Cole, to update its conservative image for a hipper, younger demographic.[62]

Devising a Branding Strategy

A firm's **branding strategy**—often called the **brand architecture**—reflects the number and nature of both common and distinctive brand elements. Deciding how to brand new products is especially critical. A firm has three main choices:

1. It can develop new brand elements for the new product.
2. It can apply some of its existing brand elements.
3. It can use a combination of new and existing brand elements.

When a firm uses an established brand to introduce a new product, the product is called a **brand extension**. When marketers combine a new brand with an existing brand, the brand extension can also be called a **sub-brand**, such as Hershey Kisses candy, Adobe Acrobat software, Toyota Camry automobiles, and American Express Blue cards. The existing brand that gives birth to a brand extension or sub-brand is the **parent brand**. If the parent brand is already associated with multiple products through brand extensions, it can also be called a **master brand** or **family brand**.

Brand extensions fall into two general categories:[63] In a **line extension**, the parent brand covers a new product within a product category it currently serves, such as with new flavors, forms, colors, ingredients, and package sizes. Dannon has introduced several types of Dannon yogurt line extensions through the years—Fruit on the Bottom, All Natural Flavors, Dan-o-nino, and Fruit Blends. In a **category extension**, marketers use the parent brand to enter a different product category, such as Swiss Army watches. Honda has used its company name to cover such different products as automobiles, motorcycles, snowblowers, lawn mowers, marine engines, and snowmobiles. This allows the firm to advertise that it can fit "six Hondas in a two-car garage."

A **brand line** consists of all products—original as well as line and category extensions—sold under a particular brand. A **brand mix** (or brand assortment) is the set of all brand lines that a particular seller makes. Many companies are introducing **branded variants**, which are specific brand lines supplied to specific retailers or distribution channels. They result from the pressure retailers put on manufacturers to provide distinctive offerings. A camera company may supply its low-end cameras to mass merchandisers while limiting its higher-priced items to specialty camera shops. Valentino may design and supply different lines of suits and jackets to different department stores.[64]

A **licensed product** is one whose brand name has been licensed to other manufacturers that actually make the product. Corporations have seized on licensing to push their company names and images across a wide range of products—from bedding to shoes—making licensing a multibillion-dollar business.[65] Jeep's licensing program, which now has 600 products and 150 licensees, includes everything from strollers (built for a father's longer arms) to apparel (with Teflon in the denim)—as long they fit the brand's positioning of "Life without Limits." Through 400-plus dedicated Jeep shop-in-shops and 80 Jeep freestanding stores around the world, licensing revenue now exceeds $550 million in retail sales. New areas of emphasis include outdoor and travel gear, juvenile products, and sporting goods.[66]

Branding Decisions

ALTERNATIVE BRANDING STRATEGIES Today, branding is such a strong force that hardly anything goes unbranded. Assuming a firm decides to brand its products or services, it must choose which brand names to use. Three general strategies are popular:

- ***Individual or separate family brand names.*** Consumer packaged-goods companies have a long tradition of branding different products by different names. General Mills largely uses individual brand names, such as Bisquick, Gold Medal flour, Nature Valley granola bars, Old El Paso Mexican foods, Progresso soup, Wheaties cereal, and Yoplait yogurt. If a company produces quite different products, one blanket name is often not desirable. Swift and Company developed separate family names for its hams (Premium) and fertilizers (Vigoro). A major advantage of individual or separate family brand names is that if a product fails or appears to be of low quality, the company has not tied its reputation to it. Companies often use different brand names for different quality lines within the same product class.
- ***Corporate umbrella or company brand name.*** Many firms, such as Heinz and GE, use their corporate brand as an umbrella brand across their entire range of products.[67] Development costs are lower with umbrella names because there's no need to run "name" research or spend heavily on advertising to create recognition. Campbell Soup introduces new soups under its brand name with extreme simplicity and achieves instant recognition. Sales of the new product are likely to be strong if the manufacturer's name is good. Corporate-image associations of innovativeness, expertise, and trustworthiness have been shown to directly influence consumer evaluations.[68] Finally, a corporate branding strategy can lead to greater intangible value for the firm.[69]
- ***Sub-brand name.*** Sub-brands combine two or more of the corporate brand, family brand, or individual product brand names. Kellogg employs a sub-brand or hybrid branding strategy by combining the corporate brand with individual product brands as with Kellogg's Rice Krispies, Kellogg's Raisin Bran, and Kellogg's Corn Flakes. Many durable-goods makers such as Honda, Sony, and Hewlett-Packard use sub-brands for their products. The corporate or company name legitimizes, and the individual name individualizes, the new product.

HOUSE OF BRANDS VERSUS A BRANDED HOUSE The use of individual or separate family brand names has been referred to as a "house of brands" strategy, whereas the use of an umbrella corporate or company brand name has been referred to as a "branded house" strategy. These two branding strategies represent two ends of a brand relationship continuum. A sub-brand strategy falls somewhere between, depending on which component of the sub-brand receives more emphasis. A good example of a house of brands strategy is United Technologies.

United Technologies

UTC's brand portfolio includes Otis elevators, Carrier heaters and air conditioners, Hamilton Sundstrand aerospace and industrial, Sikorsky helicopters, Pratt & Whitney jet engines, and UTC Fire & Security systems. Most of its brands are the names of the individuals who invented the product or created the company decades ago—they have more power and are more recognizable in the business buying marketplace. The parent brand, UTC, is advertised only to small but influential audiences—the financial community and opinion leaders in New York and Washington, DC. After all, employees are more loyal to the individual companies owned by UTC. "My philosophy has always been to use the power of the trademarks of the subsidiaries to improve the recognition and brand acceptance, awareness, and respect for the parent company itself," said UTC's then-CEO George David.[70]

United Technologies' brand portfolio consists of a diverse collection of companies, products, and brands.

Two key components of virtually any branding strategy are brand portfolios and brand extensions. (Chapter 12 discusses co-branding and ingredient branding, as well as line-stretching through vertical extensions.)

Brand Portfolios

A brand can only be stretched so far, and all the segments the firm would like to target may not view the same brand equally favorably. Marketers often need multiple brands in order to pursue these multiple segments. Some other reasons for introducing multiple brands in a category include:[71]

1. Increasing shelf presence and retailer dependence in the store
2. Attracting consumers seeking variety who may otherwise have switched to another brand
3. Increasing internal competition within the firm
4. Yielding economies of scale in advertising, sales, merchandising, and physical distribution

The **brand portfolio** is the set of all brands and brand lines a particular firm offers for sale in a particular category or market segment.

Starwood Hotels & Resorts

One of the leading hotel and leisure companies in the world, Starwood Hotels & Resorts Worldwide, has 850 properties in more than 95 countries and 145,000 employees at its owned and managed properties. In its rebranding attempt to go "beyond beds," Starwood has differentiated its hotels along emotional, experiential lines. Its hotel and call center operators convey different experiences for the firm's different chains, as does the firm's advertising. This strategy emerged from a major 18-month positioning project, started in 2006, to find positions for the portfolio of brands that would establish an emotional connection with consumers. Consumer research suggested these positions for some of the brands:[72]

- *Sheraton.* With the tagline "You don't stay here, you belong," Sheraton—the largest brand—is about warm, comforting, and casual. Its core value centers on "connections," an image aided by the hotel's alliance with Yahoo!, which cofounded the Yahoo! Link@Sheraton lobby kiosks and cyber cafés.
- *Four Points by Sheraton.* For the self-sufficient traveler, Four Points strives to be honest, uncomplicated, and comfortable. The brand is all about providing a high level of comfort and little indulgences like free high-speed Internet access and bottled water. Its ads feature apple pies and talk about providing guests with "the comforts of home."

- *W.* With a brand personality defined as flirty, for the insider, and an escape, W offers guests unique experiences around the warmth of cool.
- *Westin.* Westin's emphasis on "personal, instinctive, and renewal" has led to a new sensory welcome featuring a white tea scent, signature music and lighting, and refreshing towels. Each room features Westin's own "Heavenly Beds," sold exclusively in the retail market through Nordstrom, further enhancing the brand's upscale image.

The hallmark of an optimal brand portfolio is the ability of each brand in it to maximize equity in combination with all the other brands in it. Marketers generally need to trade off market coverage with costs and profitability. If they can increase profits by dropping brands, a portfolio is too big; if they can increase profits by adding brands, it's not big enough. The basic principle in designing a brand portfolio is to maximize market coverage so no potential customers are being ignored, but minimize brand overlap so brands are not competing for customer approval. Each brand should be clearly differentiated and appealing to a sizable enough marketing segment to justify its marketing and production costs.[73]

Marketers carefully monitor brand portfolios over time to identify weak brands and kill unprofitable ones.[74] Brand lines with poorly differentiated brands are likely to be characterized by much cannibalization and require pruning.[75] There are scores of cereals, beverages, and snacks and thousands of mutual funds. Students can choose among hundreds of business schools. For the seller, this spells hypercompetition. For the buyer, it may mean too much choice.

Brands can also play a number of specific roles as part of a portfolio.

FLANKERS Flanker or "fighter" brands are positioned with respect to competitors' brands so that more important (and more profitable) *flagship brands* can retain their desired positioning. Busch Bavarian is priced and marketed to protect Anheuser-Busch's premium Budweiser; and after a difficult product launch, Celeron helped thwart AMD's competitive challenge to Intel's premium Pentium microprocessor.[76] Marketers walk a fine line in designing fighter brands, which must be neither so attractive that they take sales away from their higher-priced comparison brands nor designed so cheaply that they reflect poorly on them.

CASH COWS Some brands may be kept around despite dwindling sales because they manage to maintain their profitability with virtually no marketing support. Companies can effectively "milk" these "cash cow" brands by capitalizing on their reservoir of brand equity. Gillette still sells the older Trac II, Atra, Sensor, and Mach III brands because withdrawing them may not necessarily move customers to another Gillette brand.

LOW-END ENTRY LEVEL The role of a relatively low-priced brand in the portfolio often may be to attract customers to the brand franchise. Retailers like to feature these "traffic builders" because they are able to "trade up" customers to a higher-priced brand. BMW introduced certain models in its 3 Series automobiles in part as a means of bringing new customers into the brand franchise, with the hope of later moving them to higher-priced models when they decided to trade in their cars.

HIGH-END PRESTIGE The role of a relatively high-priced brand often is to add prestige and credibility to the entire portfolio. One analyst argued that the real value to Chevrolet of its high-performance Corvette sports car was "its ability to lure curious customers into showrooms and at the same time help improve the image of other Chevrolet cars. It does not mean a hell of a lot for GM profitability, but there is no question that it is a traffic builder."[77] Corvette's technological image and prestige cast a halo over the entire Chevrolet line.

Brand Extensions

Many firms have decided to leverage their most valuable asset by introducing a host of new products under their strongest brand names. Most new products are in fact line extensions—typically 80 percent to 90 percent in any one year. Moreover, many of the most successful new products, as rated by various sources, are extensions. Among the most successful new product brand extensions in supermarkets in 2008 were Dunkin' Donuts coffee, Progresso Light soups, and Hormel

Compleats microwave meals. Nevertheless, many new products are introduced each year as new brands. The year 2008 also saw the launch of Zyrtec allergy relief medicine, G2 thirst quencher, and Ped Egg foot files.

ADVANTAGES OF BRAND EXTENSIONS

Two main advantages of brand extensions are that they can facilitate new-product acceptance and provide positive feedback to the parent brand and company.

Improved Odds of New-Product Success Consumers form expectations about a new product based on what they know about the parent brand and the extent to which they feel this information is relevant.[78] When Sony introduced a new personal computer tailored for multimedia applications, the Vaio, consumers may have felt comfortable with its anticipated performance because of their experience with and knowledge of other Sony products.

By setting up positive expectations, extensions reduce risk.[79] It also may be easier to convince retailers to stock and promote a brand extension because of anticipated increased customer demand. An introductory campaign for an extension doesn't need to create awareness of both the brand *and* the new product; it can concentrate on the new product itself.[80]

Extensions can thus reduce launch costs, important given that establishing a new brand name for a consumer packaged good in the U.S. marketplace can cost over $100 million! Extensions also can avoid the difficulty—and expense—of coming up with a new name and allow for packaging and labeling efficiencies. Similar or identical packages and labels can lower production costs for extensions and, if coordinated properly, provide more prominence in the retail store via a "billboard" effect.[81] Stouffer's offers a variety of frozen entrees with identical orange packaging that increases their visibility when they're stocked together in the freezer. With a portfolio of brand variants within a product category, consumers who want a change can switch to a different product type without having to leave the brand family.

Positive Feedback Effects Besides facilitating acceptance of new products, brand extensions can provide feedback benefits.[82] They can help to clarify the meaning of a brand and its core values or improve consumer loyalty to the company behind the extension.[83] Through their brand extensions, Crayola means "colorful arts and crafts for kids," Aunt Jemima means "breakfast foods," and Weight Watchers means "weight loss and maintenance."

Line extensions can renew interest and liking for the brand and benefit the parent brand by expanding market coverage. The goal of Kimberly-Clark's Kleenex unit is to have facial tissue in every room of the home. This philosophy has led to a wide variety of Kleenex facial tissues and packaging, including scented, ultra-soft, and lotion-impregnated tissues; boxes with drawings of dinosaurs and dogs for children's rooms; colorful, stylish designs to match living room décor; and a "man-sized" box with tissues 50 percent larger than regular Kleenex.

By defining its brand promise in terms of "colorful arts and crafts for kids," Crayola has extended beyond crayons to successfully introduce a range of different products.

A successful extension may also generate subsequent extensions.[84] During the 1970s and 1980s, Billabong established its brand credibility with the young surfing community as a designer and producer of quality surf apparel. This success permitted it to extend into other youth-oriented areas, such as snowboarding and skateboarding.

DISADVANTAGES OF BRAND EXTENSIONS On the downside, line extensions may cause the brand name to be less strongly identified with any one product.[85] Al Ries and Jack Trout call this the "line-extension trap."[86] By linking its brand to mainstream food products such as mashed potatoes, powdered milk, soups, and beverages, Cadbury ran the risk of losing its more specific meaning as a chocolate and candy brand.[87] **Brand dilution** occurs when consumers no longer associate a brand with a specific or highly similar set of products and start thinking less of the brand.

If a firm launches extensions consumers deem inappropriate, they may question the integrity of the brand or become confused or even frustrated: Which version of the product is the "right one" for them? Retailers reject many new products and brands because they don't have the shelf or display space for them. And the firm itself may become overwhelmed.

The worst possible scenario is for an extension not only to fail, but to harm the parent brand in the process. Fortunately, such events are rare. "Marketing failures," in which too few consumers were attracted to a brand, are typically much less damaging than "product failures," in which the brand fundamentally fails to live up to its promise. Even then, product failures dilute brand equity only when the extension is seen as very similar to the parent brand. The Audi 5000 car suffered from a tidal wave of negative publicity and word of mouth in the mid-1980s when it was alleged to have a "sudden acceleration" problem. The adverse publicity spilled over to the 4000 model. But the Quattro was relatively insulated, because it was distanced from the 5000 by its more distinct branding and advertising strategy.[88]

Even if sales of a brand extension are high and meet targets, the revenue may be coming from consumers switching to the extension from existing parent-brand offerings—in effect cannibalizing the parent brand. Intrabrand shifts in sales may not necessarily be undesirable if they're a form of *preemptive cannibalization.* In other words, consumers might have switched to a competing brand instead of the line extension if the extension hadn't been introduced. Tide laundry detergent maintains the same market share it had 50 years ago because of the sales contributions of its various line extensions—scented and unscented powder, tablet, liquid, and other forms.

One easily overlooked disadvantage of brand extensions is that the firm forgoes the chance to create a new brand with its own unique image and equity. Consider the advantages to Disney of having introduced adult-oriented Touchstone films, to Levi's of creating casual Dockers pants, and to Black & Decker of introducing high-end DeWALT power tools.

SUCCESS CHARACTERISTICS Marketers must judge each potential brand extension by how effectively it leverages existing brand equity from the parent brand, as well as how effectively, in turn, it contributes to the parent brand's equity.[89] Crest Whitestrips leveraged the strong reputation of Crest and dental care to provide reassurance in the teeth-whitening arena, while also reinforcing its dental authority image.

Marketers should ask a number of questions in judging the potential success of an extension.[90]

- Does the parent brand have strong equity?
- Is there a strong basis of fit?
- Will the extension have the optimal points-of-parity and points-of-difference?
- How can marketing programs enhance extension equity?
- What implications will the extension have for parent brand equity and profitability?
- How should feedback effects best be managed?

To help answer these questions, Table 9.5 offers a sample scorecard with specific weights and dimensions that users can adjust for each application.

Table 9.6 lists a number of academic research findings on brand extensions.[91] One major mistake in evaluating extension opportunities is failing to take *all* consumers' brand knowledge structures into account and focusing instead on one or a few brand associations as a potential basis of fit.[92]

TABLE 9.5 Brand Extendibility Scorecard

Allocate points according to how well the new product concept rates on the specific dimensions in the following areas:
Consumer Perspectives: Desirability
10 pts. _____ Product category appeal (size, growth potential)
10 pts. _____ Equity transfer (perceived brand fit)
5 pts. _____ Perceived consumer target fit
Company Perspectives: Deliverability
10 pts. _____ Asset leverage (product technology, organizational skills, marketing effectiveness via channels and communications)
10 pts. _____ Profit potential
5 pts. _____ Launch feasibility
Competitive Perspectives: Differentiability
10 pts. _____ Comparative appeal (many advantages; few disadvantages)
10 pts. _____ Competitive response (likelihood; immunity or invulnerability from)
5 pts. _____ Legal/regulatory/institutional barriers
Brand Perspectives: Equity Feedback
10 pts. _____ Strengthens parent brand equity
10 pts. _____ Facilitates additional brand extension opportunities
5 pts. _____ Improves asset base
TOTAL _____ pts.

TABLE 9.6 Research Insights on Brand Extensions

- Successful brand extensions occur when the parent brand is seen as having favorable associations and there is a perception of fit between the parent brand and the extension product.
- There are many bases of fit: product-related attributes and benefits, as well as nonproduct-related attributes and benefits related to common usage situations or user types.
- Depending on consumer knowledge of the categories, perceptions of fit may be based on technical or manufacturing commonalties or more surface considerations such as necessary or situational complementarity.
- High-quality brands stretch farther than average-quality brands, although both types of brands have boundaries.
- A brand that is seen as prototypical of a product category can be difficult to extend outside the category.
- Concrete attribute associations tend to be more difficult to extend than abstract benefit associations.
- Consumers may transfer associations that are positive in the original product class but become negative in the extension context.
- Consumers may infer negative associations about an extension, perhaps even based on other inferred positive associations.
- It can be difficult to extend into a product class that is seen as easy to make.
- A successful extension cannot only contribute to the parent brand image but also enable a brand to be extended even farther.

• An unsuccessful extension hurts the parent brand only when there is a strong basis of fit between the two.
• An unsuccessful extension does not prevent a firm from "backtracking" and introducing a more similar extension.
• Vertical extensions can be difficult and often require sub-branding strategies.
• The most effective advertising strategy for an extension emphasizes information about the extension (rather than reminders about the parent brand).

Source: Kevin Lane Keller, *Strategic Brand Management,* 3rd ed. (Upper Saddle River, NJ: Prentice Hall, 2008). Printed and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, NJ.

Bic

Bic The French company Société Bic, by emphasizing inexpensive, disposable products, was able to create markets for nonrefillable ballpoint pens in the late 1950s, disposable cigarette lighters in the early 1970s, and disposable razors in the early 1980s. It unsuccessfully tried the same strategy in marketing BIC perfumes in the United States and Europe in 1989. The perfumes—two for women ("Nuit" and "Jour") and two for men ("BIC for Men" and "BIC Sport for Men")—were packaged in quarter-ounce glass spray bottles that looked like fat cigarette lighters and sold for $5 each. The products were displayed on racks at checkout counters throughout Bic's extensive distribution channels. At the time, a Bic spokeswoman described the new products as extensions of the Bic heritage—"high quality at affordable prices, convenient to purchase, and convenient to use." The brand extension was launched with a $20 million advertising and promotion campaign containing images of stylish people enjoying themselves with the perfume and using the tagline "Paris in Your Pocket." Nevertheless, Bic was unable to overcome its lack of cachet and negative image associations, and the extension was a failure.[93]

Customer Equity

Achieving brand equity should be a top priority for any organization. "Marketing Memo: Twenty-First-Century Branding" offers some contemporary perspectives on enduring brand leadership.

marketing Memo — Twenty-First-Century Branding

One of the most successful marketers of the past two decades, Scott Bedbury, played a key role in the rise of both Nike and Starbucks. In his insightful book, *A New Brand World,* he offers the following branding principles:

1. ***Relying on brand awareness has become marketing fool's gold.*** Smart brands are more concerned with brand relevance and brand resonance.
2. ***You have to know it before you can grow it.*** Most brands don't know who they are, where they've been, and where they're going.
3. ***Always remember the Spandex rule of brand expansion.*** Just because you can, doesn't mean you should.
4. ***Great brands establish enduring customer relationships.*** They have more to do with emotions and trust than with footwear cushioning or the way a coffee bean is roasted.
5. ***Everything matters.*** Even your restroom.
6. ***All brands need good parents.*** Unfortunately, most brands come from troubled homes.
7. ***Big is no excuse for being bad.*** Truly great brands use their superhuman powers for good and place people and principles before profits.
8. ***Relevance, simplicity, and humanity.*** Rather than technology, these will distinguish brands in the future.

Source: Scott Bedbury, *A New Brand World* (New York: Viking Press, 2002). Copyright © 2001 by Scott Bedbury. Used by permission of Viking Penguin, a division of Penguin Group (USA) Inc.

Finally, we can relate brand equity to one other important marketing concept, **customer equity**. The aim of customer relationship management (CRM) is to produce high customer equity.[94] Although we can calculate it in different ways, one definition is "the sum of lifetime values of all customers."[95] As Chapter 5 reviewed, customer lifetime value is affected by revenue and by the costs of customer acquisition, retention, and cross-selling.[96]

- ***Acquisition*** depends on the number of prospects, the acquisition probability of a prospect, and acquisition spending per prospect.
- ***Retention*** is influenced by the retention rate and retention spending level.
- ***Add-on spending*** is a function of the efficiency of add-on selling, the number of add-on selling offers given to existing customers, and the response rate to new offers.

The brand equity and customer equity perspectives certainly share many common themes.[97] Both emphasize the importance of customer loyalty and the notion that we create value by having as many customers as possible pay as high a price as possible.

In practice, however, the two perspectives emphasize different things. The customer equity perspective focuses on bottom-line financial value. Its clear benefit is its quantifiable measures of financial performance. But it offers limited guidance for go-to-market strategies. It largely ignores some of the important advantages of creating a strong brand, such as the ability to attract higher-quality employees, elicit stronger support from channel and supply chain partners, and create growth opportunities through line and category extensions and licensing. The customer equity approach can overlook the "option value" of brands and their potential to affect future revenues and costs. It does not always fully account for competitive moves and countermoves, or for social network effects, word of mouth, and customer-to-customer recommendations.

Brand equity, on the other hand, tends to emphasize strategic issues in managing brands and creating and leveraging brand awareness and image with customers. It provides much practical guidance for specific marketing activities. With a focus on brands, however, managers don't always develop detailed customer analyses in terms of the brand equity they achieve or the resulting long-term profitability they create.[98] Brand equity approaches could benefit from sharper segmentation schemes afforded by customer-level analyses and more consideration of how to develop personalized, customized marketing programs for individual customers—whether individuals or organizations such as retailers. There are generally fewer financial considerations put into play with brand equity than with customer equity.

Nevertheless, both brand equity and customer equity matter. There are no brands without customers and no customers without brands. Brands serve as the "bait" that retailers and other channel intermediaries use to attract customers from whom they extract value. Customers are the tangible profit engine for brands to monetize their brand value.

Summary

1. A brand is a name, term, sign, symbol, design, or some combination of these elements, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors. The different components of a brand—brand names, logos, symbols, package designs, and so on—are brand elements.
2. Brands are valuable intangible assets that offer a number of benefits to customers and firms and need to be managed carefully. The key to branding is that consumers perceive differences among brands in a product category.
3. Brand equity should be defined in terms of marketing effects uniquely attributable to a brand. That is, different outcomes result in the marketing of a product or service because of its brand, compared to the results if that same product or service was not identified by that brand.
4. Building brand equity depends on three main factors: (1) The initial choices for the brand elements or identities making up the brand; (2) the way the brand is integrated into the supporting marketing program; and (3) the associations indirectly transferred to the brand by links to some other entity (the company, country of origin, channel of distribution, or another brand).
5. Brand audits measure "where the brand has been," and tracking studies measure "where the brand is now" and whether marketing programs are having the intended effects.

6. A branding strategy identifies which brand elements a firm chooses to apply across the various products it sells. In a brand extension, a firm uses an established brand name to introduce a new product. Potential extensions must be judged by how effectively they leverage existing brand equity to a new product, as well as how effectively they contribute to the equity of the parent brand in turn.
7. Brands may expand coverage, provide protection, extend an image, or fulfill a variety of other roles for the firm. Each brand-name product must have a well-defined positioning to maximize coverage, minimize overlap, and thus optimize the portfolio.
8. Customer equity is a complementary concept to brand equity that reflects the sum of lifetime values of all customers for a brand.

Applications

Marketing Debate

Are Brand Extensions Good or Bad?

Some critics vigorously denounce the practice of brand extensions, because they feel that too often companies lose focus and consumers become confused. Other experts maintain that brand extensions are a critical growth strategy and source of revenue for the firm.

Take a position: **Brand extensions can endanger brands *versus* Brand extensions are an important brand-growth strategy.**

Marketing Discussion

Brand Equity Models

How can you relate the different models of brand equity in this chapter to each other? How are they similar? How are they different? Can you construct a brand-equity model that incorporates the best aspects of each model?

Marketing Excellence

>>Procter & Gamble

Procter & Gamble (P&G) began in 1837 when brothers-in-law William Procter and James Gamble, whose wives were sisters, formed a small candle and soap company. From there, P&G innovated and launched scores of revolutionary products of superior quality and value, including Ivory soap in 1882, Tide laundry detergent in 1946, Crest toothpaste with fluoride in 1955, and Pampers disposable diapers in 1961. P&G also acquired a number of companies to open the doors to new product categories. Among these were Richardson-Vicks (makers of personal care products like Pantene, Olay, and Vicks), Norwich Eaton Pharmaceuticals (makers of Pepto-Bismol), Gillette, Noxell (makers of Noxzema), Shulton's Old Spice, Max Factor, and the Iams Company.

Today, P&G is one of the most skillful marketers of consumer packaged goods in the world and holds one of the most powerful portfolios of trusted brands. The company employs 138,000 people in more than 80 countries worldwide and has total worldwide sales of more than $79 billion a year. It is the leader in 15 of the 21 product categories in which it competes, has 23 billion-dollar global brands, spends more than $2 billion annually on R&D, and serves more than 4 billion people in 180 different countries. Its sustained market leadership rests on a number of capabilities and philosophies:

- *Customer knowledge.* P&G studies its customers—both end consumers and trade partners—through continuous marketing research and intelligence gathering. It spends more than $100 million on over 10,000 formal consumer research projects every year and generates more than 3 million consumer contacts via its e-mail and phone center. It also emphasizes getting its marketers and researchers out into the field, where they can interact with consumers and retailers in their natural environment.

- *Long-term outlook.* P&G takes the time to analyze each opportunity carefully and prepare the best product, then commits itself to making this product a success. It struggled with Pringles potato chips for almost a decade before achieving market success. Recently, P&G has focused on increasing its presence in developing markets by concentrating on affordability, brand awareness, and distribution through e-commerce and high frequency stores.
- *Product innovation.* P&G is an active product innovator, devoting $2 billion annually to research and development, an impressively high amount for a packaged-goods company. It employs more science PhDs than Harvard, Berkeley, and MIT combined and applies for roughly 3,800 patents each year. Part of its innovation process is to develop brands that offer new consumer benefits. Recent innovations that created entirely new categories include Febreze, an odor-eliminating fabric spray; Dryel, a product that helps "dry-clean" clothes at home in the dryer; and Swiffer, a cleaning system that more effectively removes dust, dirt, and hair from floors and other hard surfaces.
- *Quality strategy.* P&G designs products of above-average quality and continuously improves them in ways that matter to consumers, including Tide compact detergents, Pampers Rash Guard (a diaper that treats and prevents diaper rash), and improved two-in-one shampoo and conditioner products for Pantene, Vidal Sassoon, and Pert Plus.
- *Brand extension strategy.* P&G produces its brands in several sizes and forms. This strategy gains more shelf space and prevents competitors from moving in to satisfy unmet market needs. P&G also uses its strong brand names to launch new products with instant recognition and much less advertising outlay. The Mr. Clean brand has been extended from household cleaner to bathroom cleaner, and even to a carwash system. Old Spice extended its brand from men's fragrances to deodorant. Crest successfully extended into a tooth-whitening system called Crest Whitestrips that removes surface stains from teeth in 14 days.
- *Multibrand strategy.* P&G markets several brands in the same product category, such as Luvs and Pampers diapers and Oral-B and Crest toothbrushes. Each brand meets a different consumer want and competes against specific competitors' brands. At the same time, P&G is careful not to sell too many brands and has reduced its vast array of products, sizes, flavors, and varieties in recent years to assemble a stronger brand portfolio.
- *Communication pioneer.* With its acquisition of Gillette, P&G became the nation's largest advertiser, spending over $2.3 billion a year or nearly twice as much as the number two company, General Motors Corp. P&G pioneered the power of television to create strong consumer awareness and preference. In recent years, the company has shifted more of its advertising budget to online marketing efforts and social media such as Facebook, Twitter, and blogs. These efforts help infuse stronger emotional appeals into its communications and create deeper consumer connections.
- *Aggressive sales force.* P&G's sales force has been named one of the top 25 by *Sales & Marketing Management* magazine. A key to its success is the close ties its sales force forms with retailers, notably Walmart. The 150-person team that serves the retail giant works closely with Walmart to improve both the products that go to the stores and the process by which they get there.
- *Manufacturing efficiency and cost cutting.* P&G's reputation as a great marketing company is matched by its excellence as a manufacturing company. P&G spends significant amounts developing and improving production operations to keep its costs among the lowest in the industry, allowing it to reduce the premium prices at which some of its goods sell.
- *Brand-management system.* P&G originated the brand-management system, in which one executive is responsible for each brand. The system has been copied by many competitors but not often with P&G's success. Recently, P&G modified its general management structure so each brand category is now run by a category manager with volume and profit responsibility. Although this new organization does not replace the brand-management system, it helps to sharpen strategic focus on key consumer needs and competition in the category.

P&G's accomplishments over the past 173 years have come from successfully orchestrating the myriad factors that contribute to market leadership.

Questions

1. P&G's impressive portfolio includes some of the strongest brand names in the world. What are some of the challenges and risks associated with being the market leader in so many categories?
2. With social media becoming increasingly important and fewer people watching traditional commercials on television, what does P&G need to do to maintain its strong brand images?
3. What risks do you feel P&G will face going forward?

Sources: Robert Berner, "Detergent Can Be So Much More," *BusinessWeek*, May 1, 2006, pp. 66–68; "A Post-Modern Proctoid," *The Economist*, April 15, 2006, p. 68; *P&G Fact Sheet* (December 2006); John Galvin, "The World on a String," *Point* (February 2005), pp. 13–24; Jack Neff, "P&G Kisses Up to the Boss: Consumers," *Advertising Age*, May 2, 2005, p. 18; *www.pg.com*; "The Nielsen Company Issues Top Ten U.S. Lists for 2008," *The Nielsen Company press release*, December 12, 2008.

Marketing Excellence

>>McDonald's

McDonald's is the world's leading hamburger fast-food chain, with over 32,000 restaurants in 118 countries. More than 75 percent of McDonald's restaurants are owned and operated by franchisees, which decreases the risk associated with expansion and ensures long-term tenants for the company. McDonald's serves 58 million people each day and promises a simple, easy, and enjoyable food experience for its customers.

The history of the McDonald's Corporation dates back to 1955 when Ray Kroc, a multimixer salesman, franchised a hamburger restaurant from the McDonald brothers, named it McDonald's, and offered simple foods such as the famous 15 cent hamburger. Kroc helped design the building, which featured red and white sides and a single golden arch to attract local attention. Ten years later, 700 McDonald's restaurants existed around the country, and the brand was on its way to becoming a household name.

During the 1960s and 1970s, Kroc led McDonald's growth domestically and internationally while pushing the importance of quality, service, cleanliness, and value. The menu expanded to include the Big Mac, Quarter Pounder, Happy Meal, Filet-O-Fish, and breakfast items like the Egg McMuffin. Kroc also understood early on that his core audience consisted of children and families. Therefore, he focused McDonald's advertising efforts at these groups and introduced Ronald McDonald in 1965 during a 60-second commercial. Soon, characters such as Grimace, the Hamburgler, and Mayor McCheese made their debut in McDonald's advertising campaigns and helped lure children into its restaurants for simple, good-tasting food, and a fun experience.

It was also during this time that McDonald's created the Ronald McDonald House, which opened in 1974 to help children with leukemia. Since then, it has expanded into a global charity effort called Ronald McDonald House Charities that strives to improve children's lives, health, and well-being through three major programs: Ronald McDonald House, Ronald McDonald Family Room, and Ronald McDonald Care Mobile.

McDonald's aggressively expanded overseas throughout the 1980s by adding locations throughout Europe, Asia, the Philippines, and Malaysia. This rapid expansion, however, led to many struggles during the 1990s and early 2000s. The company lost focus and direction, expanding by as many as 2,000 new restaurants a year. New employees weren't trained fast or well enough, all of which led to poor customer service and dirtier restaurants. New competitors popped up and the company acquired nonburger companies, Chipotle and Boston Market (which were eventually sold in 2006 and 2007). Consumer tastes changed, and new products like pizza, the Arch Deluxe, and deli sandwiches failed to connect with consumers, as did tweaks to the current menu including multiple changes to the Big Mac special sauce. Jim Skinner, McDonald's chief executive explained, "We got distracted from the most important thing: hot, high-quality food at a great value at the speed and convenience of McDonald's."

In 2003, McDonald's implemented a strategic effort called the "Plan to Win." The framework, which still exists today, helped McDonald's restaurants refocus on offering a better, higher-quality consumer experience rather than a quick and cheap fast-food option. The Plan to Win "playbook" provided strategic insight on how to improve on the company's 5 Ps—people, products, promotions, price, and place—yet allowed local restaurants to adapt to different environments and cultures. For example, McDonald's introduced a Bacon Roll breakfast sandwich in the United Kingdom, a premium M burger in France, and an egg, tomato, and pepper McPuff in China. Prices also varied slightly across the United States to better reflect different tastes in different regions.

Some food changes that helped turn the company around included offering more chicken options as beef consumption started to decline, selling milk in a bottle instead of a carton, and removing "Super Size" options after the documentary *Super Size Me* targeted McDonald's and its link to obesity. McDonald's responded to health trends and began offering premium salads as well as apple slices instead of French fries in Happy Meals as well as all-white-meat McNuggets. While many of the healthier options targeted moms and held a premium price, McDonald's introduced the $1 menu at the same time, which targeted the lower-income bracket and teenagers. Other responses included improving drive-thru service since 60 percent of McDonald's U.S. business came from drive-thrus, introducing more snack options, and refurbishing restaurants with leather seats, warmer paint colors, and flat-screen TVs. Initial results were staggering; from 2003 to 2006, the stock price increased 170 percent. Sales continued to increase through the late 2000s and topped $23.5 billion in 2008, making McDonald's one of only two companies in the Dow Jones Industrial Average whose share price rose in 2008.

McDonald's continued to flourish in 2009, led by its premium Angus burgers and its McCafé coffee line, which directly targeted competitors like Starbucks with less expensive specialty coffee drinks. McDonald's also launched a worldwide repackaging effort as a result of intense consumer research. The new packaging aimed to accomplish several tasks, including teaching consumers about McDonald's health consciousness and building awareness of its use of locally grown produce. It included bold text and full-color photographs of real ingredients like potatoes on French fry packaging and vegetables, cheese, and cooking utensils on hamburger packaging. Mary Dillon, McDonald's global chief marketing officer, explained that the goal is to "create unique personalities for our menu items by telling a story about each one."

Through the years, McDonald's has created a number of successful marketing campaigns and slogans such as "You Deserve a Break Today," "It's a Good Time for the Great Taste of McDonald's," and "Food, Folks, and Fun." Its current campaign, "I'm Lovin' It," seems on track to join the others by helping the company reach record sales and growth despite difficult economic times.

Questions

1. What are McDonald's core brand values? Have these changed over the years?
2. McDonald's did very well during the recession in the late 2000s. With the economy turning around for the better, should McDonald's change its strategy? Why or why not?
3. What risks do you feel McDonald's will face going forward?

Sources: Andrew Martin, "At McDonald's, the Happiest Meal Is Hot Profits," *New York Times*, January 10, 2009; Janet Adamy, "McDonald's Seeks Way to Keep Sizzling," *Wall Street Journal*, March 10, 2009; Matt Vella, "McDonald's Thinks About the Box," *BusinessWeek*, December 8, 2008; Jessica Wohl, "McDonald's CEO: Tough Economy, but Some 'Thawing,'" *Reuters*, April 17, 2009; "McDonald's Rolls Out New Generation of Global Packaging," *McDonald's* press release, October 28, 2008.

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Chapter 10

With distinctive packaging and a compelling product concept, Method has carved out a unique spot in the previously staid cleaning-products market.

In This Chapter, We Will Address the Following Questions

1. How can a firm develop and establish an effective positioning in the market?
2. How do marketers identify and analyze competition?
3. How are brands successfully differentiated?
4. What are the differences in positioning and branding with a small business?

Crafting the Brand Positioning

No company can win if its products and services resemble every other product and offering. As part of the strategic brand management process, each offering must represent the right kinds of things in the minds of the target market. Although successfully positioning a new product in a well-established market may seem difficult, Method Products shows that it is not impossible.

Named the seventh fastest-growing company in the United States by Inc. magazine back in 2006, Method Products is the brainchild of former high school buddies Eric Ryan and Adam Lowry. The company started with the realization that although cleaning and household products is a huge category, taking up an entire supermarket aisle or more, it was an incredibly boring one. Ryan and Lowry designed a sleek, uncluttered dish soap container that also had a functional advantage—the bottle, shaped like a chess piece, was built to let soap flow out the bottom, so users would never have to turn it upside down. This signature product, with its pleasant fragrance, was designed by award-winning industrial designer Karim Rashid. "The cleaning product industry is very backwards, and many of the products have a 1950s language," Rashid said, "They are cluttered with graphics, too much information, and complicated ugly forms."

By creating a line of nontoxic, biodegradable household cleaning products with bright colors and sleek designs totally unique to the category, Method has crossed the line of $100 million in revenues with a phenomenal growth rate. Its big break came with the placement of its product in Target, known for partnering with well-known designers to produce stand-out products at affordable prices. Because of a limited advertising budget, the company believes its attractive packaging and innovative products must work harder to express the brand positioning. The challenge for Method now, however, is to differentiate beyond design to avoid copycats eroding the company's cachet. The company is capitalizing on growing interest in green products by emphasizing its nontoxic, nonpolluting ingredients.[1]

As the success of Method products demonstrates, a company can reap the benefits of carving out a unique position in the marketplace. Creating a compelling, well-differentiated brand position requires a keen understanding of consumer needs and wants, company capabilities, and competitive actions. It also requires disciplined but creative thinking. In this chapter, we outline a process by which marketers can uncover the most powerful brand positioning.

Developing and Establishing a Brand Positioning

All marketing strategy is built on segmentation, targeting, and positioning (STP). A company discovers different needs and groups in the marketplace, targets those it can satisfy in a superior way, and then positions its offerings so the target market recognizes the company's distinctive offerings and images.

Positioning is the act of designing a company's offering and image to occupy a distinctive place in the minds of the target market.[2] The goal is to locate the brand in the minds of consumers to maximize the potential benefit to the firm. A good brand positioning helps guide marketing strategy by clarifying the brand's essence, identifying the goals it helps the consumer achieve, and showing how it does so in a unique way. Everyone in the organization should understand the brand positioning and use it as context for making decisions.

Entertainment Weekly When publisher Scott Donaton took over *Entertainment Weekly*, he repositioned the magazine away from celebrity lifestyles to focus more directly on entertainment itself and what actually appeared on the screen, page, or CD. This updated positioning became a filter that guided the content and marketing of the magazine: "Every event, sales program, marketing initiative gets poured through that filter—the goal being to keep and enhance the things that are true to who you are; kill the things that aren't, necessarily; and create great new things that are even better expressions of who you are." Out was the glitzy annual Oscar party at Elaine's restaurant in New York City; in its place was a week-long Academy Awards program at ArcLight Theater in Hollywood showcasing all the best-pictures nominees and featuring a panel discussion with nominated screenwriters.[3]

Entertainment Weekly uses its updated brand positioning to guide everything it does.

A good positioning has a "foot in the present" and a "foot in the future." It needs to be somewhat aspirational so the brand has room to grow and improve. Positioning on the basis of the current state of the market is not forward-looking enough, but, at the same time, the positioning cannot be so removed from reality that it is essentially unobtainable. The real trick in positioning is to strike just the right balance between what the brand is and what it could be.

The result of positioning is the successful creation of a *customer-focused value proposition,* a cogent reason why the target market should buy the product. Table 10.1 shows how three companies—Perdue, Volvo, and Domino's—have defined their value proposition through the years given their target customers, benefits, and prices.[4]

Positioning requires that marketers define and communicate similarities and differences between their brand and its competitors. Specifically, deciding on a positioning requires: (1) determining a frame of reference by identifying the target market and relevant competition, (2) identifying the optimal points of parity and points of difference brand associations given that frame of reference, and (3) creating a brand mantra to summarize the positioning and essence of the brand.

Determining a Competitive Frame of Reference

The **competitive frame of reference** defines which other brands a brand competes with and therefore which brands should be the focus of competitive analysis. Decisions about the competitive

TABLE 10.1 Examples of Value Propositions

Company and Product	Target Customers	Key Benefits	Price	Value Proposition
Perdue (chicken)	Quality-conscious consumers of chicken	Tenderness	10% premium	More tender golden chicken at a moderate premium price
Volvo (station wagon)	Safety-conscious upscale families	Durability and safety	20% premium	The safest, most durable wagon in which your family can ride
Domino's (pizza)	Convenience-minded pizza lovers	Delivery speed and good quality	15% premium	A good hot pizza, delivered promptly to your door, at a moderate price

frame of reference are closely linked to target market decisions. Deciding to target a certain type of consumer can define the nature of competition, because certain firms have decided to target that segment in the past (or plan to do so in the future), or because consumers in that segment may already look to certain products or brands in their purchase decisions.

IDENTIFYING COMPETITORS A good starting point in defining a competitive frame of reference for brand positioning is to determine **category membership**—the products or sets of products with which a brand competes and which function as close substitutes. It would seem a simple task for a company to identify its competitors. PepsiCo knows Coca-Cola's Dasani is a major bottled-water competitor for its Aquafina brand; Citigroup knows Bank of America is a major banking competitor; and Petsmart.com knows a major online retail competitor for pet food and supplies is Petco.com.

The range of a company's actual and potential competitors, however, can be much broader than the obvious. For a brand with explicit growth intentions to enter new markets, a broader or maybe even more aspirational competitive frame may be necessary to reflect possible future competitors. And a company is more likely to be hurt by emerging competitors or new technologies than by current competitors.

- After having spent billions of dollars building their networks, cell phone carriers AT&T, Verizon Wireless, and Sprint face the threat of new competition emerging as a result of a number of changes in the marketplace: Skype and the growth of Wi-Fi hotspots, municipal Wi-Fi networks built by cities, dual mode phones that can easily switch networks, and the opening up of the old analog 700 MHz frequency used for UHF broadcasts.[5]
- The energy-bar market created by PowerBar ultimately fragmented into a variety of subcategories, including those directed at specific segments (such as Luna bars for women) and some possessing specific attributes (such as the protein-laden Balance and the calorie-control bar Pria). Each represented a subcategory for which the original PowerBar was potentially not as relevant.[6]

Firms should identify their competitive frame in the most advantageous way possible. In the United Kingdom, for example, the Automobile Association positioned itself as the fourth "emergency service"—along with police, fire, and ambulance—to convey greater credibility and urgency. Consider the competitive frame adopted by Bertolli.[7]

The energy bar market has fragmented into a number of sub-categories, each appealing to different people in different situations.

Bertolli

Bertolli Unilever's Bertolli, a line of frozen Italian food, experienced a steady 10 percent growth in sales through the recent economic recession, in part due to its clever positioning as "restaurant quality Italian food that you can eat at home." Targeting men and women with "discerning palates," Bertolli has aggressively innovated with a stream of high-quality new dishes to keep target customers interested. In its marketing for the brand, Bertolli deliberately chooses to go to places "appropriate for a fine dining brand but not a frozen food brand." Advertising "Spend a Night In with Bertolli," the brand has advertised during the Emmys and Golden Globes award show telecasts and hosted celebrity chef dinners in Manhattan.

We can examine competition from both an industry and a market point of view.[8] An **industry** is a group of firms offering a product or class of products that are close substitutes for one another. Marketers classify industries according to number of sellers; degree of product differentiation; presence or absence of entry, mobility, and exit barriers; cost structure; degree of vertical integration; and degree of globalization.

Using the market approach, we define *competitors* as companies that satisfy the same customer need. For example, a customer who buys a word-processing package really wants "writing ability"—a need that can also be satisfied by pencils, pens, or, in the past, typewriters. Marketers must overcome "marketing myopia" and stop defining competition in traditional category and industry terms.[9] Coca-Cola, focused on its soft drink business, missed seeing the market for coffee bars and fresh-fruit-juice bars that eventually impinged on its soft-drink business.

The market concept of competition reveals a broader set of actual and potential competitors than competition defined in just product category terms. Jeffrey F. Rayport and Bernard J. Jaworski suggest profiling a company's direct and indirect competitors by mapping the buyer's steps in obtaining and using the product. This type of analysis highlights both the opportunities and the challenges a company faces.[10] "Marketing Insight: High Growth through Value Innovation" describes how firms can tap into new markets while minimizing competition from others.

Marketing Insight

High Growth Through Value Innovation

INSEAD professors W. Chan Kim and Renée Mauborgne believe too many firms engage in "red-ocean thinking"—seeking bloody, head-to-head battles with competitors based largely on incremental improvements in cost, quality, or both. They advocate engaging in "blue-ocean thinking" by creating products and services for which there are no direct competitors. Instead of searching within the conventional boundaries of industry competition, managers should look beyond those boundaries to find unoccupied market positions that represent real value innovation.

The authors cite as one example Bert Claeys, a Belgian company that operates movie theaters, and its introduction of the 25-screen, 7,600-seat Kinepolis megaplex. Despite an industry slump, Kinepolis has thrived on a unique combination of features, such as ample and safe free parking; large screens and state-of-the-art sound and projection equipment; and roomy, comfortable, oversized seats with unobstructed views. Through smart planning and economies of scale, Bert Claeys created Kinepolis's unique cinema experience at a lower cost.

This is classic blue-ocean thinking—designing creative business ventures to positively affect both a company's cost structure and its value proposition to consumers. Cost savings result from eliminating and reducing the factors affecting traditional industry competition; value to consumers comes from introducing factors the industry has never before offered. Over time, costs drop even more as superior value leads to higher sales volume, and that generates economies of scale.

Here are other marketers that exhibit unconventional, blue-ocean thinking:

- Callaway Golf designed "Big Bertha," a golf club with a large head and expanded sweet spot that helped golfers frustrated by the difficulty of hitting a golf ball squarely.
- NetJets figured out how to offer private jet service to a larger group of customers through fractional ownership.

- Cirque du Soleil reinvented circus as a higher form of entertainment by eliminating high-cost elements such as animals and enhancing the theatrical experience instead.

Kim and Mauborgne propose four crucial questions for marketers to ask themselves in guiding blue-ocean thinking and creating value innovation:

1. Which of the factors that our industry takes for granted should we eliminate?
2. Which factors should we reduce well *below* the industry's standard?
3. Which factors should we raise well *above* the industry's standard?
4. Which factors should we create that the industry has never offered?

They maintain that the most successful blue-ocean thinkers took advantage of all three platforms on which value innovation can take place: *physical product*; *service* including maintenance, customer service, warranties, and training for distributors and retailers; and *delivery*, meaning channels and logistics.

Sources: W. Chan Kim and Renée Mauborgne, *Blue-Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant* (Cambridge, MA: Harvard Business School Press, 2005); W. Chan Kim and Renée Mauborgne, "Creating New Market Space," *Harvard Business Review,* January–February 1999; W. Chan Kim and Renée Mauborgne, "Value Innovation: The Strategic Logic of High Growth," *Harvard Business Review,* January–February 1997.

ANALYZING COMPETITORS Chapter 2 described how to conduct a SWOT analysis that includes a competitive analysis. A company needs to gather information about each competitor's real and perceived strengths and weaknesses. Table 10.2 shows the results of a company survey that asked customers to rate its three competitors, A, B, and C, on five attributes. Competitor A turns out to be well known and respected for producing high-quality products sold by a good sales force, but poor at providing product availability and technical assistance. Competitor B is good across the board and excellent in product availability and sales force. Competitor C rates poor to fair on most attributes. This result suggests that in its positioning, the company could attack Competitor A on product availability and technical assistance and Competitor C on almost anything, but it should not attack B, which has no glaring weaknesses. As part of this competitive analysis for positioning, the firm should also ascertain the strategies and objectives of its primary competitors.[11]

Once a company has identified its main competitors and their strategies, it must ask: What is each competitor seeking in the marketplace? What drives each competitor's behavior? Many factors shape a competitor's objectives, including size, history, current management, and financial situation. If the competitor is a division of a larger company, it's important to know whether the parent company is running it for growth or for profits, or milking it.[12]

Finally, based on all this analysis, marketers must formally define the competitive frame of reference to guide positioning. In stable markets with little short-term change likely, it may be fairly easy to define one, two, or perhaps three key competitors. In dynamic categories where competition may exist or arise in a variety of different forms, multiple frames of reference may arise, as we discuss next.

TABLE 10.2 Customers' Ratings of Competitors on Key Success Factors

	Customer Awareness	Product Quality	Product Availability	Technical Assistance	Selling Staff
Competitor A	E	E	P	P	G
Competitor B	G	G	E	G	E
Competitor C	F	P	G	F	F

Note: E = excellent, G = good, F = fair, P = poor.

Identifying Optimal Points-of-Difference and Points-of-Parity

Once marketers have fixed the competitive frame of reference for positioning by defining the customer target market and the nature of the competition, they can define the appropriate points-of-difference and points-of-parity associations.[13]

POINTS-OF-DIFFERENCE

Points-of-difference (PODs) are attributes or benefits that consumers strongly associate with a brand, positively evaluate, and believe they could not find to the same extent with a competitive brand. Associations that make up points-of-difference may be based on virtually any type of attribute or benefit. Strong brands may have multiple points-of-difference. Some examples are Apple (*design, ease-of-use,* and *irreverent attitude*), Nike (*performance, innovative technology,* and *winning*), and Southwest Airlines (*value, reliability,* and *fun personality*). Creating strong, favorable, and unique associations is a real challenge, but an essential one for competitive brand positioning.

Three criteria determine whether a brand association can truly function as a point-of-difference—desirability, deliverability, and differentiability. Some key considerations follow.

- *Desirable to consumer.* Consumers must see the brand association as personally relevant to them. The Westin Stamford hotel in Singapore advertised that it was the world's tallest hotel, but a hotel's height is not important to many tourists. Consumers must also be given a compelling reason to believe and an understandable rationale for why the brand can deliver the desired benefit. Mountain Dew may argue that it is more energizing than other soft drinks and support this claim by noting that it has a higher level of caffeine. Chanel No. 5 perfume may claim to be the quintessentially elegant French perfume and support this claim by noting the long association between Chanel and haute couture. Substantiators can also come in the form of patented, branded ingredients, such as NIVEA Wrinkle Control Crème with Q10 co-enzyme or Herbal Essences hair conditioner with Hawafena.
- *Deliverable by the company.* The company must have the internal resources and commitment to feasibly and profitably create and maintain the brand association in the minds of consumers. The product design and marketing offering must support the desired association. Does communicating the desired association require real changes to the product itself, or just perceptual shifts in the way the consumer thinks of the product or brand? Creating the latter is typically easier. General Motors has had to work to overcome public perceptions that Cadillac is not a youthful, modern brand and has done so through bold designs and contemporary images. The ideal brand association is preemptive, defensible, and difficult to attack. It is generally easier for market leaders such as ADM, Visa, and SAP to sustain their positioning, based as it is on demonstrable product or service performance, than it is for market leaders such as Fendi, Prada, and Hermès, whose positioning is based on fashion and is thus subject to the whims of a more fickle market.
- *Differentiating from competitors.* Finally, consumers must see the brand association as distinctive and superior to relevant competitors. Splenda sugar substitute overtook Equal and Sweet'N Low to become the leader in its category in 2003 by differentiating itself on its authenticity as a product derived from sugar, without any of the associated drawbacks.[14]

Any attribute or benefit associated with a product or service can function as a point-of-difference for a brand as long as it is sufficiently desirable, deliverable, and differentiating. The brand must demonstrate clear superiority on an attribute or benefit, however, for it to function as a true point-of-difference. Consumers must be convinced, for example, that Louis Vuitton has the most stylish handbags, Energizer is the longest-lasting battery, and Fidelity Investments offers the best financial advice and planning.

POINTS-OF-PARITY

Points-of-parity (POPs), on the other hand, are attribute or benefit associations that are not necessarily unique to the brand but may in fact be shared with other brands.[15] These types of associations come in two basic forms: category and competitive.

Category points-of-parity are attributes or benefits that consumers view as essential to a legitimate and credible offering within a certain product or service category. In other words, they represent necessary—but not sufficient—conditions for brand choice. Consumers might not consider a travel agency truly a travel agency unless it is able to make air and hotel reservations, provide advice about leisure packages, and offer various ticket payment and delivery options. Category points-of-parity may change over time due to technological advances, legal developments, or consumer trends, but to use a golfing analogy, they are the "greens fees" necessary to play the marketing game.

Competitive points-of-parity are associations designed to overcome perceived weaknesses of the brand. A competitive point-of-parity may be required to either (1) negate *competitors'* perceived points-of-difference or (2) negate a perceived vulnerability of the brand as a result of its own points-of-difference. The latter consideration, which we discuss in more detail later in this chapter, arises when consumers feel that if a brand is good at one thing (easy to use), it must not be good at something else (having advanced features).

One good way to uncover key competitive points-of-parity is to role-play competitors' positioning and infer their intended points-of-difference. Competitor's PODs will, in turn, suggest the brand's POPs. Consumer research into the trade-offs consumers make in their purchasing decisions can also be informative.

Regardless of the source of perceived weaknesses, if, in the eyes of consumers, a brand can "break even" in those areas where it appears to be at a disadvantage *and* achieve advantages in other areas, the brand should be in a strong—and perhaps unbeatable—competitive position. Consider the introduction of Miller Lite beer–the first major light beer in North America.[16]

Miller Lite The initial advertising strategy for Miller Lite beer had two goals—ensuring parity with key competitors in the regular, full-strength beer category by stating that it "tastes great," while at the same time creating a point-of-difference: It contained one-third fewer calories and was thus "less filling." As is often the case, the point-of-parity and point-of-difference were somewhat conflicting, as consumers tend to equate taste with calories. To overcome potential resistance, Miller employed credible spokespeople, primarily popular former professional athletes, who would presumably not drink a beer unless it tasted good. These ex-jocks humorously debated which of the two product benefits—"tastes great" or "less filling"—was more descriptive of the beer. The ads ended with the clever tagline "Everything You've Always Wanted in a Beer . . . and Less."

POINTS-OF-PARITY VERSUS POINTS-OF-DIFFERENCE

For an offering to achieve a point-of-parity on a particular attribute or benefit, a sufficient number of consumers must believe the brand is "good enough" on that dimension. There is a zone or range of tolerance or acceptance with points-of-parity. The brand does not literally need to be seen as equal to competitors, but consumers must feel it does well enough on that particular attribute or benefit. If they do, they may be willing to base their evaluations and decisions on other factors potentially more favorable to the brand. A light beer presumably would never taste as good as a full-strength beer, but it would need to taste close enough to be able to effectively compete.

Often, the key to positioning is not so much achieving a point-of-difference as achieving points-of-parity!

Visa versus American Express Visa's POD in the credit card category is that it is the most widely available card, which underscores the category's main benefit of convenience. American Express, on the other hand, has built the equity of its brand by highlighting the prestige associated with the use of its card. Having established their PODs, Visa and American Express now compete to create POPs by attempting to blunt each other's advantage. Visa offers gold and platinum cards to enhance the prestige of its brand and for years advertised, "It's Everywhere You Want to Be," showing desirable travel

Visa has established a strong point-of-difference versus American Express on the basis of acceptability.

and leisure locations that accepted only the Visa card, to reinforce both its exclusivity and its acceptability. American Express has substantially increased the number of merchants that accept its cards and created other value enhancements while also reinforcing its cachet through advertising that showcases celebrities such as Jerry Seinfeld, Robert De Niro, Tina Fey, Ellen DeGeneres, and Beyoncé.

MULTIPLE FRAMES OF REFERENCE It is not uncommon for a brand to identify more than one actual or potential competitive frame of reference, if competition widens or the firm plans to expand into new categories. For example, Starbucks could define very distinct sets of competitors, suggesting different possible POPs and PODs as a result:

1. ***Quick-serve restaurants and convenience shops (McDonald's and Dunkin' Donuts).*** Intended PODs might be quality, image, experience, and variety; intended POPs might be convenience and value.
2. ***Supermarket brands for home consumption (Folgers and NESCAFÉ).*** Intended PODs might be quality, image, experience, variety, and freshness; intended POPs might be convenience and value.
3. ***Local cafés.*** Intended PODs might be convenience and service quality; intended POPs might be quality, variety, price, and community.

Note that some potential POPs and PODs for Starbucks are shared across competitors; others are unique to a particular competitor.

Under such circumstances, marketers have to decide what to do. There are two main options with multiple frames of reference. One is to first develop the best possible positioning for each type or class of competitors and then see whether there is a way to create one combined positioning robust enough to effectively address them all. If competition is too diverse, however, it may be necessary to prioritize competitors and then choose the most important set of competitors to serve as the competitive frame. One crucial consideration is not to try to be all things to all people—that leads to lowest-common-denominator positioning, which is typically ineffective.

Starbucks has encountered some stiff competition in the coffee market in recent years from McDonald's and Dunkin' Donuts.

Finally, if there are many competitors in different categories or subcategories, it may be useful to either develop the positioning at the categorical level for all relevant categories ("quick-serve restaurants" or "supermarket take-home coffee" for Starbucks) or with an exemplar from each category (McDonald's or NESCAFÉ for Starbucks).

STRADDLE POSITIONING Occasionally, a company will be able to straddle two frames of reference with one set of points-of-difference and points-of-parity. In these cases, the points-of-difference for one category become points-of-parity for the other and vice versa. Subway restaurants are positioned as offering healthy, good-tasting sandwiches. This positioning allows the brand to create a POP on taste and a POD on health with respect to quick-serve restaurants such as McDonald's and Burger King and, at the same time, a POP on health and a POD on taste with respect to health food restaurants and cafés. Straddle positions allow brands to expand their market coverage and potential customer base. Another example of a straddle positioning is BMW.

BMW

BMW When BMW first made a strong competitive push into the U.S. market in the early 1980s, it positioned the brand as the only automobile that offered both luxury *and* performance. At that time, consumers saw U.S. luxury cars as lacking performance, and U.S. performance cars as lacking luxury. By relying on the design of its cars, its German heritage, and other aspects of a well-conceived marketing program, BMW was able to simultaneously achieve: (1) a point-of-difference on luxury and a point-of-parity on performance with respect to U.S. performance cars like the Chevy Corvette, and (2) a point-of-difference on performance and a point-of-parity on luxury with respect to U.S. luxury cars like Cadillac. The clever slogan "The Ultimate Driving Machine" effectively captured the newly created umbrella category—luxury performance cars.

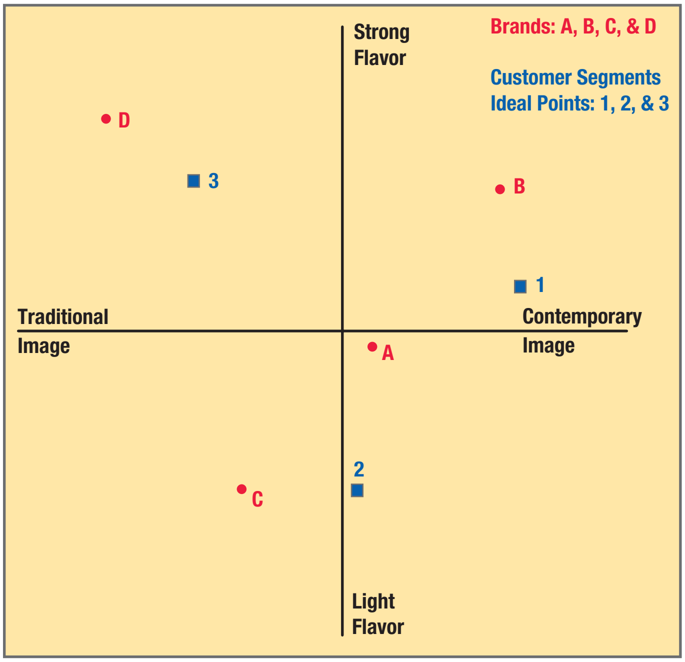
Although a straddle positioning is often attractive as a means of reconciling potentially conflicting consumer goals and creating a "best of both worlds" solution, it also carries an extra burden. If the points-of-parity and points-of-difference with respect to both categories are not credible, the brand may not be viewed as a legitimate player in either category. Many early PDAs that unsuccessfully tried to straddle categories ranging from pagers to laptop computers provide a vivid illustration of this risk.

Choosing POPs and PODs

Marketers typically focus on brand benefits in choosing the points-of-parity and points-of-difference that make up their brand positioning. Brand attributes generally play more of a supporting role by providing "reasons to believe" or "proof points" as to why a brand can credibly claim it offers certain benefits. Marketers of Dove soap, for example, will talk about how its attribute of one-quarter cleansing cream uniquely creates the benefit of softer skin. Consumers are usually more interested in benefits and what exactly they will get from a product. Multiple attributes may support a certain benefit, and they may change over time.

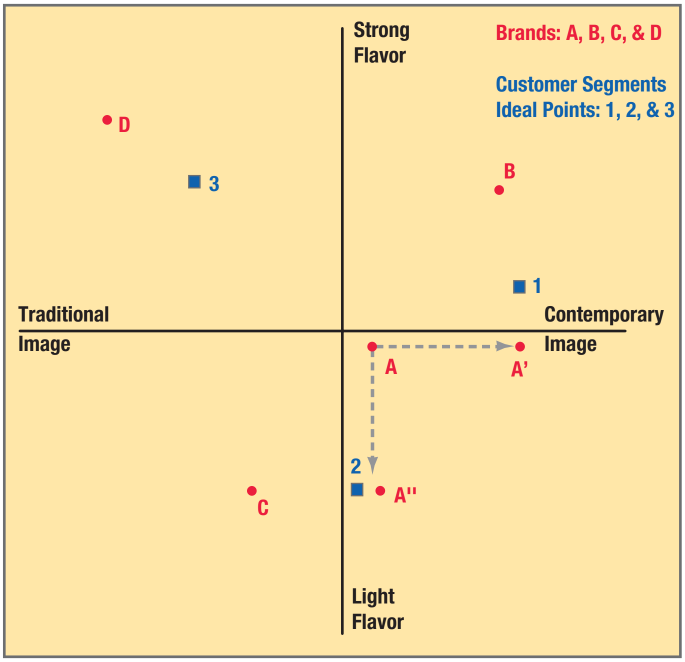
For choosing specific benefits as POPs and PODs to position a brand, perceptual maps may be useful. *Perceptual maps* are visual representations of consumer perceptions and preferences. They provide quantitative portrayals of market situations and the way consumers view different products, services, and brands along various dimensions. By overlaying consumer preferences with brand perceptions, marketers can reveal "holes" or "openings" that suggest unmet consumer needs and marketing opportunities.

For example, Figure 10.1(a) shows a hypothetical perceptual map for a beverage category. The four brands—A, B, C, and D—vary in terms of how consumers view their taste profile (light versus strong) and personality and imagery (contemporary versus modern). Also displayed on the map are ideal point "configurations" for three market segments (1, 2, and 3). The ideal points represent each segment's most preferred ("ideal") combination of taste and imagery.



|Fig. 10.1a|

(a) Hypothetical Beverage Perceptual Map: Current Perceptions



|Fig. 10.1b|

(b) Hypothetical Beverage Perceptual Map: Possible Repositioning for Brand A

Consumers in Segment 3 prefer beverages with a strong taste and traditional imagery. Brand D is well-positioned for this segment as it is strongly associated in the marketplace with both these benefits. Given that none of the competitors is seen as anywhere close, we would expect Brand D to attract many of the Segment 3 customers.

Brand A, on the other hand, is seen as more balanced in terms of both taste and imagery. Unfortunately, no market segment seems to really desire this balance. Brands B and C are better positioned with respect to Segments 2 and 3, respectively.

- By making its image more contemporary, Brand A could move to A' to target consumers in Segment 1 and achieve a point-of-parity on imagery and maintain its point-of-difference on taste profile with respect to Brand B.
- By changing its taste profile to make it lighter, Brand A could move to A" to target consumers in Segment 2 and achieve a point-of-parity on taste profile and maintain its point-of-difference on imagery with respect to Brand C.

Deciding which repositioning is most promising, A' or A", would require detailed consumer and competitive analysis on a host of factors—including the resources, capabilities, and likely intentions of competing firms—to choose the markets where consumers can profitably be served.

Brand Mantras

To further focus the intent of the brand positioning and the way firms would like consumers to think about the brand, it is often useful to define a brand mantra.[17] A *brand mantra* is an articulation of the heart and soul of the brand and is closely related to other branding concepts like "brand essence" and "core brand promise." Brand mantras are short, three- to five-word phrases that capture the irrefutable essence or spirit of the brand positioning. Their purpose is to ensure that all employees within the organization and all external marketing partners understand what the brand is most fundamentally to represent with consumers so they can adjust their actions accordingly.

Nike's brand mantra of "authentic athletic performance" guides the types of products it makes and the athletes it hires as endorsers.

Brand mantras are powerful devices. They can provide guidance about what products to introduce under the brand, what ad campaigns to run, and where and how to sell the brand. Their influence, however, can extend beyond these tactical concerns. Brand mantras may even guide the most seemingly unrelated or mundane decisions, such as the look of a reception area and the way phones are answered. In effect, they create a mental filter to screen out brand-inappropriate marketing activities or actions of any type that may have a negative bearing on customers' impressions of a brand.

Brand mantras must economically communicate what the brand is and what it is *not*. What makes for a good brand mantra? McDonald's brand philosophy of "Food, Folks, and Fun" captures its brand essence and core brand promise. Two high-profile and successful examples—Nike and Disney—show the power and utility of a well-designed brand mantra.

Nike

Nike has a rich set of associations with consumers, based on its innovative product designs, its sponsorships of top athletes, its award-winning advertising, its competitive drive, and its irreverent attitude. Internally, Nike marketers adopted the three-word brand mantra, "authentic athletic performance," to guide their marketing efforts. Thus, in Nike's eyes, its entire marketing program—its products and how they are sold—must reflect those key brand values. Over the years, Nike has expanded its brand meaning from "running shoes" to "athletic shoes" to "athletic shoes and apparel" to "all things associated with athletics (including equipment)." Each step of the way, however, it has been guided by its "authentic athletic performance" brand mantra. For example, as Nike rolled out its successful apparel line, one important hurdle for the products was that they could be made innovative enough through material, cut, or design to truly benefit top athletes. At the same time, the company has been careful to avoid using the Nike name to brand products that do not fit with the brand mantra (like casual "brown" shoes).

Disney's brand mantra of "fun family entertainment" provides guardrails so its marketing stays on track.

Disney

Disney developed its brand mantra in response to its incredible growth through licensing and product development during the mid-1980s. In the late 1980s, Disney became concerned that some of its characters, such as Mickey Mouse and Donald Duck, were being used inappropriately and becoming overexposed. The characters were on so many products and marketed in so many ways that in some cases it was difficult to discern what could have been the rationale behind the deal to start with. Moreover, because of the broad exposure of the characters in the marketplace, many consumers had begun to feel Disney was exploiting its name. Disney moved quickly to ensure that a consistent image—reinforcing its key brand associations—was conveyed by all third-party products and services. To facilitate this supervision, Disney adopted an internal brand mantra of "fun family entertainment" to serve as a screen for proposed ventures. Opportunities that were not consistent with the brand mantra—no matter how appealing—were rejected.

DESIGNING A BRAND MANTRA Brand mantras are designed with internal purposes in mind. A brand slogan is an external translation that attempts to creatively engage consumers. Although Nike's internal mantra was "authentic athletic performance," its external slogan was "Just Do It." Here are the three key criteria for a brand mantra.

- ***Communicate.*** A good brand mantra should define the category (or categories) of business for the brand and set the brand boundaries. It should also clarify what is unique about the brand.
- ***Simplify.*** An effective brand mantra should be memorable. For that, it should be short, crisp, and vivid in meaning.
- ***Inspire.*** Ideally, the brand mantra should also stake out ground that is personally meaningful and relevant to as many employees as possible.

Brand mantras typically are designed to capture the brand's points-of-difference, that is, what is unique about the brand. Other aspects of the brand positioning—especially the brand's points-of-parity—may also be important and may need to be reinforced in other ways.

For brands facing rapid growth, it is helpful to define the product or benefit space in which the brand would like to compete, as Nike did with "athletic performance" and Disney with "family entertainment." Words that describe the nature of the product or service, or the type of experiences or benefits the brand provides, can be critical to identifying appropriate categories into which to extend. For brands in more stable categories where extensions into more distinct categories are less likely to occur, the brand mantra may focus more exclusively on points-of-difference.

Brand mantras derive their power and usefulness from their collective meaning. Other brands may be strong on one, or perhaps even a few, of the brand associations making up the brand mantra. But for the brand mantra to be effective, no other brand should singularly excel on all dimensions. Part of the key to both Nike's and Disney's success is that for years no competitor could really deliver on the combined promise suggested by their brand mantras.

Establishing Brand Positioning

Once they have determined the brand positioning strategy, marketers should communicate it to everyone in the organization so it guides their words and actions. One helpful schematic to do so is a brand-positioning bull's-eye. Constructing a bull's-eye for the brand ensures that no steps are skipped in its development. "Marketing Memo: Constructing a Brand Positioning Bull's-eye" outlines one way marketers can formally express brand positioning.

Establishing the brand positioning in the marketplace requires that consumers understand what the brand offers and what makes it a superior competitive choice. To do so, consumers need to understand in which category or categories it competes and its points-of-parity and points-of-difference with respect to those competitors.

Category membership may be obvious in some cases. Target customers are aware that Maybelline is a leading brand of cosmetics, Cheerios is a leading brand of cereal, Accenture is a leading consulting firm, and so on. Often, however, marketers for many other brands must inform consumers of a brand's category membership. Perhaps the most obvious situation is the introduction of new products, especially when category identification itself is not apparent.

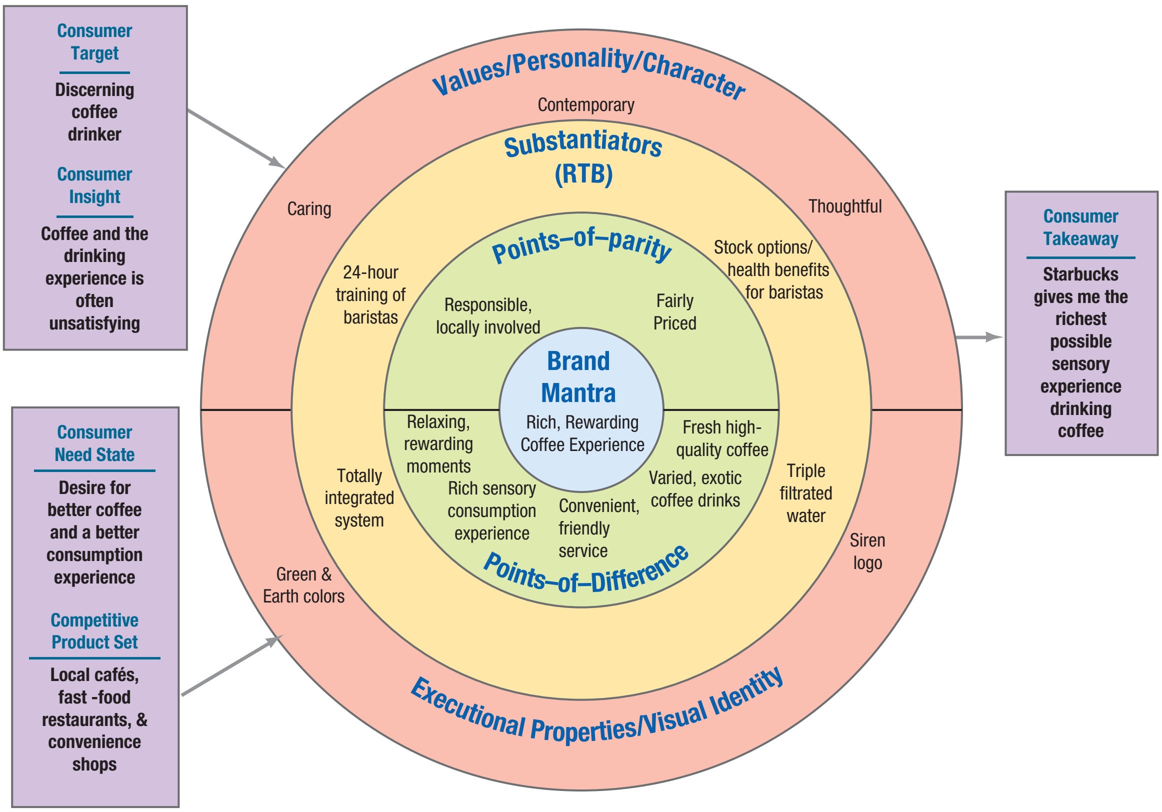
Category membership can be a special problem for high-tech products. When GO Corporation created the first pen-based tablet computer in the early 1990s, analysts and the marketing **Memo**

Constructing a Brand Positioning Bull's-eye

A brand bull's-eye provides content and context to improve everyone's understanding of the positioning of a brand in the organization. Here we describe the components of a brand bull's-eye, illustrating with a hypothetical Starbucks example.

In the inner two circles is the heart of the bull's-eye—key points-of-parity and points-of-difference, as well as the brand mantra. In the next circle out are the substantiators or reasons-to-believe (RTB)—attributes or benefits that provide factual or demonstrable support for the points-of-parity and points-of-difference. Finally, the outer circle contains two other useful branding concepts: (1) the brand values, personality, or character—intangible associations that help to establish the tone for the words and actions for the brand; and (2) executional properties and visual identity—more tangible components of the brand that affect how it is seen.

Three boxes outside the bull's-eye provide useful context and interpretation. To the left, two boxes highlight some of the input to the positioning analysis: One includes the consumer target and a key insight about consumer attitudes or behavior that significantly influenced the actual positioning; the other box provides competitive information about the key consumer need the brand is attempting to satisfy and some competitive products or brands that need suggests. To the right of the bull's-eye, one box offers a "big picture" view of the output—the ideal consumer takeaway that would result if the brand positioning efforts were successful.



media responded enthusiastically to the concept, but consumer interest never materialized. GO was eventually purchased by AT&T for use in a pen computer venture that folded in 1994.[18]

There are also situations in which consumers know a brand's category membership but may not be convinced the brand is a valid member of the category. They may be aware that Hewlett-Packard produces digital cameras, but they may not be certain whether Hewlett-Packard cameras are in the same class as Sony, Olympus, Kodak, and Nikon. In this instance, HP might find it useful to reinforce category membership.

Brands are sometimes affiliated with categories in which they do *not* hold membership. This approach is one way to highlight a brand's point-of-difference, providing consumers know the

DiGiorno has cleverly positioned itself as a convenient, tasty alternative to home-delivered pizza.

brand's actual membership. DiGiorno's frozen pizza has adopted such a positioning strategy—instead of putting it in the frozen pizza category, the marketers have positioned it in the delivered pizza category with ads that claim, "It's Not Delivery, It's DiGiorno!"

With this approach, however, it's important not to be trapped between categories. Consumers should understand what the brand stands for, and not just what it's not. The Konica e-mini M digital camera and MP3 player was marketed as the "four-in-one entertainment solution," but it suffered from functional deficiencies in each of its product applications and languished in the marketplace as a result.[19]

The typical approach to positioning is to inform consumers of a brand's membership before stating its point-of-difference. Presumably, consumers need to know what a product is and what function it serves before deciding whether it is superior to the brands against which it competes. For new products, initial advertising often concentrates on creating brand awareness, and subsequent advertising attempts to create the brand image.

COMMUNICATING CATEGORY MEMBERSHIP There are three main ways to convey a brand's category membership:

1. ***Announcing category benefits.*** To reassure consumers that a brand will deliver on the fundamental reason for using a category, marketers frequently use benefits to announce category membership. Thus, industrial tools might claim to have durability, and antacids might announce their efficacy. A brownie mix might attain membership in the baked desserts category by claiming the benefit of great taste and support this claim by including high-quality ingredients (performance) or by showing users delighting in its consumption (imagery).
2. ***Comparing to exemplars.*** Well-known, noteworthy brands in a category can also help a brand specify its category membership. When Tommy Hilfiger was an unknown, advertising announced his membership as a great U.S. designer by associating him with Geoffrey Beene, Stanley Blacker, Calvin Klein, and Perry Ellis, who were recognized members of that category.
3. ***Relying on the product descriptor.*** The product descriptor that follows the brand name is often a concise means of conveying category origin. Ford Motor Co. invested more than $1 billion on a radical new 2004 model called the X-Trainer, which combined the attributes of an SUV, a minivan, and a station wagon. To communicate its unique position—and to avoid association with its Explorer and Country Squire models—the vehicle, eventually called Freestyle, was designated a "sports wagon."[20]

COMMUNICATING POPs AND PODs One common difficulty in creating a strong, competitive brand positioning is that many of the attributes or benefits that make up the points-of-parity and points-of-difference are negatively correlated. For example, it might be difficult to position a brand as "inexpensive" and at the same time assert that it is "of the highest quality." ConAgra must convince consumers that Healthy Choice frozen foods both taste good *and* are good for you. Consider these examples of negatively correlated attributes and benefits:

Low price vs. High quality	Powerful vs. Safe
Taste vs. Low calories	Strong vs. Refined
Nutritious vs. Good tasting	Ubiquitous vs. Exclusive
Efficacious vs. Mild	Varied vs. Simple

Moreover, individual attributes and benefits often have positive *and* negative aspects. For example, consider a long-lived brand such as La-Z-Boy recliners, Burberry outerwear, or the *New York Times*. The brand's heritage could suggest experience, wisdom, and expertise. On the other hand, it could also imply being old-fashioned and not up-to-date.[21]

Unfortunately, consumers typically want to maximize *both* of the negatively correlated attributes or benefits. Much of the art and science of marketing is dealing with trade-offs, and positioning is no different. The best approach clearly is to develop a product or service that performs well on both dimensions. GORE-TEX was able to overcome the seemingly conflicting product images of "breathable" and "waterproof" through technological advances. When in-depth and quantitative interviews and focus groups suggested that consumers wanted the benefits of technology without the hassles, Royal Philips launched its "Sense and Simplicity" advertising campaign for its Philips brand of electronics, using print, online, and television advertising.[22]

Some marketers have adopted other approaches to address attribute or benefit trade-offs: launching two different marketing campaigns, each one devoted to a different brand attribute or benefit; linking themselves to any kind of entity (person, place, or thing) that possesses the right kind of equity as a means to establish an attribute or benefit as a POP or POD; and even attempting to convince consumers that the negative relationship between attributes and benefits, if they consider it differently, is in fact positive.

Differentiation Strategies

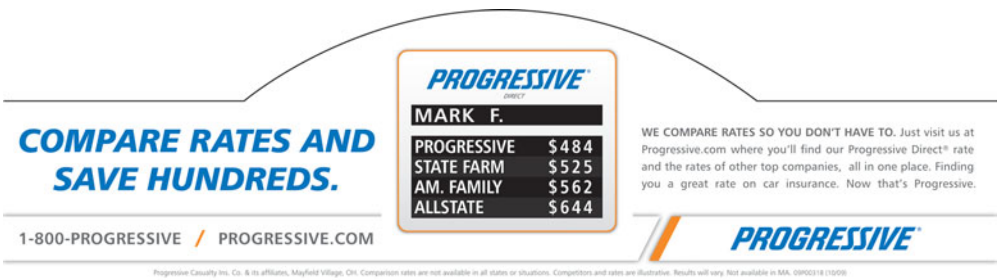
To build a strong brand and avoid the commodity trap, marketers must start with the belief that you can differentiate anything. **Competitive advantage** is a company's ability to perform in one or more ways that competitors cannot or will not match. Michael Porter urged companies to build a sustainable competitive advantage.[23] But few competitive advantages are sustainable. At best, they may be leverageable. A *leverageable advantage* is one that a company can use as a springboard to new advantages, much as Microsoft has leveraged its operating system to Microsoft Office and then to networking applications. In general, a company that hopes to endure must be in the business of continuously inventing new advantages.[24]

For a brand to be effectively positioned, however, customers must see any competitive advantage as a *customer advantage.* For example, if a company claims its product works faster than its competitors, it won't be a customer advantage if customers don't value speed. Select Comfort has made a splash in the mattress industry with its Sleep Number beds, which allow consumers to adjust the support and fit of the mattress for optimal comfort with a simple numbering index.[25] Companies must also focus on building customer advantages.[26] Then they will deliver high customer value and satisfaction, which leads to high repeat purchases and ultimately to high company profitability.

Progressive

Progressive

Progressive gained a competitive advantage in the mid-1990s when it became one of the first auto insurance companies to sell direct to consumers via the Internet. The company's early adoption of technology enabled it to offer a unique service: In addition to providing free online quotes for its own policies, Progressive also provided quotes from up to three competitors, information that until then had been available only through insurance agents. In addition to saving its customers time, Progressive was able to save them money by showing that, in many cases, its policies were more competitively priced. Once Progressive



Progressive supports its low-price point-of-difference by providing competitive quotes online.

won new customers' business, it mobilized an army of 12,000 claims adjusters who will speed right to an accident scene—and often cut a check right on the spot. It has further enhanced its competitiveness by adding innovative service features such as an "accident concierge," who handles all aspects of the claims and repair process for customers, and online policy management that enables customers to make payments and change coverage any time. These customer advantages made Progressive the 3rd largest auto insurer in the United States by 2006, up from 48th in 1980, with 12 million customers.[27]

MEANS OF DIFFERENTIATION The obvious means of differentiation, and often the ones most compelling to consumers, relate to aspects of the product and service (reviewed in Chapters 12 and 13). Swatch offers colorful, fashionable watches; GEICO offers reliable insurance at discount prices. In competitive markets, however, firms may need to go beyond these. Consider these other dimensions, among the many that a company can use to differentiate its market offerings:

- ***Employee differentiation.*** Companies can have better-trained employees who provide superior customer service. Singapore Airlines is well regarded in large part because of its flight attendants. The sales forces of such companies as General Electric, Cisco, Frito-Lay, Northwestern Mutual Life, and Pfizer enjoy an excellent reputation.[28]
- ***Channel differentiation.*** Companies can more effectively and efficiently design their distribution channels' coverage, expertise, and performance to make buying the product easier and more enjoyable and rewarding. Back in 1946, pet food was cheap, not too nutritious, and available exclusively in supermarkets and the occasional feed store. Dayton, Ohio–based Iams found success selling premium pet food through regional veterinarians, breeders, and pet stores.
- ***Image differentiation.*** Companies can craft powerful, compelling images that appeal to consumers' social and psychological needs. The primary explanation for Marlboro's extraordinary worldwide market share (around 30 percent) is that its "macho cowboy" image has struck a responsive chord with much of the cigarette-smoking public. Wine and liquor companies also work hard to develop distinctive images for their brands. Even a seller's physical space can be a powerful image generator. Hyatt Regency hotels developed a distinctive image through its atrium lobbies.
- ***Services differentiation.*** A service company can differentiate itself by designing a better and faster delivery system that provides more effective and efficient solutions to consumers. There are three levels of differentiation.[29] The first is *reliability:* Some suppliers are more reliable in their on-time delivery, order completeness, and order-cycle time. The second is *resilience:* Some suppliers are better at handling emergencies, product recalls, and inquiries. The third is *innovativeness:* Some suppliers create better information systems, introduce bar coding and mixed pallets, and in other ways help the customer.

EMOTIONAL BRANDING Many marketing experts believe a brand positioning should have both rational and emotional components. In other words, a good positioning should contain points-of-difference and points-of-parity that appeal both to the head and to the heart.

To do this, strong brands often seek to build on their performance advantages to strike an emotional chord with their customers. When research on scar-treatment product Mederma found that women were buying it not just for the physical treatment but also to increase their self-esteem, the marketers of the brand added emotional messaging to what had traditionally been a practical message that stressed physician recommendations: "What we have done is supplement the rational with the emotional."[30]

A person's emotional response to a brand and its marketing will depend on many factors. One increasingly important factor is a brand's authenticity.[31] Brands such as Hershey's, Kraft, Crayola, Kellogg's, and Johnson & Johnson that are seen as authentic and genuine can evoke trust, affection, and strong loyalty.[32] Guinness celebrated its heritage, quality, and authenticity with a 250th anniversary marketing campaign whose ads depict consumers all over the world toasting the brand.[33]

Brand consultant Marc Gobé believes emotional brands share three specific traits: (1) strong people-focused corporate culture, (2) a distinctive communication style and philosophy, and (3) a compelling emotional hook.[34] Saatchi & Saatchi CEO Kevin Roberts advocates that brands strive to become lovemarks. Brands that are *lovemarks*, according to Roberts, command both respect and love and result from a brand's ability to achieve mystery, sensuality, and intimacy:[35]

1. ***Mystery*** draws together stories, metaphors, dreams, and symbols. Mystery adds to the complexity of relationships and experiences because people are naturally drawn to what they don't know.
2. ***Sensuality*** keeps the five senses of sight, hearing, smell, touch, and taste on constant alert for new textures, intriguing scents and tastes, wonderful music, and other sensory stimuli.
3. ***Intimacy*** means empathy, commitment, and passion. The close connections that win intense loyalty as well as the small perfect gesture.

By successfully differentiating themselves, emotional brands can also provide financial payoffs. As part of its IPO, the UK mobile phone operator O2 was rebranded from British Telecom's struggling BT Cellnet, based on a powerful emotional campaign about freedom and enablement. When customer acquisition, loyalty, and average revenue soared, the business was acquired by Spanish multinational Telefonica after only five years for more than three times its IPO price.[36]

In general, the firm should monitor three variables when analyzing potential threats posed by competitors:

1. ***Share of market***—The competitor's share of the target market.
2. ***Share of mind***—The percentage of customers who named the competitor in responding to the statement, "Name the first company that comes to mind in this industry."
3. ***Share of heart***—The percentage of customers who named the competitor in responding to the statement, "Name the company from which you would prefer to buy the product."

There's an interesting relationship among these three measures. Table 10.3 shows them as recorded for three hypothetical competitors. Competitor A enjoys the highest market share but is slipping. Its mind share and heart share are also slipping, probably because it's not providing good product availability and technical assistance. Competitor B is steadily gaining market share, probably due to strategies that are increasing its mind share and heart share. Competitor C seems to be stuck at a low level of market, mind, and heart share, probably because of its poor product and marketing attributes. We could generalize as follows: *Companies that make steady gains in mind share and heart share will inevitably make gains in market share and profitability.* Firms such as CarMax, Timberland, Jordan's Furniture, Wegmans, and Toyota are all reaping the benefits of providing emotional, experiential, social, and financial value to satisfy customers and all their constituents.[37]

Alternative Approaches to Positioning

The competitive brand positioning model we've reviewed in this chapter is a structured way to approach positioning based on in-depth consumer, company, and competitive analysis. Some marketers have proposed other, less-structured approaches in recent years that offer provocative ideas on how to position a brand. We highlight a few of those here.

TABLE 10.3 Market Share, Mind Share, and Heart Share

	Market Share			Mind Share			Heart Share		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Competitor A	50%	47%	44%	60%	58%	54%	45%	42%	39%
Competitor B	30	34	37	30	31	35	44	47	53
Competitor C	20	19	19	10	11	11	11	11	8

BRAND NARRATIVES AND STORYTELLING Rather than outlining specific attributes or benefits, some marketing experts describe positioning a brand as telling a narrative or story.[38]

Randall Ringer and Michael Thibodeau see *narrative branding* as based on deep metaphors that connect to people's memories, associations, and stories.[39] They identify five elements of narrative branding: (1) the brand story in terms of words and metaphors, (2) the consumer journey in terms of how consumers engage with the brand over time and touch points where they come into contact with it, (3) the visual language or expression for the brand, (4) the manner in which the narrative is expressed experientially in terms of how the brand engages the senses, and (5) the role/relationship the brand plays in the lives of consumers. Based on literary convention and brand experience, they also offer the following framework for a brand story:

- ***Setting.*** The time, place, and context
- ***Cast.*** The brand as a character, including its role in the life of the audience, its relationships and responsibilities, and its history or creation myth
- ***Narrative arc.*** The way the narrative logic unfolds over time, including actions, desired experiences, defining events, and the moment of epiphany
- ***Language.*** The authenticating voice, metaphors, symbols, themes, and leitmotifs

Patrick Hanlon developed the related concept of "primal branding" that views brands as complex belief systems. According to Hanlon, diverse brands such as Google, MINI Cooper, the U.S. Marine Corps, Starbucks, Apple, UPS, and Aveda all have a "primal code" or DNA that resonates with their customers and generates their passion and fervor. He outlines seven assets that make up this belief system or primal code: a creation story, creed, icon, rituals, sacred words, a way of dealing with nonbelievers, and a good leader.[40]

BRAND JOURNALISM When he was CMO at McDonald's, Larry Light advocated an approach to brand positioning that he called "brand journalism." Just as editors and writers for newspapers and magazines tell many facets of a story to capture the interests of diverse groups of people, Light believes marketers should communicate different messages to different market segments, as long as they at least broadly fit within the basic broad image of the brand.[41]

> Brand Journalism is a chronicle of the varied things that happen in our brand world, throughout our day, throughout the years. Our brand means different things to different people. It does not have one brand position. It is positioned differently in the minds of kids, teens, young adults, parents and seniors. It is positioned differently at breakfast, lunch, dinner, snack, weekday, weekend, with kids or on a business trip. Brand Journalism allows us to be a witness to the multi-faceted aspects of a brand story. No one communication alone tells the whole brand story. Each communication provides a different insight into our brand. It all adds up to a McDonald's journalistic brand chronicle.

CULTURAL BRANDING Oxford University's Douglas Holt believes for companies to build iconic, leadership brands, they must assemble cultural knowledge, strategize according to cultural branding principles, and hire and train cultural experts.[42] Even Procter & Gamble, a company that has long orchestrated how shoppers perceive its products, has started on what its chief executive, A.G. Lafley, calls "a learning journey" with the consumer. "Consumers are beginning in a very real sense to own our brands and participate in their creation," he said. "We need to learn to begin to let go."

The University of Wisconsin's Craig Thompson view brands as sociocultural templates, citing research investigating brands as cultural resources that shows how ESPN Zone restaurants tap into competitive masculinity; and how American Girl dolls tap into mother-daughter relationships and the cross-generational transfer of femininity.[43] Experts who see consumers actively cocreating brand meaning and positioning even refer to this as "Brand Wikification," given that wikis are written by contributors from all walks of life and all points of view.[44]

Positioning and Branding a Small Business

Building brands for a small business is a challenge because these firms have limited resources and budgets. Nevertheless, numerous success stories exist of entrepreneurs who have built their brands up essentially from scratch to become powerhouse brands.

With a unique formulation and shrewd marketing, vitaminwater made a splash in the beverage market.

vitaminwater In 1996, J. Darius Bickoff launched an electrolyte-enhanced line of bottled water called smartwater, followed by the introduction of vitaminwater, a vitamin-enhanced and flavored alternative to plain bottled water, two years later, and fruitwater two years after that. Clever marketing including endorsement deals with rapper 50 Cent, singer Kelly Clarkson, actress Jennifer Aniston, and football star Tom Brady helped to drive success. Less than 10 years after its launch, Bickoff's Energy Brands company, also known as Glacéau, was sold to the Coca-Cola company for $4.2 billion in cash.[45]

In general, with limited resources behind the brand, both focus and consistency in marketing programs are critically important. Creativity is also paramount—finding new ways to market new ideas about products to consumers. Some specific branding guidelines for small businesses are as follows.

- ***Creatively conduct low-cost marketing research.*** There are a variety of low-cost marketing research methods that help small businesses connect with customers and study competitors. One way is to set up course projects at local colleges and universities to access the expertise of both students and professors.
- ***Focus on building one or two strong brands based on one or two key associations.*** Small businesses often must rely on only one or two brands and key associations as points of difference for those brands. These associations must be consistently reinforced across the marketing program and over time. Rooted in the snowboarding and surfing cultures, Volcom has adopted a "Youth Against Establishment" credo that has resulted in steady sales of its music, athletic apparel, and jewelry.
- ***Employ a well-integrated set of brand elements.*** Tactically, it is important for small businesses to maximize the contribution of each of the three main sets of brand equity drivers. First, they should develop a distinctive, well-integrated set of brand elements that enhances both brand awareness and brand image. Brand elements should be memorable and meaningful, with as much creative potential as possible. Innovative packaging can substitute for ad campaigns by capturing attention at the point of purchase. SMARTFOOD introduced its first product without any advertising by means of both a unique package that served as a strong visual symbol on the shelf and an extensive sampling program that encouraged trial. Proper names or family names, which often characterize small businesses, may provide some distinctiveness but can suffer in terms of pronounceability, meaningfulness, memorability, or other branding considerations. If these deficiencies are too great, explore alternative brand elements.
- ***Create buzz and a loyal brand community.*** Because small businesses often must rely on word of mouth to establish their positioning, public relations, social networking, and low-cost promotions and sponsorship can be inexpensive alternatives. As discussed in Chapter 9, creating a vibrant brand community among current and prospective customers can also be a cost-effective way to reinforce loyalty and help spread the word to new prospects. Web browser Mozilla Firefox is able to compete with Microsoft's Internet Explorer in part because of its dedicated volunteer group

Some hard-core fans of Mozilla Firefox carved out a massive logo for the brand in the fields outside Portland, Oregon.

of 10,000 programmers who work on its open source coding. Twelve fans of the brand felt so strongly about it they used two-by-fours and rope to hollow out a 30,000-square-foot impression of the brand's logo in an oat field outside Salem, Oregon![46]

- ***Leverage as many secondary associations as possible.*** Secondary associations—any persons, places, or things with potentially relevant associations—are often a cost-effective, shortcut means to build brand equity, especially those that help to signal quality or credibility. Cogent, makers of software that can identify people through fingerprints, draws 12 percent of its revenues and much brand equity from the fact that the Department of Homeland Security uses its products to police the U.S. border.[47]

Unlike major brands that often have more resources at their disposal, small businesses usually do not have the luxury to make mistakes and must design and implement marketing programs much more carefully.

Summary

1. To develop an effective positioning, a company must study competitors as well as actual and potential customers. Marketers need to identify competitors' strategies, objectives, strengths, and weaknesses.
2. Developing a positioning requires the determination of a frame of reference—by identifying the target market and the resulting nature of the competition—and the optimal points-of-parity and points-of-difference brand associations.
3. A company's closest competitors are those seeking to satisfy the same customers and needs and making similar offers. A company should also pay attention to latent competitors, who may offer new or other ways to satisfy the same needs. A company should identify competitors by using both industry- and market-based analyses.
4. Points-of-difference are those associations unique to the brand that are also strongly held and favorably evaluated by consumers. Points-of-parity are those associations not necessarily unique to the brand but perhaps shared with other brands. Category point-of-parity associations are associations consumers view as being necessary to a legitimate and credible product offering within a certain category. Competitive point-of-parity associations are those associations designed to negate competitors' points-of-difference or overcome perceived weaknesses or vulnerabilities of the brand.
5. The key to competitive advantage is relevant brand differentiation—consumers must find something unique and meaningful about a market offering. These differences may be based directly on the product or service itself or on other considerations related to factors such as employees, channels, image, or services.
6. Emotional branding is becoming an important way to connect with customers and create differentiation from competitors.
7. Although small businesses should adhere to many of the branding and positioning principles larger companies use, they must place extra emphasis on their brand elements and secondary associations and must be more focused and create a buzz for their brand.

Applications

Marketing Debate

What Is the Best Way to Position?

Marketers have different views of how to position a brand. Some value structured approaches such as the competitive positioning model described in the chapter, which focuses on specific points-of-parity and points-of-difference. Others prefer unstructured approaches that rely more on stories, narratives, and other flowing depictions.

Take a position: The best way to position a brand is through a structured approach *versus* The best way to position a brand is through an unstructured approach.

Marketing Discussion

Attributes and Benefits

Identify other negatively correlated attributes and benefits *not* described in this chapter. What strategies do firms use to try to position themselves on the basis of pairs of attributes and benefits?

Marketing Excellence

>>Louis Vuitton

Louis Vuitton (LV) is one of the world's most legendary brands and is synonymous with images of luxury, wealth, and fashion. The company is known for its iconic handbags, leather goods, shoes, watches, jewelry, accessories, and sunglasses, and is the highest-ranked luxury brand in the world.

It was 1854 when Louis Vuitton opened his first store in Paris and sold handmade, high-quality trunks and luggage. In the late 19th century, Vuitton introduced his signature Damier and Monogram Canvas materials, featuring the famous design still used in most of the company's products today. Throughout the 20th century, the company that carries his name continued to grow internationally, expanding into the fashion world by the 1950s and reaching $10 million in sales by 1977. In 1987, Louis Vuitton merged with Moët et Chandon and Hennessy, leading manufacturers of champagne and cognac, and created LVMH, a luxury goods conglomerate.

Louis Vuitton's products are made with state-of-the-art materials, and its designers use a combination of art, precision, and craftsmanship to produce only the finest products. The legendary LV monogram appears on all the company's products and stands for the highest quality, premium status, and luxury travel. Over the years, however, counterfeiting has become a huge problem and one of Louis Vuitton's most difficult challenges. Louis Vuitton is one of the most counterfeited brands in the world, and the company takes the problem very seriously because it feels that counterfeits dilute its prestigious brand image. Louis Vuitton employs a full team of lawyers and fights counterfeiting in a variety of ways with special agencies and investigative teams.

Until the 1980s, Louis Vuitton products were available in a wide variety of department stores. However, to reduce the risk of counterfeiting, the company now maintains tighter control over its distribution channels. Today, it sells its products only through authentic Louis Vuitton boutiques located in upscale shopping areas and high-end department stores, all run independently with their own employees and managers. Louis Vuitton prices are never reduced, and only recently did the company start selling through louisvuitton.com in hopes of reaching new consumers and regions.

Over the years, a wide variety of high-profile celebrities and supermodels have used LV products, including Madonna, Audrey Hepburn, and Jennifer Lopez. In its marketing efforts, the company has used high-fashion celebrities, billboards, print ads, and its own international regatta—the Louis Vuitton Cup. Recently, LV broke tradition and featured nontraditional celebrities such as Steffi Graf, Mikhail Gorbachev, Buzz Aldrin, and Keith Richards in a campaign entitled "Core Values." LV also launched its first television commercial focused on luxury traveling rather than fashion and has formed new partnerships with international artists, museums, and cultural organizations in hopes of keeping the brand fresh. That said, Louis Vuitton still spends up to 60 hours making one piece of luggage by hand—the same way it did 150 years ago.

Today, Louis Vuitton holds a brand value of $26 billion according to *Forbes* and is ranked the 17th most powerful global brand according to Interbrand. The company is focused on expanding its luxury brand into growing markets such as China and India as well as continuing to grow in strong markets like Japan and Europe. It also continues to add new product lines to its portfolio.

Questions

1. How does an exclusive brand such as Louis Vuitton grow and stay fresh while retaining its cachet?
2. Is the counterfeiting of Louis Vuitton always a negative? Are there any circumstances where it can be seen as having some positive aspects?

Sources: Reena Jana, "Louis Vuitton's Life of Luxury," *BusinessWeek*, August 6, 2007; Eric Pfanner, "Luxury Firms Move to Make Web Work for Them," *New York Times*, November 17, 2009; www.louisvuitton.com.

Marketing Excellence

>>American Express

American Express is one of the world's most respected brands, known globally for its charge cards, travel services, and financial services. American Express began as a 19th-century express shipping company, grew into a travel services company, and eventually evolved into a global payments company associated with brand images such as prestige, trust, security, customer service, international acceptability, and integrity.

American Express created the first internationally accepted "Travelers Cheque" in 1891, which used the same signature security system and exchange rate guarantees employed today. American Express issued its first charge card in 1958 but collected a higher annual fee than its competitors to create the feeling of prestige and membership. A charge card requires that customers pay off outstanding balances, unlike the revolving debt possible with credit cards. By 1967, one-third of the company's total profit came from its charge card businesses, and the American Express card surpassed the Travelers Cheque to become the company's most visible symbol.

In the 1960s and 1970s, American Express stepped up its marketing efforts in response to strong competition from Master Charge (now MasterCard) and BankAmericard (later to become Visa). Ad agency Ogilvy & Mather created the now-famous "Don't Leave Home Without It" in the early 1970s as a "synergy" tagline. In 1974, the now-familiar blue-box logo first appeared, with the words *American Express* printed in white outline over a square blue background.

Many perceived American Express cards as a status symbol signifying success and achievement. The company called its cardholders "card members" and printed the year they became members on their cards, suggesting membership in a club. It maintained this elusive image through its advertising, impeccable customer service, and elite promotions and events.

During the 1980s, American Express expanded into a variety of financial categories, including brokerage services, banking, and insurance, by acquiring a number of companies such as Lehman Brothers Kuhn Loeb Inc. and E. F. Hutton & Co. It encountered difficulty integrating these broad financial offerings, however, and it divested many of its financial holdings in the early 1990s. The new, leaner company focused on its core competencies: charge and credit cards, Travelers Cheques, travel services, and select banking and financial services. In addition, American Express increased the number of merchants that accepted its cards, adding Walmart, and developed new card offerings, including co-branded cards. To communicate the transformation that had taken place during the 1990s, the company launched a corporate ad campaign called, "Do More."

American Express also responded to Visa and MasterCard's increased pressure in the mid-1990s by rebranding its Small Business Services division as "OPEN: The Small Business Network" and adding benefits such as flexible payments as well as special offers, partnerships, and resources for small businesses. John Hayes, chief marketing officer for American Express, explained the rationale behind developing a separate small business brand, "Small business owners are fundamentally different from people who work for large companies. They're characterized by a shared mindset; they live and breathe the business they're in. We think it's important for this area to have its own identity."

At the turn of the century, American Express introduced two revolutionary new credit cards, Blue and Centurion Black. Blue contained a chip that enhanced Internet security and targeted younger, tech-savvy consumers with a hip image and no annual fee. The Black Card, on the other hand, targeted the most elite clients, who spend more than $150,000 annually and desired amenities such as a 24-hour personal concierge service and invitations to exclusive events. The company also continued to expand its Membership Rewards program, which at the time was the world's largest card-based rewards program. This allowed cardholders to redeem points for travel, entertainment, gift certificates, and other predetermined offerings.

Visa turned on the pressure by taking ownership of the latest consumer trend, check cards, which were debit cards that subtracted money for purchases directly from a cardholders' bank account. MasterCard surged in popularity as well when it created the "Priceless" ad campaign, which became a ubiquitous pop culture reference point. However, American Express scored a huge legal victory against Visa and MasterCard in 2004 when the Supreme Court ruled that it could pursue relationships with any and all banks, which technicalities had prevented it from doing before. Over the next three years, American Express partnered with banks such as MBNA, Citigroup, UBS, and USAA and increased its card accounts from 60 million in 2003 to 86 million in 2007.

American Express introduced two new marketing campaigns in the 2000s. The "My Life. My Card" campaign in 2004 featured celebrities like Robert De Niro, Ellen DeGeneres, and Tiger Woods providing intimate narratives about places, causes, achievements, and avocations that were meaningful to them. In 2007, American Express continued to feature celebrities in its ads but introduced a new tagline—"Are you a Cardmember?"—that acted as more of a call to action to join American Express than its previous, more passive campaign.

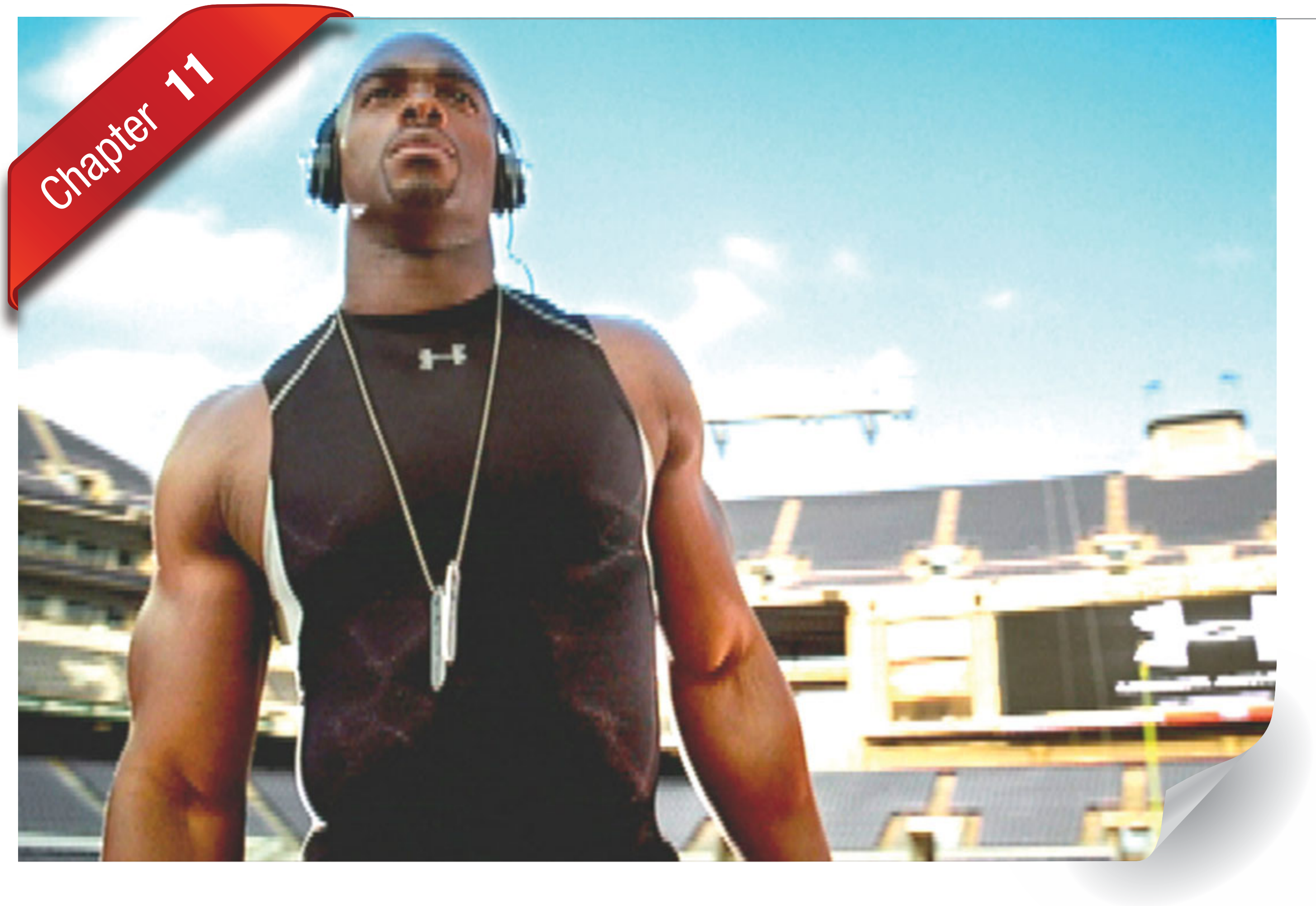
Things turned for the worse as the global economy collapsed in 2008 and 2009, significantly dampening American Express's financial results. The company's stock price fell 64 percent in 2008 caused by numerous problems, including increased default payments, weaker billings, and higher credit losses. In addition, many analysts agreed the company "grew too fast from 2005–2007." The company had changed its core strategy of targeting wealthier, low-risk consumers with a prestigious brand and valuable rewards in order to increase its total number of card members. Its newer products, which allowed consumers to carry over a balance and pay only the interest, came back to hurt American Express's bottom line during the recession.

Despite these disappointing financial results, *BusinessWeek* and Interbrand ranked American Express the fifteenth "Most Valuable Brand in the World" and *Fortune* ranked it one of the top 30 "Most Admired Companies." This brand value was a testament not only to the company's product and marketing innovation but also to its commitment to providing customers with outstanding service at any location in the world at any time of day. Today, American Express offers a variety of different personal cards as well as small business and corporate cards, each with a different level of customer service, fees, rewards, spending limits, and special access or services. The company's five most popular cards from 2009 were the Platinum Card, Preferred Rewards Gold Card, Starwood Preferred Guest Credit Card, Gold Delta SkyMiles Credit Card, and Preferred Rewards Green Card.

Questions

1. Evaluate American Express in terms of its competitors. How well is it positioned? How has it changed over time? In what segments of its business does American Express face the most competition?
2. Evaluate American Express's integration of its various businesses. What recommendations would you make in order to maximize the contribution to equity of all its business units? At the same time, is the corporate brand sufficiently coherent?
3. Discuss the company's decision to grow beyond its core affluent consumer base. What did this do for the company and the brand?

Sources: Hilary Cassidy, "Amex Has Big Plans; For Small Business Unit," *Brandweek*, January 21, 2002; American Express, "Ellen DeGeneres, Laird Hamilton, Tiger Woods & Robert De Niro Featured in New American Express Global Ad Campaign," November 8, 2004; "The VISA Black Card: A Smart Strategy in Trying Times," *BusinessPundit.com*, December 8, 2008; "World's Most Admired Companies 2009," *Fortune,* August 5, 2009; "Credit Cards: Loyalty and Retention—US—November 2007," Mintel Reports, November 2007; Scott Cendrowski, "Is It Time to Buy American Express?" *CNN Money*, April 17, 2009; American Express, "Membership Rewards Program from American Express Adds Practical Rewards for Tough Economic Times," February 19, 2009.



Through innovative new products and aggressive advertising, Under Armour has played the role of a challenger brand to market leader Nike.

In This Chapter, We Will Address the Following Questions

1. How can market leaders expand the total market and defend market share?
2. How should market challengers attack market leaders?
3. How can market followers or nichers compete effectively?
4. What marketing strategies are appropriate at each stage of the product life cycle?
5. How should marketers adjust their strategies and tactics for an economic downturn or recession?

Competitive Dynamics

To be a long-term market leader is the goal of any marketer. Today's challenging marketing circumstances, however, often dictate that companies reformulate their marketing strategies and offerings several times. Economic conditions change, competitors launch new assaults, and buyer interest and requirements evolve. Different market positions can suggest different market strategies.

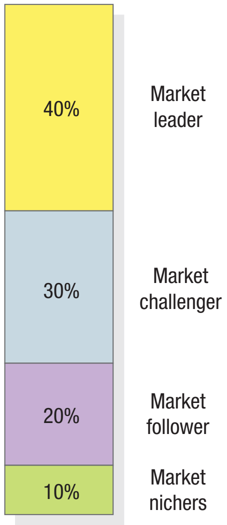
Former University of Maryland football player Kevin Plank was dissatisfied in his playing days with cotton T-shirts that retained water and became heavy during practice. So with $500 and several yards of coat lining, he worked with a local tailor to create seven prototypes of snug-fitting T-shirts that absorbed perspiration and kept athletes dry. Under Armour was born and quickly became a favorite at high schools, colleges, and universities. Intense, in-your-face advertising featuring NFL player "Big E" Eric Ogbogu grunting and screaming, "We must protect this house," sent a loud message to target teens and young adult males that a new brand of athletic clothing and gear had arrived. With a focus on performance and authenticity, Under Armour later introduced football cleats to cover players literally from head to foot. The introduction of a full line of running shoes in 2009, however, put them squarely into competition with formidable opponents Nike and adidas. The launch also reflected an attempt to move away some from team sports to attract individual consumers and, in particular, reach a new demographic—women. An ad campaign themed "Athletes Run" introduced the technologically advanced, high-end Apparition and Revenant running shoes showing many accomplished athletes who were not well-known as runners running in the shoes. The next new product initiative under consideration—basketball shoes—would capitalize on one of their athletic endorsers, up-and-coming NBA player Brandon Jennings, but would also represent an even more full-on, direct assault of some of Nike's and adidas's market turf.[1]

This chapter examines the role competition plays and how marketers can best manage their brands depending on their market position and stage of the product life cycle. Competition grows more intense every year—from global competitors eager to grow sales in new markets, from online competitors seeking cost-efficient ways to expand distribution, from private-label and store brands providing low-price alternatives, and from brand extensions by mega-brands moving into new categories.[2] For these reasons and more, product and brand fortunes change over time, and marketers must respond accordingly.

Competitive Strategies for Market Leaders

Suppose a market is occupied by the firms shown in Figure 11.1. Forty percent is in the hands of a *market leader*; another 30 percent belongs to a *market challenger*; and 20 percent is claimed by a *market follower* willing to maintain its share and not rock the boat. *Market nichers,* serving small segments larger firms don't reach, hold the remaining 10 percent.

A market leader has the largest market share and usually leads in price changes, new-product introductions, distribution coverage, and promotional intensity. Some historical market leaders are Microsoft (computer software), Gatorade (sports drinks), Best Buy (retail electronics), McDonald's (fast food), Blue Cross Blue Shield (health insurance), and Visa (credit cards).



|Fig. 11.1|

Hypothetical Market Structure

Although marketers assume well-known brands are distinctive in consumers' minds, unless a dominant firm enjoys a legal monopoly, it must maintain constant vigilance. A powerful product innovation may come along; a competitor might find a fresh marketing angle or commit to a major marketing investment; or the leader's cost structure might spiral upward. One well-known brand and market leader that has worked to stay on top is Xerox.

Xerox Xerox has had to become more than just a copier company. Now the blue-chip icon with the name that became a verb sports the broadest array of imaging products in the world and dominates the market for high-end printing systems. And it's making a huge product line transition as it moves from the old light lens technology to digital systems. Xerox is preparing for a world in which most pages are printed in color (which, not incidentally, generates five times the revenue of black-and-white). Besides revamping its machines, Xerox is beefing up sales by providing annuity-like products and services that are ordered again and again: document management, ink, and toners. It has even introduced the managed print-services business to help companies actually eliminate desktop printers and let employees share multifunction devices that copy, print, and fax. Once slow to respond to the emergence of Canon and the small-copier market, Xerox is doing everything it can to stay ahead of the game.[3]

In many industries, a discount competitor has undercut the leader's prices. "Marketing Insight: When Your Competitor Delivers More for Less" describes how leaders can respond to an aggressive competitive price discounter.

Marketing Insight

When Your Competitor Delivers More for Less

Companies offering the powerful combination of low prices and high quality are capturing the hearts and wallets of consumers all over the world. In the United States, more than half the population now shops weekly at mass merchants such as Walmart and Target. In the United Kingdom, premium retailers such as Boots and Sainsbury are scrambling to meet intensifying price—and quality—competition from ASDA and Tesco.

These and similar value players, such as Aldi, Dell, E*TRADE Financial, JetBlue Airways, Ryanair, and Southwest Airlines, are transforming the way consumers of nearly every age and income level purchase groceries, apparel, airline tickets, financial services, and computers. Traditional players are right to feel threatened. Upstart firms often rely on serving one or a few consumer segments, providing better delivery or just one additional benefit, and matching low prices with highly efficient operations to keep costs down. They have changed consumer expectations about the trade-off between quality and price.

To compete, mainstream companies need to infuse their timeless strategies like cost control and product differentiation with greater intensity and focus, and then execute them flawlessly. Differentiation, for example, becomes less about the abstract goal of rising above competitive clutter and more about identifying openings left by the value players' business models. Effective pricing means waging a transaction-by-transaction perception battle for consumers predisposed to believe value-oriented competitors are always cheaper.

Competitive outcomes will be determined, as always, on the ground—in product aisles, merchandising displays, reconfigured processes, and pricing stickers. Traditional players can't afford to drop a stitch. The new competitive environment places a new premium on—and adds new twists to—the old imperatives of differentiation and execution.

Differentiation

Marketers need to protect areas where their business models give other companies room to maneuver. Instead of trying to compete with Walmart and other value retailers on price, for example, Walgreens emphasizes convenience. It has expanded rapidly to make its stores ubiquitous, mostly on corners with easy parking, and overhauled store layouts to speed consumers in and out, placing key categories such as convenience foods and one-hour photo services near the front. To simplify prescription orders, the company has installed a telephone and online ordering system and drive-through windows at most freestanding stores. These steps helped it increase its revenue from $15 billion in 1998 to over $59 billion in 2008, making it the largest U.S. drugstore chain.

Execution

Kmart's disastrous experience trying to compete head-on with Walmart on price highlights the difficulty of challenging value leaders on their own terms. To compete effectively, firms may instead need to downplay or even abandon some market segments. To compete with Ryanair and easyJet, British Airways has put more emphasis on its long-haul routes, where value-based players are not active, and less on the short-haul routes where they thrive.

Major airlines have also introduced their own low-cost carriers. But Continental's Lite, KLM's Buzz, SAS's Snowflake, and United's Shuttle have all been unsuccessful. One school of thought is that companies should set up low-cost operations only if: (1) their existing businesses will become more competitive as a result and (2) the new business will derive some advantages it would not have gained if independent. Low-cost operations set up by HSBC, ING, Merrill Lynch, and Royal Bank of Scotland—First Direct, ING Direct, ML Direct, and Direct Line Insurance, respectively—succeed in part thanks to synergies between the old and new lines of business. The low-cost operation must be designed and launched as a moneymaker in its own right, not just as a defensive play.

Sources: Adapted from Nirmalya Kumar, "Strategies to Fight Low-Cost Rivals," *Harvard Business Review,* December 2006, pp. 104–12; Robert J. Frank, Jeffrey P. George, and Laxman Narasimhan, "When Your Competitor Delivers More for Less," *McKinsey Quarterly* (Winter 2004): 48–59. See also Jan-Benedict E. M. Steenkamp and Nirmalya Kumar, "Don't Be Undersold," *Harvard Business Review,* December 2009, pp. 90–95.

To stay number one, the firm must first find ways to expand total market demand. Second, it must protect its current share through good defensive and offensive actions. Third, it should increase market share, even if market size remains constant. Let's look at each strategy.

Expanding Total Market Demand

When the total market expands, the dominant firm usually gains the most. If Heinz can convince more people to use ketchup, or to use ketchup with more meals, or to use more ketchup on each occasion, the firm will benefit considerably because it already sells almost two-thirds of the country's ketchup. In general, the market leader should look for new customers or more usage from existing customers.

NEW CUSTOMERS Every product class has the potential to attract buyers who are unaware of the product or are resisting it because of price or lack of certain features. As Chapter 2 suggested, a company can search for new users among three groups: those who might use it but do not *(market-penetration strategy),* those who have never used it *(new-market segment strategy),* or those who live elsewhere *(geographical-expansion strategy).*

Here is how Starbucks describes its multipronged approach to growth on its corporate Web site.[4]

> Starbucks purchases and roasts high-quality whole bean coffees and sells them along with fresh, rich-brewed, Italian style espresso beverages, a variety of pastries and confections, and coffee-related accessories and equipment—primarily through its company-operated retail stores. In addition to sales through our company-operated retail stores, Starbucks sells whole bean coffees through a specialty sales group and supermarkets. Additionally, Starbucks produces and sells bottled Frappuccino® coffee drinks and a line of premium ice creams through its joint venture partnerships and offers a line of innovative premium teas produced by its wholly owned subsidiary, Tazo Tea Company. The Company's objective is to establish Starbucks as the most recognized and respected brand in the world.

MORE USAGE Marketers can try to increase the amount, level, or frequency of consumption. They can sometimes boost the *amount* through packaging or product redesign. Larger package sizes increase the amount of product consumers use at one time.[5] Consumers use more of impulse products such as soft drinks and snacks when the product is made more available.

Frappuccino coffee drinks have been a new source of growth and revenues for Starbucks.

Increasing *frequency* of consumption, on the other hand, requires either (1) identifying additional opportunities to use the brand in the same basic way or (2) identifying completely new and different ways to use the brand.

Additional Opportunities to Use the Brand A marketing program can communicate the appropriateness and advantages of using the brand. Clorox ads stress the many benefits of its bleach, such as that it eliminates kitchen odors.

Another opportunity arises when consumers' perceptions of their usage differs from reality. Consumers may fail to replace a short-lived product when they should because they overestimate how long it stays fresh.[6] One strategy is to tie the act of replacing the product to a holiday, event, or time of year. Another might be to provide consumers with better information about when they first used the product or need to replace it, or (2) the current level of product performance. Gillette razor cartridges feature colored stripes that slowly fade with repeated use, signaling the user to move on to the next cartridge.

New Ways to Use the Brand The second approach to increasing frequency of consumption is to identify completely new and different applications. Food product companies have long advertised recipes that use their branded products in different ways. After discovering that some consumers used Arm & Hammer baking soda as a refrigerator deodorant, the company launched a heavy promotion campaign focusing on this use and succeeded in getting half the homes in the United States to adopt it. Next, the company expanded the brand into a variety of new product categories such as toothpaste, antiperspirant, and laundry detergent.

Protecting Market Share

While trying to expand total market size, the dominant firm must actively defend its current business: Boeing against Airbus, Staples against Office Depot, and Google against Yahoo! and Microsoft.[7] How can the leader do so? The most constructive response is *continuous innovation.* The front-runner should lead the industry in developing new products and customer services, distribution effectiveness, and cost cutting. Comprehensive solutions increase its competitive strength and value to customers.

PROACTIVE MARKETING In satisfying customer needs, we can draw a distinction between responsive marketing, anticipative marketing, and creative marketing. A *responsive* marketer finds a stated need and fills it. An *anticipative* marketer looks ahead to needs customers may have in the near future. A *creative* marketer discovers solutions customers did not ask for but to which they enthusiastically respond. Creative marketers are proactive *market-driving* firms, not just market-driven ones.[8]

Many companies assume their job is just to adapt to customer needs. They are reactive mostly because they are overly faithful to the customer-orientation paradigm and fall victim to the "tyranny of the served market." Successful companies instead proactively shape the market to their own interests. Instead of trying to be the best player, they change the rules of the game.[9]

Arm & Hammer has expanded its classic baking soda product line to encompass many new products and uses.

A company needs two proactive skills: (1) *responsive anticipation* to see the writing on the wall, as when IBM changed from a hardware producer to a service business and (2) *creative anticipation* to devise innovative solutions, as when PepsiCo introduced H2OH! (a soft drink–bottled water hybrid). Note that *responsive anticipation* is performed before a given change, while *reactive response* happens after the change takes place.

Proactive companies create new offers to serve unmet— and maybe even unknown— consumer needs. In the late 1970s, Akio Morita, the Sony founder, was working on a pet project that would revolutionize the way people listened to music: a portable cassette player he called the Walkman. Engineers at the company insisted there was little demand for such a product, but Morita refused to part with his vision. By the 20th anniversary of the Walkman, Sony had sold over 250 million in nearly 100 different models.[10]

Proactive companies may redesign relationships within an industry, like Toyota and its relationship to its suppliers. Or they may educate customers, as Body Shop does in stimulating the choice of environmental-friendly products.

Companies need to practice "uncertainty management." Proactive firms:

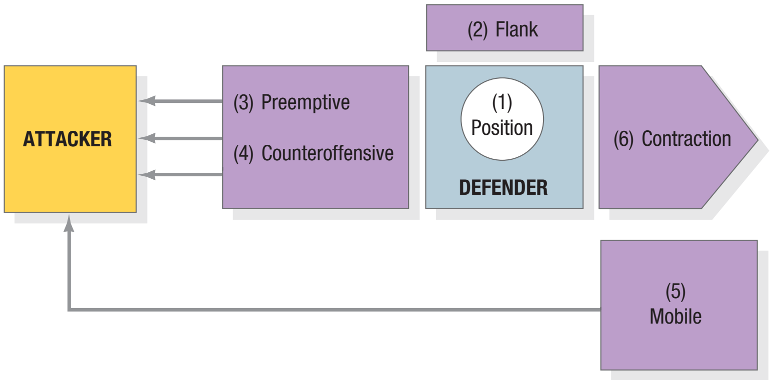
- Are ready to take risks and make mistakes,
- Have a vision of the future and of investing in it,

- Have the capabilities to innovate,
- Are flexible and nonbureaucratic, and
- Have many managers who think proactively.

Companies that are *too* risk-averse won't be winners.

DEFENSIVE MARKETING Even when it does not launch offensives, the market leader must not leave any major flanks exposed. The aim of defensive strategy is to reduce the probability of attack, divert attacks to less-threatened areas, and lessen their intensity. Speed of response can make an important difference to profit. A dominant firm can use the six defense strategies summarized in Figure 11.2.[11]

- ***Position Defense.*** Position defense means occupying the most desirable market space in consumers' minds, making the brand almost impregnable, as Procter & Gamble has done with Tide detergent for cleaning, Crest toothpaste for cavity prevention, and Pampers diapers for dryness.
- ***Flank Defense.*** The market leader should erect outposts to protect a weak front or support a possible counterattack. Procter & Gamble brands such as Gain and Cheer laundry detergent and Luvs diapers have played strategic offensive and defensive roles.
- ***Preemptive Defense.*** A more aggressive maneuver is to attack first, perhaps with guerrilla action across the market—hitting one competitor here, another there—and keeping everyone off balance. Another is to achieve broad market envelopment that signals competitors not to attack.[12] Bank of America's 18,500 ATMs and 6,100 retail branches nationwide provide steep competition to local and regional banks. Yet another preemptive defense is to introduce a stream of new products and announce them in advance.[13] Such "preannouncements" can signal competitors that they will need to fight to gain market share.[14] If Microsoft announces plans for a new-product development, smaller firms may choose to concentrate their development efforts in other directions to avoid head-to-head competition. Some high-tech firms have been accused of selling "vaporware"—announcing products that miss delivery dates or are never introduced.[15]
- ***Counteroffensive Defense.*** In a counteroffensive, the market leader can meet the attacker frontally and hit its flank, or launch a pincer movement so it will have to pull back to defend itself. After FedEx watched UPS successfully invade its airborne delivery system, it invested heavily in ground delivery through a series of acquisitions to challenge UPS on its home turf.[16] Another common form of counteroffensive is the exercise of economic or political clout. The leader may try to crush a competitor by subsidizing lower prices for the vulnerable product with revenue from its more profitable products, or it may prematurely announce a product upgrade to prevent customers from buying the competitor's product. Or the leader may lobby legislators to take political action to inhibit the competition.
- ***Mobile Defense.*** In mobile defense, the leader stretches its domain over new territories through market broadening and market diversification. *Market broadening* shifts the company's focus from the current product to the underlying generic need. Thus, "petroleum" companies such as BP sought to recast themselves as "energy" companies. This change required them to research the oil, coal, nuclear, hydroelectric, and chemical industries.



|Fig. 11.2|

Six Types of Defense Strategies

By introducing ground delivery, FedEx challenged UPS on its home turf.

Market diversification shifts the company's focus into unrelated industries. When U.S. tobacco companies such as Reynolds and Philip Morris acknowledged the growing curbs on cigarette smoking, instead of defending their market position or looking for cigarette substitutes, they moved quickly into new industries such as beer, liquor, soft drinks, and frozen foods.

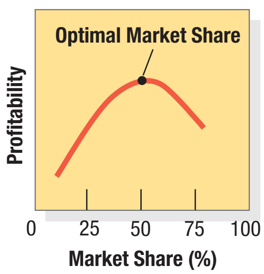
- ***Contraction Defense.*** Sometimes large companies can no longer defend all their territory. In *planned contraction* (also called *strategic withdrawal*), they give up weaker markets and reassign resources to stronger ones. Since 2006, Sara Lee has spun off products that accounted for a large percentage of its revenues—including its strong Hanes hosiery brand and global body care and European detergents businesses—to focus on its core food business.[17]

Increasing Market Share

No wonder competition has turned fierce in so many markets: one share point can be worth tens of millions of dollars. Gaining increased share does not automatically produce higher profits, however—especially for labor-intensive service companies that may not experience many economies of scale. Much depends on the company's strategy.[18]

Because the cost of buying higher market share through acquisition may far exceed its revenue value, a company should consider four factors first:

- ***The possibility of provoking antitrust action.*** Frustrated competitors are likely to cry "monopoly" and seek legal action if a dominant firm makes further inroads. Microsoft and Intel have had to fend off numerous lawsuits and legal challenges around the world as a result of what some feel are inappropriate or illegal business practices and abuse of market power.
- ***Economic cost.*** Figure 11.3 shows that profitability might *fall* with market share gains after some level. In the illustration, the firm's *optimal market share* is 50 percent. The cost of gaining further market share might exceed the value if holdout customers dislike the company, are loyal to competitors, have unique needs, or prefer dealing with smaller firms. And the costs of legal work, public relations, and lobbying rise with market share. Pushing for higher share is less justifiable when there are unattractive market segments, buyers who want multiple sources of supply, high exit barriers, and few scale or experience economies. Some market leaders have even increased profitability by selectively *decreasing* market share in weaker areas.[19]
- ***The danger of pursuing the wrong marketing activities.*** Companies successfully gaining share typically outperform competitors in three areas: new-product activity, relative product



|Fig. 11.3|

The Concept of Optimal Market Share

quality, and marketing expenditures.[20] Companies that attempt to increase market share by cutting prices more deeply than competitors typically don't achieve significant gains, because rivals meet the price cuts or offer other values so buyers don't switch.

- ***The effect of increased market share on actual and perceived quality.***[21] Too many customers can put a strain on the firm's resources, hurting product value and service delivery. Charlotte-based FairPoint Communications struggled to integrate the 1.3 million customers it gained in buying Verizon Communications's New England franchise. A slow conversion and significant service problems led to customer dissatisfaction, regulator's anger, and eventually bankruptcy.[22]

Other Competitive Strategies

Firms that occupy second, third, and lower ranks in an industry are often called runner-up or trailing firms. Some, such as PepsiCo, Ford, and Avis, are quite large in their own right. These firms can adopt one of two postures. They can attack the leader and other competitors in an aggressive bid for further market share as *market challengers*, or they can choose to not "rock the boat" as *market followers*.

Market-Challenger Strategies

Many market challengers have gained ground or even overtaken the leader. Toyota today produces more cars than General Motors, Lowe's is putting pressure on Home Depot, and AMD has been chipping away at Intel's market share.[23] A successful challenger brand in the beverage business is SoBe.

SoBe

SoBe One of the most competitive aisles in any supermarket, grocery store, or convenience store is the beverage aisle. SoBe's successful launch in 1996 was a result of shrewd planning and creative execution. Positioning against the established Snapple and Arizona brands, founder John Bello wanted to create a smart fruit juice and iced tea alternative that was fun and innovative and offered added value. The first successful product was SoBe Black Tea 3G with ginseng, guarana, and ginkgo. The lizard character on the packaging, from an iconic South Beach hotel, became an integral part of SoBe's brand imagery. SoBe's explosive growth was based on a combination of functional benefits (the 3 Gs), colorful packaging, a powerful sales force establishing strong shelf presence in the store, and a steady stream of new products. The slogan "SoBe Yourself" captured the brand's challenger ethos and supported its nontraditional, guerilla marketing appeals. SoBe Love Buses created product sampling opportunities, and sponsorship of iconoclastic athletes like skier Bode Miller and golfer John Daly created buzz. SoBe was purchased by PepsiCo in January 2001 and now offers exotic teas, fruit juices and blends, elixirs, vitamin- and antioxidant-enhanced water (Lifewater), and sports drinks. Its name is also licensed for gum and chocolate.[24]

Challengers set high aspirations while market leaders can fall prey to running business as usual. Now let's examine the competitive attack strategies available to challengers.[25]

DEFINING THE STRATEGIC OBJECTIVE AND OPPONENT(S) A market challenger must first define its strategic objective, usually to increase market share. The challenger must decide whom to attack:

- ***It can attack the market leader.*** This is a high-risk but potentially high-payoff strategy and makes good sense if the leader is not serving the market well. Xerox wrested the copy market from 3M by developing a better copying process. Later, Canon grabbed a large chunk of Xerox's market by introducing desk copiers. This strategy often has the added benefit of distancing the firm from other challengers. When Miller Lite attacked Bud Light on product quality during the mid 2000s, Coors Light was left out of the conversation.

- ***It can attack firms its own size that are not doing the job and are underfinanced.*** These firms have aging products, are charging excessive prices, or are not satisfying customers in other ways.
- ***It can attack small local and regional firms.*** Several major banks grew to their present size by gobbling up smaller regional banks, or "guppies."

CHOOSING A GENERAL ATTACK STRATEGY Given clear opponents and objectives, what attack options are available? We can distinguish five: frontal, flank, encirclement, bypass, and guerilla attacks.

- ***Frontal Attack.*** In a pure *frontal attack,* the attacker matches its opponent's product, advertising, price, and distribution. The principle of force says the side with the greater resources will win. A modified frontal attack, such as cutting price, can work if the market leader doesn't retaliate, and if the competitor convinces the market its product is equal to the leader's. Helene Curtis is a master at convincing the market that its brands—such as Suave and Finesse—are equal in quality but a better value than higher-priced brands.
- ***Flank Attack.*** A *flanking* strategy is another name for identifying shifts that are causing gaps to develop, then rushing to fill the gaps. Flanking is particularly attractive to a challenger with fewer resources and can be more likely to succeed than frontal attacks. In a geographic attack, the challenger spots areas where the opponent is underperforming. Although the Internet has siphoned newspaper readers and advertisers away in many markets, Independent News & Media, a 102-year-old Irish media company, sells a majority of its 175 newspaper and magazine titles where the economy is strong but the Internet is still relatively weak—countries such as Ireland, South Africa, Australia, New Zealand, and India.[26] The other flanking strategy is to serve uncovered market needs. Ariat's cowboy boots have challenged long-time market leaders Justin Boots and Tony Lama by making boots that were every bit as ranch-ready, but ergonomically designed to feel as comfortable as a running shoe—a totally new benefit in the category.[27]
- ***Encirclement Attack.*** *Encirclement* attempts to capture a wide slice of territory by launching a grand offensive on several fronts. It makes sense when the challenger commands superior resources. In making a stand against archrival Microsoft, Sun Microsystems licensed its Java software to hundreds of companies and thousands of software developers for all sorts of consumer devices. As consumer electronics products began to go digital, Java started appearing in a wide range of gadgets.

Combining comfort with rugged wear, Ariat is taking on the market leaders in the cowboy boot market.

- ***Bypass Attack.*** *Bypassing* the enemy altogether to attack easier markets instead offers three lines of approach: diversifying into unrelated products, diversifying into new geographical markets, and leapfrogging into new technologies. Pepsi has used a bypass strategy against Coke by (1) rolling out Aquafina bottled water nationally in 1997 before Coke launched its Dasani brand; (2) purchasing orange juice giant Tropicana in 1998, when it owned almost twice the market share of Coca-Cola's Minute Maid; and (3) purchasing the Quaker Oats Company, owner of market leader Gatorade sports drink, for $14 billion in 2000.[28] In *technological leapfrogging,* the challenger patiently researches and develops the next technology, shifting the battleground to its own territory where it has an advantage. Google used technological leapfrogging to overtake Yahoo! and become the market leader in search.
- ***Guerrilla Attacks.*** Guerrilla attacks consist of small, intermittent attacks, conventional and unconventional, including selective price cuts, intense promotional blitzes, and occasional legal action, to harass the opponent and eventually secure permanent footholds. A guerrilla campaign can be expensive, although less so than a frontal, encirclement, or flank attack, but it typically must be backed by a stronger attack to beat the opponent.

CHOOSING A SPECIFIC ATTACK STRATEGY Any aspect of the marketing program can serve as the basis for attack, such as lower-priced or discounted products, new or improved products and services, a wider variety of offerings, and innovative distribution strategies. A challenger's success depends on combining several, more specific, strategies to improve its position over time.

Market-Follower Strategies

Theodore Levitt argues that a strategy of *product imitation* might be as profitable as a strategy of *product innovation*.[29] In "innovative imitation," as he calls it, the innovator bears the expense of developing the new product, getting it into distribution, and informing and educating the market. The reward for all this work and risk is normally market leadership. However, another firm can come along and copy or improve on the new product. Although it probably will not overtake the leader, the follower can achieve high profits because it did not bear any of the innovation expense.

Pepsi has used a bypass approach to battle Coke by finding new markets to enter.

S&S Cycle

S&S Cycle is the biggest supplier of complete engines and major motor parts to more than 15 companies that build several thousand Harley-like cruiser bikes each year. These cloners charge as much as $30,000 for their customized creations. S&S has built its name by improving on Harley-Davidson's handiwork. Its customers are often would-be Harley buyers frustrated by long waiting lines at the dealer. Others simply want S&S's incredibly powerful engines. S&S stays abreast of its evolving market by ordering a new Harley bike every year and taking apart the engine to see what it can improve upon.[30]

Many companies prefer to follow rather than challenge the market leader. Patterns of "conscious parallelism" are common in capital-intensive, homogeneous-product industries such as steel, fertilizers, and chemicals. The opportunities for product differentiation and image differentiation are low, service quality is comparable, and price sensitivity runs high. The mood in these industries is against short-run grabs for market share, because that only provokes retaliation. Instead, most firms present similar offers to buyers, usually by copying the leader. Market shares show high stability.

That's not to say market followers lack strategies. They must know how to hold current customers and win a fair share of new ones. Each follower tries to bring distinctive advantages to its target market—location, services, financing–while defensively keeping its manufacturing costs low and its product quality and services high. It must also enter new markets as they open up. The follower must define a growth path, but one that doesn't invite competitive retaliation. We distinguish four broad strategies:

1. ***Counterfeiter***—The counterfeiter duplicates the leader's product and packages and sells it on the black market or through disreputable dealers. Music firms, Apple, and Rolex have been plagued by the counterfeiter problem, especially in Asia.
2. ***Cloner***—The cloner emulates the leader's products, name, and packaging, with slight variations. For example, Ralcorp Holdings sells imitations of name-brand cereals in look-alike boxes. Its Tasteeos, Fruit Rings, and Corn Flakes sell for nearly $1 a box less than the leading name brands; the company's sales were up 28 percent in 2008.
3. ***Imitator***—The imitator copies some things from the leader but differentiates on packaging, advertising, pricing, or location. The leader doesn't mind as long as the imitator doesn't attack aggressively. Fernandez Pujals grew up in Fort Lauderdale, Florida, and took Domino's home delivery idea to Spain, where he borrowed $80,000 to open his first store in Madrid. His Telepizza chain now operates almost 1,050 stores in Europe and Latin America.
4. ***Adapter***—The adapter takes the leader's products and adapts or improves them. The adapter may choose to sell to different markets, but often it grows into a future challenger, as many Japanese firms have done after improving products developed elsewhere.

What does a follower earn? Normally, less than the leader. A study of food-processing companies showed the largest averaging a 16 percent return on investment, the number two firm, 6 percent, the number three firm, –1 percent, and the number four firm, –6 percent. No wonder Jack Welch, former CEO of GE, told his business units that each must reach the number one or two position in its market or else! Followership is often not a rewarding path.

Telepizza adapted Domino's pizza delivery concept to Spain with much success.

Market-Nicher Strategies

An alternative to being a follower in a large market is to be a leader in a small market, or niche, as we introduced in Chapter 8. Smaller firms normally avoid competing with larger firms by targeting small markets of little or no interest to the larger firms. But even large, profitable firms may choose to use niching strategies for some of their business units or companies.

ITW Illinois Tool Works (ITW) manufactures thousands of products, including nails, screws, plastic six-pack holders for soda cans, bicycle helmets, backpacks, plastic buckles for pet collars, resealable food packages, and more. Since the late 1980s, the company has made between 30 and 40 acquisitions each year that added new products to the product line. ITW has more than 875 highly autonomous and decentralized business units in 54 countries employing 65,000 people. When one division commercializes a new product, the company spins the product and people off into a new entity. Despite tough economic times, ITW experienced an increase in revenue in 2008.[31]

Firms with low shares of the total market can become highly profitable through smart niching. Such companies tend to offer high value, charge a premium price, achieve lower manufacturing costs, and shape a strong corporate culture and vision. Family-run Tire Rack sells 2 million specialty tires a year through the Internet, telephone, and mail from its South Bend, Indiana, location.[32] Houston-based VAALCO Energy decided that its odds of striking it rich were better in foreign territory than at home where it faced hundreds of wildcatters. Drilling in an oil field off the coast of Gabon in West Central Africa, it has met with a lot less competition and a lot more revenue.[33]

Return on investment for businesses in smaller markets exceeds that in larger markets on average.[34] Why is niching so profitable? The market nicher knows the target customers so well, it meets their needs better than other firms selling to them casually. As a result, the nicher can charge a substantial price over costs. The nicher achieves *high margin,* whereas the mass marketer achieves *high volume.*

Nichers have three tasks: creating niches, expanding niches, and protecting niches. The risk is that the niche might dry up or be attacked. The company is then stuck with highly specialized resources that may not have high-value alternative uses.

Zippo With smoking on a steady decline, Bradford, Pennsylvania–based Zippo Manufacturing is finding the market for its iconic metal cigarette lighter drying up. Its marketers need to diversify and broaden their focus to "selling flame." Although its goal of reducing reliance on tobacco-related products to 50 percent of revenue by 2010 was sidetracked by the recession, the company is determined to broaden its brand meaning to encompass "all flame-related products." It introduced a long, slender multipurpose lighter for candles, grills, and fireplaces in 2001; acquired W.R. Case & Sons Cutlery, a knife maker, and DDM Italia, known throughout Europe for its fine Italian leather goods; and plans to sell a line of outdoor products in outlets such as Dicks, REI, and True Value.[35]

Zippo has expanded its brand meaning to encompass "all flame-related products" to ensure its long-term growth prospects.

Because niches can weaken, the firm must continually create new ones. "Marketing Memo: Niche Specialist Roles" outlines some options. The firm should "stick to its niching" but not necessarily to its niche. That is why *multiple niching* can be preferable to *single niching.* With strength in two or more niches, the company increases its chances for survival.

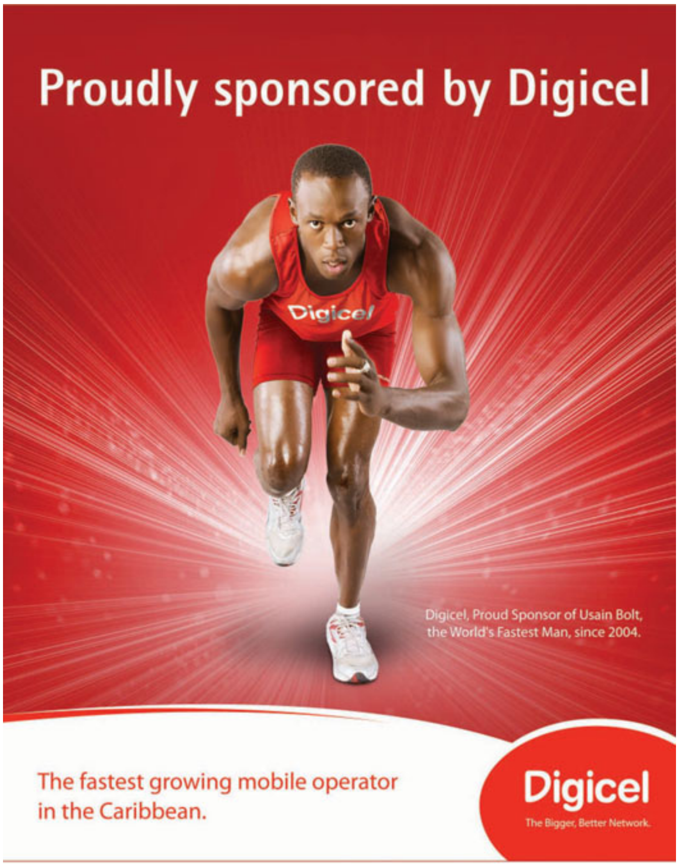
Firms entering a market should initially aim at a niche rather than the whole market. The cell phone industry has experienced phenomenal growth but is now facing fierce competition as the number of new potential users dwindles. An Irish upstart company, Digicel Group, has successfully tapped into one of the few remaining high-growth segments: poor people without cell phones.

Digicel Group In 2001, Digicel CEO Denis O'Brien heard that the government of Jamaica was opening its local phone market, long monopolized by British telecom giant Cable & Wireless. O'Brien spent nearly $50 million for a license, using money from the sale of his first telecom venture, Esat Telecom Group PLC. O'Brien took the plunge because he knew Jamaicans had to wait over two years for a landline, and only 4 percent of the population had cell phones. Within 100 days, Digicel had signed on 100,000 subscribers, luring them with inexpensive rates and phones and

marketing Memo: Niche Specialist Roles

The key idea in successful nichemanship is specialization. Here are some possible niche roles:

- *End-user specialist.* The firm specializes in one type of end-use customer. For example, a *value-added reseller (VAR)* customizes computer hardware and software for specific customer segments and earns a price premium in the process.
- *Vertical-level specialist.* The firm specializes at some vertical level of the production-distribution value chain. A copper firm may concentrate on producing raw copper, copper components, or finished copper products.
- *Customer-size specialist.* The firm concentrates on either small, medium-sized, or large customers. Many nichers serve small customers neglected by the majors.
- *Specific-customer specialist.* The firm limits its selling to one or a few customers. Many firms sell their entire output to a single company, such as Walmart or General Motors.
- *Geographic specialist.* The firm sells only in a certain locality, region, or area of the world.
- *Product or product line specialist.* The firm carries or produces only one product line or product. A manufacturer may produce only lenses for microscopes. A retailer may carry only ties.
- *Product-feature specialist.* The firm specializes in producing a certain type of product or product feature. Zipcar's car-sharing services target people who live and work in seven major U.S. cities, frequently use public transportation, but still need a car a few times a month.
- *Job-shop specialist.* The firm customizes its products for individual customers.
- *Quality-price specialist.* The firm operates at the low- or high-quality ends of the market. Sharp AQUOS specializes in the high-quality, high-price LCD television and component screen market.
- *Service specialist.* The firm offers one or more services not available from other firms. A bank might take loan requests over the phone and hand-deliver the money to the customer.
- *Channel specialist.* The firm specializes in serving only one channel of distribution. For example, a soft drink company makes a very large-sized serving available only at gas stations.



Digicel has captured a large segment of the mobile market in the Caribbean, using Jamaican world-record sprinter Usain Bolt as a spokesperson.

improved service. After eight years, Digicel has more than 8 million customers across its Caribbean and Central American markets, earning a reputation for competitive rates, comprehensive coverage, superior customer care, and a wide variety of products and services. Digicel has also moved into the Pacific in Fiji, Samoa, Papua New Guinea, and other markets. Back in Jamaica, it has become an active sponsor of sports and supporter of causes, befitting for its ascendance as a market leader in the region.[36]

Product Life-Cycle Marketing Strategies

A company's positioning and differentiation strategy must change as the product, market, and competitors change over the *product life cycle* (PLC). To say a product has a life cycle is to assert four things:

1. Products have a limited life.
2. Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller.
3. Profits rise and fall at different stages of the product life cycle.
4. Products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each life-cycle stage.

Product Life Cycles

Most product life-cycle curves are portrayed as bell-shaped (see Figure 11.4). This curve is typically divided into four stages: introduction, growth, maturity, and decline.[37]

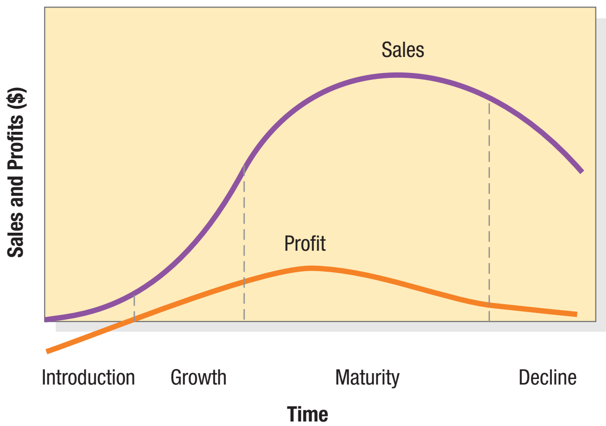
1. ***Introduction***—A period of slow sales growth as the product is introduced in the market. Profits are nonexistent because of the heavy expenses of product introduction.
2. ***Growth***—A period of rapid market acceptance and substantial profit improvement.
3. ***Maturity***—A slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased competition.
4. ***Decline***—Sales show a downward drift and profits erode.

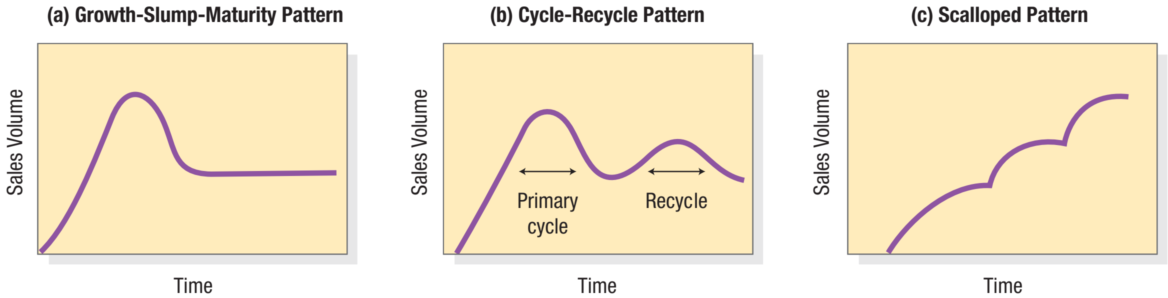
We can use the PLC concept to analyze a product category (liquor), a product form (white liquor), a product (vodka), or a brand (Smirnoff). Not all products exhibit a bell-shaped PLC.[38] Three common alternate patterns are shown in Figure 11.5.

Figure 11.5(a) shows a *growth-slump-maturity pattern*, characteristic of small kitchen appliances, for example, such as handheld mixers and bread makers. Sales grow rapidly when the product is first introduced and then fall to a "petrified" level sustained by late adopters buying the product for the first time and early adopters replacing it.

|Fig. 11.4|

Sales and Profit Life Cycles





|Fig. 11.5|

Common Product Life-Cycle Patterns

The *cycle-recycle pattern* in Figure 11.5(b) often describes the sales of new drugs. The pharmaceutical company aggressively promotes its new drug, producing the first cycle. Later, sales start declining, and another promotion push produces a second cycle (usually of smaller magnitude and duration).[39]

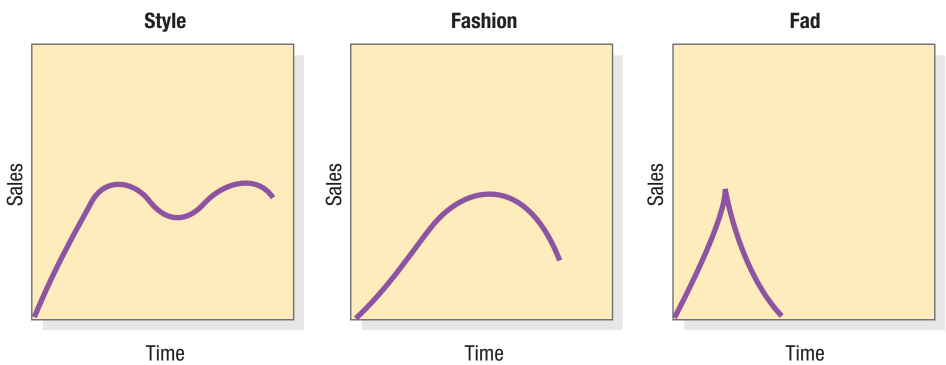
Another common pattern is the *scalloped PLC* in Figure 11.5(c). Here, sales pass through a succession of life cycles based on the discovery of new-product characteristics, uses, or users. Sales of nylon have shown a scalloped pattern because of the many new uses—parachutes, hosiery, shirts, carpeting, boat sails, automobile tires—discovered over time.[40]

Style, Fashion, and Fad Life Cycles

We need to distinguish three special categories of product life cycles—styles, fashions, and fads (Figure 11.6). A *style* is a basic and distinctive mode of expression appearing in a field of human endeavor. Styles appear in homes (colonial, ranch, Cape Cod), clothing (formal, business casual, sporty), and art (realistic, surrealistic, abstract). A style can last for generations and go in and out of vogue. A *fashion* is a currently accepted or popular style in a given field. Fashions pass through four stages: distinctiveness, emulation, mass fashion, and decline.[41]

The length of a fashion cycle is hard to predict. One view is that fashions end because they represent a purchase compromise, and consumers soon start looking for the missing attributes.[42] For example, as automobiles become smaller, they become less comfortable, and then a growing number of buyers start wanting larger cars. Another explanation is that too many consumers adopt the fashion, thus turning others away. Still another is that the length of a particular fashion cycle depends on the extent to which the fashion meets a genuine need, is consistent with other trends in the society, satisfies societal norms and values, and keeps within technological limits as it develops.[43]

Fads are fashions that come quickly into public view, are adopted with great zeal, peak early, and decline very fast. Their acceptance cycle is short, and they tend to attract only a limited following who are searching for excitement or want to distinguish themselves from others. Fads fail to survive because they don't normally satisfy a strong need. The marketing winners are those who recognize fads early and leverage them into products with staying power. Here's a success story of a company that managed to take a fad and make it a long-term success story.



|Fig. 11.6|

Style, Fashion, and Fad Life Cycles

Trivial Pursuit Since its debut at the International Toy Fair in 1982, Trivial Pursuit has sold 88 million copies in 17 languages in 26 countries, and it remains one of the best-selling adult games. Parker Brothers has kept it popular by making a new game with updated questions every year. It also keeps creating offshoots—travel packs, a children's version, Trivial Pursuit Genus IV, and themed versions tapping into niches tied to various sports, movies, and decades—23 different versions in all. The game is available in a variety of platforms: as an interactive CD-ROM from Virgin Entertainment Interactive, online at its own Web site (www.trivialpursuit.com), and in a mobile edition accessible via cell phone. If you're having trouble making dinner conversation on a date—no problem: NTN Entertainment Network has put Trivial Pursuit in about 3,000 restaurants.[44]

Through countless variations, Trivial Pursuit has proven to be more than a passing fad.

Marketing Strategies: Introduction Stage and the Pioneer Advantage

Because it takes time to roll out a new product, work out the technical problems, fill dealer pipelines, and gain consumer acceptance, sales growth tends to be slow in the introduction stage.[45] Profits are negative or low, and promotional expenditures are at their highest ratio to sales because of the need to (1) inform potential consumers, (2) induce product trial, and (3) secure distribution in retail outlets.[46] Firms focus on buyers who are the most ready to buy. Prices tend to be higher because costs are high.

Companies that plan to introduce a new product must decide when to enter the market. To be first can be rewarding, but risky and expensive. To come in later makes sense if the firm can bring superior technology, quality, or brand strength to create a market advantage.

Speeding up innovation time is essential in an age of shortening product life cycles. Being early has been shown to pay. One study found that products coming out six months late—but on budget—earned an average of 33 percent less profit in their first five years; products that came out on time but 50 percent over budget cut their profits by only 4 percent.[47]

Most studies indicate the market pioneer gains the greatest advantage.[48] Campbell, Coca-Cola, Hallmark, and Amazon.com developed sustained market dominance. Nineteen of twenty-five market leaders in 1923 were still the market leaders in 1983, 60 years later.[49] In a sample of industrial-goods businesses, 66 percent of pioneers survived at least 10 years, versus 48 percent of early followers.[50]

What are the sources of the pioneer's advantage?[51] Early users will recall the pioneer's brand name if the product satisfies them. The pioneer's brand also establishes the attributes the product class should possess.[52] It normally aims at the middle of the market and so captures more users. Customer inertia also plays a role; and there are producer advantages: economies of scale, technological leadership, patents, ownership of scarce assets, and other barriers to entry. Pioneers can spend marketing dollars more effectively and enjoy higher rates of repeat purchases. An alert pioneer can lead indefinitely by pursuing various strategies.[53]

But the advantage is not inevitable.[54] Bowmar (hand calculators), Apple's Newton (personal digital assistant), Netscape (Web browser), Reynolds (ballpoint pens), and Osborne (portable computers) were market pioneers overtaken by later entrants. First movers also have to watch out for the "second-mover advantage."

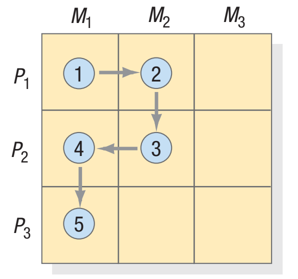
Steven Schnaars studied 28 industries where imitators surpassed the innovators.[55] He found several weaknesses among the failing pioneers, including new products that were too crude, were improperly positioned, or appeared before there was strong demand; product-development costs that exhausted the innovator's resources; a lack of resources to compete against entering larger firms; and managerial incompetence or unhealthy complacency. Successful imitators thrived by offering lower prices, improving the product more continuously, or using brute market power to overtake the pioneer. None of the companies that now dominate in the manufacture of personal computers—including Dell, HP, and Acer—were first movers.[56]

Peter Golder and Gerald Tellis raise further doubts about the pioneer advantage.[57] They distinguish between an *inventor,* first to develop patents in a new-product category, a *product pioneer,* first to develop a working model, and a *market pioneer,* first to sell in the new-product category.

They also include nonsurviving pioneers in their sample. They conclude that although pioneers may still have an advantage, a larger number of market pioneers fail than has been reported, and a larger number of early market leaders (though not pioneers) succeed. Later entrants overtaking market pioneers include IBM over Sperry in mainframe computers, Matsushita over Sony in VCRs, and GE over EMI in CAT scan equipment.

Tellis and Golder more recently identified five factors underpinning long-term market leadership: vision of a mass market, persistence, relentless innovation, financial commitment, and asset leverage.[58] Other research has highlighted the importance of the novelty of the product innovation.[59] When a pioneer starts a market with a really new product, like the Segway Human Transporter, surviving can be very challenging. In the case of incremental innovation, like MP3 players with video capabilities, survival rates are much higher.

The pioneer should visualize the product markets it could enter, knowing it cannot enter all of them at once. Suppose market-segmentation analysis reveals the product market segments shown in Figure 11.7. The pioneer should analyze the profit potential of each product market singly and in combination and decide on a market expansion path. Thus, the pioneer in Figure 11.7 plans first to enter product market P_1M_1, then move the product into a second market (P_1M_2), then surprise the competition by developing a second product for the second market (P_2M_2), then take the second product back into the first market (P_2M_1), then launch a third product for the first market (P_3M_1). If this game plan works, the pioneer firm will own a good part of the first two segments and serve them with two or three products.



|Fig. 11.7|

Long-Range Product Market Expansion Strategy (P_i = product i; M_j = market j)

Marketing Strategies: Growth Stage

The growth stage is marked by a rapid climb in sales. Early adopters like the product and additional consumers start buying it. New competitors enter, attracted by the opportunities. They introduce new product features and expand distribution.

Prices stabilize or fall slightly, depending on how fast demand increases. Companies maintain promotional expenditures or raise them slightly, to meet competition and continue to educate the market. Sales rise much faster than promotional expenditures, causing a welcome decline in the promotion–sales ratio. Profits increase as promotion costs are spread over a larger volume, and unit manufacturing costs fall faster than price declines, owing to the producer-learning effect. Firms must watch for a change to a decelerating rate of growth in order to prepare new strategies.

To sustain rapid market share growth now, the firm:

- improves product quality and adds new features and improved styling.
- adds new models and flanker products (of different sizes, flavors, and so forth) to protect the main product.
- enters new market segments.
- increases its distribution coverage and enters new distribution channels.
- shifts from awareness and trial communications to preference and loyalty communications.
- lowers prices to attract the next layer of price-sensitive buyers.

By spending money on product improvement, promotion, and distribution, the firm can capture a dominant position. It trades off maximum current profit for high market share and the hope of even greater profits in the next stage.

Marketing Strategies: Maturity Stage

At some point, the rate of sales growth will slow, and the product will enter a stage of relative maturity. Most products are in this stage of the life cycle, which normally lasts longer than the preceding ones.

The maturity stage divides into three phases: growth, stable, and decaying maturity. In the first, sales growth starts to slow. There are no new distribution channels to fill. New competitive forces emerge. In the second phase, sales per capita flatten because of market saturation. Most potential consumers have tried the product, and future sales depend on population growth and replacement demand. In the third phase, decaying maturity, the absolute level of sales starts to decline, and customers begin switching to other products.

This third phase poses the most challenges. The sales slowdown creates overcapacity in the industry, which intensifies competition. Weaker competitors withdraw. A few giants dominate—perhaps a quality leader, a service leader, and a cost leader—and profit mainly through high volume and lower costs. Surrounding them is a multitude of market nichers, including market specialists, product specialists, and customizing firms.

The question is whether to struggle to become one of the big three and achieve profits through high volume and low cost, or pursue a niching strategy and profit through low volume and high margins. Sometimes the market will divide into low- and high-end segments, and market shares of firms in the middle steadily erode. Here's how Swedish appliance manufacturer, Electrolux, has coped with this situation.

Electrolux AB In 2002, Electrolux faced a rapidly polarizing appliance market. Low-cost Asian companies such as Haier, LG, and Samsung were applying downward price pressure, while premium competitors like Bosch, Sub-Zero, and Viking were growing at the expense of the middle-of-the-road brands. Electrolux's new CEO Hans Stråberg decided to escape the middle by rethinking Electrolux customers' wants and needs. He segmented the market according to the lifestyle and purchasing patterns of about 20 different types of consumers. Electrolux now successfully markets its steam ovens to health-oriented consumers, for example, and its compact dishwashers, originally for smaller kitchens, to a broader consumer segment that washes dishes more often. To companies stuck in the middle of a mature market, Stråberg offers this advice: "Start with consumers and understand what their latent needs are and what problems they experience . . . then put the puzzle together yourself to discover what people really want to have. Henry Ford is supposed to have said, 'If I had asked people what they really wanted, I would have made faster horses' or something like that. You need to figure out what people really want, although they can't express it."[60]

Electrolux uses an elaborate segmentation plan and an expansive product line to make sure its brand is not stuck in the middle of a shrinking market.

Some companies abandon weaker products to concentrate on new and more profitable ones. Yet they may be ignoring the high potential many mature markets and old products still have. Industries widely thought to be mature—autos, motorcycles, television, watches, cameras—were proved otherwise by the Japanese, who found ways to offer customers new value. Three ways to change the course for a brand are market, product, and marketing program modifications.

MARKET MODIFICATION A company might try to expand the market for its mature brand by working with the two factors that make up sales volume: Volume = number of brand users × usage rate per user, as in Table 11.1, but may also be matched by competitors.

PRODUCT MODIFICATION Managers also try to stimulate sales by improving quality, features, or style. *Quality improvement* increases functional performance by launching a "new and improved" product. *Feature improvement* adds size, weight, materials, supplements, and accessories that expand the product's performance, versatility, safety, or convenience. *Style improvement* increases the product's esthetic appeal. Any of these can attract consumer attention.

MARKETING PROGRAM MODIFICATION Finally, brand managers might also try to stimulate sales by modifying nonproduct elements—price, distribution, and communications in particular. They should assess the likely success of any changes in terms of effects on new and existing customers.

Marketing Strategies: Decline Stage

Sales decline for a number of reasons, including technological advances, shifts in consumer tastes, and increased domestic and foreign competition. All can lead to overcapacity, increased price

TABLE 11.1 Alternate Ways to Increase Sales Volume

Expand the Number of Users	Increase the Usage Rates Among Users
• *Convert nonusers.* The key to the growth of air freight service was the constant search for new users to whom air carriers can demonstrate the benefits of using air freight rather than ground transportation.	• *Have consumers use the product on more occasions.* Serve Campbell's soup for a snack. Use Heinz vinegar to clean windows.
• *Enter new market segments.* When Goodyear decided to sell its tires via Walmart, Sears, and Discount Tire, it immediately boosted its market share.	• *Have consumers use more of the product on each occasion.* Drink a larger glass of orange juice.
• *Attract competitors' customers.* Marketers of Puffs facial tissues are always wooing Kleenex customers.	• *Have consumers use the product in new ways.* Use Tums antacid as a calcium supplement.

cutting, and profit erosion. The decline might be slow, as for sewing machines and newspapers, or rapid, as for 5.25 floppy disks and eight-track cartridges. Sales may plunge to zero or petrify at a low level. These structural changes are different from a short-term decline resulting from a marketing crisis of some sort. "Marketing Insight: Managing a Brand Crisis," describes strategies for a brand in temporary trouble.

As sales and profits decline over a long period of time, some firms withdraw. Those remaining may reduce the number of products they offer, withdrawing from smaller segments and weaker trade channels, cutting marketing budgets, and reducing prices further. Unless strong reasons for retention exist, carrying a weak product is often very costly.

Besides being unprofitable, weak products consume a disproportionate amount of management's time, require frequent price and inventory adjustments, incur expensive setup for short production runs, draw advertising and sales force attention better used to make healthy products more profitable, and cast a negative shadow on company image. Failing to eliminate them also delays the aggressive search for replacement products, creating a lopsided product mix long on yesterday's breadwinners and short on tomorrow's.

Unfortunately, most companies have not developed a policy for handling aging products. The first task is to establish a system for identifying them. Many companies appoint a product-review committee with representatives from marketing, R&D, manufacturing, and finance who, based on all available information, makes a recommendation for each product—leave it alone, modify its marketing strategy, or drop it.[61]

Some firms abandon declining markets earlier than others. Much depends on the height of exit barriers in the industry.[62] The lower the barriers, the easier for firms to leave the industry, and the more tempting for the remaining firms to stay and attract the withdrawing firms' customers. Procter & Gamble stayed in the declining liquid-soap business and improved its profits as others withdrew.

The appropriate strategy also depends on the industry's relative attractiveness and the company's competitive strength in it. A company in an unattractive industry that possesses competitive strength should consider shrinking selectively. A company in an attractive industry that has competitive strength should consider strengthening its investment. Companies that successfully restage or rejuvenate a mature product often do so by adding value to it.

Strategies for harvesting and divesting are quite different. *Harvesting* calls for gradually reducing a product or business's costs while trying to maintain sales. The first step is to cut R&D costs and plant and equipment investment. The company might also reduce product quality, sales force size, marginal services, and advertising expenditures, ideally without letting customers, competitors, and employees know what is happening. Harvesting is difficult to execute, yet many mature products warrant this strategy. It can substantially increase current cash flow.[63]

When a company decides to divest a product with strong distribution and residual goodwill, it can probably sell the product to another firm. Some firms specialize in acquiring and revitalizing

Marketing Insight

Managing a Brand Crisis

Marketing managers must assume a brand crisis will someday arise. Whole Foods, Taco Bell, JetBlue, and toy and pet food brands have all experienced potentially crippling brand crises, and AIG, Merrill Lynch, and Citi were rocked by investment lending scandals that eroded consumer trust. Widespread repercussions include (1) lost sales, (2) reduced effectiveness of marketing activities for the product, (3) increased sensitivity to rivals' marketing activities, and (4) reduced impact of the firm's marketing activities on competing brands.

In general, the stronger brand equity and corporate image are—especially credibility and trustworthiness—the more likely the firm can weather the storm. Careful preparation and a well-managed crisis management program, however, are also critical. As Johnson & Johnson's nearly flawless handling of the Tylenol product-tampering incident suggests, the key is that consumers see the firm's response as both *swift* and *sincere.* They must feel an immediate sense that the company truly cares. Listening is not enough.

The longer the firm takes to respond, the more likely consumers can form negative impressions from unfavorable media coverage or word of mouth. Perhaps worse, they may find they don't like the brand after all and permanently switch. Getting in front of a problem with PR, and perhaps ads, can help avoid those problems.

Consider Perrier. In 1994, Perrier was forced to halt production worldwide and recall all existing product when traces of benzene, a known carcinogen, were found in excessive quantities in its bottled water. Over the next weeks it offered several explanations, creating confusion and skepticism. Perhaps more damaging, the product was off shelves for over three months. Despite an expensive relaunch featuring ads and promotions, the brand struggled to regain lost market share, and a full year later sales were less than half what they had been. With its key "purity" association tarnished, Perrier had no other compelling points-of-difference. Consumers and retailers had found satisfactory substitutes, and the brand never recovered. Eventually it was taken over by Nestlé SA.

Second, the more sincere the firm's response—a public acknowledgment of the impact on consumers and willingness to take necessary steps—the less likely consumers will form negative attributions. When consumers reported finding shards of glass in some jars of its baby food, Gerber tried to reassure the public there were no problems in its manufacturing plants but adamantly refused to withdraw products from stores. After market share slumped from 66 percent to 52 percent within a couple of months, one company official admitted, "Not pulling our baby food off the shelf gave the appearance that we aren't a caring company."

Sources: Norman Klein and Stephen A. Greyser, "The Perrier Recall: A Source of Trouble," Harvard Business School Case #9-590-104 and "The Perrier Relaunch," Harvard Business School Case #9-590-130; Harald Van Heerde, Kristiaan Helsen, and Marnik G. Dekimpe, "The Impact of a Product-Harm Crisis on Marketing Effectiveness," *Marketing Science* 26 (March–April 2007), pp. 230–45; Michelle L. Roehm and Alice M. Tybout, "When Will a Brand Scandal Spill Over and How Should Competitors Respond?" *Journal of Marketing Research* 43 (August 2006), pp. 366–73; Michelle L. Roehm and Michael K. Brady, "Consumer Responses to Performance Failures by High Equity Brands," *Journal of Consumer Research*, 34 (December 2007), pp. 537–45; Alice M. Tybout and Michelle Roehm, "Let the Response Fit the Scandal," *Harvard Business Review*, December 2009, pp. 82–88; Andrew Pierce, "Managing Reputation to Rebuild Battered Brands, *Marketing News*, March 15, 2009, p. 19; Kevin O'Donnell, "In a Crisis Actions Matter," *Marketing News*, April 15, 2009, p. 22.

"orphan" or "ghost" brands that larger firms want to divest or that have encountered bankruptcy such as Linens n' Things, Folgers and Brim coffee, Nuprin pain reliever, and Salon Selective shampoos.[64] These firms attempt to capitalize on the residue of awareness in the market to develop a brand revitalization strategy. Reserve Brands bought Eagle Snacks in part because research showed 6 of 10 adults remembered the brand, leading Reserve's CEO to observe, "It would take $300 million to $500 million to recreate that brand awareness today."[65]

If the company can't find any buyers, it must decide whether to liquidate the brand quickly or slowly. It must also decide how much inventory and service to maintain for past customers.

Evidence for the Product Life-Cycle Concept

Table 11.2 summarizes the characteristics, marketing objectives, and marketing strategies of the four stages of the product life cycle. The PLC concept helps marketers interpret product and market dynamics, conduct planning and control, and do forecasting. One recent study of 30 product categories unearthed a number of interesting findings concerning the PLC:[66]

- New consumer durables show a distinct takeoff, after which sales increase by roughly 45 percent a year, but they also show a distinct slowdown, when sales decline by roughly 15 percent a year.
- Slowdown occurs at 34 percent penetration on average, well before most households own a new product.

- The growth stage lasts a little over eight years and does not seem to shorten over time.
- Informational cascades exist, meaning people are more likely to adopt over time if others already have, instead of by making careful product evaluations. One implication is that product categories with large sales increases at takeoff tend to have larger sales declines at slowdown.

Critique of the Product Life-Cycle Concept

PLC theory has its share of critics, who claim life-cycle patterns are too variable in shape and duration to be generalized, and that marketers can seldom tell what stage their product is in. A product may appear mature when it has actually reached a plateau prior to another upsurge. Critics also charge that, rather than an inevitable course, the PLC pattern is the self-fulfilling result of marketing strategies, and that skillful marketing can in fact lead to continued growth.[67]

Market Evolution

Because the PLC focuses on what's happening to a particular product or brand rather than the overall market, it yields a product-oriented rather than a market-oriented picture. Firms also need to visualize a *market's* evolutionary path as it is affected by new needs, competitors, technology, channels, and other developments and change product and brand positioning to keep pace.[68] Like products, markets evolve through four stages: emergence, growth, maturity, and decline. Consider the evolution of the paper towel market.

TABLE 11.2 Summary of Product Life-Cycle Characteristics, Objectives, and Strategies

	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Marketing Objectives				
	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand
Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brands and items models	Phase out weak products
Price	Charge cost-plus	Price to penetrate market	Price to match or best competitors'	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Communications	Build product awareness and trial among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits and encourage brand switching	Reduce to minimal level needed to retain hard-core loyals

Sources: Chester R. Wasson, *Dynamic Competitive Strategy and Product Life Cycles* (Austin, TX: Austin Press, 1978); John A. Weber, "Planning Corporate Growth with Inverted Product Life Cycles," *Long Range Planning* (October 1976), pp. 12–29; Peter Doyle, "The Realities of the Product Life Cycle," *Quarterly Review of Marketing* (Summer 1976).

Paper Towels

Paper Towels Homemakers originally used cotton and linen dishcloths and towels in their kitchens. Then a paper company looking for new markets developed paper towels, crystallizing a latent market that other manufacturers entered. The number of brands grew and created market fragmentation. Industry overcapacity led manufacturers to search for new features. One manufacturer, hearing consumers complain that paper towels were not absorbent, introduced "absorbent" towels and increased its market share. Competitors produced their own versions of absorbent paper towels, and the market fragmented again. One manufacturer introduced a "superstrength" towel that was soon copied. Another introduced a "lint-free" towel, subsequently copied. The latest innovation is wipes containing a cleaning agent (like Clorox Disinfecting Wipes) that are often surface-specific (for wood, metal, stone). Thus, driven by innovation and competition, paper towels evolved from a single product to one with various absorbencies, strengths, and applications.

Marketing in an Economic Downturn

Given economic cycles, there will always be tough times, such as 2008–2010 in many parts of the world. Despite reduced funding for marketing programs and intense pressure to justify them as cost effective, some marketers survived—or even thrived—in the recession. Here are five guidelines to improve the odds for success during an economic downturn.

Explore the Upside of Increasing Investment

Does it pay to invest during a recession? Although the severity of the recent downturn took firms into uncharted territory, 40 years of evidence suggests those willing to invest during a recession have, on average, improved their fortunes when compared with those that cut back.[69]

Sainsbury's no-nonsense value appeal was just the right message to send to UK customers in the midst of a recession.

The amount of investment isn't all that matters. Firms that received the most benefit from increasing marketing investments during a recession were often those best able to exploit a marketplace advantage such as an appealing new product, a weakened rival, or development of a neglected target market. With such strong evidence, marketers should consider the potential upside and positive payback of an increased investment that seizes market opportunities. Here are two companies that made such a decision.

- General Mills increased marketing expenditures for the 2009 fiscal year by 16 percent, increased revenues by 8 percent to $14.7 billion, and increased its operating profit by 4 percent. As CEO Ken Powell explained, "In an environment where you have consumers going to the grocery store more often and thinking more about meals at home, we think that is a great environment for brand building, to remind consumers about our products."[70]
- UK supermarket giant Sainsbury launched an advertising and in-store point-of-sale campaign called "Feed Your Family for a Fiver" that played off its corporate slogan, "Try Something New Today," to encourage shoppers to try new recipes that would feed families for only £5.

Get Closer to Customers

In tough times, consumers may change what they want and can afford, where and how they shop, even what they want to see and hear from a firm. A downturn is an opportunity for marketers to learn even more about what consumers are thinking, feeling, and doing, especially the loyal customer base that yields so much of a brand's profitability.[71]

Firms should characterize any changes as temporary adjustments versus permanent shifts.[72] In explaining why it is important to look forward during a recession, Eaton CEO Alex Cutler noted, "It is a time when businesses shouldn't be assuming that the future will be like the past. And I mean that in virtually every dimension whether it is economic growth, value propositions, or the level of government regulation and involvement."[73]

At the peak—the bottom—of the recession, a Booz & Company survey of 1,000 U.S. households found 43 percent were eating at home more and 25 percent were cutting spending on hobbies and sports activities. In both cases, respondents said they would likely do so even when the economy improved.[74] With consumer confidence at its lowest in decades, spending shifted in many ways. As one retail analyst commented, "Moms who used to buy every member of the family their own brand of shampoo are buying one big cheap one."[75]

The potential value and profitability of some target consumers may change. Marketers should evaluate this factor to fine-tune their marketing program and capitalize on new insights. After unsuccessfully chasing twenty-somethings with trendier clothing, Old Navy refocused its message to target a budget-conscious mom shopping for herself and the family.[76]

Review Budget Allocations

Budget allocations can be sticky and not change enough to reflect a fluid marketing environment. We've seen repeatedly that the vast penetration of the Internet, improved functionality of the cell phone, and increased importance of events, experiences, and emotions as marketing opportunities have dramatically changed the marketing communications and channels environment in just five years.

A recession provides an opportunity for marketers to closely review how much and in what ways they are spending their money. Budget reallocations can open up promising new options and eliminate sacred-cow approaches that no longer provide sufficient revenue benefits. Underperforming distributors can be weeded out and incentives provided to motivate the more effective product sellers.

Marketing communications allow much experimentation. In London, T-Mobile created spontaneous, large-scale, interactive "happenings" to convey its brand positioning that "Life's for Sharing" and generate massive publicity. Its "Dance" video, featuring 400 dancers getting the whole Liverpool tube station to dance, was viewed millions of times on YouTube.[77]

To reflect more challenging economic times, GE Profile changed its ad strategy to emphasize practicality.

Firms as diverse as Century 21 realtors and Red Robin gourmet burgers increased their Internet marketing activities during the recession.[78] The 120,000 U.S. dental practices were not immune to the economic downturn, as patients chose to postpone dental work and even skip routine cleanings. Many dentists turned to marketing and increased personal communications with patients via e-mail newsletters, calls to set up appointments, and even Twitter messages to share new product or service developments.[79]

Put Forth the Most Compelling Value Proposition

One mistake in a recession is to be overly focused on price reductions and discounts, which can harm long-term brand equity and price integrity. Marketers should increase—and clearly communicate—the value their brands offer, making sure consumers appreciate all the financial, logistical, and psychological benefits compared with the competition.[80] The more expensive the item, the more important this value framing becomes. In the recent recession, GE changed its ad messages for the $3,500 Profile washer-and-dryer set to emphasize its practicality—it optimizes the use of soap and water per load to reduce waste and saves customers money by being gentle on clothes, extending their life.[81]

Marketers should also review pricing to ensure it has not crept up over time and no longer reflects good value. Procter & Gamble adopted a "surgical" approach to reducing prices in specific categories in which its brands were perceived as costing too much compared with competitive products. At the same, it launched communications about the innovativeness and value of its many other brands to help ensure consumers would continue to pay their premium prices. Ads for Bounty claimed it was more absorbent than a "bargain brand" of paper towels; headlines in print ads for Olay Professional Pro-X's Intensive Wrinkle Protocol proclaimed, "As Effective at Wrinkle Reduction as What the Doctor Prescribed. At Half the Price."[82]

Fine-tune Brand and Product Offerings

Marketers must ensure they have the right products to sell to the right consumers in the right places and times. They can review product portfolios and brand architecture to confirm that brands and sub-brands are clearly differentiated, targeted, and supported based on their prospects. Luxury brands can benefit from lower-priced brands or sub-brands in their portfolios. Take Armani as an example.

Armani

Armani Armani differentiates its product line into three tiers distinct in style, luxury, customization, and price. In the most expensive, Tier I, it sells Giorgio Armani and Giorgio Armani Privé, custom-made couture products that sell for thousands of dollars. In Tier II, it offers Emporio Armani—young, modern, more affordable styles—and Armani jeans that convey technology and ecology. In lower-priced Tier III are more youthful and street-savvy translations of Armani style, AIX Armani Exchange, sold at retail locations in cities and suburban malls. The brand architecture has been carefully devised so each extension lives up to the core promise of the Armani brand without diluting the parent's image. But clear differentiation also exists, minimizing consumer confusion and brand cannibalization. In tough economic times, the lower end picks up the selling slack and helps maintain profitability.

Because different brands or sub-brands appeal to different economic segments, those that target the lower end of the socioeconomic spectrum may be particularly important during a recession. Value-driven companies such as McDonald's, Walmart, Costco, Aldi, Dell, E*TRADE, Southwest Airlines, and IKEA are likely to benefit most. Spam, the oft-maligned gelatinous 12-ounce rectangle of spiced ham and pork, found its sales soaring during the recession. Affordably priced and requiring no refrigeration, Spam is, its maker Hormel claims, "like meat with a pause button."[83]

Bad times also are an opportunity to prune brands or products with diminished prospects. In the recession following the 9/11 tragedy, Procter & Gamble divested many stagnant brands such as Comet cleanser, Folgers coffee, Jif peanut butter, and Crisco oil and shortening, to concentrate on higher-growth opportunities with much success.

Summary

1. A market leader has the largest market share in the relevant product market. To remain dominant, the leader looks for ways to expand total market demand and attempts to protect and perhaps increase its current share.
2. A market challenger attacks the market leader and other competitors in an aggressive bid for more market share. There are five types of general attack; challengers must also choose specific attack strategies.
3. A market follower is a runner-up firm willing to maintain its market share and not rock the boat. It can play the role of counterfeiter, cloner, imitator, or adapter.
4. A market nicher serves small market segments not being served by larger firms. The key to nichemanship is specialization. Nichers develop offerings to fully meet a certain group of customers' needs, commanding a premium price in the process.
5. As important as a competitive orientation is in today's global markets, companies should not overdo the emphasis on competitors. They should maintain a good balance of consumer and competitor monitoring.
6. Because economic conditions change and competitive activity varies, companies normally must reformulate their marketing strategy several times during a product's life cycle. Technologies, product forms, and brands also exhibit life cycles with distinct stages. The life cycle stages are usually introduction, growth, maturity, and decline. Most products today are in the maturity stage.
7. Each product life cycle stage calls for different marketing strategies. The introduction is marked by slow growth and minimal profits. If successful, the product enters a growth stage marked by rapid sales growth and increasing profits. There follows a maturity stage in which sales

growth slows and profits stabilize. Finally, the product enters a decline stage. The company's task is to identify the truly weak products, develop a strategy for each, and phase them out in a way that minimizes impact on company profits, employees, and customers.

8. Like products, markets evolve through four stages: emergence, growth, maturity, and decline.

9. In a recession, marketers must explore the upside of possibly increasing investments, get closer to customers, review budget allocations, put forth the most compelling value proposition, and fine-tune brand and product offerings.

Applications

Marketing Debate

Do Brands Have Finite Lives?

Often, after a brand begins to slip in the marketplace or disappears altogether, commentators observe, "All brands have their day," implying brands have a finite life and cannot be expected to be leaders forever. Other experts contend brands *can* live forever, and that their long-term success depends on marketers' skill and insight.

Take a position: Brands cannot be expected to last forever *versus* There is no reason for a brand to ever become obsolete.

Marketing Discussion

Industry Roles

Pick an industry. Classify firms according to the four different roles they might play: leader, challenger, follower, and nicher. How would you characterize the nature of competition? Do the firms follow the principles described in this chapter?

Marketing Excellence

>>Samsung

Korean consumer electronics giant Samsung has made a remarkable transformation, from a provider of value-priced commodity products that original equipment manufacturers (OEMs) sold under their own brands, to a global marketer of premium-priced Samsung-branded consumer electronics such as flat-screen TVs, digital cameras, digital appliances, semiconductors, and cell phones. Samsung's high-end cell phones have been a growth engine for the company, which has also released a steady stream of innovations, popularizing the PDA phone, the first cell phone with an MP3 player, and the first Blu-ray disc player.

Samsung initially focused on volume and market domination rather than profitability. However, during the Asian financial crisis of the late 1990s, when other Korean *chaebols* collapsed beneath a mountain of debt, Samsung took a different approach. It cut costs and reemphasized product quality and manufacturing flexibility, which allowed its consumer electronics to go from project phase to store shelves within six months. Samsung invested heavily in innovation and focused intently on its memory-chip business, which established an important cash cow and rapidly made the company the largest chip maker in the world. The company continued to pour money into R&D during the 2000s, budgeting $40 billion for 2005–2010. Its focus on R&D and increasing digital convergence have let Samsung introduce a wide range of electronic products under its strong brand umbrella. The firm also partnered with longtime market leader Sony to create a $2 billion state-of-the-art LCD factory in South Korea and signed a milestone agreement to share 24,000 basic patents for components and production processes.

Samsung's success has been driven not only by successful product innovation, but also by aggressive brand building over the last decade. From 1998 to 2009, the company spent over $7 billion in marketing, sponsored six Olympics, and ran several global ad campaigns themed "Imagine," "Quietly Brilliant," and "YOU," all which included brand messages such as "technology," "design," and "sensation" (human). In 2005, Samsung surpassed Sony in the Interbrand brand ranking for the first time and continues to outperform Sony today.

The economic downturn during 2008 and 2009 significantly affected the semiconductor industry, overall consumer electronics sales, and Samsung's bottom line. To survive, Samsung slashed profit margins, decreased production, and cut inventories. As a result, the company emerged at the end of 2009 with record-high quarterly profits despite significantly smaller profit margins.

Today, Samsung is the global leader in flat-panel TVs and memory chips, and the number two player in mobile phones. It is focused on growing technologies such as smart phones and has partnered with both Microsoft's Windows Mobile and Google's Android software. In addition, Samsung has formed a green partnership with Microsoft to help create energy-efficient computers.

Unlike rival firms, Samsung has become a global leader by making both components for electronics products and the actual devices sold to consumers, and without acquiring major competitors. It has more than doubled its employees from a decade ago to over 164,000 around the world. With record sales of $110 billion in 2008, the company's CEO, Lee Yoon-woo, announced the firm hopes to hit $400 billion in revenue by the year 2020. To accomplish this aggressive goal, Samsung will explore areas like health care and home energy products.

Questions

1. What are some of Samsung's greatest competitive strengths?
2. Samsung's goal of $400 billion in sales by 2020 would bring it to the same level as Walmart. Is this feasible? Why or why not?

Sources: Moon Ihlwan, "Samsung Is Having a Sony Moment," *BusinessWeek,* July 30, 2007, p. 38; Martin Fackler, "Raising the Bar at Samsung," *New York Times,* April 25, 2006; "Brand New," *Economist,* January 15, 2005, pp. 10–11; Patricia O'Connell, "Samsung's Goal: Be Like BMW," *BusinessWeek,* August 1, 2005; Heidi Brown and Justin Doeble, "Samsung's Next Act," *Forbes,* July 26, 2004; John Quelch and Anna Harrington, "Samsung Electronics Company: Global Marketing Operations," *Harvard Business School,* January 16, 2008; Evan Ramstad, "Samsung's Swelling Size Brings New Challenges," *Wall Street Journal,* November 11, 2009; "Looking Good? LG v. Samsung," *Economist,* January 24, 2009.

Marketing Excellence

>>IBM

International Business Machines Corporation (IBM) manufactures and sells computer hardware and software, offers infrastructure services, and provides global consulting services. It dates to the 1880s but became known as IBM only in 1924, under the leadership of then-president Thomas J. Watson Sr. Watson led IBM for four decades and helped establish some of its most successful and continuing business tactics, such as exceptional customer service, a professional and knowledgeable sales force, and a focus on large-scale, custom-built solutions for businesses. Watson also created the company's first slogan, "THINK," which quickly became a corporate mantra.

From the 1910s to the 1940s, IBM's growth exploded, led primarily by sales of tabulating machines, which helped underpin the Social Security system in the 1930s, and of war-related technologies developed for the military during World War I and World War II.

IBM evolved in the 1950s when Watson's son, Thomas J. Watson Jr., took over as CEO. It was under his management that the company paved the way for innovations in computation. IBM worked with the government during the Cold War and built the air-defense SAGE computer system at the price of $30 million. In 1964, the firm launched a revolutionary large family of computers called the System/360, which used interchangeable software and peripheral equipment. For it to succeed, however, IBM had to cannibalize its own computer product lines and move its current systems to the new technology. Fortunately the risk paid off, and IBM architecture became the industry standard. By the 1960s, IBM was producing approximately 70 percent of all computers, beating out early competitors General Electric, RCA, and Honeywell.

The 1980s—the beginning of the personal computing era—were pivotal for IBM. In 1981, the firm launched the first personal computer, which offered 18KB of memory, floppy disk drives, and an optional color monitor. IBM also opened up new channels of distribution through companies like Sears and ComputerLand. However, its decision to outsource components of the PC to companies like Microsoft and Intel marked the end of IBM's monopoly in computing. During the 1980s, its market share and profits eroded as the PC revolution changed the way consumers viewed and bought technology. IBM's sales dropped from $5 billion in the early 1980s to $3 billion by 1989. The dip continued into the early 1990s when IBM felt pressure from Compaq and Dell and attempted to split the company into smaller business units to compete. The results were disastrous, and IBM posted net losses of $16 billion between 1991 and 1993.

Things turned around when a new CEO, Louis Gerstner, refocused the company in a new strategic direction. Gerstner reconnected the company's business units, shed its commodity products, and focused on high-margin businesses like consulting and middleware software. IBM then introduced the iconic ThinkPad, which helped regain lost share. To rebuild its brand image, the firm consolidated its marketing efforts from 70 advertising agencies to 1 and created a consistent, universal message. In 1997, IBM's chess-playing computer system, Deep Blue, also helped lift IBM's brand image by defeating the world's reigning chess champion in a historic event that captured the attention of millions.

At the turn of the 21st century, IBM's newest CEO, Samuel Palmisano, led IBM to new levels of success in the wake of the dot-com bust. He moved the company further away from hardware by selling its ThinkPad division to Lenovo and exiting disk drives. In addition, Palmisano embraced global consulting and data analytics by acquiring close to 100 firms, including PricewaterhouseCoopers.

IBM now focuses on solving the world's most challenging high-tech problems, such as better water management, lower traffic congestion, and collaborative health care solutions. Its most recent campaign, entitled "Smarter planet," highlights a few of the company's accomplishments to date and explores IBM's ideas for the future. Palmisano explained, "We are looking at huge problems that couldn't be solved before. We can solve congestion and pollution. We can make the grids more efficient. And quite honestly, it creates a big business opportunity."

Today, IBM is the largest and most profitable information technology company in the world, with over $103 billion in sales and 388,000 employees worldwide. It employs scientists, engineers, consultants, and sales professionals in over 170 countries and holds more patents than any other U.S.-based technology company. From 2000 to 2008, IBM spent over $50 billion on R&D; and approximately 30 percent of its annual R&D budget goes toward long-term research.

Questions

1. Few companies have had such a long history of ups and downs as IBM. What were some of the keys to its recent success? Can its plans to solve some of the world's most challenging problems succeed? Why or why not?
2. Who are IBM's biggest competitors today, and what risks do they face with their current strategy?

Sources: Steve Lohr, "IBM Showing That Giants Can Be Nimble," *New York Times,* July 18, 2007; Jeffrey M. O'Brien, "IBM's Grand Plan to Save the Planet," *Fortune,* April 21, 2009; "IBM Archives," *IBM,* www.ibm.com; Louis V. Gerstner Jr., Who Says Elephants Can't Dance? *Inside IBM's Historic Turnaround* (New York: Harper Business, 2002).

PART 5 Shaping the Market Offerings

Chapter 12

This trade show debut in Shanghai, China, in April 2009 was part of the global launch of the highly anticipated Ford Fiesta world car.

In This Chapter, We Will Address the Following Questions

1. What are the characteristics of products, and how do marketers classify products?
2. How can companies differentiate products?
3. Why is product design important and what factors affect a good design?
4. How can a company build and manage its product mix and product lines?
5. How can companies combine products to create strong co-brands or ingredient brands?
6. How can companies use packaging, labeling, warranties, and guarantees as marketing tools?

Setting Product Strategy

At the heart of a great brand is a great product. Product is a key element in the market offering. To achieve market leadership, firms must offer products and services of superior quality that provide unsurpassed customer value.

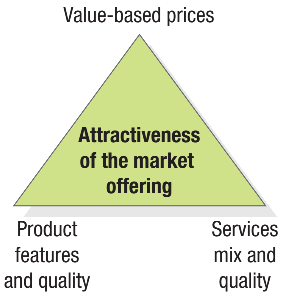
Ford Motor Company endured some tough times at the beginning of the 21st century. A safety controversy about its best-selling Ford Explorer and high gas prices that hurt sales of its trucks and SUVs put the company in deep financial straits. Perhaps the biggest concern was public perception that Ford products were not high quality. A new CEO, Alan Mulally, arrived in 2006 determined to set Ford on a different path. Rejecting government bailouts during the subsequent recession created some goodwill, but Mulally knew reliable, stylish, and affordable vehicles that performed well would make or break the company's fortunes. A redesigned high-mileage Ford Fusion with innovative Sync hands-free phone-and-entertainment system and an environmentally friendly hybrid option caught customers' attention, as did the hip, urban-looking seven-seat Ford Flex SUV with a center console mini-refrigerator.

Mulally felt it was critical to use Ford's vast infrastructure and scale to create vehicles that, with small adjustments, could easily be sold all over the world. The result of extensive global research, the Ford Fiesta hatchback was a striking example of this world-car concept. The rear of the car resembled a popular small sport-utility, its giant headlights were typical of more expensive cars, and dashboard instruments were modeled after a cell phone keypad. The company knew it had a winner when the Fiesta won a uniformly positive response in Chinese, European, and U.S. showrooms. Ford also relied on experiential and social media in marketing. Before its U.S. launch, 150 Fiestas toured the country for test drives and 100 were given to bloggers for six months to allow them to share their experiences. Ford's product and marketing innovations paid off. While the rest of the U.S. auto industry continued to tank, the Fiesta garnered thousands of preorders and Ford actually turned a profit in the first quarter of 2010.[1]

Marketing planning begins with formulating an offering to meet target customers' needs or wants. The customer will judge the offering by three basic elements: product features and quality, services mix and quality, and price (see Figure 12.1). In this chapter we examine product, in Chapter 13, services, and in Chapter 14, price. All three elements must be meshed into a competitively attractive offering.

Product Characteristics and Classifications

Many people think a product is tangible, but a **product** is anything that can be offered to a market to satisfy a want or need, including physical goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.



|Fig. 12.1|

Components of the Market Offering

Product Levels: The Customer-Value Hierarchy

In planning its market offering, the marketer needs to address five product levels (see Figure 12.2).[2] Each level adds more customer value, and the five constitute a **customer-value hierarchy**.

- The fundamental level is the **core benefit**: the service or benefit the customer is really buying. A hotel guest is buying rest and sleep. The purchaser of a drill is buying holes. Marketers must see themselves as benefit providers.
- At the second level, the marketer must turn the core benefit into a **basic product**. Thus a hotel room includes a bed, bathroom, towels, desk, dresser, and closet.
- At the third level, the marketer prepares an **expected product**, a set of attributes and conditions buyers normally expect when they purchase this product. Hotel guests minimally expect a clean bed, fresh towels, working lamps, and a relative degree of quiet.
- At the fourth level, the marketer prepares an **augmented product** that exceeds customer expectations. In developed countries, brand positioning and competition take place at this level. In developing and emerging markets such as India and Brazil, however, competition takes place mostly at the expected product level.
- At the fifth level stands the **potential product**, which encompasses all the possible augmentations and transformations the product or offering might undergo in the future. Here is where companies search for new ways to satisfy customers and distinguish their offering.

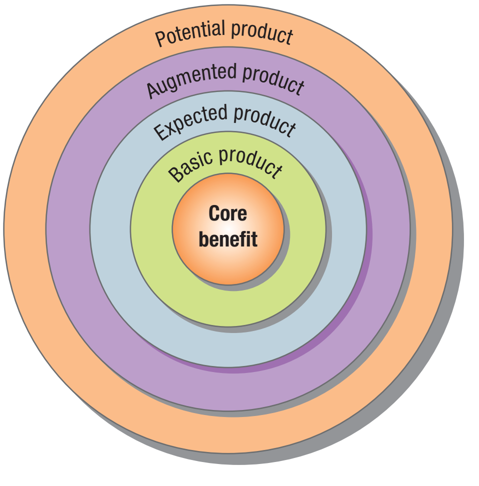
Differentiation arises and competition increasingly occurs on the basis of product augmentation, which also leads the marketer to look at the user's total **consumption system**: the way the user performs the tasks of getting and using products and related services.[3] Each augmentation adds cost, however, and augmented benefits soon become expected benefits and necessary points-of-parity in the category. If today's hotel guests expect satellite television, high-speed Internet access, and a fully equipped fitness center, competitors must search for still other features and benefits to differentiate themselves.

As some companies raise the price of their augmented product, others offer a stripped-down version for less. Thus, alongside the growth of fine hotels such as Four Seasons and Ritz-Carlton, we see lower-cost hotels and motels emerge such as Motel 6 and Comfort Inn, catering to clients who want simply the basic product. Striving to create an augmented product can be a key for success, as Jamestown Container has experienced.

Jamestown Container Companies What could be harder to differentiate than corrugated containers? Yet Jamestown Container Companies, a leading supplier of corrugated products for companies such as 3M, has formed strategic partnerships with area manufacturers to provide every part of the shipping system. It offers not only boxes

|Fig. 12.2|

Five Product Levels



but also tape, shrink-wrap, and everything else needed to display or ship a customer's final product. "It's a combination for survival," says the company's chief operating officer. "More customers want to call one place for everything. We have to keep reinventing ourselves and form these kinds of relationships to remain competitive."[4]

Jamestown Containers is offering additional packaging features to provide more value to customers.

Product Classifications

Marketers classify products on the basis of durability, tangibility, and use (consumer or industrial). Each type has an appropriate marketing-mix strategy.[5]

DURABILITY AND TANGIBILITY Products fall into three groups according to durability and tangibility:

1. **Nondurable goods** are tangible goods normally consumed in one or a few uses, such as beer and shampoo. Because these goods are purchased frequently, the appropriate strategy is to make them available in many locations, charge only a small markup, and advertise heavily to induce trial and build preference.
2. **Durable goods** are tangible goods that normally survive many uses: refrigerators, machine tools, and clothing. Durable products normally require more personal selling and service, command a higher margin, and require more seller guarantees.
3. **Services** are intangible, inseparable, variable, and perishable products that normally require more quality control, supplier credibility, and adaptability. Examples include haircuts, legal advice, and appliance repairs.

CONSUMER-GOODS CLASSIFICATION When we classify the vast array of consumer goods on the basis of shopping habits, we distinguish among convenience, shopping, specialty, and unsought goods.

The consumer usually purchases **convenience goods** frequently, immediately, and with minimal effort. Examples include soft drinks, soaps, and newspapers. *Staples* are convenience goods consumers purchase on a regular basis. A buyer might routinely purchase Heinz ketchup, Crest toothpaste, and Ritz crackers. *Impulse goods* are purchased without any planning or search effort, like candy bars and magazines. *Emergency goods* are purchased when a need is urgent—umbrellas during a rainstorm, boots and shovels during the first winter snow. Manufacturers of impulse and emergency goods will place them where consumers are likely to experience an urge or compelling need to purchase.

Shopping goods are those the consumer characteristically compares on such bases as suitability, quality, price, and style. Examples include furniture, clothing, and major appliances. *Homogeneous shopping goods* are similar in quality but different enough in price to justify shopping comparisons. *Heterogeneous shopping goods* differ in product features and services that may be more important than price. The seller of heterogeneous shopping goods carries a wide assortment to satisfy individual tastes and trains salespeople to inform and advise customers.

Specialty goods have unique characteristics or brand identification for which enough buyers are willing to make a special purchasing effort. Examples include cars, stereo components, and men's suits. A Mercedes is a specialty good because interested buyers will travel far to buy one. Specialty goods don't require comparisons; buyers invest time only to reach dealers carrying the wanted products. Dealers don't need convenient locations, although they must let prospective buyers know where to find them.

Unsought goods are those the consumer does not know about or normally think of buying, such as smoke detectors. Classic examples of known but unsought goods are life insurance, cemetery plots, and gravestones. Unsought goods require advertising and personal-selling support.

INDUSTRIAL-GOODS CLASSIFICATION We classify industrial goods in terms of their relative cost and how they enter the production process: materials and parts, capital items, and supplies and business services. **Materials and parts** are goods that enter the manufacturer's product completely. They fall into two classes: raw materials, and manufactured materials and parts. *Raw materials* fall into two major groups: *farm products* (wheat, cotton, livestock, fruits, and vegetables) and *natural products* (fish, lumber, crude petroleum, iron ore). Farm products are supplied by many producers, who turn them over to marketing intermediaries, who provide assembly, grading, storage, transportation, and selling services. Their perishable and seasonal