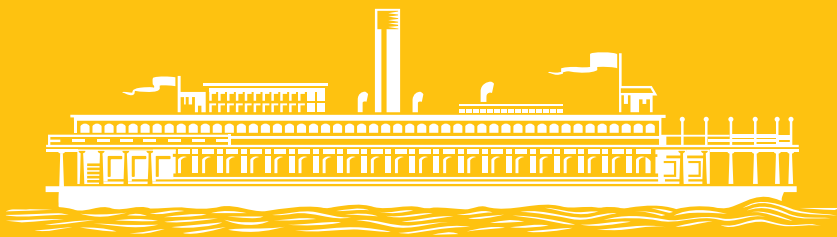


Join 'em, fight 'em,
or move away from 'em
by Martin Bishop
June 2008



Landor

Join 'em, fight 'em, or move away from 'em

Three approaches to beating low-price competitors at their own game

In the beginning there was Wal-Mart, built on the single-minded commitment to everyday low prices. By obsessively focusing on cost management, applying brutal pressure on its suppliers, and strictly adhering to founder Sam Walton's words of advice, Wal-Mart succeeded in building a \$345 billion empire.

Then came Southwest Airlines. Like Wal-Mart, Southwest was committed to low prices, but with a twist—a certain extra attitude and personality. A Southwest Airlines flight is cheap, yes, but also fun—even when you have to queue up in one of its A, B, or C lines for its first-come, first-seated flights.

And now there's IKEA, Target, Trader Joe's, JetBlue, and a host of other brands with new variations on a "value-plus" offer—value plus design, plus service, plus variety. Value-plus positioning has become a driving force in the marketplace and a real threat to companies that have held on to a mainstream positioning.

If you find yourself in this position, with value-plus competitors hard on your heels, you really have just three options.

You can

- Join 'em: Extend your brand to the value segment.
- Fight 'em: Compete in the value segment with a different brand.
- Move away from 'em: Distance yourself from the competition by moving your brand upmarket.

Each of these options has its risks and rewards. But none is so risky as doing nothing.

Join 'em: Extending a flagship brand to the value segment

Faced with a competitor whose value-plus strategy is eating into your market, your first thought may be to join the battle and extend your flagship brand into the value territory.

The big plus of this approach is that it generally requires a small investment, as all products are marketed under the one brand. However, the approach is inherently risky and can potentially drag your brand into the gutter.

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Consider the Cadillac Cimarron. The car was rushed to the market in 1981 to defend Cadillac against smaller luxury imports. Built on the J-platform, an economy car platform shared by all of GM's passenger car divisions, the Cimarron came across to many as little more than a well-equipped Chevrolet Cavalier. Ridiculed as a "Cadvalier," this car sent Cadillac's reputation as a luxury brand spiraling into decline. The parent brand took many years to recover.

It's not always a disaster. Other companies have had more success:

BMW: BMW has sold cars over a wide price range without its top models losing their prestige. The company's value roadster, the Z3, has sold for less than \$25,000, one-third the price of the 7 series. Even though the Z3 has been faulted for lack of performance—and performance has always been a pillar of the BMW brand—it still looked and felt enough like a BMW that the BMW brand was not tarnished.

Adobe: Adobe® Photoshop® Elements is positioned as the entry-level version of Adobe's flagship product. With a price that is one-sixth that of the full-line product, it avoids taking luster off the more premium offering by being a very useful product in its own right. Adobe has clearly taken pains to manage customer expectations and not overpromise.

Tesco: Tesco, like many other grocery stores, has for a long time segmented its private label products into "good/better/best" categories. Recently the company set out to gradually evolve its private label strategy toward products targeted to specific customer needs. The company's organic product line has helped the retailer shatter the popular perception that private labels are just cheap, me-too versions of the real thing.

Nescafé: When Nescafé set out to grow sales in the Philippines, it did not want to cheapen its brand or compromise product quality. In a country where affordability is a major issue, the company decided to launch its product under the Nescafé brand in single-serve packets using high-quality, innovative packaging. The packets were affordable but were also well-suited to market conditions. They could, for example, be more widely distributed to the cafés, market stalls, and other small sales outlets than the company's traditional jars.

Fight 'em: Competing in the value segment with a different brand

Another way to fend off a competitor's value-plus threat is to create, acquire, or reposition a new brand that targets the value segment. This approach shields your premium brand from the economy segment. It can be done as either a defensive measure or a proactive measure to realize a market opportunity.

Defensive approach: Fighter brands

One option is to create a fighter brand. These are brands specifically designed to defend the flagship brand's sales and market share from attacks by lower-priced competitors. Their goal is to defend the status quo.

As a business strategy, the use of fighter brands has had mixed results. Creating the right level of differentiation between the fighter brand and the flagship brand is difficult. If the two brands are positioned too closely, sales may be cannibalized. On the other hand, if they are positioned too far apart, the fighter brand won't be an effective barrier to competitive brands.

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One success and one failure:

Kal Kan: Mars launched Kal Kan cat food as a fighter brand and encountered exactly the sort of problems that are typical of this strategy. Kal Kan was created to compete against lower-priced rivals like 9Lives and to protect the Mars' Whiskas flagship brand. However, Mars was unable to differentiate Kal Kan from Whiskas, and it could not adjust its cost structure to operate at a competitive level. Customers ended up trading down from Whiskas to Kal Kan, leaving Mars with reduced sales and margin.

Luvs: On the other hand, Procter & Gamble (P&G) was successful when it repositioned Luvs as a value brand to limit the growth of store brands without eroding the Pampers' share. With the help of well-chosen pricing, product quality, and marketing strategies, P&G carefully slotted Luvs between Pampers and the private label brands. This gave consumers who were tempted by the better store brand prices another P&G option.

An important consideration when deploying fighter brands is how they will impact corporate brand equity. Using a different brand name establishes distance from the corporate brand, but it does not completely absolve the company of all its parental responsibilities. If the quality of the fighter brand falls below a level or generates customer complaints or is generally not up to customers' expectations, the company's reputation may suffer.

Proactive approach: Value brands

Unlike defensive fighter brands, value brands respond proactively and aggressively to opportunities in the value market. Instead of defending the flagship brand, these brands take advantage of a clear value opportunity. Their purpose is not to defend the status quo, but to take advantage of a new market opportunity.

Nor are these brands just about price. Trader Joe's and Target have both demonstrated that it is possible to reach the value shopper without competing on price alone. Their brand positioning is just as much about design, sustainability, variety, and discovery.

This approach—more than any other—entails a real commitment to the value market. It calls for the development of full-fledged brands that can stand on their own and borrow little or no equity from their parent brands.

Red Bicyclette: E. & J. Gallo's Red Bicyclette brand, like other low- to mid-priced wine brands, has built an identity that is entirely separate from that of its parent company's brand. E. & J. Gallo recognized that there is a significant consumer segment that wants a cheap wine with an adventurous and fun attitude—and not just a cheap version of a well-known brand.

Scion: Rather than create additional subbrands under the Toyota marque, Toyota decided to launch Scion as an entirely new brand in the value segment. In this way, Toyota was able to create something truly different and much less mainstream than a Toyota branded product. Targeting younger consumers, the new brand reflects youthful attitudes and needs, a clear line of distinction between itself and Toyota. However, the two brands do have some connection. Although not officially endorsed by Toyota, Scion gets at least an unofficial nod from the parent brand by being sold at Toyota dealerships. This provides a valuable link to Toyota's reputation for quality and reliability.

Fairfield Inn: In the hotel industry, Fairfield Inn, by Marriott, is one of many hoteliers that have set out to achieve an optimum balance and distance between the flagship brand and a value sibling.

Brand extension or new brand?

The following five questions can help determine which approach is best for your brand. If you answer "yes" to all or most of these questions, launching a new brand may be your best bet.

1. Can you afford and are you willing to support a new brand?
2. Are there any identifiable characteristics, needs, or attitudes of the value segment that are distinct from your mainstream/premium target?
3. Is the market big enough to support a new brand?
4. Will you find it difficult to develop value products and services that don't cannibalize your flagship brand?
5. Are most of your competitors value specialists?

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Marriott's endorsement of Fairfield Inn assures customers that they will meet with a certain level of quality and service. But the endorsement is sufficiently subtle that it does not dilute the Marriott brand or put the core business at risk.

Move away from 'em: Moving to higher ground

All the approaches considered so far talk about ways to target and join the value segment. An equally valid alternative is to move in the opposite direction, to try to distance yourself from what's going on beneath you—to find higher ground in a more upscale market. The question here is whether there is enough high ground left to support and grow the business against the rising waters of the value category.

An advantage of this approach is that you do not have to necessarily reinvent your business. Nor do you have to figure out how to compete on price. If low-cost competitors with manufacturing capabilities have already set up in overseas markets, they may have an unbeatable lead. If you have already squeezed out all other costs, you may find yourself with scant opportunity to compete on price.

But you should also give thought to the makeup of the competitive set in this upscale category. If your brand has a mainstream reputation, you may face an uphill battle competing against entrenched, specialist premium players.

Safeway: Safeway has made a determined effort to escape from the middle ground. Like so many other grocery chains, the supermarket retailer has been hammered from above and below in its attempts to simultaneously fight off the likes of

Wal-Mart and Whole Foods. But the company's reinvestment in its stores, its relaunch of private label brands, and its "Ingredients for Life" campaign demonstrate a determination to move itself up a notch or two from its mundane past.

Skyy90: By launching Skyy90 as "the most luxurious taste, by design," Skyy successfully moved into the ultra-premium vodka market. Skyy90's positioning allows the company to compete against brands like Belvedere, rather than Absolut and others in the premium segment. Instead of abandoning the premium segment, Skyy laddered up.

LG: LG, like a host of other Asian brands that have included Honda, Toyota, and Nissan, started its life as a lower-priced brand. As Lucky Goldstar, LG was originally a manufacturer of discount-priced electronics. But with the backronym "Life's Good," the brand has now succeeded in moving upmarket. LG experienced a 14 percent growth rate in 2006, and is currently ranked as a top 100 global brand.¹

So, which approach is right for me?

As one might expect, there are pros and cons to each of these approaches. (See the summary table.) However, the trend toward value is unmistakable, pervasive, and is not going away. This tips the scale in favor of developing a proactive and aggressive strategy to address the value market. As the old saying goes, "If you can't beat 'em, join 'em." ■

¹ "The 100 Top Brands 2006," *BusinessWeek*, <http://bwnt.businessweek.com/brand/2006/> (accessed 20 May 2008).

Join 'em: Extending a flagship brand to the value segment

PROS

- Requires relatively small investment
- Permits leveraging of current brand equity
- Tends to be a more conservative approach with less likelihood of impacting the company's overall reputation

CONS

- May lead to cannibalization if consumers trade down
- Leads to brand dilution if products and services are poor quality imitations of the flagship
- May fail to address the full range of motivations driving the value purchase, that is, those other than price
- Limits the opportunity to move the flagship brand upstream to avoid price competitors

Fight 'em: Defensive approach

PROS

- Protects core flagship brand
- Responds to customer needs
- Responds to competition

CONS

- Poor quality or lack of quality control may damage corporate brand equity
- Risks margin erosion and/or cannibalization
- May miss an opportunity to launch a value brand with a more proactive perspective

Fight 'em: Proactive approach

PROS

- Makes a full-fledged commitment to the value market with the greatest flexibility
- Tends to position the value brand well away from the parent brand without relying just on price
- Probably won't cannibalize the flagship brand's sales
- Frees up the flagship brand to move upstream where it can avoid price competitors

CONS

- Involves the greatest expense: Requires brand investment and more management and resources than other options
- May be unsuccessful if the market is not large enough to support an independent brand
- May make it difficult for companies to sustain investment and interest in secondary brands

Move away from 'em: Moving to higher ground

PROS

- Provides a focused single brand solution
- Does not require reinvention of business/cost structure to compete on price

CONS

- May miss the best growth opportunity
- May be unsuccessful if the market is not large enough outside the value segment
- May run against competitors with more credibility and reputation in the premium market

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