

# 12 Addressing Competition and Driving Growth

**Growth is essential for the success of any firm. Thus, to be a long-term market leader** is the goal of any marketer. Today's challenging marketing circumstances 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. Though the years an interesting competitive battle has been fought between FedEx and UPS in which each has been a challenger on the other's home turf.<sup>1</sup>



*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. The two firms are now in a heated battle to gain the upper hand in the marketplace. Both are moving into the fast-growing, multi-billion-dollar Chinese domestic delivery market, where FedEx has a head start and a bigger operation.*

*Overseas markets are attractive for both firms, given that a little more than half of FedEx revenue and almost two-thirds of UPS revenue comes from the domestic U.S. market. Combined, the two companies account for an impressive 10 percent of U.S. gross domestic product (GDP). To expand their reach and the range of services they can provide, both are making strategic acquisitions of delivery companies all over the world, none bigger than UPS's attempted purchase of TNT, blocked at least initially by European regulators. Back in their home U.S. markets, both firms are trying to lock in customers with customized door-to-door deliveries. Fueled by the rapid rise of online shopping, residential deliveries are growing fast, and FedEx has the advantage of being able to make Saturday deliveries. Advertising "UPS Loves Logistics," UPS has made a strong play with businesses, positioning itself as the "logistics expert" capable of providing a broader range of supply-chain services than just deliveries.*

**This chapter examines growth,** the role competition plays, and how marketers can best manage their brands given their market position and stage of the product life cycle. Competition grows more intense every year—from global competitors eager to enter 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. For these reasons and more, product and brand fortunes change over time, and marketers must respond accordingly.

## Growth

An important function of marketing is to drive growth in sales and revenue for a company. Marketing is especially adept at doing so for a new product with many competitive advantages and much potential. Good marketing can help to induce trial and promote word of mouth and diffusion. Marketing in more mature markets can be more challenging. In some cases, fighting over market share is less productive than expanding the size of the market as a whole.

### GROWTH STRATEGIES

Chapter 2 introduced how companies can grow through expansion with new products and new markets, the detailed focus of Chapters 8 and 15. Along those lines, Phil and Milton Kotler stress the following strategies:<sup>2</sup>

- Grow by building your market share
- Grow by developing committed customers and stakeholders

- Grow by building a powerful brand
- Grow by innovating new products, services, and experiences
- Grow by international expansion
- Grow by acquisitions, mergers, and alliances
- Grow by building an outstanding reputation for social responsibility
- Grow by partnering with government and NGOs

Consider how Under Armour has grown in recent years.<sup>3</sup>

**UNDER ARMOUR** In his days as a University of Maryland football player, Kevin Plank had been dissatisfied with cotton T-shirts that retained water and became heavy during practice. Under Armour was born when, with \$500 and several yards of coat lining, Plank worked with a local tailor to create seven prototypes of snug-fitting T-shirts that absorbed perspiration and kept athletes dry. With a focus on performance and authenticity and backed by intense, in-your-face advertising, the brand quickly became a favorite at high schools, colleges, and universities, later introducing a wide range of athletic apparel as well as football cleats, basketball shoes, and running shoes. By 2009, it was squarely in competition with formidable opponents Nike and Adidas. A traditionally male-oriented brand, Under Armour soon recognized the value of a new target demographic—women. Not wanting to fall back on a “shrink it and pink it” approach, the company united its marketing, product design, and consumer insights departments to develop focused solutions for women. The fully integrated “What’s Beautiful” media campaign—with its tagline urging women to “No Matter What, Sweat Every Day”—and the success of its footwear lines have helped the women’s division become the fastest-growing Under Armour business. The company is also looking to expand internationally, focusing initially on Europe and Latin America. While Nike and Adidas both generate about 60 percent of their revenue outside their home regions, Under Armour generates only 6 percent outside North America, with very little of that in fast-growing emerging markets like India, China, and Brazil.

## GROWING THE CORE

Although many different growth strategies are available to firms, some of the best opportunities come from growing the core—focusing on their most successful existing products and markets. Marketers must avoid the trap of thinking the “grass is always greener” and overestimating the upside of new ventures that stretch the company into uncharted territory.

Often a firm’s unique capabilities don’t effectively translate to a new industry. Mattel’s disastrous acquisition of the Learning Company in 1999 failed in part because the toy company’s expertise was not as valuable in the interactive-learning market. Further, an industry that is red-hot today may be ice-cold tomorrow.<sup>4</sup>

Growing the core can be a less risky alternative than expansion into new product categories. It strengthens a brand’s credentials as a source of authority and credibility and can yield economies of scale. Through improved revenues and lower costs, growing the core can also lead to greater profits. UK marketing guru David Taylor advocates three main strategies, citing these examples:<sup>5</sup>

1. **Make the core of the brand as distinctive as possible.** Galaxy chocolate has successfully competed with Cadbury by positioning itself as “your partner in chocolate indulgence” and featuring smoother product shapes, more refined taste, and sleeker packaging.
2. **Drive distribution through both existing and new channels.** Costa Coffee, the number-one coffee shop in the United Kingdom, has found new distribution routes using drive-through outlets, vending machines at service stations, and in-school coffee shops.
3. **Offer the core product in new formats or versions.** WD40 offers a Smart Straw version of its popular multi-purpose lubricant with a built-in straw that pops up for use.

Many firms are seeking success by focusing on their core businesses. London-based Aegis Group sold market research firm Synovate in order to focus on becoming media and digital communication specialists.<sup>6</sup> Levi Strauss phased out its Denizen brand in Asia to focus on its core Levi’s brand.<sup>7</sup>

Growth strategies are not necessarily “either/or” propositions. A focus on core businesses does not mean foregoing new market opportunities. Vancouver, Canada’s Fortuna Silver Mines has focused on its two fully owned, fully

integrated silver mines in Peru and Mexico to spur organic growth while looking for a third mine to drive further growth.<sup>8</sup> And sometimes the core business is just not expandable. With personal computer sales steadily declining, leading PC maker Lenovo began to look at smart phones as a new source of business for its brand.<sup>9</sup>

## Competitive Strategies for Market Leaders

Suppose a market is occupied by the firms shown in Figure 12.1. 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. Sometimes growth depends on adopting the right competitive strategies.

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), BlueCross BlueShield (health insurance), and Visa (credit cards).

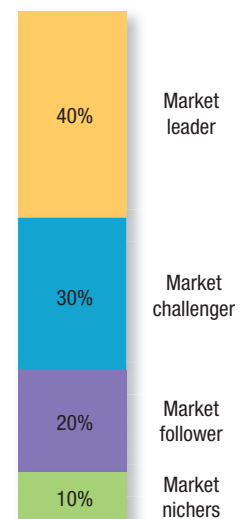
Although marketers assume well-known brands are distinctive in consumers' minds, unless a dominant firm enjoys a legal monopoly, it must maintain constant vigilance. A powerful product innovation may come along, a competitor might find a fresh marketing angle or commit to a major marketing investment, or the leader's cost structure might spiral upward. One well-known brand and market leader that has worked hard to stay on top is Xerox.<sup>10</sup>



Source: PR NEWSWIRE

Under Armour's fastest growing business has been with women.

**XEROX** Xerox has had to become much more than just a copier company. Now a blue-chip icon with the name that became a verb, the company sports the broadest array of imaging products in the world and dominates the market for high-end printing systems while also offering a new range of printing and business-related services. It has made a product line transition from the old light lens technology to digital systems and is finding ways to make color copying less expensive and even to print in 3-D. Xerox provides broader document and print-manager services to help companies lower costs by eliminating desktop printers, reducing paper use, and installing multifunction multi-user devices that are more efficient, break down less, and use cheaper supplies. Under CEO Ursula Burns, the firm is becoming more of a services company, providing bill processing, business processing, and IT outsourcing. A \$6.4 billion acquisition of Affiliated Computer Services (ACS) allowed Xerox to plunge its technology into back-office operations. A call to Virgin America customer care, a paper or online submission of a health insurance claim, and a query to solve a smart phone problem all might be handled by a Xerox employee. A new Xerox device—a compact computer with scanning, printing, and Internet capabilities—allows ACS insurance agents in the field to scan claims on-site to be sorted, routed, and put immediately into a workflow system. Xerox is embracing technology in its marketing too. The company's "Information Overload" campaign employed a personalized video, e-mail campaign, and direct mail piece. Each customer received a personalized URL (PURL) based on his or her behavior and interests, leading to click-through rates of 35 percent to 40 percent as opposed to the typical 1 percent to 2 percent industry rates. A new print and TV ad campaign, "Simplicity by the Numbers," acknowledges the brand's heritage while highlighting its new capabilities. One TV ad opened with a woman standing in front of a copier saying, "When I say Xerox, I know what you're thinking." After printing the image of a transit map, she states, "Transit fares, as in the 37 billion transit fares we help collect each year."



**| Fig. 12.1 |**  
Hypothetical Market Structure

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** 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 has described its multipronged approach to growth on its corporate Web site.<sup>11</sup>

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.

In targeting new customers, the firm should not lose sight of existing ones. Daimler, maker of Mercedes-Benz, has developed a balanced approach to capitalize on both the established demand from mature markets in the European Union, United States, and Japan and the enormous potential offered by fast-growing emerging markets. As the company's chairman Dieter Zetsche proclaimed, "You cannot do either/or. You have to maintain your strength in traditional markets and even expand it."<sup>12</sup>

**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.<sup>13</sup> Consumers use more of impulse products such as soft drinks and snacks when the product is made more available.

Ironically, some food firms such as Hershey's have developed smaller packaging sizes that have actually increased sales volume through more frequent usage.<sup>14</sup> In general, increasing *frequency* of consumption 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. Pepto-Bismol stomach remedies are in 40 percent of U.S. households, but only 7 percent of people claim to have used them in the previous 12 months. To expand usage and make the brand more top of mind, a holiday campaign linked it to party festivities and celebrations with the tag line "Eat, Drink, and Be Covered." In a somewhat similar vein, on the inside of the front flap of its package, Orbit chewing gum puts the message, "Eat. Drink. Chew. A Good Clean Feeling," to reinforce that the brand can be a substitute for brushing teeth.<sup>15</sup>

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 or operates effectively.<sup>16</sup> One strategy is to tie the act of replacing the product to a holiday, event, or time of year. Marketers of household products such as batteries for alarms and filters for vacuum cleaners, furnaces, and air conditioners use the beginning and end of Daylight Savings Time twice a year as a means to remind consumers.

Another approach might be to provide consumers with (1) better information about when they first used the product or need to replace it or (2) a gauge of 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. Marketers for Monroe® shock absorbers and struts launched the clever, fully integrated "Everything Gets Old. Even Your Shocks." campaign, which drew comparisons between worn shocks and struts and familiar consumer items that eventually wear out and need to be replaced such as shoes, socks, tires, and even bananas!<sup>17</sup>





Monroe advertises to remind consumers to make sure they do not forget to change their shocks.

**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.<sup>18</sup> 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 competitive strength and value to customers so they feel appreciative or even privileged to be a customer as opposed to feeling trapped or taken advantage of.<sup>19</sup>

**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.<sup>20</sup>

Many companies assume their job is simply 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.<sup>21</sup>

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. Note that *responsive anticipation* is performed before a given change, while *reactive response* happens after the change takes place. Accenture maintains that 10 consumer trends covering areas like e-commerce, social media, and a desire to express individuality will yield market opportunities worth more than \$2 trillion between 2013 and 2016.<sup>22</sup> Proactive companies will reap the most benefit from those shifts.

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 more than 250 million in nearly 100 different models.<sup>23</sup>

Proactive companies may redesign relationships within an industry, like Toyota did with its relationship to its suppliers. Or they may educate and engage customers, as lululemon does with yoga and workouts.<sup>24</sup>

**LULULEMON** 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, it first identifies influential yoga instructors or other fitness teachers. In exchange for a year's worth of clothing, these yogis 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 foot in its approximately 100 stores, three times what established retailers Abercrombie & Fitch and J.Crew sell. Although the company has encountered some challenges with inventory management issues, production snafus, and negative publicity surrounding statements by its founder, it is still looking to expand beyond yoga-inspired athletic apparel and accessories into similar products in other sports such as running, swimming, and biking.

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 non-bureaucratic, and
- have many managers who think proactively.

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

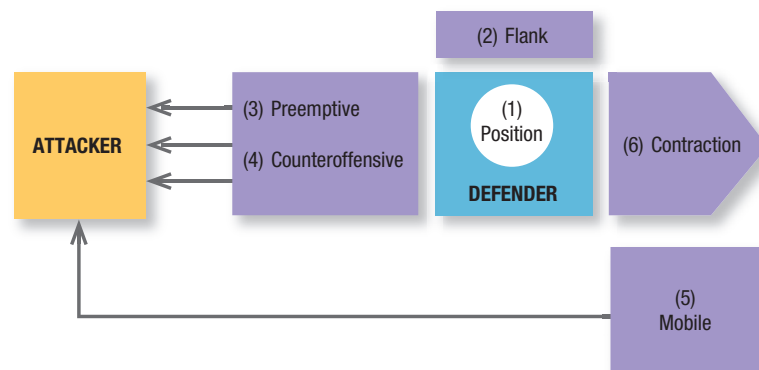
**DEFENSIVE MARKETING** Even when it does not launch offensives, the market leader must not leave any major flanks exposed. The aim of defensive strategy is to reduce the probability of attack, divert attacks to less-threatened areas, and lessen their intensity. A leader would like to do anything it legally and ethically can to reduce competitors' ability to launch a new product, secure distribution, and gain consumer awareness, trial, and repeat.<sup>25</sup> In any strategy, speed of response can make an important difference to profit.

A dominant firm can use the six defense strategies summarized in Figure 12.2.<sup>26</sup> Decisions about which strategy to adopt will depend in part on the company's resources and goals and its expectations about how competitors will react.<sup>27</sup>

- **Position defense.** Position defense means occupying the most desirable position in consumers' minds, making the brand almost impregnable. Procter & Gamble "owns" the key functional benefit in many product categories, 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 in support of the Tide and Pampers brands, respectively.
- **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.<sup>28</sup> Bank of America's 16,220 ATMs and 5,858 retail branches nationwide provide steep competition to local and regional banks.<sup>29</sup> Yet another preemptive defense is to introduce a stream of new products and announce them in advance, signaling competitors that they will need to fight to gain market share. If Microsoft announces plans for a new-product development,

| Fig. 12.2 |

## Six Types of Defense Strategies



smaller firms may 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.<sup>30</sup>

- **Counteroffensive defense.** In a counteroffensive, the market leader can meet the attacker frontally and hit its flank or launch a pincer movement so the attacker will have to pull back to defend itself. Another form of counteroffensive is the exercise of economic or political clout. The leader may try to crush a competitor by subsidizing lower prices for a 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 or initiate appropriate legal actions. Tech leaders like Apple, Intel, and Microsoft have aggressively defended their brands in court.
- **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. *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. Beginning in 2006, Sara Lee sold 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. In 2012, it split its remaining products into two businesses. Hillshire Brands became the new name of the company, which focused on its core Hillshire Farms packaged meats business in North America, and D.E. Master Blenders 1753 was a spin-off company for its successful European coffee-and-tea business.<sup>31</sup>

P&G sold Pringles to Kellogg for almost \$2.7 billion in an all-cash transaction when it decided it wanted to get out of the foods business to focus on its core household and consumer products.<sup>32</sup> Another company that restructured its business to improve competitiveness was Kraft.<sup>33</sup>

---

**KRAFT** After years of acquisitions, CEO Irene Rosenfeld announced in 2011 that Kraft would split into two businesses by the end of 2012: A fast-growing global snacks and candy business to include Oreo cookies and Cadbury candy and a slower-growing North American grocery business with long-term stalwarts Maxwell House coffee, Planters peanuts, Kraft cheese, and Jell-O. The rationale was to improve performance and give investors distinctly different choices. The snacks and candy business was branded as Mondelez International and was positioned as a high-growth company with many opportunities in emerging markets such as China and India. Coined by two employees, Mondelez is a mash-up of the words for “world” and “delicious” in Latin and several other Romance languages. The grocery business retained the Kraft Foods name, and because it consisted of many category-dominant meat and cheese brands, it was seen as more of a cash cow for investors interested in consistent dividends. Mondelez has ramped up for rapid expansion, while Kraft Foods has focused on cost-cutting and selective investment behind its power brands.

---

## 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.<sup>34</sup>

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

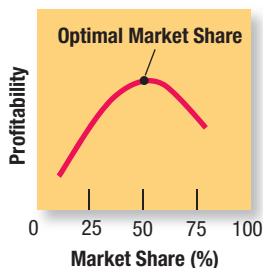
- **The possibility of provoking antitrust action.** Frustrated competitors are likely to cry “monopoly” and seek legal action if a dominant firm makes further inroads. Microsoft and Intel have had to fend off numerous lawsuits and legal challenges around the world as a result of what some feel are inappropriate or illegal business practices and abuse of market power.

Kraft split its company into two to better focus on fast-growing categories and markets, as well as to adequately support its solid core of heritage brands.



Source: Bloomberg via Getty Images

- **Economic cost.** Figure 12.3 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.<sup>35</sup>
- **The danger of pursuing the wrong marketing activities.** Companies successfully gaining share typically outperform competitors in three areas: new-product activity, relative product quality, and marketing expenditures.<sup>36</sup> 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.** 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 short-term bankruptcy.<sup>37</sup>



| Fig. 12.3 |

The Concept of Optimal Market Share

## 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 found some success chipping away at Intel's market share. Challengers set high aspirations, while market leaders can fall prey to running business as usual. Challengers can also tap into public perceptions that they are the underdog.<sup>38</sup> Now let's examine the competitive attack strategies available to them.<sup>39</sup>

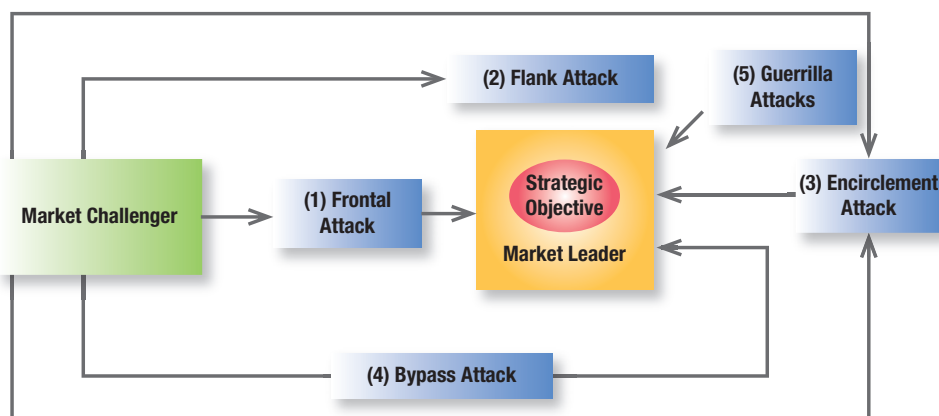


**DEFINING THE STRATEGIC OBJECTIVE AND OPPONENT(S)** A market challenger must first define its strategic objective, which is usually to increase market share. It then must decide whom to attack:

- **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.
- **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."
- **It can attack the status quo.** A challenger might not attack a specific firm as much as an industry as a whole or a pervasive way of thinking that doesn't adequately address customer needs. Firms like Jet Blue, Ally Bank, and Netflix have succeeded by contrasting their services with those of competitors.<sup>40</sup>

**CHOOSING A GENERAL ATTACK STRATEGY** Given clear opponents and objectives, what attack options are available? As Figure 12.4 shows, 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 hair-care 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 cause gaps to develop in the market, 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. Top communications companies such as Verizon, AT&T, and T-Mobile found themselves losing sales in the specialized but fast-growing prepaid smart-phone market when smaller carriers such as Boost Mobile, Virgin Mobile, and MetroPCS offered lower prices and greater selection.<sup>41</sup> Another 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 are every bit as ranch-ready but ergonomically designed to feel as comfortable as a running shoe—a totally new benefit in the category.<sup>42</sup> With a geographic attack, the challenger spots areas where the opponent is underperforming.
- **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. Back when it was pitched in a heated battle with much bigger rival 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 began to go digital, Java started appearing in a wide range of gadgets.
- **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. In the "cola wars," Pepsi 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;



**| Fig. 12.4 |**

General Attack Strategies

and (3) purchasing the Quaker Oats Company, owner of market leader Gatorade sports drink, for \$14 billion in 2000.<sup>43</sup> Coca-Cola has responded in turn with its own acquisitions. 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 attack.** *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, though 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. Once successful, a challenger brand must retain a challenger mentality even if it becomes a market leader, highlighting the way it does things differently.

## MARKET-FOLLOWER STRATEGIES

Theodore Levitt argues that a strategy of *product imitation* might be as profitable as a strategy of *product innovation*.<sup>44</sup> 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 may not overtake the leader, the follower can achieve high profits because it did not bear any of the innovation expense.

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. “Marketing Insight: The Costs and Benefits of Fast Fashion” describes how a set of firms is changing the fashion industry, both for better and for worse.

Followers must define a growth path, but one that doesn't invite competitive retaliation. We distinguish three broad strategies:

1. **Cloner**—The cloner emulates the leader's products, name, and packaging with slight variations. Technology firms are often accused of being cloners: Similar-sounding knockoffs copy mobile-messaging app maker WhatsApp's products, and Berlin-based Rocket Internet has copied competitors' business models and attempted to out-execute them.<sup>45</sup> Ralston Foods, now owned by ConAgra, sells imitations of name-brand cereals in look-alike boxes as part of its “Value+Brands” platform. Its Apple Cinnamon Tasteeos (versus Cheerios), Cocoa Crunchies (versus Cocoa Puffs), and Corn Biscuits (versus Corn Chex) take aim at successful General Mills brands, but with much lower price points.<sup>46</sup>
2. **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 pizza home delivery idea to Spain, where he borrowed \$80,000 to open his first store in Madrid. His Telepizza chain now holds about 70 percent of the Spanish pizza delivery market and operates more than 1,200 stores in Europe and Latin America.<sup>47</sup>
3. **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.

Note that we can contrast these three follower strategies from an illegal and unethical follower strategy. Counterfeiters duplicate the leader's product and packages and sell them on the black market or through disreputable dealers. High-tech firms like Apple and luxury brands like Rolex have been plagued by the counterfeiter

## marketing insight

### The Costs and Benefits of Fast Fashion

In the fashion industry, styles and tastes can change quickly, and some savvy businesses and retailers are developing business models to allow them to quickly capitalize. Notable among them are Sweden's Hennes & Mauritz, or H&M, and Spain's Inditex with its Zara brand. These firms can take a new garment or accessory from design to store in a mere two weeks. Their success is forcing established luxury brands like Burberry, Chanel, and Saint Tropez to speed up and increase the frequency of their new product introductions beyond the traditional fashion-week-driven fall and spring collections.

By sourcing more than half its products from Spain, Portugal, and Morocco, Inditex pays more in production, but thanks to its tightly integrated supply chain, the company can quickly stock and supply what is selling and avoid having to discount what is not. Because there is almost always something new at appealing price points, shoppers always have a reason to stop by and check out what has just arrived. H&M has adopted a similar fast-fashion model that allows it to closely follow and respond to what is selling in the marketplace.

Both firms generate most of their sales in Europe—four-fifths for H&M and two-thirds for Zara—so they are furiously moving into China, Russia, and elsewhere and opening up hundreds of new stores. But this rapid growth and continual replenishment has both an

environmental and social cost that fast-fashion companies are trying to address.

The social cost came to light when a tragic 2012 fire in a subcontracted Bangladesh garment factory killed 111 workers. Competition in the \$18 billion fashion industry is fierce, and with a focus on lean production costs, safety concerns took a backseat. Prodded by labor rights activists, Western firms finally signed a building and fire safety agreement that provided greater regulation to improve worker safety.

Another negative by-product of the fast-fashion business model is the environmental cost of making and disposing of clothing with a limited shelf life. To deflect some of the criticism, H&M adopted a series of "Recycle, Resell, or Reuse" programs and activities. Products were made using fewer, recycled materials, and customer were able to trade in old clothes for vouchers for new ones. The company also required all contract suppliers to sign a code of conduct to ensure good working conditions.

**Sources:** William Mauldin and Suzanne Kapner, "Wal-Mart and Other U.S. Retailers Commit to Factory Safety in Bangladesh," *Wall Street Journal*, July 10, 2013; Katarina Gustafsson, "H&M's New Love for Old Clothes," *Bloomberg Businessweek*, July 1, 2013; Kyle Stock, "H&M Has Been Slower than Its Fast-Fashion Rival in Escaping Europe," *Bloomberg Businessweek*, June 13, 2013; Calum Macleod, "H&M, Zara to Sign Bangladesh Factory Safety Accord," *USA Today*, May 13, 2013; Oliver Balch, "H&M: Can Fast Fashion and Sustainability Ever Really Mix?," *The Guardian*, May 3, 2013; Renee Dudley, Arun Devanth, and Matt Townsend, "The Hidden Cost of Fast Fashion: Worker Safety," *Bloomberg Businessweek*, February 7, 2013; Lucy Siegle, "Is H&M the New Home of Ethical Fashion?," *The Guardian*, April 7, 2012; "Fashion Forward," *The Economist*, March 24, 2012; Gerard Cachon and Robert Swinney, "The Value of Fast Fashion: Quick Response, Enhanced Design, and Strategic Consumer Behavior," *Management Science* 57 (April 2011); Andrew Roberts, "H&M, Zara Fast Fashion Pressures Luxury to Speed Up," *www.bloomberg.com*, September 30, 2010.



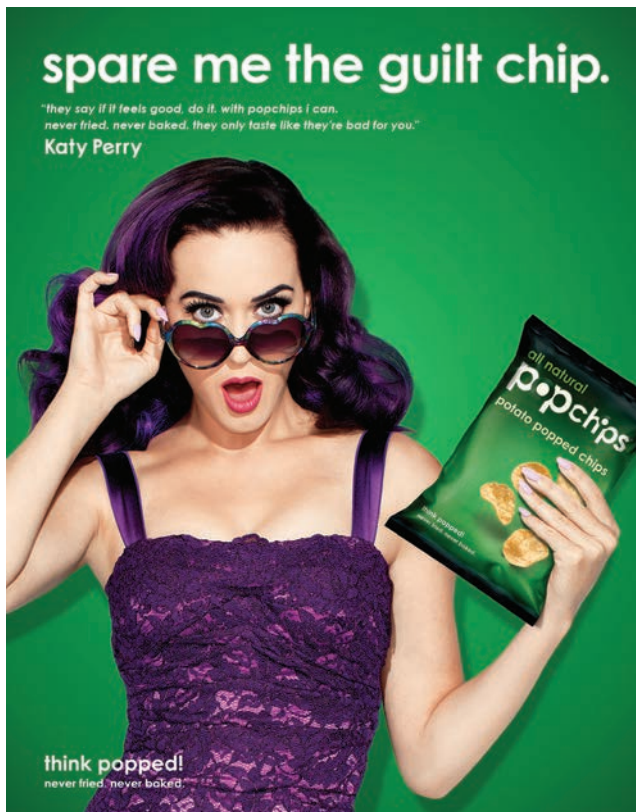
Source: ASSOCIATED PRESS

Companies who have adopted fast fashion practices emphasize low cost manufacturing with quick replenishment but must ensure that working conditions and safety are not sacrificed in the process.

problem for years, especially in Asia. Pharmaceutical counterfeits have become an enormous and potentially lethal \$75 billion business. Unregulated, drug fakes have been found to contain traces of chalk, brick dust, paint, and even pesticides.<sup>48</sup>

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





Popchips adopted an introductory marketing program similar to vitaminwater using celebrities like Katy Perry and much product sampling with consumers.

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. Some follower firms have found success, but in another industry. Les Wexner, who runs Limited Brands and its Victoria's Secret lingerie retailer, fully embraces imitation. One month a year, he travels the world looking for ideas he can borrow from other companies ranging from airlines to consumer goods makers.<sup>49</sup>

Popchips has developed a \$100 million business in part by expressly copying the successful marketing formula for vitaminwater (described in Chapter 10). As vitaminwater did, Popchips started with a novel and appealing product, converting a Los Angeles rice-cake plant to produce a new potato chip. Also like vitaminwater, Popchips then used an aggressive sampling strategy to create consumer interest and secure distribution in top retailers such as Safeway and Whole Foods. To generate buzz and broaden appeal, Popchips brought in celebrities Ashton Kutcher and Katy Perry as minority investors and marketing spokespeople.<sup>50</sup>

## 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. Over time, those markets can sometimes end up being sizable in their own right, as Huy Fong Foods has found.<sup>51</sup>



Source: © John Crowe/Alamy

Sriracha hot chili sauce has grown its sales organically with little marketing support.

**SRIRACHA HOT CHILI SAUCE** David Tran started Huy Fong Foods in Los Angeles's Chinatown in 1980, naming the company after the Taiwanese freighter that brought him to the United States as a refugee from Vietnam. Based in part on a condiment made in Si Racha, Thailand, Tan's Sriracha hot chili sauce is known as the "rooster sauce" for the distinctive rooster (Tan's astrological sign) on its green-capped squeeze bottle. A unique combination of locally sourced jalapeño peppers, vinegar, sugar, salt, and garlic created a taste that his packaging suppliers thought would be too spicy. Tran refused to change the recipe, saying, "Hot sauce must be hot. If you don't like it hot, use less. We don't make mayonnaise here." Fortunately, many consumers agreed. Huy Fong's Sriracha sauce can be bought at Walmart and enjoyed in dishes at Applebee's restaurants and in street foods in major cities. The product tastes so good that NASA has supplied it to its astronauts in space to help stave off dulled taste buds. It has never been advertised, has no Facebook page and no Twitter account, and at one point had not updated its Web site in years. Because of Sriracha's popularity, however, Huy Fong has become one of the fastest-growing U.S. food companies. Success has attracted imitators, but the firm's revenues continue to grow by at least 20 percent a year.

Firms with low shares of the total market can become highly profitable through smart niching. They know their target customers so well they can meet their needs better than other firms by offering high value, but they can also charge a premium price, achieve lower manufacturing costs, and shape a strong corporate culture and vision.<sup>52</sup> The nicher achieves *high margin*, whereas the mass marketer achieves *high volume*.

Paul Reed Smith founded PRS Guitars to compete with big rivals Fender and Gibson and supply "the Stradivarius of guitars." PRS instruments are carefully constructed of selected mahogany and figured maple, kiln-dried and sanded five times, followed by eight very thin coats of finish. They cost from \$3,000 to \$60,000, but endorsements from top musicians like Carlos Santana and distribution through well-respected retailers like Rudy's Music Shop in Manhattan have helped the brand establish a foothold.<sup>53</sup>



Source: Courtesy Paul Reed Smith Guitars and Mark Quigley



PRS Guitars has found a niche with its carefully-crafted, high-end guitars coveted by top musicians.

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 has successfully addressed the problem of a fast-shrinking niche market.<sup>54</sup>

**ZIPPO** With smoking on a steady decline, Pennsylvania-based Zippo Manufacturing found the market for its iconic brass and chrome “windproof” cigarette lighters shrinking from 18 million units sold in 1998 to 12 million in 2011. With the writing on the wall, the company decided to broaden its focus to selling “flame,” warmth, and much more, reducing its reliance on tobacco-related products to 50 percent of revenue by 2010. Although an earlier attempt to diversify into tape measures, key holders, and belt buckles in the 1960s and 1970s had diminished in the 1990s and finally discontinued in 2007, Zippo came close to meeting its new goal. It introduced a long, slender multipurpose lighter for candles, grills, and fireplaces; launched an Outdoors Line including hand warmers and fire starters sold through Dick’s Sporting Goods, REI, and True Value; and acquired W.R. Case & Sons Cutlery, a knife maker. Zippo has even launched a clothing line and men’s and women’s fragrances as a way to become more of a lifestyle brand. The company still sells its fair share of lighters by promoting new designs as well as perennial favorites like lighters with Elvis Presley’s image and the Playboy logo. It now gets 60 percent of its sales outside the United States, with China the biggest foreign market at 10 percent of sales.

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 advertisement for the Zippo Outdoor Line. The background is a fiery, orange-red scene. In the foreground, there is a Zippo lighter and a fire starter. The text reads: "STARTS THE CAMPFIRE. WHICH STARTS THE CAMPING. WHICH STARTS, WELL, EVERYTHING ELSE." Below the image, it says "INTRODUCING THE NEW ZIPPO OUTDOOR LINE." and "To make the most of your adventure you need reliable products to keep you warm. That's why you need the Zippo Outdoor Line - rugged products that start the fire in the coldest, wettest conditions. So next time you're in the great outdoors, grab the heat with Zippo." At the bottom, it says "Available soon at your local camping supply center, sporting goods store or on Zippo.com".

Source: Zippo Manufacturing Company

Zippo has expanded its product offerings beyond lighters to sell “flame” and more.

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.
- **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. McIntosh Laboratory only makes high-performance luxury audio systems—its hand-built audio products appeal to audiophiles everywhere.
- **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.

## Product Life-Cycle Marketing Strategies

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

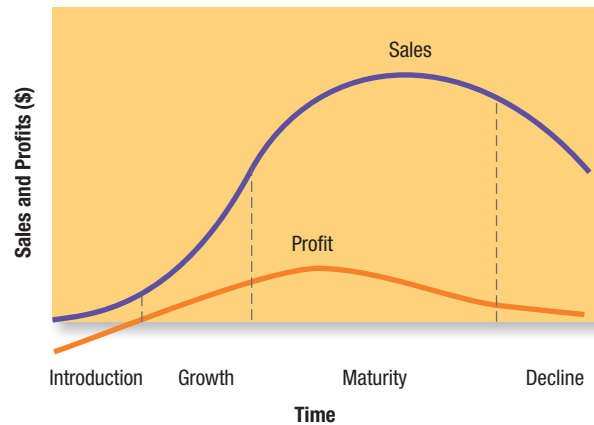
1. Products have a limited life.
2. Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller.
3. Profits rise and fall at different stages of the product life cycle.
4. Products require different marketing, financial, manufacturing, purchasing,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

### PRODUCT LIFE CYCLES

Most product life cycles are portrayed as bell-shaped curves, typically divided into four stages: introduction, growth, maturity, and decline<sup>55</sup> (see Figure 12.5).

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 (Absolut). Not all products exhibit a bell-shaped PLC.<sup>56</sup> Three common alternate patterns are shown in Figure 12.6.



| Fig. 12.5 |

## Sales and Profit Life Cycles

Figure 12.6(a) shows a *growth-slump-maturity pattern*, characteristic of small kitchen appliances like bread makers and toaster ovens. 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.

The *cycle-recycle pattern* in Figure 12.6 (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).<sup>57</sup>

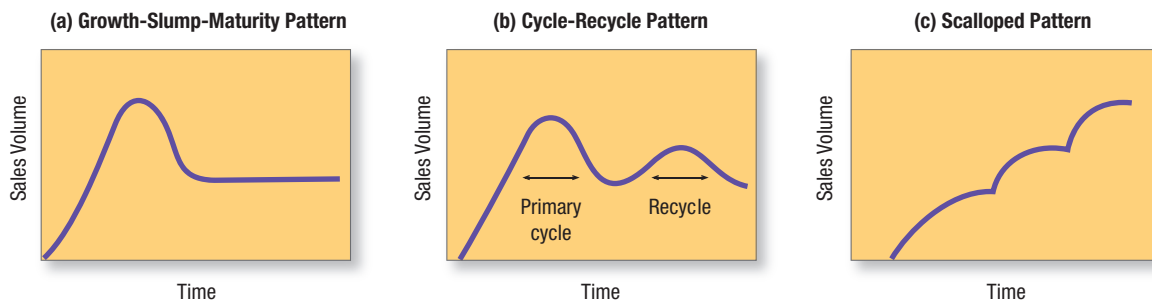
Another common pattern is the *scallop PLC* in Figure 12.6 (c). Here, sales pass through a succession of life cycles based on the discovery of new product characteristics, uses, or users. Sales of nylon showed a classic scalloped pattern because of the many new uses—parachutes, hosiery, shirts, carpeting, boat sails, automobile tires—discovered over time.<sup>58</sup>

## STYLE, FASHION, AND FAD LIFE CYCLES

We need to distinguish three special categories of product life cycles: styles, fashions, and fads (Figure 12.7). A *style* is a basic and distinctive mode of expression appearing in a field of human endeavor. Homes can be colonial, ranch, or Cape Cod; clothing is formal, business casual, or sporty; art is realistic, surrealistic, or 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.<sup>59</sup>

The length of a fashion cycle is hard to predict. One view is that fashions end because they represent a compromise, and consumers start looking for the missing attributes.<sup>60</sup> 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, discouraging others. Still another is that the length of a fashion cycle depends on whether the fashion meets a genuine need, is consistent with other trends, satisfies societal norms and values, and keeps within technological limits as it develops.<sup>61</sup>

*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 searching for excitement or wanting



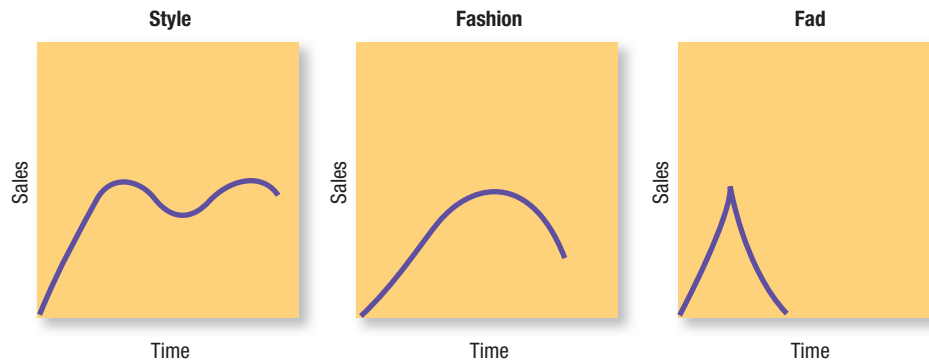
| Fig. 12.6 |

## Common Product Life-Cycle Patterns



| Fig. 12.7 |

## Style, Fashion, and Fad Life Cycles



to distinguish themselves from others. Heelys wheeled shoes were the rage with kids—for a while. Dwindling sales resulted in a sale to a private equity company for a fraction of what the company was worth at its IPO.<sup>62</sup>

Fads decline 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, as Crocs has tried to do.<sup>63</sup>

**CROCS** Crocs' signature plastic clogs or "boat shoes"—colorful, comfortable, perfect for summer—succeeded soon after their introduction in Boulder, CO, in 2002. The company's 2006 IPO was the largest ever in U.S. footwear, raising \$208 million. Its stock peaked a year later when Crocs' sales reached \$847 million. But the recession and consumer fatigue with the brand were a double whammy that led to a steep drop in sales and drove the stock price down to a mere \$1 in what the CFO now calls a "near-death experience." By 2011, however, Crocs had rebounded with more than \$1 billion in revenues and growth goals of 15 percent to 20 percent. What happened? The company had diversified into more than 300 styles of stylish, comfortable boots, loafers, sneakers, and other shoes that helped to reduce its reliance on clogs to less than 50 percent of sales. It also adopted a multichannel distribution approach to sell wholesale through retailers like Kohl's and Dick's Sporting Goods (60 percent of business), as well as directly online (10 percent) and through more than 500 of its own retail stores (30 percent). International sales now make up more than half its sales, including in emerging marketing and the growing middle-class markets in Asia and Latin America.

With sales fading fast, Crocs turned around its fortunes by expanding its product line, adopting a multichannel distribution approach, and tapping into global markets.



Source: © Per Andersen/Alamy



## MARKETING STRATEGIES: INTRODUCTION STAGE AND THE PIONEER ADVANTAGE

Because it takes time to roll out a new product, work out technical problems, fill dealer pipelines, and gain consumer acceptance, sales growth tends to be slow in the introduction stage. 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.<sup>64</sup> Prices tend to be higher because costs are high, and firms focus on buyers who are the most ready to buy. Consider the challenges Zipcar faced in trying to establish itself in the hourly car rental market.<sup>65</sup>

**ZIPCAR** Car sharing started in Europe as a means to serve those who frequently used public transportation but still needed a car a few times a month. In the United States, the appeal of Zipcar, the market leader and pioneer in car sharing, has been both environmental and economic. With a \$50 membership fee and rates that total less than \$100 a day—including gas, insurance, and parking—a typical family could save \$3,000 to \$4,000 a year by substituting Zipcar use for car ownership. The firm estimated that every car it added kept up to 20 private cars off the road. Targeting major cities and college campuses, offering a wide variety of vehicles, and facing little competition, it grew about 30 percent annually for a number of years. Rental leader Hertz decided to enter the hourly car rental business in 2012, however, equipping its entire 375,000-vehicle U.S. fleet with devices that let customers use a computer or smart phone to reserve and unlock a rental car. Unlike Zipcar, Hertz offers one-way rentals and charges no membership or annual fees. With Enterprise also entering the market at home, Zipcar set its sights overseas, concentrating initially on the United Kingdom and Spain. Needing resources to capitalize on global opportunities, in January 2013 it agreed to be acquired by Avis Budget, the number-two rental car company.

Companies that plan to introduce a new product must decide when to do so. 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. We next consider some of the pros and cons of being a pioneer in a new market.

**PIONEERING ADVANTAGES** Studies show that a market pioneer can gain a great advantage.<sup>66</sup> Campbell, Coca-Cola, Hallmark, and Amazon.com developed sustained market dominance. Nineteen of 25 market leaders in 1923 were still the market leaders 60 years later.<sup>67</sup> In a sample of industrial-goods businesses, 66 percent of pioneers survived at least 10 years versus 48 percent of early followers.<sup>68</sup>



Source: © ZUMA Press, Inc./Alamy

Zipcar pioneered the hourly car rental market in the U.S. but encountered stiff competition from established car rental companies.

## marketing insight

### Understanding Double Jeopardy

Double jeopardy is an empirical generalization that has roots in many areas but was popularized in marketing by the British academic Andrew Ehrenberg. It boils down to the fact that a small-share brand is penalized twice—it has fewer buyers than a large-share brand, and they buy less frequently. As a consequence, most of a brand's market share is explained by its market penetration and the size of its customer base, rather than by customers' repeat purchases.

Implicit in the principle of double jeopardy is the assumption that brands are substitutable and have target segments in common. It is, in fact, most often observed with weakly differentiated brands targeting the same group of people. Exceptions are highly differentiated niche brands that thrive on small shares and high loyalty and seasonal brands that offer unique value and tally cluster purchases in short periods of time.

One implication drawn by double jeopardy proponents is that marketers seeking growth should focus on increasing the size of the customer base rather than on deepening the loyalty of existing customers. They see PR efforts, distribution plans, and any means to increase brand exposure, familiarity, and availability as more important than persuasive advertising to target switchers or CRM efforts to reward loyal customers.

Critics of double jeopardy question how inevitable it is and see other implications for marketers. For example, they view new or established brands with a new positioning or message as differentiated enough to avoid double jeopardy's predicted results.

**Sources:** John Scriven and Gerald Goodhardt, "The Ehrenberg Legacy," *Journal of Advertising Research*, June 2012, pp. 198–202; Byron Sharp, *How Brands Grow: What Marketers Don't Know* (Melbourne, Australia: Oxford University Press, 2010); Nigel Hollis, "The Jeopardy in Double Jeopardy," [www.millwardbrown.com](http://www.millwardbrown.com), September 2, 2009; Andrew Ehrenberg and Gerald Goodhardt, "Double Jeopardy Revisited, Again," *Marketing Research*, 2002. See also Andrew Ehrenberg: *A Tribute (1926–2010)*, Special Section, *Journal of Advertising Research* 52 (June 2012).

What are the sources of the pioneer's advantage? "Marketing Insight: Understanding Double Jeopardy" describes one way market leaders can benefit from loyalty due to their size. 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.<sup>69</sup> 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 the ability to erect other barriers to entry. Pioneers can spend marketing dollars more effectively and enjoy higher rates of repeat purchases. An alert pioneer can lead indefinitely.

**PIONEERING DRAWBACKS** But the pioneering advantage is not inevitable.<sup>70</sup> 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 in which imitators surpassed the innovators.<sup>71</sup> 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, continuously improving the product, or using brute market power to overtake the pioneer.

Peter Golder and Gerald Tellis raise further doubts about the pioneer advantage.<sup>72</sup> 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. Including nonsurviving pioneers in their sample, they conclude that although pioneers may still have an advantage, more market pioneers fail than has been reported, and more early market leaders (though not pioneers) succeed. Later entrants overtaking market pioneers through the years included Matsushita over Sony in VCRs, GE over EMI in CAT scan equipment, and Google over Yahoo! in search.

Follow-up research by Golder and his colleagues of 625 brand leaders in 125 categories from 1921 to 2010 provides further insight:<sup>73</sup>

- Leading brands are more likely to persist during economic slowdowns and when inflation is high and less likely to persist during economic expansion and when inflation is low.
- Half the leading brands in the sample lost their leadership after being a leader over periods ranging from 12 to 39 years.

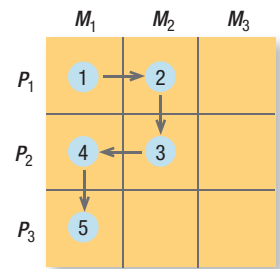
- The rate of brand leadership persistence has been substantially lower in recent eras than in earlier eras (e.g., more than 30 years ago).
- Once brand leadership has been lost, it is rarely regained.
- Categories with above-average brand leadership persistence are food and household supplies; those with below-average rates are durables and clothing.

**GAINING A PIONEERING ADVANTAGE** Tellis and Golder also identified five factors underpinning long-term market leadership: vision of a mass market, persistence, relentless innovation, financial commitment, and asset leverage.<sup>74</sup> Other research has highlighted the role of genuine product innovation.<sup>75</sup> When a pioneer starts a market with a really new product, like the Segway Human Transporter, surviving can be very challenging. For incremental innovators, like MP3 players with video capabilities, survival rates are much higher.

Speeding up innovation is essential in an age of shortening product life cycles. Being early has been shown to pay. One study found that products debuting 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 sacrificed only 4 percent of potential profits.<sup>76</sup>

Companies should not try to move too fast; they must carefully design and execute their product-launch marketing. General Motors rushed out its newly designed Malibu to get a leg up over its Honda, Nissan, and Ford midsize competitors. When all the different versions were not ready for production at launch, the brand's momentum stalled.<sup>77</sup> One study found Internet companies that realized benefits from moving fast (1) were first movers in large markets, (2) erected barriers of entry against competitors, and (3) directly controlled critical elements necessary for starting a company.<sup>78</sup>

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 segments shown in Figure 12.8. The pioneer should analyze the profit potential of each singly and of all together and decide on a market expansion path. Thus, the pioneer in Figure 12.8 plans first to enter product market  $P_1M_1$ , then move 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, serving each with two or three products.



**| Fig. 12.8 |**

**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 marketing expenditures or raise them slightly to meet competition and continue to educate the market. Sales rise much faster than marketing expenditures, causing a welcome decline in the marketing-to-sales ratio. Profits increase as marketing 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.

Sustaining a competitive advantage in the face of many possible marketplace changes can be challenging but not impossible, as evidenced by some of the long-time market leaders noted above. Finding new ways to consistently

improve customer satisfaction can go a long way. Brambles, a leading Australian logistics supplier, designed plastic bins for its grocery customers that could be filled in farmers' fields and placed directly on store shelves, saving the grocers significant labor costs in the process.<sup>79</sup>

## 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 they 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 to 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 will steadily erode. Here's how Swedish appliance manufacturer Electrolux has coped with this situation.<sup>80</sup>

---

**ELECTROLUX AB** In 2002, Swedish manufacturer 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 CEO at the time, Hans Stråberg, decided to escape the middle by rethinking customers' wants and needs. He segmented the market according to the lifestyle and purchasing patterns of about 20 different types of consumers to help target and position the company's broad portfolio of brands, which includes Electrolux as well as Frigidaire refrigerators, AEG ovens, and Zanussi coffee machines. 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 offered 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." Under new CEO Keith McLoughlin, Electrolux is concentrating on the top end of the appliance market, selling professional-grade ranges to the ultra-luxury consumer segment. With distribution and local market presence in more than 150 countries, the company is well positioned for global growth, especially in emerging markets.

---

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 Japanese firms, 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, number of brand users and usage rate per customer, as in Table 12.1, but competitors may match this strategy.

**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*



**TABLE 12.1** Alternate Ways to Increase Sales Volume

Expand the Number of Users	Increase the Usage Rates among Users
<ul style="list-style-type: none"> <li>• <i>Convert nonusers.</i> The key to the growth of air freight service was the constant search for new users to whom air carriers could demonstrate the benefits of using air freight rather than ground transportation.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Have consumers use the product on more occasions.</i> Serve Campbell's soup for a snack. Use Heinz vinegar to clean windows.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Enter new market segments.</i> When Goodyear decided to sell its tires in Walmart, Sears, and Discount Tire, it immediately boosted its market share.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Have consumers use more of the product on each occasion.</i> Drink a larger glass of orange juice.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Attract competitors' customers.</i> Marketers of Puffs facial tissues are always wooing Kleenex customers.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Have consumers use the product in new ways.</i> Use Tums antacid as a calcium supplement.</li> </ul>

*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 improvements can attract consumer attention. In the highly competitive digital photography space, Shutterfly has grown revenue to \$600 million in annual sales by converting customers' digital images to tangible items: photo books, calendars, greeting cards, wedding invitations, wall decals, and more.<sup>81</sup>

The paper industry is also coping with the challenges of the digital era. As long as some consumers prefer to read, store, or share hard-copy documents, the industry recognizes it must also provide as environmentally sound a solution as possible. Suppliers have worked to develop a more environmentally friendly supply chain from seedlings and reforestation, adopt greener pulp and paper production, recycle, and reduce their carbon footprint.<sup>82</sup> Such efforts are crucial for success and even survival. Due to the rise of e-mail, online bill payments, and other digital developments, leading envelope maker National Envelope declared Chapter 11 bankruptcy twice from 2011 to 2013 as a result of dwindling sales, while leading postage meter supplier Pitney Bowes expanded its digital operations.<sup>83</sup>

**MARKETING PROGRAM MODIFICATION** Finally, brand managers might also try to stimulate sales by modifying non-product elements—price, distribution, and communications in particular—as we will review in later chapters. They should assess the likely success of any changes in terms of their 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 cutting, and profit erosion. The decline might be slow, as for sewing machines and newspapers, or rapid, as it was 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 Memo: Managing a Marketing Crisis" describes strategies for a brand in temporary trouble.

As sales and profits decline, some firms withdraw. Those remaining may reduce the number of products they offer, exiting 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. Encyclopædia Britannica ceased production of its iconic bound sets of encyclopedias once consumers felt they could get adequate content elsewhere for much less or free. The company rebounded by focusing on the online educational market. Valuing

marketing  
memo

## Managing a Marketing Crisis

Marketing managers must assume a brand crisis will someday arise. Chick-fil-A, BP, Domino's, and Toyota have all experienced damaging and even potentially crippling brand crises. Bank of America, JPMorgan, AIG, and other financial services firms have been rocked by scandals that significantly eroded investor trust. Repercussions include (1) lost sales, (2) reduced effectiveness of marketing activities, (3) increased sensitivity to rivals' marketing activities, and (4) reduced impact of the firm's marketing activities on competing brands.

In general, the stronger the brand equity and corporate image—especially credibility and trustworthiness—the more likely the firm can weather the storm. Careful preparation and a well-managed crisis management program are also critical, however. As Johnson & Johnson's legendary and nearly flawless handling of the Tylenol product-tampering incident taught marketers everywhere, consumers must 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 even ads, can help avoid those problems.

A classic example is Perrier—the one-time brand leader in the bottled water category. 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 more than 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.

The more sincere the firm's response—ideally a public acknowledgment of the impact on consumers and willingness to take necessary steps—the less likely consumers will form negative attributions. When shards of glass were found 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.”

If a problem exists, consumers need to know without a shadow of a doubt that the company has found the proper solution. One of the keys to Tylenol's recovery was J&J's introduction of triple tamper-proof packaging, successfully eliminating consumer worry that the product could ever be tampered with again.



Source: © SQUIB/Alamy

By mishandling a brand crisis, Perrier lost market share which it never recovered.

**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; Anne Marie Kelly, “Has Toyota's Image Recovered from the Brand's Recall Crisis?,” *Forbes*, March 5, 2012; Mark Guarino, “Chick-fil-A: Will the Controversy Hurt Chain's Expansion Plans?,” *Christian Science Monitor*, August 3, 2012; Mark McNeilly, “5 Steps to Handling Your Next Brand Crisis,” *Fast Company*, August 15, 2012; Kathleen Cleeren, Harald J. van Heerde, and Marnik G. Dekimpe, “Rising from the Ashes: How Brands and Categories Can Overcome Product-Harm Crises,” *Journal of Marketing* 77 (March 2013), pp. 58–77.

the company's long-standing mission to bring expert knowledge to the general public, more than half of U.S. students and teachers have access to some Britannica content.<sup>84</sup>

**ELIMINATING WEAK PRODUCTS** Besides being unprofitable, weak products consume a disproportionate amount of management's time, require frequent price and inventory adjustments, incur expensive setup for what are usually 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. Maintaining them also delays the aggressive search for replacement products, creating a lopsided product mix long on yesterday's breadwinners and short on tomorrow's.

Recognizing these drawbacks, General Motors decided to drop the floundering Oldsmobile and Pontiac lines.<sup>85</sup> 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, make a recommendation for each product—leave it alone, modify its marketing strategy, or drop it.<sup>86</sup>

Some firms abandon declining markets earlier than others. Much depends on the height of exit barriers in the industry. 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.

**HARVESTING AND DIVESTING** Strategies for harvesting and for 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. And it can substantially increase current cash flow.<sup>87</sup>

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



Source: © John Gaffen 2/Alamy

Despite its history with one-time popular models like the GTO, General Motors chose to cease production of the floundering Pontiac product line.

pain reliever, and Salon Selective shampoos.<sup>88</sup> 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."<sup>89</sup>

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 12.2 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. Another study by Golder and Tellis of 30 product categories unearthed a number of interesting findings about the PLC:<sup>90</sup>

- 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.

**TABLE 12.2** Summary of Product Life-Cycle Characteristics, Objectives, and Strategies

	Introduction	Growth	Maturity	Decline
<b>Characteristics</b>				
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
<b>Marketing Objectives</b>				
	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand
<b>Strategies</b>				
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).



- The growth stage lasts a little more than 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 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.<sup>91</sup>

## 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.<sup>92</sup> Like products, markets evolve through four stages: emergence, growth, maturity, and decline. Consider the evolution of the paper towel market.

**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. A later innovation was wipes containing a cleaning agent (like Clorox Disinfecting Wipes) that are often surface-specific (for wood, metal, or stone). Thus, driven by innovation and competition, paper towels evolved from a single product to one with various absorbencies, strengths, and applications.

# Marketing in a Slow-Growth Economy

Given economic cycles, there will always be tough times, such as the recession of 2008–2009 and the slow recovery that has followed. Despite reduced funding for marketing programs and intense pressure to justify them as cost effective, some marketers have survived—or even thrived—in tough economic times. Here are five guidelines for improving the odds for marketing success in a slow-growth economy.<sup>93</sup>

## EXPLORE THE UPSIDE OF INCREASING INVESTMENT

Forty years of evidence suggests those willing to invest during a recession have, on average, improved their fortunes more than those that cut back.<sup>94</sup> Marketers should consider the potential upside of increasing investment to exploit a marketplace advantage like an appealing new product, a weakened rival, or a neglected target market to develop. Here are two companies that did.

- General Mills increased marketing expenditures for the 2009 fiscal year by 16 percent, increased revenues by 8 percent to \$14.7 billion, and increased operating profit by 4 percent. As CEO Ken Powell explained, “In an