18 Creating Competitive Advantage

Chapter Preview

In previous chapters, you explored the basics of marketing. You learned that the aim of marketing is to create value *for* customers in order to capture value *from* them in return. Good marketing companies win, keep, and grow customers by understanding customer needs, designing customer-driven marketing strategies, constructing value-delivering marketing programs, and building customer and marketing partner relationships. In the final three chapters, we'll extend this concept to three special areas: creating competitive advantage, global marketing, and social and environmental marketing sustainability.

In this chapter, we pull all the marketing basics together. Understanding customers is an important first step in developing profitable customer relationships, but it's not enough. To gain competitive advantage, companies must use this understanding to design marketing offers that deliver more value than the offers of competitors seeking to win the same customers. In this chapter, we look first at competitor analysis—the process companies use to identify and analyze competitors. Then we examine competitive marketing strategies by which companies position themselves against competitors to gain the greatest possible competitive advantage.

Let's first look at Korean carmaker Hyundai (rhymes with Sunday). When the Great Recession of 2008 battered the automobile industry, most car companies slashed their marketing budgets and battened down the hatches to weather the economic storm. But one company—Hyundai—did just the opposite. It *increased* its marketing spending as rivals were cutting back. And it found just the right value proposition for the changing economic times and marketplace.

Hyundai: Hitting the Accelerator When Competitors Throttle Down

Consider the state of affairs when viewers tuned into the Super Bowl in February 2009. Banks had failed, the stimulus package still hadn't been announced, and unemployment was surging. Escapism was the order of the day, and most advertisers played right along, with brands like Bud Lite and Coke offering happy-happy, joy-joy ads that jarred with reality. There was one advertiser, however, that didn't. In the third quarter, in an otherwise standard-issue, cars-rolling-through-the-landscape spot, a voice-over brought into the light of day something that most people didn't want to talk about. "Now finance or lease a new Hyundai, and if you lose your income in the next year, you can return it with no impact on your credit."

With that bold stroke, Hyundai—yes, Hyundai—an automaker not historically known for fearless marketing, began in earnest a frontal assault on a recession that was not only dampening consumer enthusiasm but also drowning it. Then, in sharp contrast to the tail-between-the-legs mode of Hyundai's rivals, many of whom had slashed their marketing budgets, the Korean carmaker put the pedal to the marketing metal by repeating the Hyundai Assurance promise in an eye-popping nine high-profile spots on the Academy Awards.

Hyundai's aggressive, customer-focused marketing strategy in the face of the economic downturn produced stunning results. The Hyundai Assurance program resonated with debt-wary consumers, and Hyundai's sales rocketed 59 percent for January and February 2009 as compared with the previous year. Nielsen's postgame survey showed that 43 percent of participants who saw the ads improved their opinion of Hyundai. The Hyundai Assurance program, "made people feel Hyundai cared about their situation—that they were sympathetic," said one analyst. The ads said, "We hear you. We understand. We're in this together."

Hyundai's competitive marketing strategy is all about opportunity, aggressiveness, and speed. In 1986, then virtually unknown Hyundai entered the U.S. market with its small, entry-level Hyundai Excel, priced at an incredibly low $5,000. After some early success, Hyundai hit a speed bump with design and quality. The car's outdated looks, underpowered engine, and flimsy engineering made it the butt of jokes by late-night comics. David Letterman once joked that if you

wanted to really frighten the astronauts in space, just place a Hyundai logo on the space shuttle's control panel.

Undeterred, however, Hyundai stepped up its investments in quality, new model introductions, and marketing. In late 1998, Hyundai introduced the industry's first 10-year, 100,000-mile drivetrain warranty, and by 2007 it had substantially improved both its quality and its reputation. In 2008, the company introduced its new Genesis upmarket sedan—a step up from its best-selling midsize Sonata model and the priciest Hyundai ever.

Then came the Great Recession and the virtual implosion of the U.S. auto industry. But rather than throttling down, Hyundai hit the accelerator. As rivals were cutting their marketing budgets, an opportunistic Hyundai *increased* its spending. More spending, however, means little without good marketing ideas. With the economy down, what could Hyundai possibly say that would get reluctant consumers buying again?

Joel Ewanick, Hyundai's chief marketing officer, asked consumers directly. "You can only learn so much by reading research numbers," he said. "It's another thing to have them look you in the eye and say how they feel." In focus groups, Ewanick kept asking, "Why aren't you buying a car right now? You say you want to buy one, but you aren't doing it." As he pressed the question, people began to open up. "We realized the elephant in the room was the fear of losing your job," Ewanick recounts. "This was a recession of fear."

Hyundai acted quickly on this insight. Within only 37 days, it had fashioned the Hyundai Assurance program and produced TV ads. It purchased two spots in the 2009 Super Bowl, along with sponsorship of the pregame show, followed by those nine Academy Award spots. These bold marketing moves and Hyundai's customer-focused value proposition helped the brand turn the corner on customer perceptions. Even though only about 100 customers returned their cars, the Hyundai Assurance program won Hyundai enormous amounts of attention and goodwill. The ads alerted customers that Hyundai stood behind its brands and with its buyers. "The idea of giving people the option to give the car back if they were struggling . . . seemed to make customers comfortable and increase our market share in an economy like this," said Ewanick.

Moving forward, despite the still-slowed economy, Hyundai showed no signs of slowing down. In 2010, it introduced a new premium luxury model called Equus (with a price tag of about $60,000), designed to compete with top-of-the-line models marketed by Mercedes, BMW, and Audi that cost $20,000 more. It also introduced the Sonata Hybrid and the Sonata Turbo models. Although it continued its Hyundai Assurance program through 2010, in line with a changing economy, Hyundai's more recent ads have shifted from "the safety of purchasing a Hyundai to the safety of driving one." And whatever the economy, Hyundai continues to pour resources into marketing.

"Hyundai is for real," says one analyst. "Competitors hate them. Customers love them."

Customers seem to be getting a new message about Hyundai. "Five years ago, Hyundai was known for its low prices, so-so quality, and a 100,000-mile power-train warranty," says an industry observer. "Today, . . . Hyundai stands for softer, more positive qualities like smart, fresh, and high-tech." Sixty percent of U.S. consumers are now aware of the brand and willing to buy it, up from 40 percent two years ago. Astonished Hyundai dealers are seeing consumers trade in Acura, BMW, and even Mercedes vehicles for the Hyundai Genesis and Equus models. "We're really eroding other brands," crows one dealer.

Thanks to its marketing hustle, improved quality, and aggressive tactics, Hyundai is now one of world's fastest-growing major auto manufacturers. Its U.S. market share has climbed to 4.3 percent, up from 3.1 percent a year earlier, making it the nation's sixth biggest brand by sales. Last year, Hyundai passed Ford to move into fourth place globally. Moreover, Hyundai ranked seventh in last year's J.D. Power's Annual Initial Quality Survey—right up there with Honda and Lexus and well ahead of Toyota. And to top things off, the brand ranked number one last year in the well-respected Brand Keys customer loyalty ratings, surpassing even perennial front-runners Toyota and Honda. "Fans show their loyalty in all kinds of ways," says one ad. "Ours just buy another Hyundai."

Thus, Hyundai has the right competitive marketing strategy for its customers, the changing economy, and the competitive marketplace. "Hyundai is for real," concludes an analyst. "Competitors hate them. Customers love them."[1]

Hyundai's marketing hustle and aggressive competitive marketing strategy have made it the world's fastest-growing major car maker. When rivals throttled down on marketing, Hyundai hit the accelerator.

Objective OUTLINE

Objective 1 **Discuss the need to understand competitors as well as customers through competitor analysis.**

Objective 2 **Explain the fundamentals of competitive marketing strategies based on creating value for customers.**

Objective 3 **Illustrate the need for balancing customer and competitor orientations in becoming a truly market-centered organization.**

Competitive advantage
An advantage over competitors gained by offering consumers greater value than competitors do.

Competitor analysis
The process of identifying key competitors; assessing their objectives, strategies, strengths and weaknesses, and reaction patterns; and selecting which competitors to attack or avoid.

Competitive marketing strategies
Strategies that strongly position the company against competitors and give the company the strongest possible strategic advantage.

Today's companies face their toughest competition ever. In previous chapters, we argued that to succeed in today's fiercely competitive marketplace, companies must move from a product-and-selling philosophy to a customer-and-marketing philosophy.

This chapter spells out in more detail how companies can go about outperforming competitors to win, keep, and grow customers. To win in today's marketplace, companies must become adept not only in managing products but also in managing customer relationships in the face of determined competition and a difficult economic environment. Understanding customers is crucial, but it's not enough. Building profitable customer relationships and gaining **competitive advantage** requires delivering more value and satisfaction to target customers than competitors do. Customers will see competitive advantages as *customer advantages*, giving the company an edge over its competitors.

In this chapter, we examine competitive marketing strategies—how companies analyze their competitors and develop successful, customer value-based strategies for building and maintaining profitable customer relationships. The first step is **competitor analysis**, the process of identifying, assessing, and selecting key competitors. The second step is developing **competitive marketing strategies** that strongly position the company against competitors and give it the greatest possible competitive advantage.

Author Comment Creating competitive advantage begins with a thorough understanding of competitors' strategies. But before a company can analyze its competitors, it must first identify them—a task that's not as simple as it seems.

Competitor Analysis (pp 528–535)

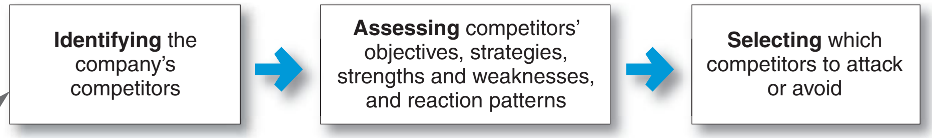
To plan effective marketing strategies, the company needs to find out all it can about its competitors. It must constantly compare its marketing strategies, products, prices, channels, and promotions with those of close competitors. In this way, the company can find areas of potential competitive advantage and disadvantage. As shown in **Figure 18.1**, competitor analysis involves first identifying and assessing competitors and then selecting which competitors to attack or avoid.

Identifying Competitors

Normally, identifying competitors would seem to be a simple task. At the narrowest level, a company can define its competitors as other companies offering similar products and services to the same customers at similar prices. Thus, Abercrombie & Fitch might see the Gap as a major competitor, but not Macy's or Target. The Ritz-Carlton might see the Four Seasons hotels as a major competitor, but not Holiday Inn, the Hampton Inn, or any of the thousands of bed-and-breakfasts that dot the nation.

However, companies actually face a much wider range of competitors. The company might define its competitors as all firms with the same product or class of products. Thus, the Ritz-Carlton would see itself as competing against all other hotels. Even more broadly, competitors might include all companies making products that supply the same service.

FIGURE | 18.1
Steps in Analyzing Competitors



Identifying competitors isn't as easy as it seems. For example, now bankrupt music superstore Tower Records saw other music stores as its only major competitors. But its real competitors turned out to be discounters, such as Best Buy and Walmart, and digital download services, such as iTunes.

Here the Ritz-Carlton would see itself competing not only against other hotels but also against anyone who supplies rooms for weary travelers. Finally, and still more broadly, competitors might include all companies that compete for the same consumer dollars. Here the Ritz-Carlton would see itself competing with travel and leisure services, from cruises and summer homes to vacations abroad.

Companies must avoid "competitor myopia." A company is more likely to be "buried" by its latent competitors than its current ones. For example, it wasn't direct competitors that put an end to Western Union's telegram business after 161 years; it was cell phones and the Internet. Music superstore Tower Records didn't go bankrupt at the hands of other traditional music stores; it fell victim to unexpected competitors such as Best Buy, Walmart, and iTunes and other digital download services. Another classic example of competitor myopia is the United States Postal Service (USPS):[2]

Identifying competitors: It's not direct competitors such as FedEx or UPS that are causing problems for the U.S. Postal Service. It's the soaring personal and business use of e-mail and online transactions.

> The USPS is losing money at a mind-boggling rate—billions of dollars per year. But it's not direct competitors such as FedEx or UPS that are the problem. Instead, it's a competitor that the USPS could hardly have even imagined a decade and a half ago—the soaring use of personal and business e-mail and online transactions, what the USPS calls "electronic diversion." As Internet usage has surged, personal and business letter mail have plunged. Last year alone, the USPS delivered an eye-popping 25.6 billion fewer mail pieces compared with the previous year. That's *billion*! The USPS's response: Proposed increases in postage stamp prices and a reduction from five-day delivery to three-day delivery, moves that will almost certainly reduce mail volume further. The solution? When I figure it out, I'll e-mail you.

Companies can identify their competitors from an *industry* point of view. They might see themselves as being in the oil industry, the pharmaceutical industry, or the beverage industry. A company must understand the competitive patterns in its industry if it hopes to be an effective player in that industry. Companies can also identify competitors from a *market* point of view. Here they define competitors as companies that are trying to satisfy the same customer need or build relationships with the same customer group.

From an industry point of view, Pepsi might see its competition as Coca-Cola, Dr Pepper, 7UP, and the makers of other soft drink brands. From a market point of view, however, the customer really wants "thirst quenching"—a need that can be satisfied by bottled water, energy drinks, fruit juice, iced tea, and many other fluids. Similarly, Hallmark's Crayola crayons might define its competitors as other makers of crayons and children's drawing supplies. But from a market point of view, it would include all firms making recreational and educational products for children. In general, the market concept of competition opens the company's eyes to a broader set of actual and potential competitors.

Assessing Competitors

Having identified the main competitors, marketing management now asks: What are the competitors' objectives? What does each seek in the marketplace? What is each competitor's strategy? What are various competitor's strengths and weaknesses, and how will each react to actions the company might take?

Determining Competitors' Objectives

Each competitor has a mix of objectives. The company wants to know the relative importance that a competitor places on current profitability, market share growth, cash flow, technological leadership, service leadership, and other goals. Knowing a competitor's mix of objectives reveals whether the competitor is satisfied with its current situation and how it might react to different competitive actions. For example, a company that pursues low-cost leadership will react much more strongly to a competitor's cost-reducing manufacturing breakthrough than to the same competitor's advertising increase.

A company also must monitor its competitors' objectives for various segments. If the company finds that a competitor has discovered a new segment, this might be an opportunity. If it finds that competitors plan new moves into segments now served by the company, it will be forewarned and, hopefully, forearmed.

Identifying Competitors' Strategies

Strategic group
A group of firms in an industry following the same or a similar strategy.

The more that one firm's strategy resembles another firm's strategy, the more the two firms compete. In most industries, the competitors can be sorted into groups that pursue different strategies. A **strategic group** is a group of firms in an industry following the same or a similar strategy in a given target market. For example, in the major appliance industry, GE and Whirlpool belong to the same strategic group. Each produces a full line of medium-price appliances supported by good service. ◉ In contrast, Sub-Zero and Viking belong to a different strategic group. They produce a narrower line of higher-quality appliances, offer a higher level of service, and charge a premium price.

◉ **Strategic groups: Viking belongs to an appliance industry strategic group that offers a narrow line of high-quality appliances supported by good service.**

Some important insights emerge from identifying strategic groups. For example, if a company enters a strategic group, the members of that group become its key competitors. Thus, if the company enters a group containing GE and Whirlpool, it can succeed only if it develops strategic advantages over these two companies.

Although competition is most intense within a strategic group, there is also rivalry among groups. First, some strategic groups may appeal to overlapping customer segments. For example, no matter what their strategy, all major appliance manufacturers will go after the apartment and homebuilders segment. Second, customers may not see much difference in the offers of different groups; they may see little difference in quality between GE and Whirlpool. Finally, members of one strategic group might expand into new strategy segments. Thus, GE's Monogram and Profile lines of appliances compete in the premium-quality, premium-price line with Viking and Sub-Zero.

The company needs to look at all the dimensions that identify strategic groups within the industry. It must understand how each competitor delivers value to its customers. It needs to know each competitor's product quality, features, and mix; customer services; pricing policy; distribution coverage; sales force strategy; and advertising and sales promotion programs. And it must study the details of each competitor's R&D, manufacturing, purchasing, financial, and other strategies.

Assessing Competitors' Strengths and Weaknesses

Marketers need to carefully assess each competitor's strengths and weaknesses to answer a critical question: What *can* our competitors do? As a first step, companies can gather data on each competitor's goals, strategies, and performance over the past few years. Admittedly, some of this information will be hard to obtain. For example, B-to-B marketers find it hard to estimate competitors' market shares because they do not have the same syndicated data services that are available to consumer packaged-goods companies.

Companies normally learn about their competitors' strengths and weaknesses through secondary data, personal experience, and word of mouth. They can also conduct primary marketing research with customers, suppliers, and dealers. Or they can **benchmark** themselves against other firms, comparing one company's products and processes to those of competitors or leading firms in other industries to identify best practices and find ways to improve quality and performance. Benchmarking has become a powerful tool for increasing a company's competitiveness.

Benchmarking
The process of comparing the company's products and processes to those of competitors or leading firms in other industries to identify best practices and find ways to improve quality and performance.

Estimating Competitors' Reactions

Next, the company wants to know: What *will* our competitors do? A competitor's objectives, strategies, and strengths and weaknesses go a long way toward explaining its likely actions. They also suggest its likely reactions to company moves, such as price cuts, promotion increases, or new-product introductions. In addition, each competitor has a certain philosophy of doing business, a certain internal culture and guiding beliefs. Marketing managers need a deep understanding of a given competitor's mentality if they want to anticipate how the competitor will act or react.

Each competitor reacts differently. Some do not react quickly or strongly to a competitor's move. They may feel their customers are loyal, they may be slow in noticing the move, or they may lack the funds to react. Some competitors react only to certain types of moves and not to others. Other competitors react swiftly and strongly to any action. Thus, P&G does not allow a competitor's new detergent to come easily into the market. Many firms avoid direct competition with P&G and look for easier prey, knowing that P&G will react fiercely if it is challenged.

In some industries, competitors live in relative harmony; in others, they fight constantly. Knowing how major competitors react gives the company clues on how best to attack competitors or how best to defend its current positions.

Selecting Competitors to Attack and Avoid

A company has already largely selected its major competitors through prior decisions on customer targets, distribution channels, and its marketing-mix strategy. Management now must decide which competitors to compete against most vigorously.

Strong or Weak Competitors

The company can focus on one of several classes of competitors. Most companies prefer to compete against weak competitors. This requires fewer resources and less time. But in the process, the firm may gain little. You could argue that the firm also should compete with strong competitors to sharpen its abilities. Moreover, even strong competitors have some weaknesses, and succeeding against them often provides greater returns.

A useful tool for assessing competitor strengths and weaknesses is **customer value analysis**. The aim of customer value analysis is to determine the benefits that target customers value and how customers rate the relative value of various competitors' offers. In conducting a customer value analysis, the company first identifies the major attributes that customers value and the importance customers place on these attributes. Next, it assesses its performance and the performance of its competitors on those valued attributes.

Customer value analysis
An analysis conducted to determine what benefits target customers value and how they rate the relative value of various competitors' offers.

The key to gaining competitive advantage is to take each customer segment and examine how the company's offer compares to that of its major competitors. The company wants to find the place in the market where it meets customers' needs in a way that rivals can't. If the company's offer delivers greater value by exceeding the competitor's offer on important attributes, the company can charge a higher price and earn higher profits, or it can charge the same price and gain more market share. But if the company is seen as performing at a lower level than its major competitors on some important attributes, it must invest in strengthening those attributes or finding other important attributes where it can build a lead on its competitors.

Close or Distant Competitors

Most companies will compete with close competitors—those that resemble them most—rather than distant competitors. Thus, Nike competes more against Adidas than against Timberland or Keen. And Target competes against Walmart rather than Neiman Marcus or Nordstrom.

At the same time, the company may want to avoid trying to "destroy" a close competitor. For example, in the late 1970s, Bausch & Lomb moved aggressively against other soft lens manufacturers with great success. However, this forced weak competitors to sell out to larger firms such as Johnson & Johnson (J&J). As a result, Bausch & Lomb then faced much larger competitors—and it suffered the consequences. J&J acquired Vistakon, a small nicher with only $20 million in annual sales. Backed by J&J's deep pockets, the small but nimble Vistakon developed and introduced its innovative Acuvue disposable lenses. With Vistakon leading the way, J&J is now the dominant U.S. contact lens maker, while Bausch & Lomb lags in third place. In this case, success in hurting a close rival brought in tougher competitors.[3]

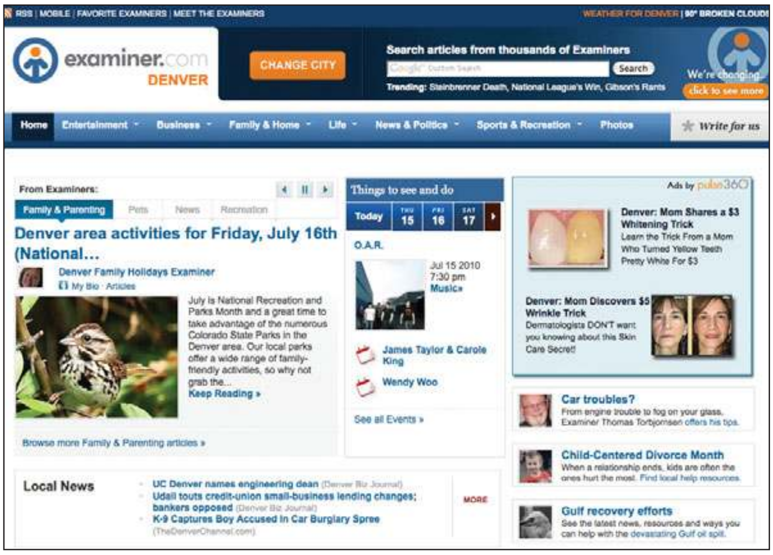
Good or Bad Competitors

A company really needs and benefits from competitors. The existence of competitors results in several strategic benefits. Competitors may share the costs of market and product development and help legitimize new technologies. They may serve less-attractive segments or lead to more product differentiation. Finally, competitors may help increase total demand. For example, you might think that an independent coffeehouse surrounded by Starbucks stores might have trouble staying in business. But that's often not the case:[4]

> Coffee shop owners around the country have discovered that the corporate steamroller known as Starbucks is actually good for their business. It turns out that when a Starbucks comes to the neighborhood, the result is new converts to the latte-drinking fold. When all those converts overrun the local Starbucks, the independents are there to catch the spillover. In fact, some independent storeowners now actually try to open their stores near a Starbucks if they can. That's certainly not how the coffee behemoth planned it. "Starbucks is actually *trying* to be ruthless," says the owner of a small coffeehouse chain in Los Angeles. But "in its predatory store-placement strategy, Starbucks has been about as lethal a killer as a fluffy bunny rabbit."

However, a company may not view all its competitors as beneficial. An industry often contains *good competitors* and *bad competitors*. Good competitors play by the rules of the industry. Bad competitors, in contrast, break the rules. They try to buy share rather than earn it, take large risks, and play by their own rules.

For example, the nation's traditional newspapers face a lot of bad competitors these days. Digital services that overlap with traditional newspaper content are bad competitors because they offer for free real-time content that subscription-based newspapers printed once a day can't match. An example is Craigslist, the online community that lets local users post largely free classified ads. Started as a hobby about 15 years ago by Craig Newmark, Craigslist has never cared all that much about profit margins, and that's about as bad as the competitor can get. ◉ Another example is *Examiner .com*, the "insider source for everything local." The hyperlocal online newspaper is authored by "pro-am contributors," referred to as "Examiners," who are paid based on page views instead of a flat rate per article. The ad-supported site is free to users, versus the subscription rates charged by traditional newspapers. Such unorthodox digital competitors have helped to drive many traditional newspapers into bankruptcy in recent years.



◉ **Bad competitors: Unorthodox digital competitors, such as *Examiner.com*, have helped to drive many traditional newspapers into bankruptcy in recent years.**

Finding Uncontested Market Spaces

Rather than competing head to head with established competitors, many companies seek out unoccupied positions in uncontested market spaces. They try to create products and services for which there are no direct competitors. Called a "blue ocean strategy," the goal is to make competition irrelevant:[5]

> Companies have long engaged in head-to-head competition in search of profitable growth. They have flocked for competitive advantage, battled over market share, and struggled for differentiation. Yet in today's overcrowded industries, competing head-on results in nothing but a bloody "red ocean" of rivals fighting over a shrinking profit pool. In their book *Blue Ocean Strategy*, two marketing professors contend that although most companies compete within such red oceans, the strategy isn't likely to create profitable growth in the future. Tomorrow's leading companies will succeed not by battling competitors but by creating "blue oceans" of uncontested market space. Such strategic moves—termed *value innovation*—create powerful leaps in value for both the firm and its buyers, creating all new demand and rendering rivals obsolete. By creating and capturing blue oceans, companies can largely take rivals out of the picture.

One example of a company exhibiting blue-ocean thinking is Allegiant Air, the profitable low-cost airline that avoids direct competition with major airline rivals by targeting smaller, neglected markets and new flyers. Allegiant "goes where they ain't" (see Real Marketing 18.1). Another example is Cirque du Soleil, which reinvented the circus as a higher form of modern entertainment. At a time when the circus industry was declining, Cirque du Soleil innovated by eliminating high cost and controversial elements such as animal acts and instead focused on the theatrical experience. Cirque du Soleil did not compete with then market leader Ringling Bros. and Barnum & Bailey; it was altogether different from anything that preceded it. Instead, it created an uncontested new market space that made existing competitors irrelevant. The results have been spectacular. Thanks to its blue-ocean strategy, in only its first 20 years, Cirque du Soleil achieved more revenues than Ringling Brothers and Barnum & Bailey achieved in its first 100 years.

Designing a Competitive Intelligence System

We have described the main types of information that companies need about their competitors. This information must be collected, interpreted, distributed, and used. Gathering competitive intelligence can cost considerable money and time, so the company must design a cost-effective competitive intelligence system.

The competitive intelligence system first identifies the vital types of competitive information needed and the best sources of this information. Then, the system continuously collects information from the field (sales force, channels, suppliers, market research firms, Web sites, and trade associations) and published data (government publications, speeches, and online databases). Next the system checks the information for validity and reliability, interprets it, and organizes it in an appropriate way. Finally, it sends key information to relevant decision makers and responds to inquiries from managers about competitors.

With this system, company managers receive timely intelligence information about competitors in the form of reports, phone calls, e-mails, bulletins, and newsletters. Managers can also connect with the system when they need to interpret a competitor's sudden move, when they want to know a competitor's weaknesses and strengths, or when they need to know how a competitor will respond to a planned company move.

Smaller companies that cannot afford to set up formal competitive intelligence offices can assign specific executives to watch specific competitors. Thus, a manager who used to work for a competitor might follow that competitor closely; he or she would be the "in-house expert" on that competitor. Any manager needing to know the thinking of a given competitor could contact the assigned in-house expert.

Real Marketing 18.1

Allegiant Air: "Going Where They Ain't"

In July 2001, Maurice Gallagher wanted to start a new airline. Conventional wisdom suggested that, to be successful, a new airline needed to follow the JetBlue model: Invest a lot of cash and fly from a large urban hub with lots of brand-new planes. It needed to meet competitors head-on, wresting frequent flyers from rival airlines in the hypercompetitive commercial airspace. Unfortunately, Gallagher didn't have much cash, and he had only one aging, gas-guzzling, 150-seat MD-80 airplane. So he needed to find a different model—a blue ocean strategy—that would give him an uncontested place in the chronically overcrowded skies.

The result was Allegiant Air, arguably today's most successful American airline. Over the past five years, as other airlines struggled through the worst recession in recent history, Allegiant has seen five straight years of profits—something no other airline can claim. Last year alone, Allegiant's revenue soared 11 percent and profits more than doubled, with operating margins of 22 percent, which were triple the industry average. As other airlines were cutting back, the budding Allegiant Air launched 27 new routes and ended the year with 46 planes.

So, what makes Allegiant different? In an industry littered with failing, low-cost initiatives, "we needed a strategy that was low-cost and could make money from day one," says Gallagher. "Slowly, we figured it out: Go where they ain't." By "go where they ain't," Gallagher means a new kind of airline—one that serves customers now neglected by major competitors in a whole new way. According to one analyst, unlike other airlines, Allegiant "eschews business travelers, daily flights, even service between major cities." Allegiant is the "un-airline."

First, Allegiant Air looks for uncontested turf—routes neglected by larger, more established competitors. In their efforts to cut costs, the major airlines have abandoned many smaller markets, and Allegiant is filling the gap. It began by connecting its home city, Las Vegas—and later other popular tourist destinations such as Los Angeles, Orlando, and Phoenix—with dozens of otherwise empty airports in third-string cities such as Fresno, California; Bozeman, Montana; Peoria, Illinois; and Toledo, Ohio. These smaller markets, many of which are served by no other scheduled airline, welcomed Allegiant with open arms and runways. "These small cities have been neglected over the years," Gallagher notes. "We're the circus coming to town, but we don't ever leave." As a result of flying where other airlines don't, Allegiant has direct competition on only 7 of its 136 routes.

Second, Allegiant doesn't just target the usual frequent business and leisure flyers coveted by rival airlines. Instead, rather than trying to steal competitors' passengers, Allegiant also targets customers who might not otherwise fly—those who are used to driving an hour or two to some vacation spot but now want to go on a real vacation. Allegiant's idea is to entice that person in Peoria, who doesn't fly all that much, to get off the couch and take a weekend vacation at a more distant destination, such as Las Vegas or Orlando. Allegiant also offers charter flights, so the local Kiwanis Club can charter a plane and take its members and their families on a group vacation.

To entice these more-reluctant travelers, Allegiant offers rock-bottom fares and direct flights. It "provides a complete travel experience with great value and without all the hassle," says the airline. Allegiant lures passengers on board with really low teaser fares—as low as $9. Of course, you have to pay extra to book online or phone a call center. You also have to pay to check your bags, for priority boarding, or for a reserved seat. But add it all up, and you'll still pay less than you would for a ticket on a competing airline. And Allegiant's à la carte pricing structure provides psychological advantages. "If I tried to charge you $110 up front, you wouldn't pay it," observes Gallagher. "But if I sell you a $75 ticket and you self-select the rest, you will."

What's more, Allegiant doesn't just sell airline tickets; it encourages customers to buy an entire vacation package at its Web site. Last year, it sold 400,000 hotel rooms, along with extras such as rental cars, show tickets, and even beach towels and suntan oil. These extra revenues per passenger comprise nearly one-third of the company's business.

To support its lower fares, Allegiant prides itself on being one of the industry's lowest-cost, most-efficient operators. Even though its old MD-80 airplanes slurp gas, Allegiant buys used ones for as little as $4 million, a tenth of what it costs Southwest Airlines to buy a new 737. And rather than running three-times-a-day service to its smaller markets, Allegiant offers about three flights a week. Passengers don't seem to mind the less-frequent service, especially because they can fly nonstop. Whereas flying Allegiant nonstop from Peoria to Las Vegas takes a little less than seven hours, the same trip

Allegiant Air's blue ocean strategy: "Go where they ain't" by serving customers in neglected smaller markets in a whole new way.

using other airlines with connecting flights (and layovers) might take 19 hours—and you pay more for the ticket.

Less frequent flights make for more efficient use of Allegiant's fleet. For example, the low-cost airline serves 40 destinations from Las Vegas with only 14 planes, with an average occupancy of 90 percent. Greater efficiency results in higher margins, despite lower fares.

Under its blue ocean "go where they ain't" strategy, nicher Allegiant is thriving in an otherwise supercompetitive airline environment. Whereas the major airlines are battling it out with one another for the same passengers in major markets, Allegiant has found its own uncluttered space. In a mature industry that's struggling just to stay in the air, Allegiant has found a profitable place to land. According to Gallagher, Allegiant Air has identified 300 more potential routes in the United States, Canada, Mexico, and the Caribbean. And it recently agreed to acquire 18 more MD-80s from another airline.

"They're very much one of a kind," says an airline analyst. Forget talk about milking secondary markets, cutting costs, or flying all-but-vintage airplanes. "The truth is, [Allegiant Air] is a totally new business model."

Sources: Quotes and other information from Jerome Greer Chandler, "Pledging Allegiant Ascendance of the Un-Airline," *Air Transport World*, February, 2010, p. 60; Greg Lindsay, "Flying for Fun and Profit," *Fast Company*, September 2009, p. 48; Charisse Jones, "Airline Caters to Passengers in Small Communities Rather Than Business Travelers," *USA Today*, October 19, 2009; "Allegiant Air's Success Comes with No Frills," Morning Edition, National Public Radio, April 17, 2009, www.npr.org/templates/rundowns/rundown.php?prgId=3&prgDate=4-17-2009; and www.allegiantair.com, accessed September 2010.

Author Comment Now that we've identified competitors and know all about them, it's time to design a strategy for gaining competitive advantage.

Competitive Strategies (pp 535–544)

Having identified and evaluated its major competitors, the company now must design broad competitive marketing strategies by which it can gain competitive advantage through superior customer value. But what broad marketing strategies might the company use? Which ones are best for a particular company or for the company's different divisions and products?

Approaches to Marketing Strategy

No one strategy is best for all companies. Each company must determine what makes the most sense given its position in the industry and its objectives, opportunities, and resources. Even within a company, different strategies may be required for different businesses or products. Johnson & Johnson uses one marketing strategy for its leading brands in stable consumer markets, such as BAND-AID, Tylenol, Listerine, or J&J's baby products, and a different marketing strategy for its high-tech health-care businesses and products, such as Monocryl surgical sutures or NeuFlex finger joint implants.

Companies also differ in how they approach the strategy-planning process. Many large firms develop formal competitive marketing strategies and implement them religiously. However, other companies develop strategy in a less formal and orderly fashion. Some companies, such as Harley-Davidson, Virgin Atlantic Airways, and BMW's MINI Cooper unit succeed by breaking many of the rules of marketing strategy. Such companies don't operate large marketing departments, conduct expensive marketing research, spell out elaborate competitive strategies, and spend huge sums on advertising. Instead, they sketch out strategies on the fly, stretch their limited resources, live close to their customers, and create more satisfying solutions to customer needs. They form buyer's clubs, use buzz marketing, and focus on winning customer loyalty. It seems that not all marketing must follow in the footsteps of marketing giants such as IBM and P&G.

In fact, approaches to marketing strategy and practice often pass through three stages: entrepreneurial marketing, formulated marketing, and intrepreneurial marketing.

- *Entrepreneurial marketing:* Most companies are started by individuals who live by their wits. For example, in the beginning, Robert Ehrlich, founder and CEO of Pirate Brands, a snack food company, didn't believe in formal marketing—or formal anything else. Pirate Brands markets a pantry full of all-baked, all-natural, trans fat and gluten-free snacks, including favorites such as Pirate's Booty, Potato Flyers, Smart Puffs, and Tings. Over the past two decades, founder Robert Ehrlich has built Pirate Brands into a thriving $50 million empire that's become a thorn in the paw of snack food lions like Nabisco

Entrepreneurial marketing: Initially, Pirate Brands founder and CEO Robert Ehrlich built a thriving $50 million empire with little or no formal marketing. "We do no marketing," he used to say proudly. "Zero."

and Frito-Lay. But until only a few years ago, he did that with virtually no formal marketing. According to one account at the time:[6]

> "We do no marketing," says Ehrlich proudly. "Zero." New product R&D? It's whatever pops into Ehrlich's head on a given day. Product names and taglines? He cooks them all up himself while driving, flying, sleeping—whatever. Focus groups? Are you *kidding*? Package design? Ehrlich phones a cartoonist chum from *Mad* magazine and tells him what to draw. The snack bags sport a scribbled look that's reminiscent of a doodle pad. In fact, Ehrlich's carefree packaging is as close as the company has come to formal marketing, unless you count the 20 guys that Ehrlich employs around the country to dress up in pirate costumes and hand out free bags of its chips at grocery stores. When it comes to marketing, shrugs Ehrlich, "I'm influenced by a lot of different things. There's no real thought to it. We're not Exxon Mobil, thank you very much. We don't want to be."

- *Formulated marketing:* As small companies achieve success, they inevitably move toward more-formulated marketing. They develop formal marketing strategies and adhere to them closely. For example, as Pirate Brands has grown, it now takes a more formal approach to product development and its PR and distributor relations strategies. It has also developed more formal customer outreach efforts, such as a full-feature Web page, a Facebook page, a "Booty Blog," and a Captain's Newsletter, which features product updates, coupons, special offers, and event listings. Although Pirate Brands will no doubt remain less formal in its marketing than the Frito-Lays of the marketing world, as it grows, it will adopt more-developed marketing tools.
- *Intrepreneurial marketing:* Many large and mature companies get stuck in formulated marketing. They pore over the latest Nielsen numbers, scan market research reports, and try to fine-tune their competitive strategies and programs. These companies sometimes lose the marketing creativity and passion they had at the start. They now need to reestablish within their companies the entrepreneurial spirit and actions that made them successful in the first place. They need to encourage more initiative and "intrepreneurship" at the local level. They need to refresh their marketing strategies and try new approaches. Their brand and product managers need to get out of the office, start living with their customers, and visualize new and creative ways to add value to their customers' lives.

The bottom line is that there are many approaches to developing effective competitive marketing strategy. There will be a constant tension between the formulated side of marketing and the creative side. It is easier to learn the formulated side of marketing, which has occupied most of our attention in this book. But we have also seen how marketing creativity and passion in the strategies of many of the companies studied—whether small or large, new or mature—have helped to build and maintain success in the marketplace. With this in mind, we now look at the broad competitive marketing strategies companies can use.

Basic Competitive Strategies

Three decades ago, Michael Porter suggested four basic competitive positioning strategies that companies can follow—three winning strategies and one losing one.[7] The three winning strategies are as follows:

- *Overall cost leadership:* Here the company works hard to achieve the lowest production and distribution costs. Low costs let it price lower than its competitors and win a large market share. Texas Instruments and Walmart are leading practitioners of this strategy.

- *Differentiation:* Here the company concentrates on creating a highly differentiated product line and marketing program so that it comes across as the class leader in the industry. Most customers would prefer to own this brand if its price is not too high. IBM and Caterpillar follow this strategy in information technology services and heavy construction equipment, respectively.
- *Focus:* Here the company focuses its effort on serving a few market segments well rather than going after the whole market. For example, Ritz-Carlton focuses on the top 5 percent of corporate and leisure travelers. Tetra Food supplies 80 percent of pet tropical fish food. Similarly, Hohner owns a stunning 85 percent of the harmonica market.

Companies that pursue a clear strategy—one of the above—will likely perform well. The firm that carries out that strategy best will make the most profits. But firms that do not pursue a clear strategy—*middle-of-the-roaders*—do the worst. Sears and Holiday Inn encountered difficult times because they did not stand out as the lowest in cost, highest in perceived value, or best in serving some market segment. Middle-of-the-roaders try to be good on all strategic counts but end up being not very good at anything.

Two marketing consultants, Michael Treacy and Fred Wiersema, offer a more customer-centered classification of competitive marketing strategies.[8] They suggest that companies gain leadership positions by delivering superior value to their customers. Companies can pursue any of three strategies—called *value disciplines*—for delivering superior customer value.

- *Operational excellence:* The company provides superior value by leading its industry in price and convenience. It works to reduce costs and create a lean and efficient value-delivery system. It serves customers who want reliable, good-quality products or services but want them cheaply and easily. Examples include Walmart, Costco, and Southwest Airlines.
- *Customer intimacy:* The company provides superior value by precisely segmenting its markets and tailoring its products or services to exactly match the needs of targeted customers. It specializes in satisfying unique customer needs through a close relationship with and intimate knowledge of the customer. It builds detailed customer databases for segmenting and targeting and empowers its marketing people to respond quickly to customer needs. Customer-intimate companies serve customers who are willing to pay a premium to get precisely what they want. They will do almost anything to build long-term customer loyalty and to capture customer lifetime value. Examples include Nordstrom, Lexus, British Airways, and Ritz-Carlton. As we learned in the very first chapter, at fast-growing Web retailer Zappos.com, customer intimacy starts with a deep-down obsession with customer service.
- *Product leadership:* The company provides superior value by offering a continuous stream of leading-edge products or services. It aims to make its own and competing products obsolete. Product leaders are open to new ideas, relentlessly pursue new solutions, and work to get new products to market quickly. They serve customers who want state-of-the-art products and services, regardless of the costs in terms of price or inconvenience. Examples include Apple and Nokia.

Some companies successfully pursue more than one value discipline at the same time. For example, FedEx excels at both operational excellence and customer intimacy. However, such companies are rare; few firms can be the best at more than one of these disciplines. By trying to be *good at all* value disciplines, a company usually ends up being *best at none*.

Treacy and Wiersema found that leading companies focus on and excel at a single value discipline, while meeting industry standards on the other two. Such companies design their entire value delivery network to single-mindedly support the chosen discipline. For example, Walmart knows that customer intimacy and product leadership are important. Compared with other discounters, it offers very good customer service and an excellent product assortment. Still, it purposely offers less customer service and less product depth than does Nordstrom or Williams-Sonoma, which pursue customer intimacy. Instead, Walmart focuses obsessively on operational excellence—on reducing costs and streamlining its order-to-delivery process to make it convenient for customers to buy just the right products at the lowest prices.

By the same token, the Ritz-Carlton wants to be efficient and employ the latest technologies. But what really sets the luxury hotel chain apart is its customer intimacy. The Ritz-Carlton creates custom-designed experiences to coddle its customers.

Classifying competitive strategies as value disciplines is appealing. It defines marketing strategy in terms of the single-minded pursuit of delivering superior value to customers. Each value discipline defines a specific way to build lasting customer relationships.

Competitive Positions

Firms competing in a given target market, at any point in time, differ in their objectives and resources. Some firms are large; others are small. Some have many resources; others are strapped for funds. Some are mature and established; others new and fresh. Some strive for rapid market share growth; others for long-term profits. And these firms occupy different competitive positions in the target market.

We now examine competitive strategies based on the roles firms play in the target market—leader, challenger, follower, or nicher. Suppose that an industry contains the firms shown in **Figure 18.2**. Forty percent of the market is in the hands of the **market leader**, the firm with the largest market share. Another 30 percent is in the hands of **market challengers**, runner-up firms that are fighting hard to increase their market share. Another 20 percent is in the hands of **market followers**, other runner-up firms that want to hold their share without rocking the boat. The remaining 10 percent is in the hands of **market nichers**, firms that serve small segments not being pursued by other firms.

Market leader
The firm in an industry with the largest market share.

Market challenger
A runner-up firm that is fighting hard to increase its market share in an industry.

Market follower
A runner-up firm that wants to hold its share in an industry without rocking the boat.

Market nicher
A firm that serves small segments that the other firms in an industry overlook or ignore.

Table 18.1 shows specific marketing strategies that are available to market leaders, challengers, followers, and nichers.[9] Remember, however, that these classifications often do not apply to a whole company but only to its position in a specific industry. Large companies such as GE, Microsoft, P&G, or Disney might be leaders in some markets and nichers in others. For example, P&G leads in many segments, such as laundry detergents and shampoo. But it challenges Unilever in hand soaps and Kimberly-Clark in facial tissues. Such companies often use different strategies for different business units or products, depending on the competitive situations of each.

Market Leader Strategies

Most industries contain an acknowledged market leader. The leader has the largest market share and usually leads the other firms in price changes, new-product introductions, distribution coverage, and promotion spending. The leader may or may not be admired or respected, but other firms concede its dominance. Competitors focus on the leader as a company to challenge, imitate, or avoid. Some of the best-known market leaders are Walmart (retailing), McDonald's (fast food), Verizon (wireless), Coca-Cola (beverages), Microsoft (computer software), Caterpillar (earth-moving equipment), Nike (athletic footwear and apparel), and Google (Internet search services).

A leader's life is not easy. It must maintain a constant watch. Other firms keep challenging its strengths or trying to take advantage of its weaknesses. The market leader can easily miss a turn in the market and plunge into second or third place. A product innovation may come along and hurt the leader (as when Apple developed the iPod and took the market lead from Sony's Walkman portable audio devices). The leader might grow arrogant or complacent and misjudge the competition (as when Sears lost its lead to Walmart). Or the leader might look old-fashioned against new and peppier

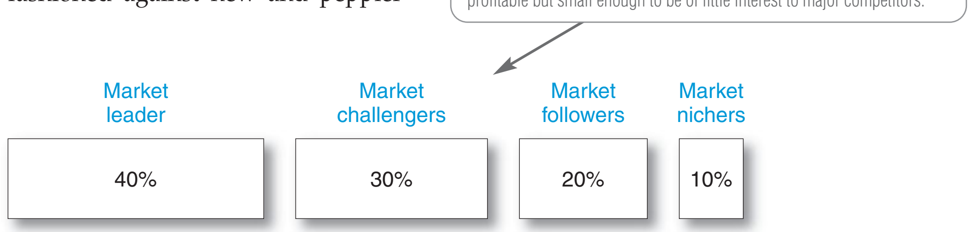


FIGURE | 18.2 Competitive Market Positions and Roles

TABLE | 18.1 Strategies for Market Leaders, Challengers, Followers, and Nichers

Market Leader Strategies	Market Challenger Strategies	Market Follower Strategies	Market Nicher Strategies
Expand total market	Full frontal attack	Follow closely	By customer, market, quality-price, service
Protect market share	Indirect attack	Follow at a distance	Multiple niching
Expand market share			

rivals (as when Gap lost serious ground to stylish niche brands such as 7 for all Mankind and American Apparel and mall brands such as Abercrombie & Fitch, Aeropostale, and J. Crew).

To remain number one, leading firms can take any of three actions. First, they can find ways to expand total demand. Second, they can protect their current market share through good defensive and offensive actions. Third, they can try to expand their market share further, even if market size remains constant.

Expanding Total Demand

The leading firm normally gains the most when the total market expands. If Americans eat more fast food, McDonald's stands to gain the most because it holds more than three times the fast-food market share of nearest competitors Subway and Burger King. If McDonald's can convince more Americans that fast food is the best eating-out choice in these economic times, it will benefit more than its competitors.

Market leaders can expand the market by developing new users, new uses, and more usage of its products. They usually can find *new users* or untapped market segments in many places. For example, Nutrisystem has typically targeted its weight loss programs toward women. Recently, however, it stepped up its efforts to attract male customers by advertising in media such as ESPN and *Men's Health*. The ads feature Dan Marino and Don Shula, who talk about how they "ate like a man and still lost weight" with Nutrisystem. The company also created dedicated online features for men, such as a dedicated chat room. Since the launch of the targeted ads, the male share of Nutrisystem jumped from 13 percent to 32 percent.[10]

Marketers can expand markets by discovering and promoting *new uses* for the product. For example, Nintendo is now expanding into classrooms with its popular handheld Nintendo DS game system:[11]

Creating new uses: Nintendo is now expanding into classrooms with its popular handheld Nintendo DS game system.

A giggly class of 32 seventh graders uses plastic pens to spell words like "hamburger" and "cola" on the touch panel screen—the key feature of the Nintendo DS—following an electronic voice from the handheld console. It's a sort of high-tech spelling bee. When the student gets the spelling right, the word *good* pops up on the screen, and the student proceeds to the next exercise. "It's fun," says a 12-year-old student. The instructor acknowledges that she has never before seen the kind of enthusiastic concentration the DS classes have inspired in her students.

Nintendo, never content to create gaming products that are simply for gaming, is taking its portable DS system to school. Using a PC, teachers can interact with students via Wi-Fi, beaming questions, visual aids, and other information to a special DS Classroom cartridge in students' handheld devices. Teachers can receive responses from students in real time, instantly monitoring which students answered correctly and which are falling behind. The system can even help grade tests as they are happening, letting students see their performance immediately after finishing a test. Nintendo DS Classroom will kick off next year in Japan, with 60 programs covering everything from spelling and math to physics and civics for elementary, junior high, and high school students. Creating classroom uses substantially expands the market for market leader Nintendo's gaming products.

Finally, market leaders can encourage *more usage* by convincing people to use the product more often or use more per occasion. For example, Campbell urges people to eat soup and other Campbell's products more often by running ads containing new recipes. It also offers a toll-free hotline (1-888-MM-MM-GOOD), staffed by live recipe representatives who offer recipes to last-minute cooks at a loss for meal ideas. And the Campbell's Kitchen Web site (www.campbellskitchen.com) lets visitors search for or exchange recipes, create their own personal recipe box, sign up for a daily or weekly Meal Mail program, and even watch online video clips of guest chefs cooking any of 23 recipes on Campbell's Kitchen TV.

Protecting Market Share

While trying to expand total market size, the leading firm also must protect its current business against competitors' attacks. Walmart must constantly guard against Target; Caterpillar against Komatsu; and McDonald's against Burger King.

What can the market leader do to protect its position? First, it must prevent or fix weaknesses that provide opportunities for competitors. It must always fulfill its value promise. Its prices must remain consistent with the value that customers see in the brand. It must work tirelessly to keep strong relationships with valued customers. The leader should "plug holes" so that competitors do not jump in.

But the best defense is a good offense, and the best response is *continuous innovation*. The market leader refuses to be content with the way things are and leads the industry in new products, customer services, distribution effectiveness, promotion, and cost cutting. It keeps increasing its competitive effectiveness and value to customers. And when attacked by challengers, the market leader reacts decisively. For example, in the laundry products category, market leader P&G has been relentless in its offense against challengers such as Unilever.

In one of the most fabled marketing battles of the past century, P&G won the laundry war because it was bigger, better, more focused, and more aggressive than challenger Unilever. Entering this millennium, even though its U.S. laundry detergent market share was well over 50 percent, P&G kept raining blows on Unilever and all other comers with stepped-up product launches. By 2007, P&G was outgunning Unilever on U.S. media spending for laundry brands by $218 million to $25 million. New products such as Tide with Downey, Tide Coldwater, and the scent-focused Simple Pleasures lineup for Tide and Downey helped P&G steadily gain a share point or two per year, so that by 2008, it owned a 62.5 percent share of the $3.6 billion laundry-detergent market to Unilever's 12.9 percent (including Unilever's All, Wisk, and Surf brands). It had an even bigger lead in fabric softeners—66 percent to Unilever's 8.4 percent (Unilever's Snuggle brand). Globally, P&G went from being the number two laundry player in the early 1990s to a dominant market leader, with a global market share of 34 percent to Unilever's 17 percent. In the face of P&G's relentless assault, in mid-2008, Unilever finally threw in the towel and sold its North American detergents business.[12]

Protecting market share: In the face of market leader P&G's relentless assault in the laundry war, Unilever finally threw in the towel by putting its U.S. detergents business up for sale.

Expanding Market Share

Market leaders also can grow by increasing their market shares further. In many markets, small market share increases mean very large sales increases. For example, in the U.S. digital camera market, a 1 percent increase in market share is worth $66 million; in carbonated soft drinks, $739 million![13]

Studies have shown that, on average, profitability rises with increasing market share. Because of these findings, many companies have sought expanded market shares to improve profitability. GE, for example, declared that it wants to be at least number one or two in each of its markets or else get out. GE shed its computer, air-conditioning, small appliances, and television businesses because it could not achieve top-dog position in those industries.

However, some studies have found that many industries contain one or a few highly profitable large firms, several profitable and more focused firms, and a large number of medium-sized firms with poorer profit performance. It appears that profitability increases as a business gains share relative to competitors in its *served market*. For example, Lexus holds only a small share of the total car market, but it earns a high profit because it is the leading brand in the luxury-performance car segment. And it has achieved this high share in its served market because it does other things right, such as producing high-quality products, creating good service experiences, and building close customer relationships.

Companies must not think, however, that gaining increased market share will automatically improve profitability. Much depends on their strategy for gaining increased share. There are many high-share companies with low profitability and many low-share companies with high profitability. The cost of buying higher market share may far exceed the returns. Higher shares tend to produce higher profits only when unit costs fall with increased market share or when the company offers a superior-quality product and charges a premium price that more than covers the cost of offering higher quality.

Market Challenger Strategies

Firms that are second, third, or lower in an industry are sometimes quite large, such as PepsiCo, Ford, Lowe's, Hertz, and AT&T Mobility. These runner-up firms can adopt one of two competitive strategies: They can challenge the market leader and other competitors in an aggressive bid for more market share (market challengers). Or they can play along with competitors and not rock the boat (market followers).

A market challenger must first define which competitors to challenge and its strategic objective. The challenger can attack the market leader, a high-risk but potentially high-gain strategy. Its goal might be to take over market leadership. Or the challenger's objective may simply be to wrest more market share.

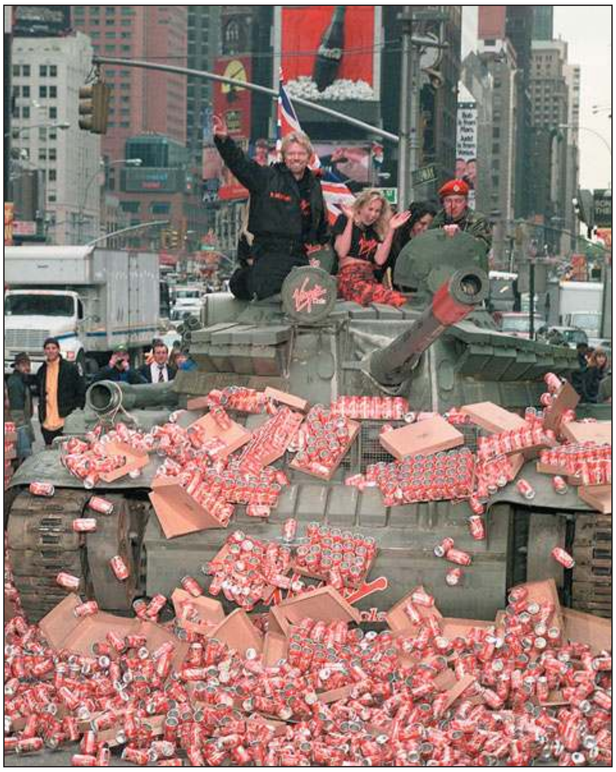
Although it might seem that the market leader has the most going for it, challengers often have what some strategists call a "second-mover advantage." The challenger observes what has made the market leader successful and improves on it. For example, Home Depot invented the home-improvement superstore. However, after observing Home Depot's success, number two Lowe's, with its brighter stores, wider aisles, and arguably more helpful salespeople, has positioned itself as the friendly alternative to Big Bad Orange. Over the past 10 years, follower Lowe's has consistently grown faster and more profitably than Home Depot.

In fact, challengers often become market leaders by imitating and improving on the ideas of pioneering processors. For example, Chrysler invented the modern minivan and led in that market for more than a decade. However, then-followers Honda and Toyota improved on the concept and now dominate the minivan market. Similarly, McDonald's first imitated and then mastered the fast-food system first pioneered by White Castle. And founder Sam Walton admitted that Walmart borrowed most of its practices from discount pioneer Sol Price's FedMart and Price Club chains and then perfected them to become today's dominant retailer.[14]

Alternatively, the challenger can avoid the leader and instead challenge firms its own size or smaller local and regional firms. These smaller firms may be underfinanced and not serving their customers well. Several of the major beer companies grew to their present size not by challenging large competitors but by gobbling up small local or regional competitors. If the challenger goes after a small local company, its objective may be to put that company out of business. The important point remains: The challenger must choose its opponents carefully and have a clearly defined and attainable objective.

How can the market challenger best attack the chosen competitor and achieve its strategic objectives? It may launch a full *frontal attack*, matching the competitor's product, advertising, price, and distribution efforts. It attacks the competitor's strengths rather than its weaknesses. The outcome depends on who has the greater strength and endurance. PepsiCo challenges Coca-Cola in this way.

If the market challenger has fewer resources than the competitor, however, a frontal attack makes little sense. Thus, many new market entrants avoid frontal attacks, knowing that market leaders can head them off with ad blitzes, price wars, and other retaliations. Rather than challenging head-on, the challenger can make an *indirect attack* on the competitor's weaknesses or on gaps in the competitor's market coverage. It can carve out toeholds using tactics that established leaders have trouble responding to or choose to ignore. ● For example, compare the vastly different strategies of two different European challengers—Virgin Drinks and Red Bull—when they entered the U.S. soft drink market in the late 1990s against market leaders Coca-Cola and PepsiCo.[15]



● **Market challenger strategies: Virgin Drinks mounted a full frontal attack on Coca-Cola and PepsiCo but couldn't break the leaders' viselike grip on U.S. shelf space.**

Virgin Drinks took on the leaders head-on, launching its own cola, advertising heavily, and trying to get into all the same retail outlets that stocked the leading brands. At Virgin Cola's launch, Virgin CEO Richard Branson even drove a tank through a wall of rivals' cans in New York's Times Square to symbolize the war he wished to wage on the big, established rivals. However, Coca-Cola's and PepsiCo's viselike grip on U.S. shelf space proved impossible for Virgin Drinks to break. Although Virgin Drinks is still around, it has never gained more than a 1 percent share of the U.S. cola market.

Red Bull, by contrast, tackled the leaders indirectly. It entered the U.S. soft drink market with a niche product: a carbonate energy drink retailing at about twice what you would pay for a Coke or Pepsi. It started by selling Red Bull through unconventional outlets not dominated by the market leaders, such as bars and nightclubs, where twenty-somethings gulped down the caffeine-rich drink so they could dance all night. After gaining a loyal following, Red Bull used the pull of high margins to elbow its way into the corner store, where it now sits in refrigerated bins within arm's length of Coke and Pepsi. Despite rapidly intensifying competition in the United States, Red Bull captures a 33 percent share of the energy drink market.

Market Follower Strategies

Not all runner-up companies want to challenge the market leader. The leader never takes challenges lightly. If the challenger's lure is lower prices, improved service, or additional product features, the market leader can quickly match these to defuse the attack. The leader probably has more staying power in an all-out battle for customers. For example, a few years ago, when Kmart launched its renewed low-price "bluelight special" campaign, directly challenging Walmart's everyday low prices, it started a price war that it couldn't win. Walmart had little trouble fending off Kmart's challenge, leaving Kmart worse off for the attempt. Thus, many firms prefer to follow rather than challenge the market leader.

A follower can gain many advantages. The market leader often bears the huge expenses of developing new products and markets, expanding distribution, and educating the market. By contrast, as with challengers, the market follower can learn from the market leader's experience. It can copy or improve on the leader's products and programs, usually with much less investment. Although the follower will probably not overtake the leader, it often can be as profitable.

Following is not the same as being passive or a carbon copy of the market leader. A follower must know how to hold current customers and win a fair share of new ones. It must find the right balance between following closely enough to win customers from the market leader but following at enough of a distance to avoid retaliation. Each follower tries to bring distinctive advantages to its target market—location, services, financing. A follower is often a major target of attack by challengers. Therefore, the market follower must keep its manufacturing costs and prices low or its product quality and services high. It must also enter new markets as they open up.

Market Nicher Strategies

Almost every industry includes firms that specialize in serving market niches. Instead of pursuing the whole market or even large segments, these firms target subsegments. Nichers are often smaller firms with limited resources. But smaller divisions of larger firms also may pursue niching strategies. Firms with low shares of the total market can be highly successful and profitable through smart niching.

Why is niching profitable? The main reason is that the market nicher ends up knowing the target customer group so well that it meets their needs better than other firms that casually sell to that niche. As a result, the nicher can charge a substantial markup over costs because of the added value. Whereas the mass marketer achieves high volume, the nicher achieves high margins.

Nichers try to find one or more market niches that are safe and profitable. An ideal market niche is big enough to be profitable and has growth potential. It is one that the firm can serve effectively. Perhaps most importantly, the niche is of little interest to major competitors. And the firm can build the skills and customer goodwill to defend itself against a major competitor as the niche grows and becomes more attractive. For example, computer mouse and interface device maker Logitech is only a fraction of the size of giant Microsoft. Yet, through skillful niching, it dominates the PC mouse market, with Microsoft as its runner-up. ● Another example is pet insurer Veterinary Pet Insurance (VPI):

● **Nichers: Market nicher VPI is growing faster than a newborn puppy. Its mission is to "empower pet owners to work with their veterinarians in making optimal healthcare decisions for their pets."**

> Health insurance for pets? Most large insurance companies haven't paid much attention to the still small but fast-growing segment. And that leaves room for focused nichers like VPI. Pet ownership is big business. Collectively, Americans own some 61 million dogs, 69 million cats, 24 million small animals, 13 million reptiles, and 14 million horses. These pets are very important to most owners. More than two-thirds have included their pets in holiday celebrations, and one-third characterize their pet as a child. Some 42 percent of dogs now sleep in the same bed as their owners.
>
> Americans spend a whopping $41 billion a year on their pets, more than the gross domestic product of all but 64 countries in the world. They spend $12.2 billion of that on pet health care. Pet medical procedures can be costly. If not diagnosed quickly, even a mundane ear infection in a dog can result in $1,000 worth of medical treatment. Ten days of dialysis treatment can reach $12,000, and cancer treatment as much as $40,000. All of this adds up to a lot of potential growth for pet health insurers. VPI covers mostly dogs and cats but also a menagerie of other exotic critters, from birds, rabbits, ferrets, rats, and guinea pigs to snakes, iguanas, turtles, hedgehogs, and potbellied pigs. VPI is growing like a newborn puppy in its niche, now providing more than 60 percent of all U.S. pet insurance policies and insures more than 460,000 pets. That might not amount to much for the likes of MetLife, Prudential,

or Northwestern Mutual, but it's profitable business for nicher VPI. And there's room to grow. Only about 3 percent of U.S. pet owners currently buy pet insurance.[16]

The key idea in niching is specialization. A market nicher can specialize along any of several market, customer, product, or marketing mix lines. For example, it can specialize in serving one type of *end user*, as when a law firm specializes in the criminal, civil, or business law markets. The nicher can specialize in serving a given *customer-size* group. Many nichers specialize in serving small and midsize customers who are neglected by the majors.

Some nichers focus on one or a few *specific customers*, selling their entire output to a single company, such as Walmart or GM. Still other nichers specialize by *geographic market*, selling only in a certain locality, region, or area of the world. *Quality-price* nichers operate at the low or high end of the market. For example, HP specializes in the high-quality, high-price end of the hand-calculator market. Finally, *service nichers* offer services not available from other firms. For example, LendingTree provides online lending and realty services, connecting homebuyers and sellers with national networks of mortgage lenders and realtors who compete for the customer's business. "When lenders compete," it proclaims, "you win."

Niching carries some major risks. For example, the market niche may dry up, or it might grow to the point that it attracts larger competitors. That is why many companies practice *multiple niching*. By developing two or more niches, a company increases its chances for survival. Even some large firms prefer a multiple niche strategy to serving the total market. For example, as discussed in Chapter 7, apparel maker VF Corporation markets more than 30 lifestyle brands in niche markets ranging from jeanswear, sportswear, and contemporary styles to outdoor gear and imagewear (workwear). For example, VF's Vans unit creates footwear, apparel, and accessories for skate-, surf-, and snowboarders. Its 7 for All Mankind brand offers premium denim and accessories sold in boutiques and high-end department stores. In contrast, the company's Red Kap, Bulwark, and Chef Designs workwear brands provide an array of uniforms and protective apparel for businesses and public agencies, whether it's outfitting a police force or a chef's crew. Together, these separate niche brands combined to make VF a $7.6 billion apparel powerhouse.[17]

Balancing Customer and Competitor Orientations (pp 544–545)

Whether a company is the market leader, challenger, follower, or nicher, it must watch its competitors closely and find the competitive marketing strategy that positions it most effectively. And it must continually adapt its strategies to the fast-changing competitive environment. This question now arises: Can the company spend *too* much time and energy tracking competitors, damaging its customer orientation? The answer is yes. A company can become so competitor centered that it loses its even more important focus on maintaining profitable customer relationships.

Competitor-centered company
A company whose moves are mainly based on competitors' actions and reactions.

A **competitor-centered company** is one that spends most of its time tracking competitors' moves and market shares and trying to find strategies to counter them. This approach has some pluses and minuses. On the positive side, the company develops a fighter orientation, watches for weaknesses in its own position, and searches out competitors' weaknesses. On the negative side, the company becomes too reactive. Rather than carrying out its own customer relationship strategy, it bases its own moves on competitors' moves. As a result, it may end up simply matching or extending industry practices rather than seeking innovative new ways to create more value for customers.

Customer-centered company
A company that focuses on customer developments in designing its marketing strategies and delivering superior value to its target customers.

A **customer-centered company**, by contrast, focuses more on customer developments in designing its strategies. Clearly, the customer-centered company is in a better position to identify new opportunities and set long-run strategies that make sense. By watching customer needs evolve, it can decide what customer groups and what emerging needs are the most important to serve. Then it can concentrate its resources on delivering superior value to target customers.

FIGURE | 18.3
Evolving Company Orientations

Competitor-centered \ Customer-centered	No	Yes
No	Product orientation	Customer orientation
Yes	Competitor orientation	Market orientation

Market-centered companies understand both customers and competitors. They build profitable customer relationships by delivering more customer value than competitors do.

Market-centered company
A company that pays balanced attention to both customers and competitors in designing its marketing strategies.

In practice, today's companies must be **market-centered companies**, watching both their customers and their competitors. But they must not let competitor watching blind them to customer focusing.

Figure 18.3 shows that companies might have any of four orientations. First, they might be product oriented, paying little attention to either customers or competitors. Next, they might be customer oriented, paying attention to customers. In the third orientation, when a company starts to pay attention to competitors, it becomes competitor oriented. Today, however, companies need to be market oriented, paying balanced attention to both customers and competitors. Rather than simply watching competitors and trying to beat them on current ways of doing business, they need to watch customers and find innovative ways to build profitable customer relationships by delivering more customer value than competitors do.

REVIEWING Objectives AND KEY Terms

Today's companies face their toughest competition ever. Understanding customers is an important first step in developing strong customer relationships, but it's not enough. To gain competitive advantage, companies must use this understanding to design market offers that deliver more value than the offers of *competitors* seeking to win over the same customers. This chapter examined how firms analyze their competitors and design effective competitive marketing strategies.

Objective 1 Discuss the need to understand competitors as well as customers through competitor analysis. (pp 528–535)

To prepare an effective marketing strategy, a company must consider its competitors as well as its customers. Building profitable customer relationships requires satisfying target consumer needs *better than competitors do*. A company must continuously analyze competitors and develop *competitive marketing strategies* that position it effectively against competitors and give it the strongest possible *competitive advantage*.

Competitor analysis first involves identifying the company's major competitors, using both an industry-based and a market-based analysis. The company then gathers information on competitors' objectives, strategies, strengths and weaknesses, and reaction patterns. With this information in hand, it can select competitors to attack or avoid. Competitive intelligence must be collected, interpreted, and distributed continuously. Company marketing managers should be able to obtain full and reliable information about any competitor affecting their decisions.

Objective 2 Explain the fundamentals of competitive marketing strategies based on creating value for customers. (pp 535–544)

Which competitive marketing strategy makes the most sense depends on the company's industry and on whether it is the market leader, challenger, follower, or nicher. The *market leader* has to mount strategies to expand the total market, protect market share, and expand market share. A *market challenger* is a firm that tries aggressively to expand its market share by attacking the leader, other runner-up companies, or smaller firms in the industry. The challenger can select from a variety of direct or indirect attack strategies.

A *market follower* is a runner-up firm that chooses not to rock the boat, usually from fear that it stands to lose more than it might gain. But the follower is not without a strategy and seeks to use its particular skills to gain market growth. Some followers enjoy a higher rate of return than the leaders in their industry. A *market nicher* is a smaller firm that is unlikely to attract the attention of larger firms. Market nichers often become specialists in some end use, customer size, specific customer, geographic area, or service.

Objective 3 Illustrate the need for balancing customer and competitor orientations in becoming a truly market-centered organization. (pp 544–545)

A competitive orientation is important in today's markets, but companies should not overdo their focus on competitors. Companies are more likely to be hurt by emerging consumer needs and new competitors than by existing competitors. *Market-centered companies* that balance customer and competitor considerations are practicing a true market orientation.

KEY Terms

OBJECTIVE 1

Competitive advantage (p 528)
Competitor analysis (p 528)
Competitive marketing strategies (p 528)
Strategic group (p 530)
Benchmarking (p 531)
Customer value analysis (p 531)

OBJECTIVE 2

Market leader (p 538)
Market challenger (p 538)
Market follower (p 538)
Market nicher (p 538)

OBJECTIVE 3

Competitor-centered company (p 544)
Customer-centered company (p 544)
Market-centered company (p 545)

PEARSON mymarketinglab

- Check your understanding of the concepts and key terms using the mypearsonmarketinglab study plan for this chapter.
- Apply the concepts in a business context using the simulation entitled **New Product Development**.

DISCUSSING & APPLYING THE Concepts

Discussing the Concepts

1. Which point of view is best for identifying competitors—industry or market? (AACSB: Communication)
2. Explain how having strong competitors can benefit a company. (AACSB: Communication; Reflective Thinking)
3. Name and describe the three basic winning competitive strategies espoused by Michael Porter. (AACSB: Communication)
4. Describe the three value disciplines for delivering superior customer value and explain why classifying competitive strategies in this way is appealing. (AACSB: Communication)
5. Discuss the advantages of being a market follower and the factors to consider when pursuing this strategy. (AACSB: Communication)
6. Compare and contrast product-oriented, competitor-centered, customer-centered, and market-centered companies. Which orientation is the best? (AACSB: Communication; Reflective Thinking)

Applying the Concepts

1. Form a small group and discuss the differences between increasing market share and increasing customer share. What factors should a company consider when deciding on which to focus? (AACSB: Communication; Reflective Thinking)
2. Research "blue ocean strategy" and discuss examples of companies that have succeeded in pursuing this strategy. Do companies developing uncontested marketspaces necessarily have to be innovative upstarts? (AACSB: Communication; Reflective Thinking)
3. Identify a company following a market niche strategy in each of the following industries: higher education, apparel, soft drinks, and rental cars. (AACSB: Communication; Reflective Thinking)

FOCUS ON Technology

Apple has hit three home runs in less than ten years—the iPod, iPhone, and iPad. Apple sold three million iPads within 80 days of its release, and there were 25,000 iPad-specific apps in Apple's App Store within six months. Like iPhone apps, many iPad apps are free because they display ads that produce revenues for developers. So far, Apple is not taking a cut on the ad revenues, and developers keep 70 percent of the money that they take in from paid-for consumer applications. Publishers in Apple's iBook app keep 70 percent of the money they take in. Consequently, Barnes and Noble's Nook and Amazon's Kindle increased the percentage of revenue publishers earn to 70 percent as well. Forecasters are predicting that iPad sales in 2011 will reach 20 to 30 million, which has competitors worried.

1. Who are Apple's iPad competitors? What is Apple's competitive position in this industry? (AACSB: Communication; Reflective Thinking)
2. Why is Apple virtually giving away this platform to third-party applications developers? Wouldn't it be more profitable for Apple to generate more revenue from its App Store? (AACSB: Communication; Reflective Thinking)

FOCUS ON Ethics

Deconstruction experts eagerly anticipated the release of Apple's iPad. Some, like Luke Soules, wanted to be the first to get his hands on the device so he could take it apart and analyze it, called teardowns in the industry. He even spread video of his purchase and teardown on the Internet and bragged about feeding intimate information about the device's innards to folks before stores even opened in California. Although Soules' company, iFixit, makes teardown information public, most deconstruction firms provide data only to paying clients. Apple's gadgets are particularly tricky to crack; there are no screws. The tool of choice for prying open the iPhone was a dental pick. Apple is very secretive of the components that make up its gadgets; some components carry the Apple name rather than the manufacturer's name. However, experts armed with X-ray machines and scanning electron microscopes, with a little bit of sleuthing mixed in, are often able to determine the origins and cost of parts.

1. Using Google, search for "iPad teardown" to find what information is available on the iPad. Is it ethical to tear down a product and share that information publicly or sell it to other firms? (AACSB: Communication; Ethical Reasoning; Reflective Thinking)
2. iFixit used the iPad teardown as a publicity stunt to promote its repair business. Apple is a "closed company" and doesn't want users repairing its products. In fact, users cannot replace a battery on an iPad; they have to return it to Apple and purchase a refurbished device for $99 plus shipping. Replacing a battery is not as simple as popping in a new one because the batteries are soldered in. Is it right for Apple to be so restrictive regarding what customers can do with the product? (AACSB: Communication; Ethical Reasoning; Reflective Thinking)

MARKETING & THE Economy

British Airways

British Airways offers airline services in all segments. Yet a significant portion of its business targets first-class and business-class travelers. Private "demi-cabins" are available on its 747s, each with 6.6-foot beds, an LCD wide screen for in-flight entertainment, and power outlets. Last year, British Airways launched a business-class only service between New York and London City, with planes configured with only 32 roomy seats that spread fully flat.

The travel industry has suffered amidst a weak economy. Low-fare airlines have struggled, and premium services have felt significant air travel reductions. British Airways has seen first- and business-classes seats decline as a percentage of overall tickets sold. Passengers flying premium services have opted to pay less and settle for nonrefundable tickets. As a result, British Airways endured an 11 percent sales decline in 2009 and a net loss of over $800 million, which was its worst performance since it went public in 1987. The travel industry is seeing signs of renewed life, which has flyers returning to premium services to some extent. But British Airways has yet to experience a return to its prerecession financial performance.

1. How should British Airways handle a decline in premium air travel?
2. After such an extended economic downturn, when the economy does recover, will air travelers fully return to their prerecession travel spending habits?
3. Should British Airways be content with signs that the airline industry is recovering? What could it do to better position itself for similar cycles in the future?

MARKETING BY THE Numbers

The base Wi-Fi 16 GB iPad was introduced at $499; like all electronic products, Apple will likely lower the price within a year or two of introduction. The 16 GB iPad's cost of goods sold is $250. Refer to Appendix 2 to answer the following questions.

1. Calculate Apple's gross margin per unit and gross margin as a percentage of sales for the 16 GB iPad. What is Apple's gross margin if the company sells 10 million iPads? (AACSB: Communication; Analytical Reasoning)
2. What will happen to the gross margin generated by the iPad if Apple reduces the price by $100? (AACSB: Communication; Analytical Reasoning)

VIDEO Case

Umpqua Bank

The retail banking industry has become very competitive. And with a few powerhouses dominating the market, how is a small bank to thrive? By differentiating itself through a competitive advantage that the big guys can't touch.

That's exactly what Umpqua has done. Step inside a branch of this Oregon-based community bank and you'll see immediately that this is not your typical Christmas club savings account/free toaster bank. Umpqua's business model has transformed banking from retail drudgery into a holistic experience. Umpqua has created an environment in which people just love to hang out. It not only has its own music download service featuring local artists, it even has its own blend of coffee.

But beneath all these bells and whistles lies the core of what makes Umpqua so different—a rigorous service culture where every branch and employee gets measured on how well they serve customers. That's why every customer feels like they get the help and attention they need from employees.

After viewing the video featuring Umpqua Bank, answer the following questions about creating competitive advantage:

1. With what companies does Umpqua compete?
2. What is Umpqua's competitive advantage?
3. Will Umpqua be able to maintain this advantage in the long run? Why or why not?

COMPANY Case

Ford: Resurrecting an Iconic Company

The old phrase, "The bigger they are, the harder they fall," perfectly describes what has happened to the U.S. auto industry over the past decade. Consider the Ford Motor Company. In 1998, the iconic company accounted for 25 percent of all cars and trucks sold. Its F-series pickup was the best selling vehicle on the planet, with more than 800,000 units rolling off assembly lines. The Ford Explorer held the top slot in the hot SUV market. And the Ford Taurus had been a perennial contender for the top selling sedan. Ford was number two on the Fortune 500 (GM was number one) with $153 billion in revenues. A strong stock price gave Ford a market value of $73 billion. And according to Interbrand, the company was the sixth most valuable brand in the world, worth $36 billion.

But in only 10 years, its position at the top fell apart like a rusting old jalopy. In 2008, its market share sat at just 14 percent. Revenues had dropped to $146 billion, and the company lost $14.7 billion, the biggest loss in its history. Its stock price had plummeted to only $2 a share, erasing 93 percent of its market value. And it was no longer a top ten brand. It had dropped to the 49th position on the Interbrand top-100 list, worth only $7 billion. The company verged on collapse.

Ford could try to explain its misfortunes by pointing out that the entire auto industry was reeling by 2008. High gas prices and the weakest global economy in over 70 years had made a mess of automobile sales. But that wouldn't explain its drastic drop in market share or the magnitude of its losses relative to the rest of the industry. The company was in far worse shape than most car companies.

Looking back, it's clear that Ford had taken its eye off the market. It had become too dependent on gas-guzzling trucks and SUVs and could not shift quickly enough to more fuel-efficient vehicles. Its vehicle quality had suffered, and its operations were bloated with excessive costs. In a quest to serve every customer segment—acquiring Land Rover, Volvo, Aston Martin, and Jaguar—the company had lost touch with the needs of any specific customer segment. All those luxury brands were sapping valuable company resources as well. Finally, the company's innovation was at an all-time low. Mark Fields, president for the Americas, adds, "We used to have a saying in the company that we were a fast follower. Which meant we were slow."

A NEW DIRECTION

Even as the company's financials looked their worst in years, a strategy was already underway to resurrect the company. In 2006, Ford had brought in an industry outsider to perform cardiac resuscitation on the ailing giant. Alan Mulally, who had led Boeing through its most ambitious product launch in decades with the 767 Dreamliner, took the reins as the new CEO. Cheerful and fresh faced, he exuded optimism. "I am here to save an American and global icon," Mulally declared.

Mulally got to work right away. He cut labor costs by almost 22 percent, bringing the company more in line with new industry leader Toyota. He shuttered unprofitable factories and cut out as much operational fat as possible. In 2008, as GM and Chrysler held their hats out for a government bailout, Ford managed to raise cash the old-fashioned way—by borrowing from a bank to the tune of $23.5 billion. By remaining financially independent, Ford avoided giving Uncle Sam a say in how the company was run. It also avoided bankruptcy, a fate that befell its two Detroit siblings.

But the move that put Ford back on the highway was the crafting of a good old-fashioned mission statement. Mulally ordered up small plastic cards that Ford's 200,000 employees could carry in their wallets featuring what he called "Expected Behaviors." Those expectations were really four goals that Mulally fully believed would make the company competitive again. To Mulally, this was sacred text. "This is me," he said. "I wrote it. It's what I believe in. You can't make this shit up."

Focus on the Ford Brand. According to Mulally, "Nobody buys a house of brands." It was the Ford name and the legacy of the Ford family that had propelled the company to greatness. Mulally considered the conglomeration of automotive companies a failed experiment and immediately set out to divest the company of Jaguar, Volvo, Aston Martin, and Land Rover. He even went one step further. Ford's storied Mercury division had always had the mission of providing Ford with a mid-priced car that fit between inexpensive Ford models and its more luxurious Lincolns. But Mercury was a dying brand, so Mulally gave it the axe.

Compete in Every Market Segment with Carefully Defined Products. Even with only the Ford and Lincoln divisions left, Mulally was convinced that Ford could compete in all major industry segments: cars, SUVs, and trucks, in sizes small through large. Mulally loves to tell the story of how he started revamping Ford's product line:

> I arrive here, and the first day I say, "Let's go look at the product lineup." And they lay it out, and I said, "Where's the Taurus?" They said, "Well, we killed it." I said, "What do you mean, you killed it?" "Well, we made a couple that looked like a football. They didn't sell very well, so we stopped it." "You stopped the Taurus?" I said. "How many billions of dollars does it cost to build brand loyalty around a name?" "Well, we thought it was so damaged that we named it the Five Hundred." I said, "Well, you've got until tomorrow to find a vehicle to put the Taurus name on because that's why I'm here. Then you have two years to make the coolest vehicle that you can possibly make."

Mulally had good reason to insist on the Taurus. It was the fourth best-selling vehicle in the history of the company, behind the Model T, F-Series, and Mustang. But Mulally's biggest news in the product department was a shift to small "world" cars that can be sold in every country with little change. Ford had tried the "world" car idea various times in the past and failed. But that was largely because the regional divisions of the company couldn't agree on what kinds of cars to build. Mulally has reorganized the company around the world car. If it works, the benefits of reduced costs based on economies of scale are obvious.

The "small" part of Mulally's product strategy is a bit foreign to Ford's truck-heavy culture. "Everybody says you can't make money off small cars," he says. "Well, you'd better damn well figure out how to make money, because that's where the world is going." Mulally's plan isn't just to make more small cars but to make nicer small cars. The 2010 Fiesta and Focus were designed in Europe and are the first vehicles that are part of Mulally's "One Ford" program.

More fuel-efficient vehicles (including electrics) will also help position Ford to meet stricter government fuel-economy standards.

Market Fewer Nameplates. According to Mulally, the "more is better" rule is not a good branding strategy. When he arrived at Ford, the company sold 97 nameplates around the world. To him, that was just an indication of how unfocused and uncool the Ford brand had become. "I mean, we had 97 of these, for God's sake! How you gonna make 'em all cool? You gonna come in at 8 AM and say, 'From 8 until noon, I'm gonna make No. 64 cool? And then I'll make No. 17 cool after lunch?' It was ridiculous!" Mulally's goal was to bring the number of nameplates down to 40 by 2013. But instead, it has been trimmed to just 20 as of 2010. This thrills Mulally.

Become Best in Class in Quality, Fuel Efficiency, Safety, and Value. The smaller cars are certainly achieving the fuel efficiency goal. But Mulally has the Ford culture once again thinking along the lines of its old slogan, "Quality is Job One." This focus has paid off. Last year, *Consumer Reports* recommended more Ford models than Toyota vehicles. The Fusion beat the Toyota Camry in the magazine's reliability survey. And Ford took both "Car of the Year" and "Truck of the Year" honors at the Detroit Auto show with its Fusion Hybrid and Transit Connect. "Our product lineup is stronger than ever, and our leadership in quality, fuel, safety, smart design, and value is resonating with consumers," Mulally says as if reciting his own mission statement.

A NEW COMPETITIVE ADVANTAGE

In his quest to redefine Ford's image, thrill young customers, and even revolutionize the car itself, Mulally may very well have stumbled on a competitive advantage that will carry Ford into the future. He wants to connect his autos to the Internet and the souls of the people who surf it. "Look, it's cool to connect. But it's past cool. It's a reason to buy. Tech is why people are going to buy Ford! We're going to be the coolest, most useful app you've ever had, seamlessly keeping you connected."

Mulally is talking about Ford's Sync option. In short, a Sync-equipped vehicle connects the driver to the Internet through the smartphone in his or her pocket. Unlike GM's OnStar and other similar systems, Sync is an interface, not a system that is hardwired to the car. Those other systems are obsolete by the time they hit the showroom and are not upgradable. With Sync, the connection is to whatever technology the driver is carrying. And folks tend to keep their gadgets pretty up-to-date.

But Sync takes existing technologies and makes them even better. With two LCD panels on either side of the speedometer, the user interface is bigger, in the driver's field of vision, and customizable. If you don't need to know about the car's climate but you're lost, the climate-control readout can be replaced with navigation. If you're on a long stretch of highway and don't need navigation help, the display can connect the driver to phone controls or music (including satellite radio and even Pandora). Drivers can even watch video on these screens, but only when the car is in park.

The latest Sync system also brings voice recognition to the cockpit, transforming the car into *2001: A Space Odyssey's* HAL 9000 (only without the evil desire to take over the universe). All the driver has to do is speak normally to the car instead of fumbling with buttons or navigating through screen-based menus. Simple commands like "I'm hungry" produce spoken restaurant advice matched to the GPS location. If the driver is in the mood for some Dave Brubeck, "I'd like to hear some jazz," brings up every piece of jazz attached to the car, whether it's on a smartphone, iPod, or netbook.

All this is not only cool, "it makes you a better driver," claims Mulally. His first commandment is, "We won't do it unless it lets you keep your eyes on the road and your hands on the wheel." This will actually make people less likely to fumble with their tech gadgets or even look down to adjust the radio or air conditioning.

Sync was already in development when Mulally took over. But he surprised everyone when he announced that Sync would be the future of the company. And he insisted that it be available in all Ford vehicles, not just the high-end luxury products. In this respect, Mulally sees Sync as a way to do what Henry Ford did in the beginning. "Democratize a brand new technology. Make it available to the masses."

SIGNS OF LIFE

Mulally's original goal was to turn an annual profit by 2011. That profit came two years early in the form of $2.1 billion for 2009. Ford's market share is on the rise. Its stock price has increased 700 percent from a 52-week low. And customers are paying more for Fords without the huge discount incentives that the company ran for many years. As just one indication, Taurus sales were up by 109 percent in 2010 over the prior year. Customers paid an average of $30,322 for each one, a transaction price that was $850 higher than a Toyota Avalon and a whopping $6,300 higher than the prior Taurus model.

Ford is back on track but far from out of the woods. Because it didn't take the government's bailout, it has a heavy debt burden. GM and Chrysler are emerging from bankruptcy with clean balance sheets and are on the warpath. And it isn't clear whether Ford can make as much profit on small cars as it did in the past on high dollar trucks. As positive as he is, Mulally also worries about the global competitive environment. "Global economic conditions are improving but remain fragile," he said, pointing out that labor markets are weak, credit is tight, consumer spending is depressed, and oil and other commodity prices are rising. All this leaves industry observers and consumers wondering whether or not Ford can return to the prominent position that it held for decades.

Questions for Discussion

1. Where would you put Ford in terms of competitive position? Why?
2. Is Ford a market-centered company? How can it improve in this area?
3. How does Ford's Sync contribute to its competitive advantage? Is this a sustainable advantage?
4. Can Mulally succeed with small world cars?
5. What other recommendations would you make to Mulally and Ford?

Sources: Paul Hochman, "Ford's Big Reveal," *Fast Company*, April 2010, pp. 90–97; Alex Taylor, "Fixing Up Ford," *Fortune*, May 25, 2009, p. 44; Joann Muller, "Ford's Rebound Is for Real," *Forbes*, April 27, 2010, accessed at www.forbes.com/2010/04/27/ford-alan-mulally-business-autos-ford.html; Joann Muller, "Ford's Neat Trick," *Forbes*, January 28, 2010, accessed at www.forbes.com/2010/01/28/ford-motor-earnings-business-autos-ford.html.