



Creating Competitive Advantage

Previewing the Concepts

In previous chapters, you explored the basics of marketing. You've learned that the aim of marketing is to create value for customers in order to capture value from consumers in return. In the final three chapters, we'll extend this concept to three special areas—creating competitive advantage, global marketing, and marketing ethics and social responsibility.

In this chapter, we pull all of 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 market 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.

First let's examine Washington Mutual, a very successful financial services company with an unusual formula for building profitable relationships with its middle-American customers. As you read about Washington Mutual, ask yourself: Just what is it about this company's marketing strategy that has made it the nation's sixth largest banking company and one of the leading mortgage lenders? Pursuing this strategy, can "WaMu" become the Wal-Mart of the banking industry?

When you walk into a Washington Mutual branch for the first time, you'll probably do a double take. This just isn't your usual bank. There are no teller windows or desks, no velvet ropes, and no marble counters. Instead, you'll find a warm and inviting retail environment, complete with a concierge area where WaMulians (that's what employees call themselves) meet and greet customers. According to Washington Mutual, the idea is to create a place where bank customers want to go rather than have to go. "We make our financial centers inviting, not institutional," says the bank. In many respects, a Washington Mutual branch is more like a retail store than a bank.

This is the bank of the future, Washington Mutual style (WaMu, to the faithful). Sales associates are dressed in Gap-like gear: blue shirts, khaki pants, and navy sweaters. But there's not a rack of cargo pants in sight, and denim shirts are in short supply. If you want a mutual fund, however, a young woman is eager to help. If it's a checking account you need, step right up to the concierge station, and a friendly young man will direct you to the right nook. If your kids get fussy while you're chatting about overdraft protection, send them over to the kids corner, called WaMu Kids, where they can amuse themselves with games, books, and other activities.

The bank's look and feel are intended to put the 'retail' back in retail banking. Known internally as *Occasio* (Latin for "favorable opportunity"), the format grew out of 18 months of intense market research that investigated every customer touch point in a branch. One of the primary innovations of the bank's design is teller towers, pedestals where sales associates stand in front of screens fielding transactions. They handle no money. Customers who need cash (or "wamoola") are given a slip, which they take over to a cash-dispensing machine. This is central to the bank's true goal: cross-selling products by helping customers to find additional products and services they might value. Because they aren't tethered to a cash drawer, tellers who discover that a customer's kid just got into college can march that person over to an education-loan officer. Or they can steer newlyweds to the mortgage desk.

This format might seem unusual for a bank, but it's working for Washington Mutual. The company's 2,600 facilities around the country pull in more than \$21 billion in yearly revenues. Last year, revenues grew almost 34 percent; profits were up 19 percent. In little more than ten years, WaMu has grown from an obscure



Northwest thrift into the nation's seventh-largest financial institution, its largest thrift bank, and its number-three mortgage lender.

Washington Mutual's success has resulted from its relentless dedication to a simple competitive marketing strategy: operational excellence. Some companies, such as Ritz-Carlton hotels, create value through customer intimacy—by coddling customers and reaping high prices and margins. Others, such as Microsoft or Intel, create value through product leadership—by offering a continuous stream of leading-edge products. In contrast, Washington Mutual creates value through a Wal-Mart-like strategy of offering convenience and competitive prices.

WaMu's high-tech, innovative retail stores provide customer convenience but cost much less to staff and operate than a typical bank branch. "Their inexpensive branch design allows WaMu to make use of existing retail space and keep personnel low," notes a banking analyst. Leveraging this low cost, WaMu can offer more affordable banking services, which in turn lets it profitably serve the mass market of moderate-income consumers that other banks now overlook. In fact, WaMu wants to be the Wal-Mart of the banking industry:

WaMu's strategy is simple: Deliver great value and convenient service for the everyday Joe. "The blue-collar, lower white-collar end of the market is either underserved or overcharged," says one analyst who has followed WaMu for nearly two decades. The Home Depots, Targets, and Wal-Marts have built empires by focusing on those customers. Now WaMu's CEO, Kerry Killinger, aims to join their ranks. Killinger wants nothing less than to reinvent how people think about banking. "In every retailing industry there are category killers who figure out how to have a very low cost structure and pass those advantages on



Objectives

After reading this chapter, you should be able to:

1. discuss the need to understand competitors as well as customers through competitor analysis
2. explain the fundamentals of competitive marketing strategies based on creating value for customers
3. illustrate the need for balancing customer and competitor orientations in becoming a truly market-centered organization

to customers, day in and day out, with better pricing," he says. "I think we have a shot at doing that in this segment." His goal is to have his company mentioned in the same breath as Wal-Mart and Southwest Airlines. "[We want to] be put into a different category, as a high-growth retailer of consumer financial services," he says, without a trace of doubt. "We'll even start losing the banking label."

WaMu's strategy focuses on building full customer relationships. It begins with offering what the company considers to be its core relationship products: home mortgages and free checking with no minimum balance requirement to avoid a monthly fee. Pretty soon, customers are happily hooked on WaMu's entire range of banking services. According to one account:

"Checking accounts and mortgages are two of the most important products for Main Street America. WaMu can offer a package of products at a better value than you could get by offering those products independently. When you team the convenience and the price value, it's a very powerful combination for the consumer."

WaMu's cross-selling, relationship-building formula is a powerful one. Five years after starting with free checking as their initial relationship, Washington Mutual's households on average maintain more than \$23,000 in deposit, investment, and home and consumer loan balances.

WaMu's focus on customer relationships is a primary reason for the bank's success. But the company knows that to build strong customer relationships, it must also take good care of the employees who maintain those relationships. So WaMu has also created an exuberant corporate culture that motivates and supports the WaMulians. "I've never seen an organization that lives its culture the way this organization does," says Steve Rotella, WaMu's president and chief operating officer. Employee surveys show that "they view it as a special place and a place they want to work." All of those warm feelings translate into customer service, satisfaction, and value.

Will Washington Mutual's competitive marketing strategy of bringing value and convenience to middle-Americans make it the Wal-Mart of the banking industry? WaMu is certainly well on its way. "You can have a lucky streak for a few quarters, but you can't accomplish what they've done with just a lucky streak," says an analyst. "They have good people; they have scale; they are very focused on their customers. For WaMu, the best is still to come."¹

Competitive advantage

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

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 that 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 will have to move from a product-and-selling philosophy to a customer-and-marketing philosophy. John Chambers, CEO of Cisco Systems put it well: "Make your customer the center of your culture."

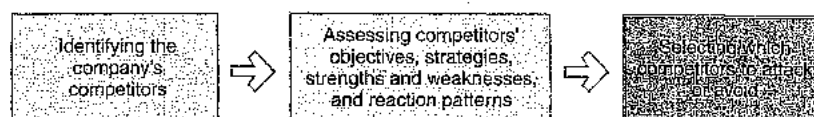
This chapter spells out in more detail how companies can go about outperforming competitors in order to win, keep, and grow customers. To win in today's marketplace, companies must become adept not just in *managing products*, but in *managing customer relationships* in the face of determined competition. 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 consumers than competitors do*.

In this chapter, we examine *competitive marketing strategies*—how companies analyze their competitors and develop successful, 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.

Competitor Analysis

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 promotion with those of close competitors. In this way the company can find areas of poten-

FIGURE 18.1
Steps in analyzing
competitors



tial 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 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, Pepsi might view Coca-Cola as a major competitor, but not Budweiser or Ocean Spray. Bookseller Barnes & Noble might see Borders as a major competitor, but not Wal-Mart or Costco. Ritz-Carlton might see Four Seasons hotels as a major competitor, but not Holiday Inn Hotels, the Hampton Inn, or any of the thousands of bed-and-breakfasts that dot the nation.

But companies actually face a much wider range of competitors. The company might define competitors as all firms making the same product or class of products. Thus, 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. Here 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 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 businesses after 161 years; it was cell phones and the Internet. And for decades, Kodak held a comfortable lead in the photographic film business. It saw only Fuji as its major competitor in this market. However, in recent years, Kodak’s major new competition has not come from Fuji and other film producers, but from Sony, Canon, and other digital camera makers, and from a host of digital image developers and online image-sharing services.

Because of its myopic focus on film, Kodak was late to enter the digital imaging market. It paid a heavy price. With digital cameras now outselling film cameras, and with film sales plummeting 20 percent every year, Kodak has faced major sales and profit setbacks, massive layoffs, and a 74 percent drop in its stock over the past five years. Kodak is now changing its focus to digital imaging, but the transformation will be difficult. The company has to “figure out not just how to convince consumers to buy its [digital] cameras and home printers but also how to become known as the most convenient and affordable way to process those images,” says an industry analyst. “That means home and store printing as well as sending images over the Internet and cell phones.”²

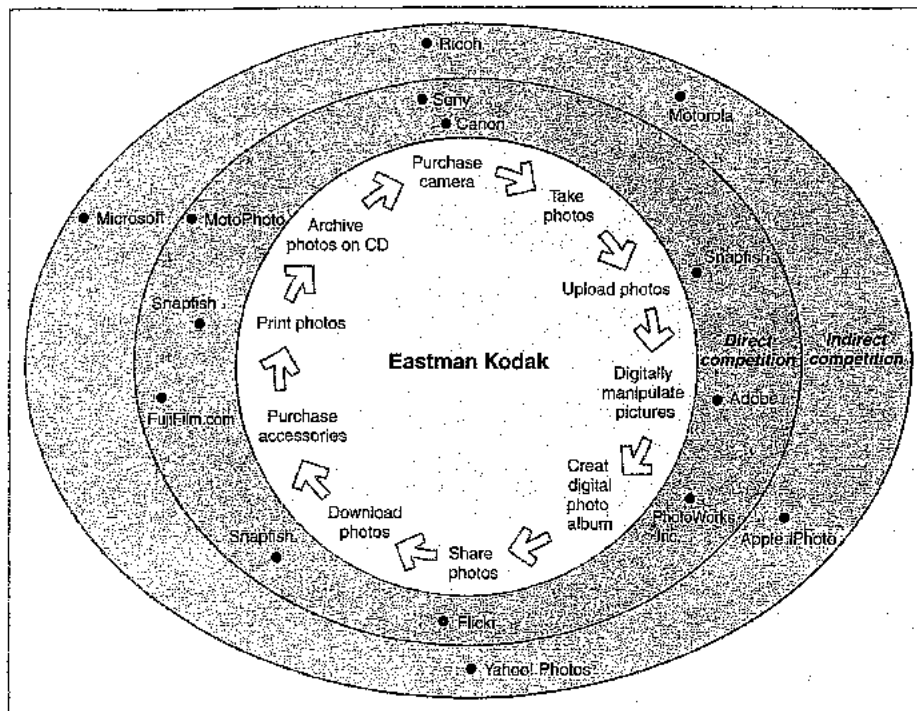
Companies can identify their competitors from the *industry* point of view. They might see themselves as being in the oil industry, the pharmaceutical industry, or the beverage industry. A company must understand the competitive patterns in its industry if it hopes to be an effective “player” in that 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 other soft drink makers. From a market point of view, however, the customer really wants “thirst quenching.” This need can be satisfied by bottled water, fruit juice, iced tea, or many other fluids. Similarly, Hallmark’s Binney & Smith, maker of 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 products for children.

In general, the market concept of competition opens the company’s eyes to a broader set of actual and potential competitors. One approach is to profile the company’s direct and indirect competitors by mapping the steps buyers take in obtaining and using the product. Figure 18.2

FIGURE 18.2

Competitor map
 Source: Based on Jeffrey F. Rayport and Bernard J. Jaworski, *e-Commerce* (New York: McGraw-Hill, 2001), p. 53.



illustrates a *competitor map* of Eastman Kodak in the digital imaging business.³ In the center is a list of consumer activities: buying a camera, taking photos, creating digital photo albums, printing photos, and others. The first outer ring lists Kodak's main competitors with respect to each consumer activity: Canon and Sony for buying a camera, HP's Snapfish for sharing and printing photos, and so on. The second outer ring lists indirect competitors—Apple, Motorola, Microsoft, and others—who may become direct competitors. This type of analysis highlights both the competitive opportunities and the challenges a company faces.

Assessing Competitors

Having identified the main competitors, marketing management now asks: What are 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.

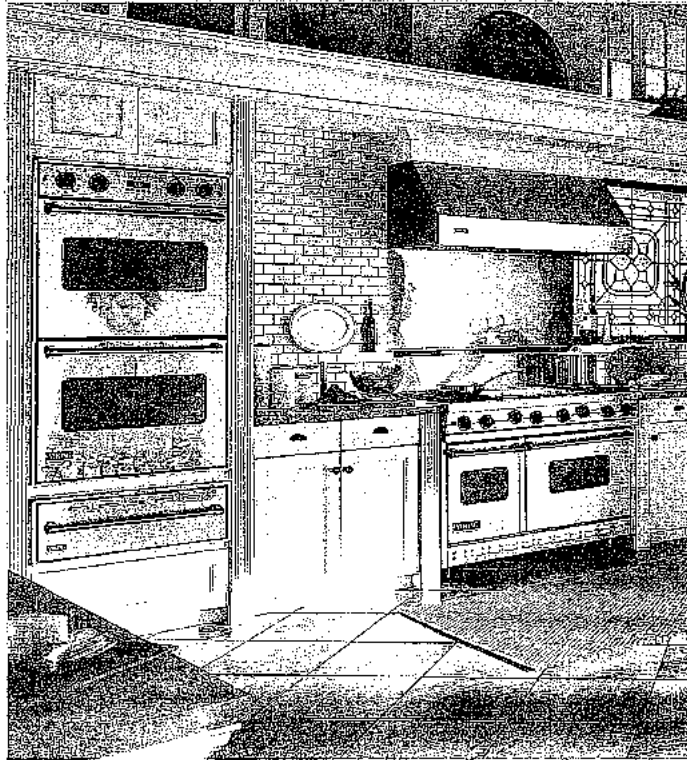
A company also must monitor its competitors' objectives for various segments. If the company finds that a competitor has discovered a new segment, this might be an opportunity. If it finds that competitors plan new moves into segments now served by the company, it will be forewarned and, hopefully, forearmed.

Identifying Competitors' Strategies

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

Strategic group

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



IMAGINE YOUR LIFE IN A VIKING KITCHEN. **Viking** APPLIANCES

Strategic groups: Viking belongs to the appliance industry strategic group offering a narrow line of higher-quality appliances supported by good service.

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.

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

Although competition is most intense within a strategic group, there is also rivalry among groups. First, some of the 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, the customers may not see much difference in the offers of different groups—they may see little difference in quality between Whirlpool and KitchenAid. Finally, members of one strategic group might expand into new strategy segments. Thus, GE Monogram line of appliances competes in the premium quality, premium-price line with Viking and Sub-Zero.

The company needs to look at all of 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 assess each competitor's strengths and weaknesses carefully in order to answer the 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, business-to-business 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 the company's products and processes to those of competitors or leading firms in other industries to find ways to improve quality and performance. Benchmarking has become a powerful tool for increasing a company's competitiveness.

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

Benchmarking

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

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; 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, Procter & Gamble does not let a new detergent 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 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 the company's 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 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* in order 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 the company's and competitors' performance on the valued attributes.

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 competitor. If the company's offer delivers greater value by exceeding the competitor's offer on all 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 competitor on some important attributes, it must invest in strengthening those attributes or finding other important attributes where it can build a lead on the competitor.

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. And Target competes with Wal-Mart rather than against 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. As a result, Bausch & Lomb now faces much larger competitors—and it

Customer value analysis

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

After driving smaller competitors from the market, Bausch & Lomb faces larger, more resourceful ones, such as Johnson & Johnson's Vistakon division. With Vistakon's Acuvue lenses lending the way, J&J is now the top U.S. contact lens maker.

has suffered the consequences. Johnson & Johnson acquired Vistakon, a small nicher with only \$20 million in annual sales. Backed by Johnson & Johnson's deep pockets, however, the small but nimble Vistakon developed and introduced its innovative Acuvue disposable lenses. With Vistakon leading the way, Johnson & Johnson is now the top U.S. contact lens maker with a 33 percent market share, and Bausch & Lomb lags in fourth place with a 13 percent share.⁴ In this case, success in hurting a close rival brought in tougher competitors.

"Good" or "Bad" Competitors

A company really needs and benefits from competitors. The existence of competitors results in several strategic benefits. Competitors may help increase total demand. They may share the costs of market and product development and help to legitimize new technologies. They may serve less-attractive segments or lead to more product differentiation. Finally, they lower the antitrust risk and improve bargaining power versus labor or regulators. For example, by aggressively pricing its computer chips, \$38 billion Intel could make things difficult for smaller rivals such as \$6 billion AMD. However, even though AMD may be chipping away at its microprocessor market share, Intel may want to be careful about trying to knock AMD completely out. "If for no other reason than to keep the feds at bay," notes one analyst, "Intel needs AMD . . . and other rivals to stick around." Says another: "If AMD collapsed, the FTC would surely react."⁵

However, a company may not view all of its competitors as beneficial. An industry often contains "good" competitors and "bad" competitors.⁶ 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, Yahoo! Music Unlimited sees Napster, Rhapsody, AOL Music, Sony Connect, and most other digital music download services as good competitors. They share a common platform, so that music bought from any of these competitors can be played on almost any playback device. However, it sees Apple's iTunes Music Store as a bad competitor, one that plays by its own rules at the expense of the industry as a whole.

With the iPod, Apple created a closed system with mass appeal. iPods now account for an estimated 73 percent of the 30 million MP3 players currently in use in the United States. In 2003, when the iPod was the only game in town, Apple cut a deal with the Big Five record companies that locked up its device. The music companies wanted to sell songs on iTunes, but they were afraid of Internet piracy. So Apple promised to wrap their songs in its FairPlay software—the only copy-protection software that is iPod-compatible. Other digital music services such as Yahoo! Music Unlimited and Napster have since reached similar deals with the big record labels. But Apple refused to license FairPlay to them. So those companies

turned to Microsoft for copy protection. That satisfied fearful music companies, but it means none of the songs sold by those services can be played on the wildly popular iPod. And music downloaded from iTunes will play *only* on an iPod, making it difficult for other MP3 players that support the Microsoft format to get a foothold. The situation has been a disaster for Apple's competitors. iTunes holds a commanding lead over its rivals, selling more than 75 percent of all digital music. It recently sold its billionth song.⁷

The implication is that "good" companies would like to shape an industry that consists of only well-behaved competitors. A company might be smart to support good competitors, aiming its attacks at bad competitors. Thus, Yahoo! Music Unlimited, Napster, and other digital music competitors will no doubt support one another in trying to break Apple's stranglehold on the market.



Good and bad competitors: Digital music download services such as Yahoo! Music Unlimited, Napster, and Rhapsody see Apple as a bad competitor. Music downloaded from their sites can't be played on the Apple's wildly popular iPod, and music from Apple's iTunes Music Store will play only on an iPod.

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. The cost in money and time of gathering competitive intelligence is high, and the company must design its competitive intelligence system in a cost-effective way.

The competitive intelligence system first identifies the vital types of competitive information and the best sources of this information. Then, the system continuously collects information from the field (sales force, channels, suppliers, market research firms, trade associations, Web sites) and from published data (government publications, speeches, articles). 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 will receive timely information about competitors in the form of phone calls, e-mails, bulletins, newsletters, and reports. In addition, managers can connect with the system when they need an interpretation of a competitor's sudden move, or 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.

Competitive Strategies

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-AIDS, Tylenol, or Johnson'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 strategies in a less formal and orderly fashion. Some companies, such as Harley-Davidson, Virgin Atlantic Airways, and BMW's MINI 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 Procter & Gamble.

In fact, approaches to marketing strategy and practice often pass through three stages: entrepreneurial marketing, formulated marketing, and intreprenurial marketing.⁸

⁸ *Entrepreneurial marketing*: Most companies are started by individuals who live by their wits. They visualize an opportunity, construct flexible strategies on the backs of envelopes, and knock on every door to gain attention. Gary Hirshberg, who started the Stonyfield Farms yogurt company, will tell you that it's not about dumping millions of dollars into marketing and advertising. For Stonyfield, it's about company blogs, snappy packaging, and handing out yogurt from Segway transporters in Boston. And it's about telling the company story to the media. Hirshberg, known for wearing khakis and a vest, started mak-



Entrepreneurial marketing: Stonyfield Farm's idea of marketing strategy—"companies can do better with less advertising, less marketing research, more guerilla marketing, and more acting from the gut."

ing yogurt in Wilton, New Hampshire, with seven cows and a dream. His marketing strategy: building a strong connection with customers using guerilla marketing. His idea is that "companies can do better with less advertising, less marketing research, more guerilla marketing, and more acting from the gut." Using this strategy, Hirshberg has built Stonyfield Farm into a \$250 million company.⁹

Formulated marketing: As small companies achieve success, they inevitably move toward more-formulated marketing. They develop formal marketing strategies and adhere to them closely. With 85 percent of the company owned by Groupe Danone (which also owns Dannon yogurt), Stonyfield Farm has developed over the years a formal marketing department that carries out market research and plans strategy. Although Stonyfield may remain less formal in its strategy than the Procter & Gambles of the marketing world, it employs many of the tools used in these more-developed marketing companies.

Intreprenurial 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 that they had at the start. They now need to reestablish within their companies the entre-

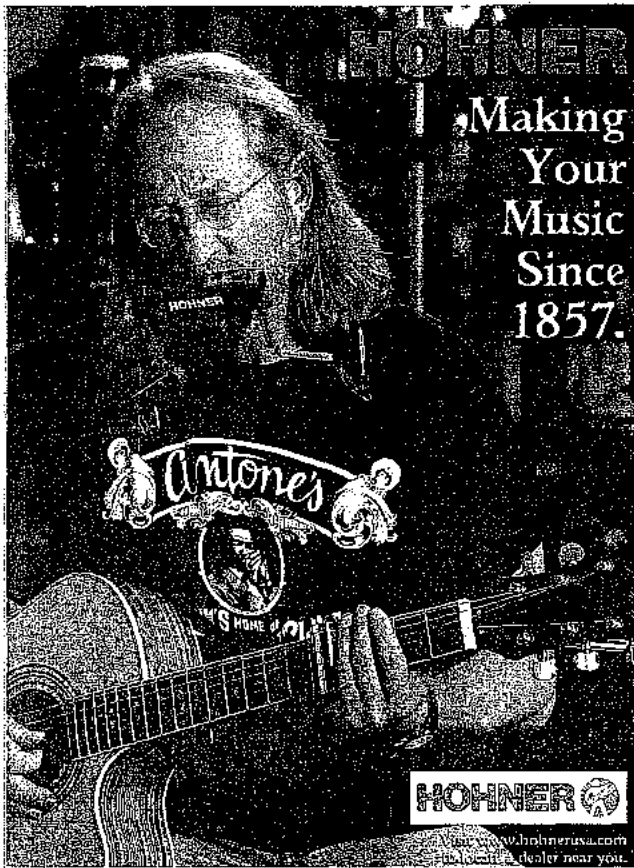
preneurial spirit and actions that made them successful in the first place. They need to encourage more initiative and "intreprenurship" at the local level. They need to refresh their marketing strategies and try new approaches. Their brand and product managers need to get out of the office, start living 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 company's we've 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 broad competitive marketing strategies companies can use.

Basic Competitive Strategies

Almost three decades ago, Michael Porter suggested four basic competitive positioning strategies that companies can follow—three winning strategies and one losing one.¹⁰ The three winning strategies include:

- 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, Dell, and Wal-Mart 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 and services and heavy construction equipment, respectively.



■ Focus: Small but profitable Hohner owns a stunning 85 percent of the harmonica market.

■ **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. Glassmaker AFG Industries focuses on users of tempered and colored glass. It makes 70 percent of the glass for microwave oven doors and 75 percent of the glass for shower doors and patio tabletops. Similarly, Hohner owns a stunning 85 percent of the harmonica market.¹¹

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-roads*—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-roads try to be good on all strategic counts, but end up being not very good at anything.

More recently, two marketing consultants, Michael Treacy and Fred Wiersema, offered new classifications of competitive marketing strategies.¹² They suggested 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. These are:

■ **Operational excellence:** The company provides superior value by leading its industry in price and convenience. It works to reduce costs and to create a lean and efficient value-delivery system. It serves customers who want reliable, good-quality products or services, but who want them cheaply

and easily. Examples include Wal-Mart, Washington Mutual, Southwest Airlines, and Dell.

- **Customer intimacy:** The company provides superior value by precisely segmenting its markets and tailoring its products or services to match exactly 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 it 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, Ritz-Carlton, Lexus, American Express, and British Airways (see Real Marketing 18.1).
- **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 Nokia and Microsoft.

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 of the 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,

Real Marketing

18.1.3 Some companies go to extremes to coddle big spenders. From department stores like Nordstrom, to carmakers like Lexus and BMW, to hotels like Ritz-Carlton and Four Seasons, such companies give their well-heeled customers exactly what they need—and even more.

For example, concierge services are no longer the sole province of five-star hotels and fancy credit cards. They are starting to show up at airlines, retailers, and even electronic-goods makers. Sony Electronics, for instance, offers a service for its wealthiest customers, called Cierge, that provides a free personal shopper and early access to new gadgets, as well as “white-glove” help with the installation. (Translation: They will send someone over to set up the new gear.)

And then there’s British Airways’ “At Your Service” program—available to a hand-picked few of the airline’s gold-level elite customers. There’s almost nothing that the service won’t do for members—tracking down hard-to-get Wimbledon tickets, for example, or running errands around town, sitting in a member’s home to wait for the plumber or cable guy, or even planning your wedding, right down to the cake.

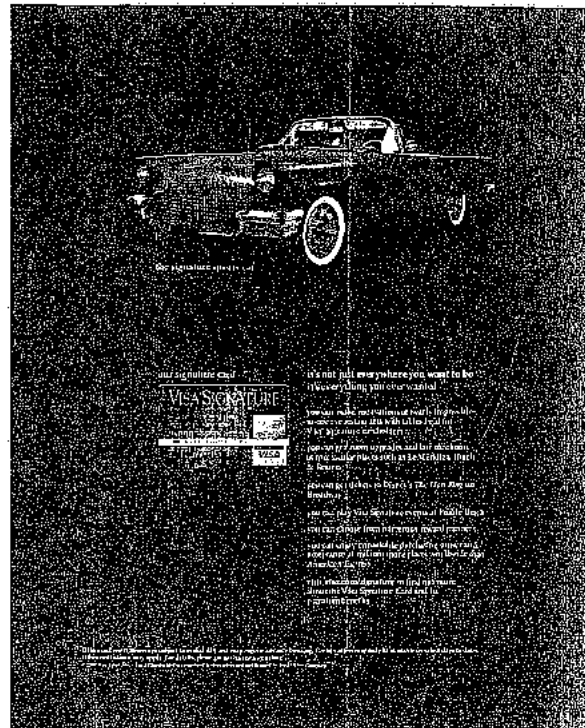
But when it comes to stalking the well-to-do, perhaps nowhere is the competition greater than in the credit-card industry. To rise above the credit-card clutter and to attract high-end card holders, the major credit-card companies have created a new top tier of superpremium cards—Visa’s Signature card, MasterCard’s World card, American Express’s super-elite Centurion card. Affluent customers are extremely profitable. While premium cards represent only 1.5 percent of the consumer credit cards issued by Visa, MasterCard, and American Express, they account for 20 percent of the spending. And well-to-do cardholders tend to default a lot less, too.

The World MasterCard program targets what it calls the “mass affluent” and reaches 15 million wealthy households. Visa’s Signature card zeros in on “new affluent” households, those with incomes exceeding \$125,000. Its seven million cardholders account for 3 percent of Visa’s consumer credit cards but 18 percent of Visa sales. Both cards feature a pack of special privileges. For its Signature card, Visa advertises, “The good life isn’t only in your reach—it’s in your wallet.” In addition to the basics, such as no preset spending limit and 24-hour concierge services, Visa promises “upgrades, perks, and discounts” at major airlines, restaurants, and hotels, and special treatment at partners like the Ritz-Carlton, men’s fashion designer Ermenegildo Zegna, watchmaker Audemars Piguet.

But when it comes to premium cards, the American Express Centurion card is the “elite of the elite” for luxury card carriers. This mysterious, much-coveted black credit card is issued by invitation only, to customers who spend more than \$150,000 a year on other AmEx cards and meet other not-so-clear requirements. Then, the select few who do receive the card pay a \$2,500 annual fee just for the privilege of carrying it.

But the Centurion card comes dripping with perks and prestige. The elusive plastic, with its elegant matte finish, is coveted by big spenders. “A black card is plastic bling-bling,” says an industry observer, “a way for celebrities, athletes, and major business people to express their status.”

A real T-shirt-and-jeans kind of guy, Peter H. Shankman certainly doesn’t look like a high roller, but American Express knows better. After he was snubbed by salesmen at a Giorgio



Targeting affluent customers: Visa’s Signature card zeros in on the “new affluent.” It offers no preset spending limit, 24-hour concierge services, and loads of “upgrades, perks, and discounts . . . It’s not just everywhere you want to be. It’s everything you ever wanted.”

Armani boutique on Fifth Avenue in New York recently, the 31-year-old publicist saw “an unbelievable attitude reversal” at the cash register when he whipped out his black AmEx Centurion Card. In June, a RadioShack cashier refused the card, thinking it was a fake. “Trust me,” I said. “Run the card,” recalls the chief executive of Geek Factory, a public-relations and marketing firm. “I could buy a Learjet with this thing.”

An exaggeration, perhaps. But AmEx’s little black card is decidedly the “it” card for big spenders. Some would-be customers go to absurd lengths to get what they see as a must-have status symbol. Hopefuls have written poems to plead their cases. Others say they’ll pay the fee but swear not to use the card—they want it just for show. “Every week I get phone calls or letters, often from prominent people, asking me for the card,” says AmEx’s head of consumer cards, Alfred F. Kelly Jr. Who, he won’t say. In fact, AmEx deliberately builds an air of mystery around the sleek card, keeping hush-hush such details as the number of cards in circulation. Analysts say AmEx earns back many times what it spends on perks for black-card customers in both marketing buzz and fees.

(continues)

Basic services on the Centurion card include a personal travel counselor and concierge, available 24/7. Beyond that, almost anything goes. Feel like shopping at Bergdorf Goodman or Saks Fifth Avenue at midnight? No problem. Traveling abroad in first class? Take a pal—the extra ticket is free. The royal treatment often requires elaborate planning. One AmEx concierge arranged a bachelor party for 25, which involved a four-day trip that included 11 penthouse suites, travel by private jet, and a meet-and-greet with an owner of the Sacramento Kings basketball team. The tab was more than \$300,000.

How did Shankman earn his card? All the travel and entertainment charges he racks up hosting his clients prompted AmEx to send it to him. It arrived in December, along with a 43-page manual. Recently, Shankman sought reservations for Spice Market, an often-overbooked restaurant in Manhattan, to impress a friend. He called his concierge. "Half an hour later it was done," says Shankman. Membership does have its privileges.

When American Express seeks new Centurion cardholders, it does so discreetly. Last year, when it wanted to expand the elite list in Europe without attracting the ineligible, it mailed invitations to the top 1 percent of its platinum card holders. The mailing contained a card embedded in a glass paperweight with an invitation to meet personally with American Express's European president.

So, how many people actually have a Centurion card? "About the same number of people who can afford a Mercedes Maybach," says Desiree Fish, a spokeswoman for American Express, referring to a luxury car that can list for more than \$300,000. The best guess is that only about 5,000 people worldwide have a Centurion card in their back pocket.

Sources: American Express example adapted from Mara Der Hovanesian, "This Black Card Gives You Carte Blanche," *Business Week*, August 9, 2004, p. 54. Quotes and other information from David Carr, "No Name, but Plenty of Bling-Bling for Show," *New York Times*, September 13, 2004, p. C11; Eleena de Lisser, "How to Get an Airline to Wait for Your Plumber—In Battle for Biggest Spenders, British Airways, Sony Rolls Out Hotel-Style 'Concierge' Service," *Wall Street Journal*, July 2, 2002, p. D1; James Tenser, "Cards Play Their Luxury Hand Right," *Advertising Age*, September 13, 2004, pp. S13-S14; Frederick H. Lowe, "Cards for the Rich: They're Different, Indeed," *Credit Card Management*, February 2005, pp. 18-22; Eric Dash, "New Spots for the Credit Card Companies Show Fierce Competition for the High-End Consumer," *New York Times*, May 11, 2005, p. C8; "The 10 Best DM Campaigns," *Campaign*, December 16, 2005, p. 38; and www.visa.com and www.mastercard.com, December 2006.

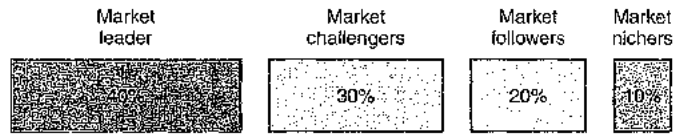
Wal-Mart knows that customer intimacy and product leadership are important. Compared with other discounters, it offers very good customer service and an excellent product assortment. Still, it purposely offers less customer service and less product depth than do Nordstrom or Williams-Sonoma, which pursue customer intimacy. Instead, Wal-Mart focuses obsessively on operational excellence—on reducing costs and streamlining its order-to-delivery process in order to make it convenient for customers to buy just the right products at the lowest prices.

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

Check into any Ritz-Carlton hotel around the world, and you'll be amazed at how well the hotel's employees anticipate your slightest need. Without ever asking, they seem to know that you want a nonsmoking room with a king-size bed, a nonallergenic pillow, and breakfast with decaffeinated coffee in your room. How does Ritz-Carlton work this magic? At the heart of the system is a huge customer database, which contains information gathered through the observations of hotel employees. Each day, hotel staffers—from those at the front desk to those in maintenance and housekeeping—discreetly record the unique habits, likes, and dislikes of each guest on small "guest preference pads." These observations are then transferred to a corporatewide "guest preference database." Every morning, a "guest historian" at each hotel reviews the files of all new arrivals who have previously stayed at a Ritz-Carlton and prepares a list of suggested extra touches that might delight each guest. Guests have responded strongly to such personalized service. Since inaugurating the guest-history system, Ritz-Carlton has boosted guest retention by 23 percent. An amazing 95 percent of departing guests report that their stay has been a truly memorable experience.

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.

FIGURE 18.3
Hypothetical market structure



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 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 the 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 18.3. 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.

Table 18.1 shows specific marketing strategies that are available to market leaders, challengers, followers, and nichers.¹³ 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, Procter & Gamble, or Disney might be leaders in some markets and nichers in others. For example, Procter & Gamble leads in many segments, such as laundry detergents and shampoo. But it challenges Unilever in the 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 Wal-Mart (retailing), Microsoft (computer software), IBM (information technology services and equipment), Caterpillar (earth-moving equipment), Anheuser-Busch (beer), McDonald's (fast food), Nike (athletic footwear), 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 Wal-Mart). Or the leader might look old-fashioned against new and peppier rivals (as when Levi's lost serious ground to more current or stylish brands such as Gap, Tommy Hilfiger, DKNY, or Guess).

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

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 Strategies for Market Leaders, Challengers, Followers, and Nichers

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

good defensive and offensive actions. Third, they can try to expand their market share further, even if market size remains constant.

Expanding the Total Demand

→ new users
→ new uses
→ more usage

The leading firm normally gains the most when the total market expands. If Americans purchase more hybrid automobiles, Toyota stands to gain the most because it sells the nation's largest share of hybrids. If Toyota can convince more Americans that hybrid cars are both more economical and more environmentally friendly, 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 in many places. For example, Revlon might find new perfume users in its current markets by convincing women who do not use perfume to try it. It might find users in new demographic segments, such as by producing fragrances for men. Or it might expand into new geographic segments, perhaps by selling its fragrances in other countries.

Marketers can expand markets by discovering and promoting *new uses* for the product. For example, Arm & Hammer baking soda, whose sales had flattened after 125 years, discovered that consumers were using baking soda as a refrigerator deodorizer. It launched a heavy advertising and publicity campaign focusing on this use and persuaded consumers in half of America's homes to place an open box of baking soda in their refrigerators and to replace it every few months. Today, its Web site (www.armandhammer.com) features new uses—"Solutions for my home, my family, my body"—ranging from removing residue left behind by hair-styling products and sweetening garbage disposals, laundry hampers, refrigerators, and trash cans to creating a home spa in your bathroom.

Creating more usage: Campbell urges people to eat its soups and other products more often by running ads containing new recipes. It even offers online video clips of guest chefs cooking any of 27 recipes on Campbell's Kitchen TV.

The image displays two screenshots of the Campbell's Kitchen website. The top screenshot shows the main homepage with a search bar, a featured recipe 'Creamy Pork Sauté', and navigation links. The bottom screenshot shows a 'Campbell's Kitchen T.V.' page with a list of recipes including 'Arrirot Glazed Pork Roast', 'Beef Stir-Fry', and 'Cheeseburger Fappo'.

Finally, market leaders can encourage *more usage* by convincing people to use the product more often or to use more per occasion. For example, Campbell urges people to eat soup and other Campbell products more often by running ads containing new recipes. It also offers a toll-free hot line (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 section of the company's Web site (www.cambellsoup.com) lets visitors search for or exchange recipes, set up 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 27 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. Dell must also constantly guard against Hewlett-Packard; Caterpillar against Komatsu; Wal-Mart against Target; 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 leader refuses to be content with the way things are and leads the industry in new products, customer services, distribution effectiveness, 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, consider Frito-Lay's reaction to a challenge by a large competitor:

In the early 1990s, Anheuser-Busch attacked Frito-Lay's leadership in salty snacks. The big brewer had noticed that Frito-Lay, a division of PepsiCo, had been distracted by its expansion into cookies and crackers. So Anheuser-Busch began to slip its new Eagle brand salty snacks onto the shelves of its traditional beer outlets—supermarkets and liquor stores—where Frito-Lay was comparatively weak. Frito-Lay reacted ruthlessly. First, to get itself into fighting shape, the salty-snacks leader cut the number of offerings in its product line by half—no more cookies, no more crackers—and invested in product quality, which had slipped below Eagle's. Then, Frito-Lay concentrated its energy, not to mention its 10,000 route drivers, on America's salty-snack aisles. Frito-Lay's strong brands and huge size gave it a clear economic advantage over Anheuser-Busch in the salty-snack business. Armed with a superior offering—better chips, better service, and lower prices—Frito-Lay began to put pressure on one of Eagle's strongholds: potato chips in supermarkets. It sent its salespeople streaming into supermarkets; some even stayed at the largest supermarkets full time, continually restocking the Frito-Lay products. When the dust had settled in 1996, Anheuser-Busch had shuttered its Eagle snack business. In the end, Frito-Lay even bought four of Eagle's plants—at very attractive prices.¹⁴

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 \$68 million; in carbonated soft drinks, \$660 million!¹⁵

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 these 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 high profits 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 Colgate, Ford, Lowes, Avis, and Hewlett-Packard. These runner-up firms can adopt one of two competitive strategies: They can challenge the 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 leader successful and improves upon it. Consider Lowe's, the number-two home-improvement retailer:¹⁶

Home Depot invented the home-improvement superstore, and it's still putting up good numbers. However, after observing Home Depot's success, No. 2 Lowe's, with its brighter stores, wider aisles, and arguably more helpful salespeople, has positioned itself as the friendly alternative to Big Bad Orange. For Lowe's the advantage has been substantial—and profitable. Although Lowe's still earns barely half of Home Depot's revenues, its sales grew at a 62 percent greater rate last year. And over the past ten years, Lowe's has earned average annual returns of 23.5 percent, versus Home Depot's 14.9 percent. Lowe's isn't the only No. 2 outperforming the industry leaders. Target has been thumping Wal-Mart, PepsiCo is outfizzing Coca-Cola, and Advanced Micro Devices is chipping away at Intel. In fact, *Fortune* magazine analyzed the stock returns of major U.S. companies in ten industries and found that the industry leaders by revenue returned a mere 2 percent over the past year, versus 21 percent for their second bananas. The gap in earnings growth—8 percent versus 24 percent—was almost as great.

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 company goes after a small local company, its objective may be to put that company out



■ Second mover advantage: After observing Home Depot's success, No. 2 Lowe's, with its brighter stores, wider aisles, and arguably more helpful salespeople, has positioned itself as the friendly alternative to Big Bad Orange.

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. If the market challenger has fewer resources than the competitor, a frontal attack makes little sense. For example, the runner-up razor manufacturer in Brazil attacked Gillette, the market leader. The attacker was asked if it offered the consumer a better razor. "No," was the reply. "A lower price?" "No." "A clever advertising campaign?" "No." "Better allowances to the trade?" "No." "Then how do you expect to take share away from Gillette?" "Sheer determination" was the reply. Needless to say, the offensive failed. Even great size and strength may not be enough to challenge a firmly entrenched, resourceful competitor successfully.

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. For example, Netflix found a foothold against giant Blockbuster in the DVD rental market by renting to the consumers through the mail and offering no late fees. Southwest Airlines challenged American and other large carriers by serving the overlooked short-haul, no-frills commuter segment at smaller, out-of-the-way airports. Such indirect challenges make good sense when the company has fewer resources than the competitor.

Market Follower Strategies

Not all runner-up companies want to challenge the market leader. Challenges are never taken lightly by the leader. If the challenger's lure is lower prices, improved service, or additional product features, the 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 "blue-light special" campaign, directly challenging Wal-Mart's everyday low prices, it started a price war that it couldn't win. Wal-Mart 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 leader.

Similarly, after years of challenging Procter & Gamble unsuccessfully in the U.S. laundry detergent market, Unilever recently decided to throw in the towel and become a follower instead. P&G captures 55 and 75 percent shares of the liquid and powder detergent markets, respectively, versus Unilever's 17 and 7 percent shares. P&G has outmuscled competitors on every front. For example, it batters competitors with a relentless stream of new and improved products. Recently, P&G spent more than \$50 million introducing one new product alone, Tide with Downy. In response to the onslaught, Unilever has cut prices and promotion on its detergents to focus on profit rather than market share.¹⁷

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 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 leader. A market 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. The 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. For example, Veterinary Pet Insurance is tiny compared with the insurance industry giants, but it captures a profitable 82 percent share of all health insurance policies for our furry—or feathery—friends (see Real Marketing 18.2).

Real Marketing

18.2 Health insurance for pets? MetLife, Prudential, Northwestern Mutual, and most other large insurance companies haven't paid much attention to it. But that leaves plenty of room for more-focused nichers, for whom pet health insurance has become a lucrative business. The largest of the small competitors is Veterinary Pet Insurance (VPI). VPI's mission is to "make the miracles of veterinary medicine affordable to all pet owners."

VPI was founded in 1980 by veterinarian Jack Stephens. He never intended to leave his practice, but his life took a dramatic turn when he visited a local grocery store and was identified by a client's daughter as "the man who killed Buffy." Stephens had euthanized the family dog two weeks earlier. He immediately began researching the possibility of creating medical pet insurance. "There is nothing more frustrating for a veterinarian than knowing that you can heal a sick patient, but the owner lacks the financial resources and instructs you to put the pet down," says Stephens. "I wanted to change that."

Pet insurance is a still-small but fast-growing segment of the insurance business. Insiders think the industry offers huge potential. Currently, there are some 74 million dogs and 91 million cats in the United States—more than 60 percent of all U.S. households own one or the other or both. Another 4.6 million U.S. households own one or more of about 300 species of birds, two million more own pet rabbits. A recent survey showed that 94 percent of pet owners attribute human personality traits to their pets. According to a VPI spokesperson, more than two-thirds have included their pets in holiday celebrations and one-third characterize their pet as a child. Americans now spend a whopping \$28.5 billion a year on their pets, including \$9.4 billion on pet health care.

Unlike in Britain and Sweden, where almost half of all pet owners carry pet health insurance, relatively few pet owners in the United States now carry such coverage. However, a recent study of pet owners found that nearly 75 percent are willing to go into debt to pay for veterinary care for their furry—or feathery—companions. And for many pet medical procedures, they'd have to! 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's plans cover more than 6,400 pet medical problems and conditions. The insurance helps pay for office calls, prescriptions, treatments, lab fees, x-rays, surgery, and hospitalization. Like its handful of competitors, VPI issues health insurance policies for dogs and cats. Unlike its competitors, VPI recently expanded its coverage to a menagerie of exotic pets as well. Among other critters, the Avian and Exotic Pet Plan covers birds, rabbits, ferrets, rats, guinea pigs, snakes (except extra large ones) and other reptiles, iguanas, turtles, hedgehogs, and potbellied pigs. "There's such a vast array of pets," says a VPI executive, "and people love them. We have to respect that."

How's VPI doing in its niche? It's growing like a newborn puppy. VPI is by far the largest of the handful of companies that offer pet insurance, providing more than 60 percent of all U.S. pet insurance policies. Since its inception, VPI has issued more than 1 million policies, and it now serves more than 369,000 policyholders. Sales have grown rapidly, exceeding \$110 million in policy premiums last year. That might not amount to much for the likes of MetLife, Prudential, or

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When you get a dog, it's your baby and probably the best medical care. VPI Pet Insurance helps pay for your dog's vet bills, including surgery, drugs, and more. The price after coverage includes care, medical examinations and prescription fee covered. Plus, you can see any veterinarian that's the best of protection you need for all your furry relatives. Call today for a free quote.

VPI PET

Nichers: Market nicher VPI is growing faster than a new-born puppy. Its mission is to "make the miracles of veterinary medicine affordable to all pet owners."

Northwestern Mutual, which rack up tens of billions of dollars in yearly revenues. But it's profitable business for nichers like VPI. And there's room to grow. Less than 5 percent of pet owners currently buy pet insurance.

"Pet health insurance is no longer deemed so outlandish in a world where acupuncture for cats, hospice of dogs, and Prozac for ferrets are part of a veterinarian's routine," says one analyst. Such insurance is a real godsend for VPI's policyholders. Just ask Joe and Paula Sena, whose cocker spaniel, Elvis, is receiving radiation treatments for cancer. "He is not like our kids—he is our kid," says Ms. Sena. "He is a kid in a dog's body." VPI is making Elvis's treatments possible by picking up a lion's share of the costs. "Cost often becomes the deciding factor in the level of care owners can provide," says VPI founder Stephens. VPI will always "strive to make the miracles of modern medicine affordable."

Sources: Kevin Graman, "Some Pay Premium for Healthy Pets," *Knight Ridder Business News*, April 17, 2006, p. 1; Yifu Zhao, "Break a Leg, Fluffy, if You Have Insurance," *New York Times*, June 30, 2002, p. 9.11; Liz Pulliam Weston, "Should You Buy Pet Insurance?" *MSN Money*, accessed at www.moneycentral.msn.com, May 1, 2004; Damon Darlin, "Vet Bills and the Priceless Pet: What's a Practical Owner to Do?" *New York Times*, May 13, 2006, p. C1; and information accessed at www.petinsurance.com, December 2006.


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. Here's an example of a profitable nicher:



MOUSTERPIECE

When mice technology became art? It happens when form is optimized and function is perfected. Introducing the world's most advanced mouse—the MX™ Revolution. Its MicroGear™ Precision Scroll Wheel lets you fly through even the longest documents with ease. And the precision of next-generation laser technology gives you unprecedented control. Learn about our family of wireless mice at Logitech.com


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■ Profitable niching: Breeding mice has been so successful for Logitech that it dominates the world mouse market, with giant Microsoft as its runner-up.

Logitech has become a \$1.5 billion global success story by focusing on human interface devices—computer mice, game controllers, keyboards, PC video cameras, and others. It makes every variation of computer mouse imaginable. Over the years, Logitech has flooded the world with more than 500 million computer mice of all varieties, mice for left- and right-handed people, wireless mice, travel mice, mini mice, mice shaped like real mice for children, and 3-D mice that let the user appear to move behind screen objects. Breeding mice has been so successful that Logitech dominates the world mouse market, with giant Microsoft as its runner-up. Niching has been very good for Logitech. Its sales and profits have more than doubled in just the past six years.¹⁸

The key idea in niching is specialization. A market nicher can specialize along any of several markets, 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 mid-size 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 Wal-Mart or General Motors. 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, Hewlett-Packard 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 home buyers

and sellers with national networks of mortgage lenders and realtors who compete for the customers' 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, Alberto Culver is a \$3.5 billion company that has used a multiple niching strategy to grow profitably without incurring the wrath of a market leader. The company, known mainly for its Alberto VO5 hair products, has focused its marketing muscle on acquiring a stable of smaller niche brands. It niches in hair, skin, and personal care products (Alberto VO5, St. Ives, Motions, Just for Me, Pro-Line, TRESemine, and Consort men's hair products), beauty supplies retailing (Sally Beauty Supply stores), seasonings and sweeteners (Molly McButter, Mrs. Dash, SugarTwin, Baker's Joy), and home products (static-cling fighter Static Guard). Most of its brands are number one in their niches. Alberto Culver's CEO explains the company's philosophy this

way: "We know who we are and, perhaps more importantly, we know who we are not. We know that if we try to out-Procter Procter, we will fall flat on our face."¹⁹

Balancing Customer and Competitor Orientations

Whether a company is a 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 on 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. 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.

Market-centered company

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

Figure 18.4 shows that companies have moved through four orientations over the years. In the first stage, they were product oriented, paying little attention to either customers or competitors. In the second stage, they became customer oriented and started to pay attention to customers. In the third stage, when they started to pay attention to competitors, they became competitor oriented. Today, 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 value than competitors do. As noted previously, marketing begins with a good understanding of consumers and the marketplace.

FIGURE 18.4
Evolving company orientations

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

Reviewing the Concepts

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 examines how firms analyze their competitors and design effective competitive marketing strategies.

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

In order 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.

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

Which competitive marketing strategy makes the most sense depends on the company's industry and on whether it is a market leader, challenger, follower, or nicher. A market leader must 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.

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

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 consumer and competitor considerations are practicing a true market orientation.

Reviewing the Key Terms

Benchmarking 519	Competitor-centered company 534	Market-centered company 534	Market leader 527
Competitive advantage 516	Customer-centered company 534	Market challenger 527	Market nicher 527
Competitive marketing strategy 516	Customer value analysis 520	Market follower 527	Strategic group 518

Discussing the Concepts

- Discount retailer Target is attempting to identify its competitors but wants to avoid competitor myopia. Name some of its potential competitors from both an industry and market point of view.
- Why is it important to understand competitor's objectives?
- What is the difference between entrepreneurial, formulated, and entrepreneurial marketing? What are the advantages and disadvantages of each?
- Apply Treacy and Wiersema's value disciplines to online search engines. Identify a company that competes according to each discipline.
- What are the advantages and disadvantages of a market-nicher competitive strategy?
- Why is it important for a company to maintain a balance between customer and competitor orientations?

Applying the Concepts

- Form a small group and conduct a customer-value analysis for five local restaurants. Who are the strong and weak competitors? For the strong competitors, what are their vulnerabilities?
- Dell is the leader in the notebook market, with HP threatening its market share. What are some potential market-leader strategies for Dell?
- Tiffany & Co. is a high-profile firm in the luxury retail jewelry market. Visit www.tiffany.com/about/Timeline.aspx and review the Tiffany historical timeline for important events. What is Tiffany & Co.'s dominant marketing strategy? Explain.

Focus on Technology

In 1923, Arthur Charles Nielsen introduced consumer marketers to many innovative research methods and techniques. Today, ACNielsen provides market intelligence for most of the world's leading manufacturers and

retailers. Its sister company, Nielsen Media Research, is the global leader in television audience measurement and provides the well-known television "Nielsen Ratings." Visit ACNielsen at www.acnielsen.com to find its

retail measurement services. The retail measurement service provides consolidated register scanner data from most retail channels, including supermarkets, drugstores, mass merchandisers, and warehouse clubs. In addition to the register data, Nielsen also uses in-store observation to gather data on in-store promotions. Clients can download reports on a daily basis that track sales volume, selling price, observed promotion, and other data points. The information is provided on a company's own

brands as well as competitive brands and is easily examined by brand, category, store, or market.

1. How can a marketer use this to analyze its competitors?
2. How might a market leader such as Procter & Gamble react to increased sales of a store's private brand?
3. What might be a disadvantage of using Nielsen data?

Focus on Ethics

Competitive intelligence offers strong advantages in the area of product development. Knowing the competitor's progress on products, processes, and technology is highly beneficial in competitive markets. A trade secret, information that creates value for a company because it remains a secret, often creates strong competitor curiosity. Companies sometimes go to great lengths to uncover such secrets. They develop creative techniques to access information, sometimes pushing legal and ethical boundaries. One widely used technique is observation. Observational methods include aerial photography of manufacturing plants, dumpster diving to analyze discarded products and materials, and plant tours.

One documented case involves a visit in the 1970s by Steve Jobs and other Apple executives to a Xerox research center. During the tour, Apple executives asked many probing questions about a new technology they observed. After leaving with some proprietary information, Apple subsequently hired some of the Xerox employees to further develop the technology at Apple. Apple's behavior would not be considered illegal.

According to The Uniform Trade Secrets Act (UTSA) of 1985, which attempts to offer some protection for trade secrets, legal protection does not hold if a company did not take reasonable attempts to protect its secrets.

1. Give some examples of the information that might be gleaned from aerial photography of a competitor's plant.
2. Google the Uniform Trade Secrets Act and scan its contents. What else do you observe about this legislation?
3. The Apple incident may not have been illegal, but was it unethical?

See: William Fitzpatrick, "Uncovering Trade Secrets: The Legal and Ethical Conundrum of Creative Competitive Intelligence," *S.A.M. Advanced Management Journal*, Summer 2003, p. 4; and Jim Dalrymple, "Apple Loses Rumor-Site Appeal," *MacWorld*, August 2006, Vol. 23, Issue 8, p. 18.

Video Case

Nike

Nike's mission statement is "to bring inspiration and innovation to every athlete in the world." That's a substantial goal—one goal made even more sizable when you consider that Nike believes that "if you have a body, you're an athlete." Despite the lofty nature of the mission, Nike has made considerable strides in its effort to fulfill it. The Nike swoosh is so ubiquitous in today's market that it may be difficult to believe the symbol appeared just 35 years ago. Since that time, Nike has become the largest sports and fitness company in the world, and 97 percent of Americans recognize the swoosh.

The Nike brand succeeds by staying true to its core values and delivering consistently high-quality, cutting-edge products that appeal to the athlete in all of us, building strong relationships with customers based on real value. By making innovation the centerpiece of its product development and marketing strategy, the Nike brand has become the market

leader, reaching millions of consumers around the globe and raking in annual revenues totaling \$15 billion.

After viewing the video featuring Nike, answer the following questions about creating competitive advantage.

1. In the broadest sense, who are Nike's generic competitors? Who are Nike's direct competitors? What competitive strategy does Nike employ?
2. What market leader strategies does Nike rely on to maintain its market position? Identify a competitor pursuing a niche in Nike's market. How do the actions of that competitor benefit Nike? How do they challenge Nike's market share and positioning?
3. How does Nike use partnerships with professional athletes and teams to strengthen its relationships with consumers?

Company Case

Bose: Competing by Being Truly Different

In April of 2006, Forrester Research announced the results of its semiannual survey ranking consumer electronics and personal computer companies on consumer trust. Based on a poll of more than 4,700 customers as to their opinions of 22 of the best-known consumer technology brands, the company drew this conclusion: "Americans' trust in consumer technology companies is eroding."

Why is consumer trust important? Forrester vice president Ted Schadler answered that question this way: "Trust is a powerful way to measure a brand's value and its ability to command a premium price or drive consumers into a higher-profit direct channel. A decline in trust causes brand erosion and price-driven purchase decisions, which in turn correlates with low market growth."

But despite the decline in trust for most technology companies, Forrester made another surprising finding. Consumer trust in the Bose Corporation was riding high. In fact, Bose far outscored all other companies in Forrester's survey. Not bad, considering that it was the first time the company had been included in the survey. Forrester pointed out that these results were no fluke, noting that Bose has 10 million regular users but more than 17 million consumers who aspire to use the brand (compared to 7 million for next-highest Apple).

These high levels of consumer trust result from philosophies that have guided Bose for more than 40 years. Most companies today focus heavily on building revenue, profits, and stock price. They try to outdo the competition by differentiating product lines with features and attributes that other companies do not have. Although Bose pays attention to such factors, its true differentiation derives from the company's unique corporate philosophy.

THE BOSE PHILOSOPHY

You can't understand Bose the company without taking a look at Bose the man. Amar Bose, the company's founder and still its CEO, has been in charge from the start. In the 1950s, Bose was working on his third degree at the Massachusetts Institute of Technology. He had a keen interest in research and studied various areas of electrical engineering. He also had a strong interest in music. When he purchased his first hi-fi system—a model that he believed had the best specifications—he was very disappointed in the system's ability to reproduce realistic sound. So he set out to find his own solution. Thus began a stream of research that would ultimately lead to the founding of the Bose Corporation in 1964.

From those early days, Amar Bose worked around certain core principles that have guided the philosophy of the company. In conducting his first research on speakers and sound, he did something that has since been repeated time and time again at Bose. He ignored existing technologies and started entirely from scratch. Bose president Bob Marsca provides insights on the company today that date back to Amar Bose's original philosophy: "We are not in it strictly to make money," he says. "Dr. Bose is extremely eclectic in his research interests. The business is almost a secondary consideration."

For this reason, Amar Bose plows all of the privately held company's profits back into research. This practice reflects his avid love of research and his belief that it will produce the highest-quality products. But he also does this because he can. Bose has been quoted many times saying, "if I worked for another company, I would have been fired a long time ago," pointing to the fact that publicly held companies have long lists of constraints that don't apply to his privately held company. For this reason, Bose has always vowed that he will never take the company public. "Going public for me would have been the equivalent of losing the company. My real interest is research—that's the excitement—and I wouldn't have been able to do long-term projects with Wall Street breathing down my neck."

This commitment to research and development has led to the high level of trust that Bose customers have for the company. It also explains their almost cultlike loyalty. Customers know that the company cares more about their best interests—about making the best product—than about maximizing profits. But for a company not driven by the bottom line, Bose does just fine. Although performance figures are tightly held, analysts estimate that between 2004 and 2006, the company's revenues increased more than 38 percent, from \$1.3 billion to over \$1.8 billion. According to market information firm NPD Group, Bose leads the market in home speakers with a 12.6 percent share. Not only were home speakers the company's original product line, but they remain one of its largest and most profitable endeavors.

GROUNDBREAKING PRODUCTS

The company that started so humbly now has a breadth of product lines beyond its core home audio line. Additional lines target a variety of applications that have captured Amar Bose's creative attention over the years, including military, automotive, homebuilding/remodeling, aviation, test equipment, and professional and commercial sound systems. The following are just a few the products that illustrate the innovative breakthroughs produced by the company.

Speakers Bose's first product, introduced 1965, was a speaker. Expecting to sell \$1 million worth of speakers that first year, Bose made 60 but sold only 40. The original Bose speaker evolved into the 901 Direct/Reflecting speaker system launched in 1968. The speaker was so technologically advanced that the company still sells it today.

The system was designed around the concept that live sound reaches the human ear via direct as well as reflected channels (off walls, ceilings, and other objects). The configuration of the speakers was completely unorthodox. They were shaped like an eighth of a sphere and mounted facing into a room's corner. The speakers had no woofers or tweeters and were very small compared to the high-end speakers of the day. The design came much closer to the essence and emotional impact of live music than anything else on the market and won immediate industry acclaim.

However, Bose had a hard time convincing customers of the merits of these innovative speakers. At a time when woofers, tweeters, and size were everything, the 901 series initially flopped. In 1968, a retail salesman explained to Amar Bose why the speakers weren't selling:

"Look, I love your speaker but I cannot sell it because it makes me lose all my credibility as a salesman. I can't explain to anyone why the 901 doesn't have any woofers or tweeters. A man came in and saw the small size, and he started looking in the drawers for the speaker cabinets. I walked over to him, and he said, 'Where are you hiding the woofer?' I said to him, 'There is no woofer.' So he said, 'You're a liar,' and he walked out."

(case continues)

(case continued)

Bose eventually worked through the challenges of communicating the virtues of the 901 series to customers through innovative display and demonstration tactics. The product became so successful that Amar Bose now credits the 901 series for building the company.

The list of major speaker innovations at Bose is a long one. In 1975, the company introduced concertlike sound in the bookshelf-size 301 Direct/Reflecting speaker system. Fourteen years of research lead to the 1984 development of acoustic waveguide speaker technology, a technology found today in the award-winning Wave radio, Wave music system, and Acoustic Wave music system. In 1986, the company again changed conventional thinking about the relationship between speaker size and sound. The Acoustimass system enabled palm-size speakers to produce audio quality equivalent to that of high-end systems many times their size. The technological basis of the Acoustimass system is still in use in Bose products today.

Headphones Bob Maresca recalls that, "Bose invested tens of millions of dollars over 19 years developing headset technology before making a profit. Now, headsets are a major part of the business." Initially, Bose focused on noise reduction technologies to make headphones for pilots that would block out the high level of noise interference from planes. Bose headphones combined both passive and active noise reduction methods. Passive methods involve physically blocking out noise with sound-deadening insulation. Active methods are much more complex, involving circuitry that samples ambient noise and then cancels it out by creating sound waves opposite to the "noise" waves. Bose quickly discovered that airline passengers could benefit as much as pilots from its headphone technology. Today, Bose sells its QuietComfort and Triport headphone lines for use in a variety of consumer applications.

Automotive Suspensions Another major innovation at Bose has yet to be introduced. The company has been conducting research since 1980 on a product outside of its known areas of expertise: automotive suspensions. Amar Bose's interest in suspensions dates back to the 1950s when he bought both a Citroen DS-19 C and a Pontiac Bonneville, each riding on unconventional air suspension systems. Since that time, he's been obsessed with the engineering challenge of achieving good cornering capabilities without sacrificing a smooth ride. The Bose Corporation is now on the verge of introducing a suspension that it believes will accomplish this feat better than any system to date.

The basics of the system include an electromagnetic motor installed at each wheel. Based on inputs from road-sensing monitors, the motor can retract and extend almost instantaneously. If there is a bump in the road, the suspension reacts by "jumping" over it. If there is a pothole, the suspension allows the wheel to extend downward, but then retracts it quickly enough that the pothole is not felt. In addition to these comfort-producing capabilities, the wheel

motors are strong enough to prevent the car from rolling and pitching during an aggressive maneuver.

The suspension system has been designed so that it can be bolted right onto the chassis of current production cars, thus minimizing both time and expense for manufacturers. Initially, the cost of the system will put it in the class of luxury automobiles. Currently, Bose is demonstrating the system only to a handful of companies, with the intention of partnering with one manufacturer before rolling it out to others. Eventually, Bose anticipates that wider adoption and higher volume will bring the price down to the point where the suspension could be found in all but the least expensive cars.

At an age when most people have long ago retired, 76-year-old Amar Bose works every day, either at the company's headquarters in Framingham, Massachusetts, or at his home in nearby Wayland. "He's got more energy than an 18-year-old," says Maresca. "Every one of the naysayers only strengthens his resolve." This work ethic illustrates the passion of the man who has shaped one of today's most innovative and yet most trusted companies. His philosophies have produced Bose's long list of groundbreaking innovations. Even now, as the company prepares to enter the world of automotive suspensions, it continues to achieve success by following another one of Dr. Bose's basic philosophies: "The potential size of the market? We really have no idea. We just know that we have a technology that's so different and so much better that many people will want it."

Questions for Discussion

1. Based on the business philosophies of Amar Bose, how do you think the Bose Corporation goes about analyzing its competition?
2. Which of the text's three approaches to marketing strategy best describes Bose's approach?
3. Using the Michael Porter and Treacy and Wiersema frameworks presented in the text, which basic competitive marketing strategies does Bose pursue?
4. What is Bose's competitive position in its industry? Do its marketing strategies match this position?
5. In your opinion, is Bose a customer-centric company?
6. What do you think will happen when Amar Bose leaves the company?

Sources: Brian Dumaine, "Amar Bose," *Fortune Small Business*, September 1, 2004, accessed online at www.money.com/magazines/fsb/; Olga Khatif, "Selling Sound: Bose Knows," *Business Week Online*, May 15, 2006, accessed online at www.businessweek.com; Mark Jewell, "Bose Tries to Shake Up Auto Industry," *Associated Press*, November 27, 2005; "Bose Introduces New QuietComfort 3 Acoustic Noise-Cancelling Headphones," *Business Wire*, June 8, 2006; "Forrester Research Reveals the Most Trusted Consumer Technology Brands," press release accessed online at www.forrester.com; also see, "About Bose," accessed online at www.bose.com, June, 2006.