CHAPTER 12

The Formulation of Strategy 3: Strategies for Leaders, Followers, Challengers and Nichers

12.1 LEARNING OBJECTIVES

When you have read this chapter you should be able to understand:

(a) the influence of market position on strategy;

(b) how organizations might attack others and defend themselves;

(c) how life cycles influence marketing strategy and planning.

12.2 INTRODUCTION

In Chapter 11 we focused in some detail upon Porter's generic strategies and the nature and sources of competitive advantage. In this chapter we take the analysis a stage further by examining how the organization's position in the market, ranging from market leader through to market nicher, influences strategy and planning. Finally, we turn our attention to the ways in which market and product life cycles need to be managed.

12.3 THE INFLUENCE OF MARKET POSITION ON STRATEGY

In discussing how best to formulate marketing strategy, we have focused so far on the sorts of model and approaches to planning that can help to formalize the analytical process. In making use of models such as these, the strategist needs to pay explicit attention to a series of factors, including

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the organization's objectives and resources, managerial attitudes to risk, the structure of the market, competitors' strategies and, very importantly, the organization's position within the market. The significance of market position and its often very direct influence upon strategy has been discussed in detail by a wide variety of writers, most of whom suggest classifying competitive position along a spectrum from market leader to market nichers:

- *Market leader*. In the majority of industries there is one firm that is generally recognized to be the leader. It typically has the largest market share and, by virtue of its pricing, advertising intensity, distribution coverage, technological advance and rate of new product introductions, it determines the nature, pace and bases of competition. It is this dominance that typically provides the benchmark for other companies in the industry. However, it needs to be emphasized that market leadership, although often associated with size, is in reality a more complex concept and should instead be seen in terms of an organization's ability to *determine the nature and bases of competition within the market*. A distinction can therefore be made between market leadership that is based primarily upon size, and what might be termed 'thought leadership' that is based not so much upon size, but upon innovation and different patterns of thinking.

- *Market challengers and followers*. Firms with a slightly smaller market share can adopt one of two stances. They may choose to adopt an aggressive stance and attack other firms, including the market leader, in an attempt to gain share and perhaps dominance (market challengers), or they may adopt a less aggressive stance in order to maintain the status quo (market followers).

- *Market nichers*. Virtually every industry has a series of small firms that survive, and indeed often prosper, by choosing to specialize in parts of the market that are too limited in size and potential to be of real interest to larger firms. A case in point would be Morgan specializing in traditional sports cars. By concentrating their efforts in this way, market nichers are able to build up specialist market knowledge and avoid expensive head-on fights with larger companies.

This approach to classification has, in turn, led to a considerable discussion of the strategic alternatives for leaders, challengers and nichers, with numerous analogies being drawn between business strategy and military strategy. The idea has been to show how the ideas of military strategists, and in particular Karl von Clausewitz, Sun Tzu and Basil Liddell-Hart, might be applied to the alternatives open to a company intent on gaining or retaining a competitive advantage. Within this section we will therefore examine some of these ideas and show how market leaders might defend their current position, how challengers might attempt to seize share, and

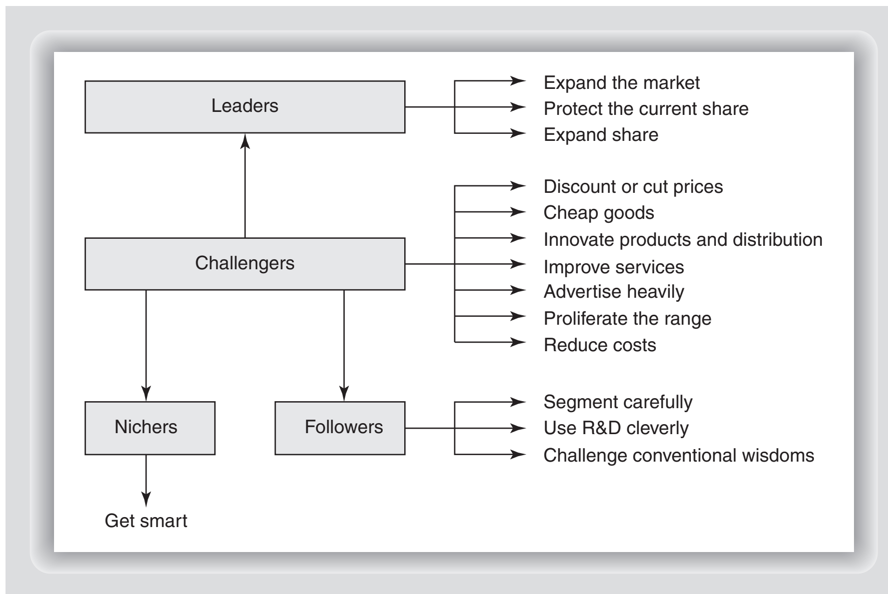


FIGURE 12.1 *Leaders, challengers followers, and market nichers*

how followers and nichers are affected by this. An overview of how this might be done appears in Figure 12.1.

12.4 STRATEGIES FOR MARKET LEADERS

Although a position of market leadership has undoubted attractions, both in terms of the scope that often exists to influence others and a possibly higher return on investment, leaders have all too often in the past proved to be vulnerable in the face of an attack from a challenger or when faced with the need for a major technological change. If, therefore, a market leader is to remain as the dominant company, it needs to defend its position constantly. In doing this, there are three major areas to which the marketing strategist needs to pay attention:

1. How best to expand the total market
2. How to protect the organization's current share of the market
3. How to increase market share.

A summary of the ways in which leaders might do this appears in Figure 12.2. Of these, it is an *expansion of the overall market* from which the market leader typically stands to gain the most. It follows from this that the strategist needs to search for new users, new uses and greater usage levels of his or her firm's products. This can be done in a variety of ways.

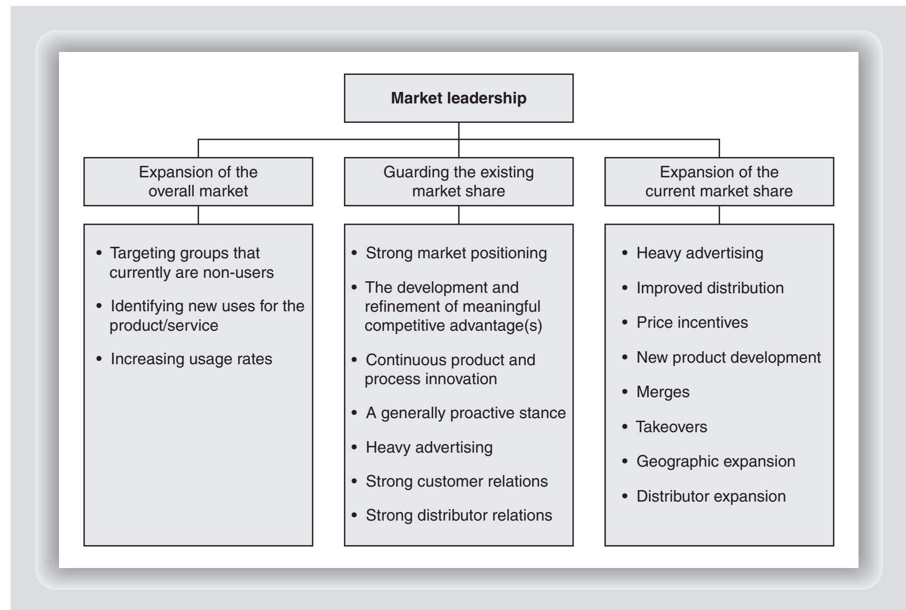


FIGURE 12.2 *Strategies for market leaders*

In the 1960s and 1970s, for example, Honda increased its sales by targeting groups that traditionally had not bought motorcycles. These groups, which included commuters and women, were seen to offer enormous untapped potential. The company unlocked this by developing a range of small, economic and lightweight machines, which they then backed with a series of advertising campaigns giving emphasis to their convenience and style. Moving into the 1980s, the strategy began to change yet again as the company recognized the potential for selling motorcycles almost as an adjunct to fashion. Styling therefore became far more important. This repositioning was then taken several steps further in the late 1980s as Honda, along with other manufacturers, began targeting the middle-aged executive market with a series of larger motorcycles that were supported by advertising campaigns giving emphasis to the re-creation of youthful values.

As a second stage the strategist might search for *new uses* for the product. Perhaps the most successful example of this is Du Pont's Nylon, which was first used as a synthetic fibre for parachutes and then subsequently for stockings, shirts, tyres, upholstery, carpets and a spectrum of industrial and engineering uses. This is illustrated in Figure 12.3. A broadly similar approach of market development through a series of new uses has been taken with Teflon. Developed initially as a high-performance lubricant for the American space programme, the product has been reformulated for applications in cooking, motor oils, and as a protection for fabrics, clothing and carpets.

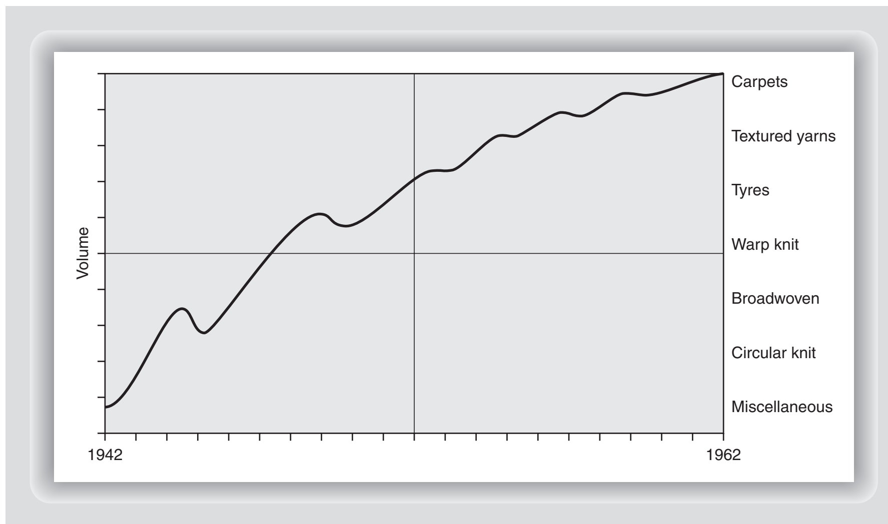


FIGURE 12.3 *Nylon's product cycle (adapted from Yale, 1964)*

The third approach to market expansion involves encouraging *existing users* of the product to *increase their usage rates*, a strategy pursued with considerable success by Procter & Gamble with its Head & Shoulders brand of shampoo, which was promoted on the basis that two applications were more effective than one.

At the same time as trying to expand the total market, the market leader should not lose sight of the need to *defend its market share*. It has long been recognized that leaders represent a convenient target since, because of their size, they are often vulnerable to attack. Whether the attack is successful is often determined largely by the leader's ability to recognize its vulnerability and position itself in such a way that the challenger's chances of success are minimized. The need for this is illustrated by examples from many industries, including photography (Kodak having been attacked in the film market by Fuji and in the camera market by Polaroid, Minolta, Nikon, Canon and Pentax), soft drinks (Pepsi attacking Coca-Cola), car hire (Avis against Hertz), razors (Bic and Wilkinson Sword attacking Gillette), photocopiers (Xerox being attacked by numerous players) and computers (IBM being attacked by Apple, Compaq and Dell among numerous others).

Although there are obvious dangers in generalizing, the most successful strategy for a market leader intent on fighting off attacks such as these lies in the area of continuous product and/or process innovation, something that involves the leader refusing to be content with the way things are, and leading the industry in new-product ideas, customer services, distribution effectiveness and cost cutting. It therefore needs to keep increasing its competitive effectiveness and value to customer by applying the military

principle of the offensive. Typically, this involves setting the pace, exploiting the competitors' vulnerabilities, and generally behaving aggressively and unpredictably. It is this sort of approach that leads to the idea that the best defence comes from a strong offensive posture. However, even when not attacking, the market leader must ensure that it behaves in such a way that it does not allow itself to expose any areas of weakness, something that for many organizations means keeping costs down and ensuring that its prices reflect the value customers see in the brand. An example of the way in which this has been done in the consumer goods sector is by producing a product in several forms (e.g. liquid soap as well as bars of soap) and in various sizes (small, medium, large and economy) to tie up as much shelf space as possible.

Although the cost of 'plugging holes' in this way is often high, the cost of failing to do so and being forced out of a product or market segment can often be infinitely higher. As an example of this, Kodak withdrew from the 35 mm sector of the camera market because its product was losing money. The Japanese subsequently found a way of making 35 mm cameras profitably at a low price and in this way took share away from Kodak's cheaper cameras.

Similarly, in the USA, the major car manufacturers paid too little attention in the 1960s and early 1970s to the small car sector because of the difficulties of making them at a profit. Both the Japanese (Toyota, Mazda and Honda) and the Germans (Volkswagen) took advantage of this lack of domestic competition and developed the small car sector very profitably. The long-term consequence of this has been that the domestic manufacturers, having initially conceded this market sector, subsequently entered into a series of joint ventures with the Japanese (e.g. Ford with Mazda, General Motors with Toyota, Isuzo and Suzuki, and Chrysler with Mitsubishi), the long-term results of which have often proved questionable.

The third course of action open to market leaders intent on remaining leaders involves *expanding market share*. This can typically be done in a variety of ways, including by means of heavier advertising, improved distribution, price incentives, new products and, as the brewers have demonstrated, by mergers, takeovers, alliances and distribution deals.

It should be apparent from what has been said so far that leadership involves the development and pursuit of a consistently proactive strategy, something which Pascale (1989) has touched upon; this is discussed in Illustration 12.1.

The PIMS study and the pursuit of market share

The significance of market share, and in particular its influence upon return on investment, has long been recognized, and has been pointed to

Illustration 12.1 Change, transformation and a market focus – reasserting market leadership

Three of the best-known and most successful organizational change programmes in the 1980s and 1990s took place at British Airways ('from Bloody Awful to Bloody Awesome'), Grand Met and SmithKline Beecham. In each case, a slow-moving and increasingly unsuccessful organization was refocused and transformed into a marketing leader. However, the problems of achieving transformation *and maintaining* a successful profile are highlighted by the way in which, only five years after the publication of Peters and Waterman's 1982 bestseller *In Search of Excellence*, all but 14 of its 43 'excellent' companies had either grown weaker or were declining rapidly. Similarly, BA, having been successfully turned around, was then hit very hard by a combination of factors, including the European low-cost airlines such as easyJet and Ryanair (see Illustration 11.3), and was forced into massive restructuring. In commenting on this, Richard Pascale (1989) argues that too few managers really understand what is involved in transforming an organization. To him, transformation involves not only a discontinuous shift in an organization's capability, but also the much more difficult task of sustaining that shift. Faced with the need for change, he suggests, companies come to a fork in the road. About 80 per cent take the easy route, stripping themselves 'back to basics', searching for the latest tools and techniques, and going on to risk stagnation or decline. Only a fifth of companies take the much tougher, alternative route. This involves three big steps: the first he refers to as 'inquiring into their underlying paradigm' (that is, questioning the way they do everything, including how managers think); attacking the problems systematically on all fronts, notably strategy, operations, organization and culture; and 'reinventing' themselves in such a way that the transformation becomes self-sustaining. It is only in this way that truly intellectual learning is matched by the emotional learning that is needed and transformation truly becomes embedded in the organization.

by a variety of studies over the past 35 years, the best known of which is the PIMS (Profit Impact of Market Strategy) research.

The aim of the PIMS programme has been to identify the most significant determinants of profitability. The factors that have shown themselves to be persistently the most influential are:

1. *Competitive position* (including market share and relative product quality)
2. *Production structure* (including investment intensity and the productivity of operations)
3. The *attractiveness of the served market* (as shown by its growth rate and customers' characteristics).

Taken together, these factors explain 65–70 per cent of the variability in profitability among the firms in the PIMS database. By examining the

determinants of profitability it is possible to address a series of strategic questions, such as:

- What rate of profit and cash flow is normal for this type of business?
- What profit and cash flow outcomes can be expected if the business continues with its present strategy?
- How will future performance be affected by a change in strategy?

One of the key notions underlying strategic marketing management is, as already emphasized, that of the relative position of a firm among its competitors, particularly with regard to unit costs, quality, price, profitability and market share.

The respective contribution of each of these factors to overall profitability is estimated by means of a multiple regression model. This allows the impact of weak variables to be offset by strong variables – a low market share might, for example, be offset by high product quality. Once the model has been applied to a given company, it can then be used to assess the relative strengths and weaknesses of competitors in order to identify the best source of competitive advantage. From the viewpoint of the marketing strategist, this has most typically been seen in terms of the organization's relative market share, a factor which has been given considerable emphasis by successive PIMS reports: 'The average ROI for businesses with under 10 per cent market share was about 9 per cent ... On the average, a difference of 10 percentage points in market share is accompanied by a difference of about 5 points in pretax ROI.' The study has also shown that businesses with a market share of more than 40 per cent achieve ROIs of 30 per cent, or three times that of firms with shares under 10 per cent.

In the light of these findings, it is not at all surprising that many organizations have pursued a goal of share increases, since it should lead not just to greater profits, but also to greater profitability (that is, return on investment).

Although the findings and conclusions of the PIMS study have an initial and pragmatic appeal, the general approach has been subjected to an increasing amount of critical comment in recent years. In particular, critics have highlighted:

- Measurement errors
- Apparent deficiencies in the model
- The interpretations of the findings.

Perhaps the main concern, however, is over the practice of deriving prescriptions about strategy from unsupported causal inferences. It is therefore important in using PIMS data to understand the limitations of the approach. When used as intended, data from the PIMS programme can, its defenders argue, provide valuable insights into effective marketing and

corporate strategy. In particular, they point to some of the broad conclusions from the programme, which can be summarized as:

1. In the long run, the single most important factor affecting performance is the quality of an enterprise's products/services relative to those of its competitors.
2. Market share and profitability are strongly related:
   - ROI increases steadily as market share increases
   - Enterprises having relatively large market shares tend to have above-average rates of investment turnover
   - The ratio of marketing expenses to sales revenue tends to be lower for enterprises having high market shares. The PIMS programme has demonstrated the linkages among superior relative quality, higher relative prices, gains in market share, lower relative costs and higher profitability. These linkages, which are portrayed in Figure 12.4, indicate the causal role that relative quality plays in influencing business performance.
3. High investment intensity acts as a powerful drag on profitability:
   - The higher the ratio of investment to sales, the lower the ROI; enterprises having high investment intensity tend to be unable to achieve profit margins sufficient to sustain growth.
4. Many dog and wildcat activities generate cash, while many cash cows do not.
5. Vertical integration is a profitable strategy for some kinds of enterprise but not for others.
6. Most of the strategic factors that boost ROI also contribute to long-term value.

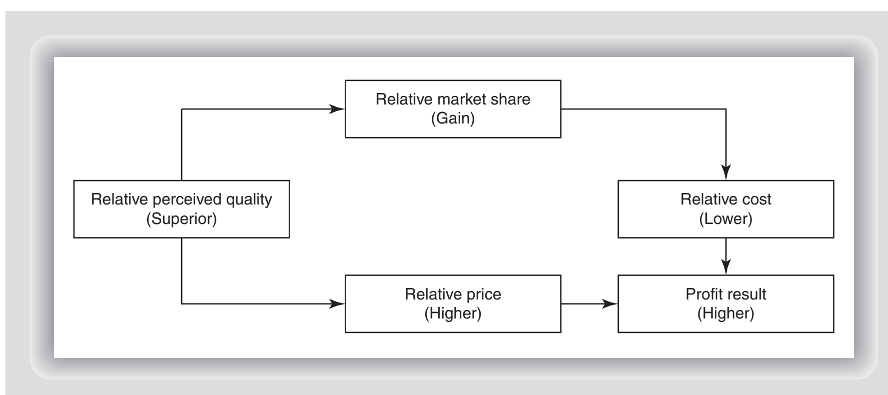


FIGURE 12.4 *Some PIMS linkages (adapted from Buzzell and Gale, 1987)*

Despite these comments, however, the reader should bear in mind the very real reservations that have been expressed about the study, since the relationship between profit and market share that is claimed as the result of the PIMS study may well be due more to flexible definitions of market boundaries than to market realities (see Baker, 1985, p. 110). Similarly, Porter (1980, p. 44) suggests that:

> *There is* no single relationship *between profitability and market share, unless one conveniently defines the market so that focused or differentiated firms are assigned high market shares in some narrowly-defined industries and the industry definitions of cost leadership firms are allowed to stay broad (which they must because cost leaders often do not have the largest share in every sub-market). Even shifting industry cannot explain the high returns of firms which have achieved differentiation industry-wide and held market shares below that of the industry leader.*

A number of other writers have also argued that the study's findings are generally spurious. Hamermesh *et al.* (1987), for example, have pointed to numerous successful low-share businesses. Similarly, Woo and Cooper (1982) identified 40 low-share businesses with pretax ROIs of 20 per cent or more.

Findings such as these suggest the existence not of a linear relationship between market share and profitability but rather, in some industries at least, of a V-shaped relationship. This is illustrated in Figure 12.5. In such an industry, there will be one or two highly profitable market leaders, several profitable low-share firms, and a number of medium-share, poorly focused and far less profitable organizations. This has been commented on by Roach (1981, p. 21):

> *The large firms on the V-curve tend to address the entire market, achieving cost advantages and high market share by realizing economies of scale. The small competitors reap high profits by focusing on some narrower segments of the business and by developing specialized approaches to production, marketing, and distribution for that segment. Ironically the medium-sized competitors at the trough of the V-curve are unable to realize any competitive advantage and often show the poorest profit performance. Trapped in a strategic 'no man's land', they are too large to reap the benefits of more focused competition, yet too small to benefit from the economies of scale that their larger competitors enjoy.*

Perhaps the most important point to come from this sort of observation is that the marketing strategist should not blindly pursue market share in the expectation that it will automatically improve profitability. Rather it is the case that the return will depend upon the *type* of strategy pursued. In

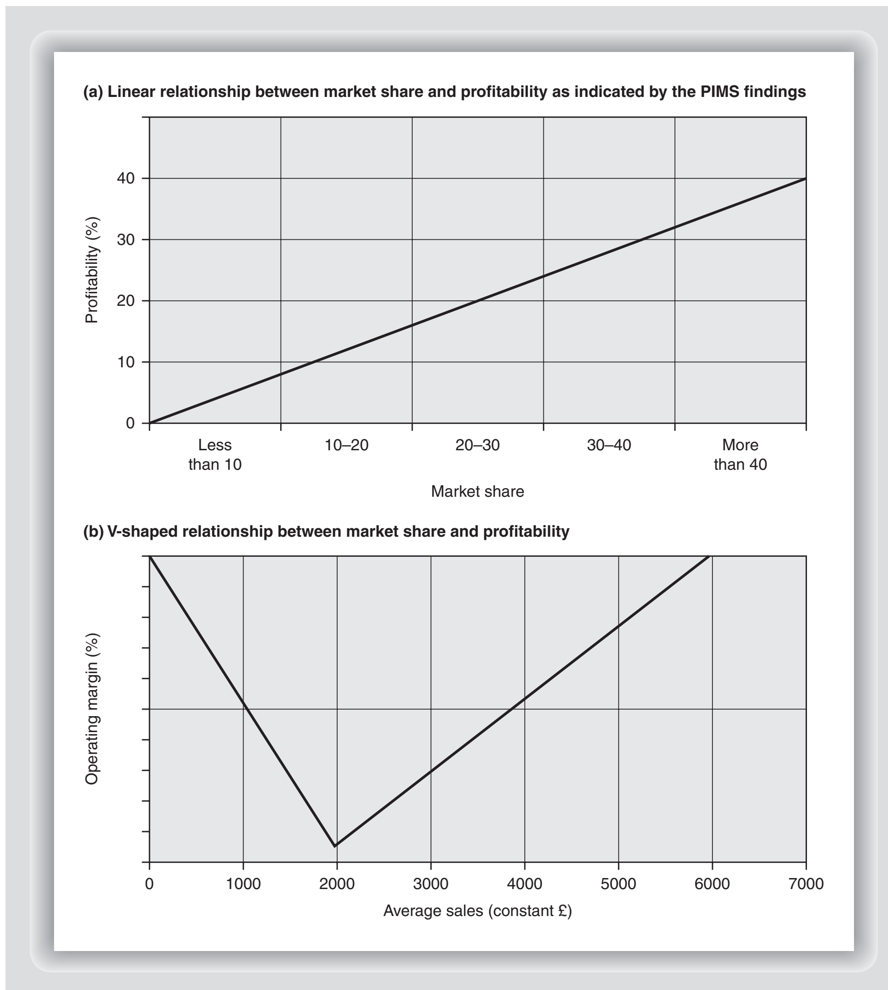


FIGURE 12.5 *The relationship between market share and profitability*

some cases, for example, the cost of achieving a share gain may far exceed the returns that are possible. There are therefore twelve factors that need to be taken into account in deciding whether to pursue a share-gaining strategy:

1. The cost of gaining share and whether this will be higher than the returns that will follow. This is likely to occur in various situations, but most obviously when the market is in or near maturity, since in these circumstances sales (and hence share) can only be gained on the basis of what would typically be a zero-sum game (this would in effect lead to a pyrrhic victory in which the benefits of victory are outweighed by the costs of achieving that victory). In other words, the only way in which a company can gain sales is at the expense

of someone else in the market. By contrast, when the market is in the growth stage, sales can be gained without the need to pursue a confrontational strategy.

2. When the implication of gaining extra share has a knock-on effect to another part of the organization. This might happen when a firm is already operating at full capacity and any increase would involve a heavy investment in new capacity. The likelihood of achieving a positive ROI is then small.
3. There is already a high degree of loyalty to competitors' products among the customer base and this loyalty can only be broken down at a disproportionately high cost.
4. The company intent on gaining share has few obvious or sustainable competitive advantages and hence a weak selling proposition.
5. The future life cycle of the product or market is likely to be short.
6. An increase in share is likely to lead to the firm running foul of anti-monopoly legislation.
7. The increase in share can only be gained by moving into less appealing and less profitable segments.
8. The pursuit of higher share is likely to spark off a major – and potentially unmanageable – competitive fight.
9. It is unlikely that any gain in share can be maintained for anything other than the short term.
10. By increasing share, a larger competitor begins to perceive the organization as an emerging threat and decides to respond when, assuming the organization had not decided to grow, the two firms would have coexisted peacefully.
11. The organization has developed a reputation as a specialist or niche operator and any move away from this would compromise brand values and the brand equity.
12. By growing, the organization would fall into a strategic 'no man's land' in which the firm is too big to be small (in other words, it would no longer be a niche operator), but too small to be big enough to fight off the large players in the market on an equal footing (see Figure 12.5).

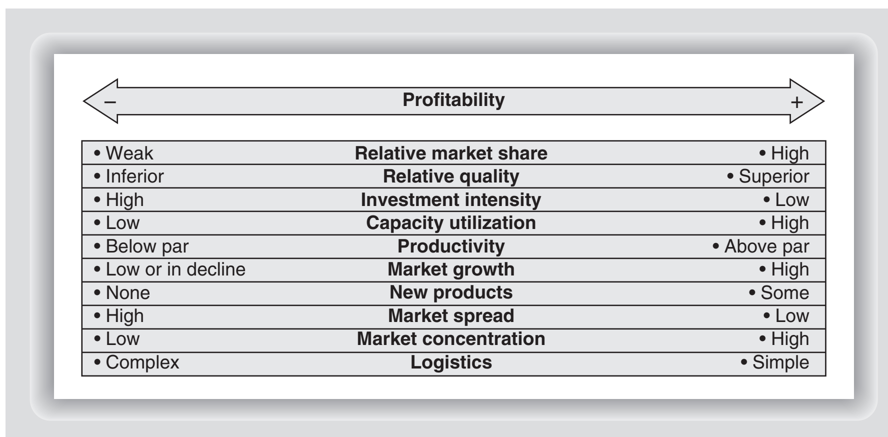
In addition, of course, share-gaining strategies can also be argued against when the management team has neither the ability nor the *fundamental* willingness to develop and sustain an appropriate and offensive strategy.

These sorts of points have also been referred to by Jacobson and Aaker (1985), who, in an article entitled 'Is Market Share All That It's Cracked Up To Be?', raised a series of fundamental questions about the value of chasing share gains. It is, however, possible to identify the two conditions under which higher share generally does lead to higher profits. These are: first, when the company offers a superior quality product that is then sold at a premium price, which more than offsets the extra costs of achieving higher quality; and, secondly, when unit costs fall significantly as sales and share increase.

These two points have been developed by Buzzell and Wiersema (1981), who, by using PIMS data, concluded that companies that successfully achieved gains in market share generally outperformed their competitors in three areas: *new product activity*, *relative product quality* and *levels of marketing expenditure*. Thus:

1. The successful share gainers developed and added a greater number of new products to their range than their competitors
2. Companies that increased their relative product quality achieved greater share gains than those whose quality stayed constant or declined
3. Those companies that increased their marketing expenditures more rapidly than the rate of market growth gained share
4. Companies that cut their prices more rapidly than competitors rarely – and perhaps surprisingly – did not achieve significant share gains.

In summary, therefore, it is possible to identify the factors that the PIMS researchers believe act as the triggers to profit. These are illustrated in Figure 12.6.



–	**Profitability**	+
• Weak	**Relative market share**	• High
• Inferior	**Relative quality**	• Superior
• High	**Investment intensity**	• Low
• Low	**Capacity utilization**	• High
• Below par	**Productivity**	• Above par
• Low or in decline	**Market growth**	• High
• None	**New products**	• Some
• High	**Market spread**	• Low
• Low	**Market concentration**	• High
• Complex	**Logistics**	• Simple

FIGURE 12.6 *PIMs and the triggers of profit*

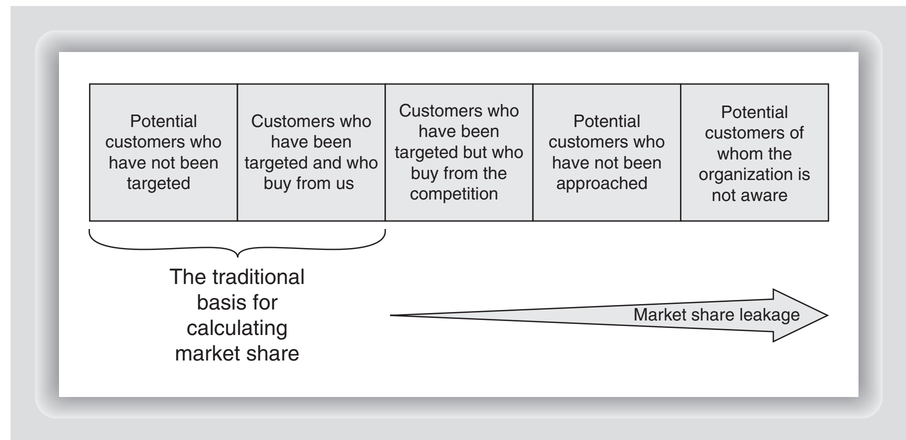


FIGURE 12.7 *Broadening the redefinition of market share*

Market share and the definition of market boundaries

Given the importance placed upon market share by the PIMS researchers, it is essential that the marketing planner understands in detail the boundaries of the market in which the organization or the brand is operating. In analysing an organization's market share and performance, the marketing planner needs to begin by taking as broad an approach as possible. In doing this, a distinction can be made between that part of the market of which the organization has a share and the broader market, which either has not been approached or has 'leaked' away (see Figure 12.7).

12.5 MARKETING STRATEGY AND MILITARY ANALOGIES: LESSONS FOR MARKET LEADERS

> *It has been suggested in the past that there are, in essence, two sorts of people: those 'who make change and those who talk about making change. It's better to be in the first group; there is often far less competition' (Anon).*

The greater intensity of competition that has taken place throughout the world in recent years has led to many managers developing an interest in models of military warfare with a view to identifying any lessons that might be learned and applied to business. From the viewpoint of a market leader intent on defending his position, there are six military defence strategies that can be used: position defence, mobile defence, flanking defence, contraction defence, pre-emptive defence and counter-offensive defence. However, if military history is to teach the marketing or business strategist anything at all, it has to be that some of these strategies are likely to be far less successful than others.

Illustration 12.2 Sun Tzu and the art of war

Sun Tzu was a Chinese general who lived around 290 BC. During his life more than 300 wars were fought between the largely separate Chinese states and it was from these that he learned the principles of warfare that appear in his book *The Art of War*. The essence of the book is that strategy is everything and that preparing the battle is often more important than fighting it. He argues also that you should never wage war on an army that is deeply committed to its cause. According to Sun Tzu, the art of war is identifying where your rivals are weakest and then exploiting this. In applying these sorts of ideas to marketing, one lesson that planners have had to learn is that every brand has committed and brand-loyal customers who will only rarely consider changing their brand. Any advertising messages aimed at them will be ignored and, in some cases, may strengthen their commitment to the existing brand. Instead, it is those who are not brand-loyal and who are the potential defectors who should be the target. Although this sort of comment may seem self-evident, the reality is that many marketing campaigns are poorly focused and, as a result, waste resources.

Amongst the best known of the writers on warfare are Basil Liddell-Hart and Sun Tzu. Of the two, it is Sun Tzu who has been the most influential in marketing, with his book *The Art of War* (1963) having been used extensively by marketing strategists (see Illustration 12.2).

However, in thinking about strategy and what might be learned from looking at other organizations, it is worth remembering a comment made by Sun Tzu:

> *All men can see the tactics whereby I conquer, but what none can see is the strategy out of which great victory is evolved.*

The issue that emerges from this is that the slavish adoption of another organization's winning strategy is not guaranteed to work. Rather, it is the 'softer' elements of marketing and the mindset of the management team that are of far greater significance.

Position defence

Arguably one of the consistently least successful methods of defence, the position defence or fortress, relies on the apparent impregnability of a fixed position. Militarily, parallels are often drawn between this and the wartime French Maginot and German Siegfried lines, neither of which achieved their purpose. To overcome a position defence, an attacker therefore typically adopts an indirect approach rather than the head-on attack that the defender expects. Among the companies that have adopted a position defence only to see it fail is Land Rover, which was attacked initially by Toyota, Suzuki and Subaru, and then, more recently, by others such as BMW and Mercedes-Benz. In the case of Land Rover, the company, which had developed a strong

international reputation for well-made and very rugged four-wheel drive vehicles, did relatively little in the 1960s and 1970s either in terms of product or market development, and subsequently fell victim to an attack based on a lower price and 'fun' appeal. Rather than responding in an aggressive way to this, Land Rover continued with only small modifications to its strategy of selling primarily to farmers and the military, and was then faced with a second-wave attack from Mitsubishi.

There are a series of lessons to be learned from examples such as this, as Saunders (1987, p. 15) has suggested:

> *A company attempting a fortress defence will find itself retreating from line after line of fortification into shrinking product markets. The stationary company will end up with outdated products and lost markets, undermined by competitors who find superiority in new products in the marketplace. Even a dominant leader cannot afford to maintain a static defence. It must continually engage in product improvement, line extensions and product proliferations. For instance, giants like Unilever spread their front into related household products; and Coca-Cola, despite having over 50 per cent of the world soft drinks market, has moved aggressively into marketing wines and has diversified into desalination equipment and plastics. These companies defend their territory by breaking it down into units and entrenching in each.*

(Author's note: In 2000, Unilever announced a major review of the company's product portfolio and subsequently axed 1200 of their 1600 consumer brands. The rationale for this was to concentrate investment behind 400 high-growth brands and, in this way, strengthen the organization's position. Seven years later, as part of the 'One Unilever' project, the company sold its US laundry business, a move that ended years of price wars with Procter & Gamble.)

Mobile defence

The second approach, a mobile defence, is based in part on the ideas discussed by Theodore Levitt (1960) in his article 'Marketing myopia'; here, rather than becoming preoccupied with the defence of current products and markets through the proliferation of brands, the strategist concentrates upon market broadening and diversification. The rationale for this is to cover new territories that might in the future serve as focal points both for offence and defence. In doing this, the intention is to achieve a degree of strategic depth, which will enable the firm not just to fight off an attacker, but to retaliate effectively. At the heart of a mobile defence, therefore, is the need for management to define carefully, and perhaps redefine, the business it is in. Several years ago, for example, the bicycle manufacturers redefined their business by recognizing that their future was that of leisure and health rather than that of cheap and generally functional transport.

However, in pursuing a strategy of market broadening, the marketing strategist should never lose sight of two major principles – the *principle of the objective* (pursue a clearly defined and realistic objective) and the *principle of mass* (focus your efforts upon the enemy's point of weakness). The implications of these are perhaps best understood by considering for a moment the oil industry. In the 1970s, faced with the likelihood of oil reserves being exhausted in the twenty-first century, the oil companies were encouraged to redefine their business from that of petrol and oil to that of 'energy'. This led several companies to experiment with, and in some cases invest in, nuclear energy, coal, hydroelectric power, solar energy and wind power. In the majority of cases, however, success has at best been limited and in some instances has diluted the company's mass in the markets it is operating in currently. A strategy of market broadening should therefore be realistic and reflect not just the two principles referred to above but also, and very importantly, company capability.

The second dimension of a mobile defence involves *diversification* into unrelated industries. Among those who have done this, in some cases with considerable success, are the tobacco manufacturers, who, faced with a declining market, have moved into industries such as food and financial services, both of which offer greater long-term stability and profits. The net effect of this has been that their vulnerability to predators has been reduced significantly, although there is an irony in the linking of tobacco products with life assurance, which could produce another related net effect.

Flanking defence

It has long been recognized that the flank of an organization, be it an army or a company, is often less well protected than other parts. This vulnerability has several implications for the marketing strategist, the most significant of which is that secondary markets should not be ignored. This lesson was learned the hard way in the 1960s by Smith's Crisps, which, at the time, dominated the UK's potato crisp market. This market consisted primarily of adults, with distribution being achieved mainly through pubs. The children's market was seen by the company to be of secondary importance, and it was therefore this flank that Imperial Tobacco's Golden Wonder attacked with a strategy aimed at children. Distribution to this market then took place through newsagents, sweet shops and the grocery trade. The net effect of this was that, within just a few years, Golden Wonder had taken over as market leader. Subsequently, market leadership was taken over by yet another player, Walker's.

This need to monitor closely the organization's flanks is shown also by the way in which the low-cost airlines deliberately chose not to attack the major airlines such as BA, KLM and Lufthansa head-on, but to pursue a flanking strategy that involved redefining the market (see Illustration 11.3). A similar approach was taken by Dyson, who flanked Hoover and Electrolux (see Illustration 12.3).

Illustration 12.3 Dyson's reinvention of the vacuum cleaner market

One of the biggest marketing success stories of the 1990s was the launch of the Dyson Dual Cyclone™ vacuum cleaner. Following a five-year development period that started in 1978 and involved more than 5000 prototypes, ten years getting it to the market, and grudging retail acceptance, the product took off in a spectacular fashion. Within just a few years of its launch the company had become the UK's market leader, with more than 52 per cent of the home market in value, and had penetrated some of the most difficult overseas markets in the world, including Japan. By 1999 the company was the fastest growing manufacturer in the UK and had forced companies such as Hoover and Electrolux on to the defensive. Annual sales had grown from £2.4 million in 1993 to £170 million, and profits from £200 000 to £22 million. Worldwide, sales were well in excess of £1 billion.

The origins of the market and product

The vacuum cleaner was invented by Hoover at the beginning of the twentieth century, and, by the final quarter of the century, the market had seemingly reached long-term maturity, with the major players all offering a broadly similar product and fighting desperately for market share, Dyson's approach was very different and involved doing away with the vacuum pump and bag that had been the basis of traditional machines and replacing them with two cyclones, one inside the other, that spun the air at very high speeds and filtered particles as small as cigarette smoke and allergens, which were then collected in a transparent bin.

At the beginning of the 1990s, having developed the product, James Dyson began approaching the leading players of the time, including Bosch, Siemens, Philips, Miele and Electrolux, with a view to their manufacturing and marketing the product in return for a royalty. Having been ignored or rejected by all of them – in part, he felt, because the product would have led to the collapse of the immensely valuable replacement bag market – Dyson decided in 1993 to set up his own manufacturing organization.

Twenty-three months later, and despite selling at twice the price of the conventional vacuum cleaner, the Dyson Dual Cyclone™ had become Britain's best-selling vacuum cleaner.

Niche or mass-market product?

In the early stages of the product's life, many commentators focused upon the product's design and colourful style and suggested that it was 'basically a niche product for technocrats' (Vandermerwe, 1999, p. 6). James Dyson disagreed. The aesthetics were not, he said, 'the defining and differentiating characteristics'. Instead, it was the performance. 'Because everyone has dust, vacuuming is something that everyone has to do.' Despite its technology and its looks it was, in his eyes, a product designed not for a niche but for the masses. Everyone, he felt, would want to take advantage of what he saw to be a major leap in performance, *and they would be willing to pay for it* (our emphasis). The technology, protected by numerous patents, demanded a high(er) price, which the market would, he believed, pay if it was convinced it was better than the competition.

The competitive response

The failure on the part of some or all the competitors to respond quickly and aggressively to Dyson's new technology and entry to the market was seen by some analysts to be surprising. Others saw it to be predictable, and a manifestation of the lazy and complacent attitude that often develops in stable and mature markets. Rebecca Trentham, Dyson's Marketing Director, suggested that, even when Dyson was making steady inroads into the competitors' territories, they stayed 'pretty much asleep' and, if pushed, would comment that the product was 'just a fad', 'a gimmick', 'a funny-looking niche product', and 'the Dyson is nothing but a shooting star'.

For James Dyson, this failure to respond was entirely predictable:

> There was a huge opportunity for someone to come along with different and better technology and something which looked different. The market seemed impenetrable because it was dominated by big multinationals. I thought it presented a great opportunity because they were all sitting back on their fat market shares without really doing anything, it was all too cosy …

The second stage: building upon success

Having established the company as the UK market leader Dyson reinforced its position with a number of new models, including:

- The Dyson Absolute, targeted at asthmatics and others with respiratory problems. The Absolute was the only vacuum cleaner that not only removed pollens but also, due to its bacteria-killing screen, killed certain viruses and bacteria such as salmonella and listeria.
- The De Stijl, a brightly coloured model that was a homage to the Dutch modernist art movement of the early twentieth century.
- The Dyson Antarctica, produced as part of the company's sponsorship of the attempt by Sir Ranulph Fiennes to be the first person to walk across the entire Antarctic continent and, in doing this, raise £5 m for breast cancer research. Dyson donated almost £2 m to the appeal.

In 1999 the company took the product a step further still by launching a new model featuring a filter that did not have to be thrown away, but could instead be cleaned.

By the end of the decade, the competition had come to terms with the inevitable and responded by developing their own products characterized by bright colours, see-through plastic parts and cyclone-type design.

The retail and service philosophy

Although the product's performance was from the outset far superior to anything offered by the competition, Dyson – in common with many inventors of new and different products – faced difficulties in breaking into the established retail networks. As Vandermerwe (1999, p. 9) commented:

> The first retailers approached by Dyson had been sceptical about stocking a strange-looking product with an unknown brand from an unheard-of company – and costing a premium on top of it all. Moreover, several were uneasy with the idea of having this apparatus which graphically showed, as

> it was being used, the amount of dirt and dust in their stores. Perhaps most importantly, Dyson believed that nobody – be it at the trade or consumer level – really knew that there was anything wrong with the bag – this was part of the educational process.

The Dyson sales force overcame this by focusing upon a variety of techniques to overcome the reluctance, including:

- Encouraging the store staff to use the product themselves so that, having been impressed by its performance, this would then sell the product far more enthusiastically and proactively
- Giving retailers' sales staff a free 30-day home trial
- Offering store staff discounts on the product.

Once anyone bought this precious piece of technology, the company had a responsibility to keep that person happy till the very end. This translated into making the entire process of buying, owning, using and maintaining a Dyson as easy as possible – and, once Dyson had defined its service philosophy, it determined that it couldn't be fulfilled by having any independent, third-party service dealers involved; it would all be done in-house.

> One of the first steps in implementing the service philosophy stemmed from a suggestion from one of the people on the Dyson assembly line during the company's early, cottage industry days. 'Why don't we put a helpline number on every machine?' he suggested. The result was that each model in the Dyson range had a prominently displayed label with the Dyson Helpline number on it. The helpline was open seven days a week, from 8.00 am to 8.00 pm, including most bank holidays. By 1999, the company had 100 trained customer service staff manning these helplines.
>
> (Vandermerwe, 1999, p. 10)

These helplines led to many day-to-day problems being sorted out over the phone. Where this was not possible, Dyson would send a courier to the customer's home to collect the machine that day and return it the next. This was then followed by an experiment in 1999 whereby a service engineer would go directly to the customer's home to deal with any problems.

The next step

Given the strength of the brand and its market position at the beginning of the twenty-first century, the company faced an interesting set of strategic choices. With only 5 million of the 23 million households in the UK owning a Dyson, there was still scope for significant growth. Similarly, overseas markets offered enormous potential. There was also, Dyson felt, a tremendous opportunity to 'Do a Dyson' within other product categories such as washing machines, refrigerators and dishwashers. The company was, however, only too aware that the competition, having been hit so hard, was inevitably going to continue to become far more proactive.

(Source: Vandermerwe, 1999)

Dyson: a postscript

Following on from the enormous success of the Dyson Vacuum cleaner, James Dyson launched his next new product – a washing machine – in November 2000. Named the Dyson Contrarotator, the product was the result of an investment of £25 million and four years of research, which involved going back to the first principles of clothes washing and concluding that hand-washing was more effective than even the best of the existing machines on the market. This led to the invention's unique feature: a split drum that rotates in two directions at the same time in order to pummel and flex clothes. When launching the new product, the company claimed that the machine could reduce the time of a family wash by almost two-thirds.

The Dyson Contrarotator featured 49 patented improvements, including a 'sealless' door, a window to retrieve trapped objects such as coins, and a retractable rollerjack to make the machine easy to move. Priced initially at £999 for the basic model with full automatic programming (this compares with the £400–£580 of the competition), the pricing strategy again reflected Dyson's belief that customers recognize innovation and higher performance, and are willing to pay a premium for them.

Contraction defence

There are occasions when, faced with an actual or potential attack, a company will recognize that it has little hope of defending itself fully. It therefore opts for a withdrawal from those segments and geographical areas in which it is most vulnerable or in which it feels there is the least potential. It then concentrates its resources in those areas in which, perhaps by virtue of its mass, it considers itself to be less vulnerable. Militarily, it is a strategy that was used by Russia to great effect in defending itself against Napoleon and, subsequently, Hitler. It was, however, a strategy that was used far less effectively by the British motorcycle industry in the 1960s and 1970s, which, when faced with an attack upon the moped market in South-East Asia by the Japanese, retreated. The rationale for this was explained by the management teams at the time in terms of the way in which they believed that the Japanese development of the small bikes sector would ultimately stimulate demand for large(r) British bikes. In the event, the British manufacturers were forced successively on to the defensive in the 125 cc bikes sector and then the 250 cc and 350 cc sectors. The effect of this was to force out the majority of the British players until only Norton and Triumph were left. Subsequently, even these two were squeezed to such a degree that they became irrelevant. (Author's note: Subsequently, Triumph has come back into the market, albeit as a small and specialist manufacturer.)

Pre-emptive defence

Recognizing the possible limitations both of a position defence and a contraction defence, many strategists, particularly in recent years, have begun

to recognize the potential value of pre-emptive strikes. This involves gathering information on potential attacks and then, capitalizing upon competitive advantages, striking first. Pre-emptive strikes can take one of two broad forms: either the company behaves aggressively by, for example, hitting one competitor after another, or it uses psychological warfare by letting it be known how it will behave if a competitor acts in a particular way, a strategy which has been labelled FUD marketing – that is, spreading 'fear uncertainty and despair'.

Among the companies that have successfully used pre-emptive defences are Procter & Gamble and Seiko. In the case of Procter & Gamble, preemptive behaviour has been a fundamental element of their strategy for the past few decades and takes the form of consistent and broad-ranging product development, heavy advertising, aggressive pricing and a general philosophy that is sometimes referred to as 'competitive toughness'. A similar philosophy has been pursued by Seiko, which, with more than 2000 different models of watch worldwide, was designed to make it difficult for competitors to get a foothold. The general lesson to be learned from these two companies, and indeed other market leaders, is that the company should never rest even after it has achieved domination, but should instead offer a broad range of products that are replaced frequently and supported aggressively. Any competitor is then faced with a target that is infinitely more difficult to penetrate.

Equally, Tesco, having taken over as the market leader of the UK groceries market, has reinforced its position with a series of astute strategic moves that have seen the business develop into a number of other markets, including books, CDs, computer games, DVDs, brown goods (televisions and vacuum cleaners), finance, flowers, gas and electricity, insurance, clothes, travel services, and so on, all of which have been underpinned by speed and agility.

Counter-offensive defence

The final form of defence tends to come into play once an attack has taken place. Faced with a competitor's significant price cut, major new product or increase in advertising, a market leader needs to respond in order to minimize the threat. This response can take one of three forms:

1. Meet the attack head-on
2. Attack the attacker's flank
3. Develop a pincer movement in an attempt to cut off the attacker's operational base.

Of these, it is the first that is arguably the most straightforward; this was seen in the way in which airlines responded in the 1970s to Freddie

Laker's attack on prices on the North Atlantic routes. Faced with Laker's price cutting, other airlines flying these routes also cut their prices. Laker's company was eventually forced into liquidation through an inability to service its debts.

As an alternative to this sort of response, market leaders can try searching for a gap in the attacker's armour, a strategy that was used in the USA by Cadillac when faced with a stronger marketing push by Mercedes. Cadillac responded by designing a new model, the Seville, which it claimed had a smoother ride and more features than the Mercedes.

The final counter-offensive move involves fighting back by hitting at the attacker's base. In the USA, for example, Northwest Airlines was faced with a price-cutting attack on one of its biggest and most profitable routes by a far smaller airline. Northwest responded by cutting its fares on the attacker's most important route. Faced with a significant drop in revenue, the attacker withdrew and prices were restored to their original levels.

Defending a position by behaving unconventionally

In defending an organization against its competitors, there is often the need for the marketing planner to behave in a way that at first sight might appear counterproductive, something that was once summed up in terms of 'It's better to shoot yourself in the foot than have your competitors aiming for your head.'

It was this sort of thinking that led Canon, the Japanese camera, copier and printer company, to launch a range of inkjet printers, knowing that it would damage its own dominant position in laser printers. However, in doing this, Canon ensured that it remained the leader in the printer market as a whole rather than dominating just one part of it. But whilst the rationale for this is straightforward, numerous managers have failed to understand this and have responded too late to take advantage of radical shifts within a market or technology.

In discussing this, Loudon (2002, p. 46) has attempted to identify how organizations try to catch what he refers to as 'the next wave of innovations'. The industry's Goliaths, he says, have been awakened from their slumbers by the new-economy Davids, and the two camps are now getting together in three distinct ways. One is internal venturing, whereby companies promote competition between their divisions, an approach that has long been used by Procter & Gamble and Wal-Mart. Another is corporate venture capital, where companies make investments in third-party operations with a view to eventual pay-off in both financial and strategic terms, something that has been done by Intel and Reuters. The third way involves acquisitions, exemplified by Bertelsmann's buyout of Napster, the online operation. This shows how an old-economy giant can acquire new-technology thinking simply by writing a cheque.

In bringing these ideas together, Loudon has developed the concept of networked innovation. Established companies that want to catch the second (profitable) wave of the Internet revolution need to make sure that they link into the relevant web through networked innovation. In arguing the case for this, Loudon recognizes the potential problems that exist, but cites Volvo as an example of a company that has successfully set up a separate subsidiary to handle this type of innovation.

Unconventional or innovative behaviour has also been used by, amongst others, Cadbury's, with its drum-playing gorilla advertisements for Dairy Milk chocolate, Sony with the Bravia coloured balls, and Honda with a succession of advertisements, including the cog and wheel and with what was claimed to be the first live television advert in the UK. In this, a group of skydivers freefall and, as they do this, spell out H O N D A. The event, which was extensively trailed beforehand, represented an attempt to differentiate the company's advertising approach and was a reflection of the campaign line 'Difficult is worth doing'. The press coverage that the advertisement attracted was substantial and during a time in which media audience are fragmenting and dwindling, led to large numbers of people seeing the advertisement.

Unconventional behaviour has also been at the heart of Red Bull's marketing strategy. Launched in 1984, the sales strategy focused in the early years upon small distributors who were required to have a dedicated Red Bull sales force. The sales reps would then identify five key accounts in their area, including clubs and bars, where they provided DJs, bar staff and individuals identified as trendsetters with Red Bull and Red Bull branded merchandise. They then targeted universities, gyms and petrol stations rather than the large retail outlets in which they would face a fight for shelf space from companies such as Coca-Cola and Pepsi. The brand strategy, which was based around the company's cartoon character and the slogan 'Red Bull gives you wings', relied heavily upon word of mouth and buzz marketing rather than the more traditional – and expensive – advertising techniques of television, radio, posters and the print media. The company also focused upon spreading the Red Bull message through a programme of stealth marketing and their association with energy and danger:

> *a major part of Red Bull's marketing [has been the] sponsorship of extreme sports events. Many of these had a flying theme, consistent with the brand's slogan. Rather than merely sponsoring events, Red Bull also developed its own extreme sports events such as BMX biking, kite-boarding, extreme snowboarding, freeskiing, paragliding and skydiving. Soon the drink became associated with dangerous, on-the-edge, adrenaline-fuelled activities, such as the Red Bull King of the Air kiteboarding event in Maui, Big Wave Africa Surf Competition on the Cape peninsula and the infamous Red Bull*

> *Flugtag where amateur pilots build their own flying machines and leap off a parapet into water.*
>
> *Red Bull also sponsored pop culture events, many of which were participatory. For example, the Red Bull Music Academy (RBMA) brought together aspiring musicians and DJs for two weeks to attend workshops and studio sessions, and listen to guest lecturers. The academy was held in different cities: Berlin in 1998, Dublin in 1999, New York in 2001, London in 2002, Capetown in 2003 and Rome in 2004. (Kumar* et al.*, 2005)*

It was in this way that Red Bull developed a cult following among Generation Y consumers, many of whom are sceptical of marketing and who saw Red Bull as the anti-brand brand.

Market leadership and a customer focus

It should be apparent from what has been written so far that, for an organization to become a market leader and – perhaps more importantly – retain its leadership position over anything other than the short term, the marketing planner needs to develop a clear view of what the future will or can be. As part of this, it is typically argued that there needs to be a strong focus upon the customer and that the organization must, of necessity, be customer-led: indeed, this is a fundamental element of the marketing concept. However, it needs to be recognized that a strong argument can be developed *against* being wholly customer-led in that customers only rarely have a detailed or useful vision of what they will want in the future. (It is important to recognize that, in arguing against being customer-led, we are not arguing against customer satisfaction.) As an example of this, if Sony had relied upon the results of customer research when developing the Walkman, they would have dropped the product at an early stage, since few customers appeared to value the concept. Equally, 3M persevered with its Post-it notes despite initially negative customer research findings.

The lesson that many market leaders have learned from these, and indeed numerous other examples of products that have succeeded in the face of customer myopia, was summed up by Akio Morita, the then chairman of Sony:

> *Our plan is to lead the public with new products rather than ask them what kind of products they want. The public does not know what is possible, but we do. So instead of doing a lot of market research, we refine our thinking on a product and its use and try to create a market for it by educating and communicating with the public.*

This sentiment, which has been echoed by many other consistently innovative companies such as Toshiba, with its Lifestyle Research Institute,

highlights the need for the marketing planner to ask – and answer – two questions:

1. What benefits will customers see to be of value in tomorrow's products?
2. How, through innovation, can we deliver these benefits and, in this way, pre-empt our competitors?

In posing the first of these two questions, the marketing planner must, of course, take a very broad view of who the customer is in that, if tomorrow's customers are defined in the same way as those of today, it is almost inevitable that the firm will be eclipsed by others in the market. Recognition of this leads to us being able to identify three types of organization:

1. Companies that insist on trying to take customers in a direction in which they do not really want to go
2. Companies that listen to their customers and then respond by producing products and services that customers are aware they want, but that others in the market are either producing currently or will produce shortly
3. Companies that take their customers where they want to go, even though they may not yet be aware that this is a direction in which they want to go and that the product will deliver value to them.

It is this third type of organization that can be seen to have moved beyond being customer-led and that, as a result, is creating its own future. In doing

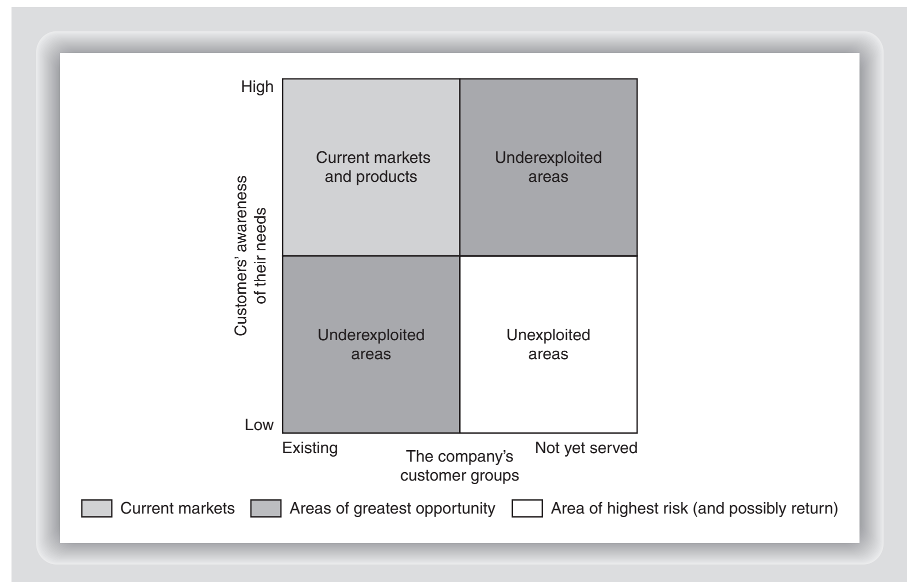


FIGURE 12.8 *The step beyond 'customer-led'*

this, the matrix illustrated in Figure 12.8 is of value in helping managers to focus their thinking (see also Illustration 12.4).

The rise and fall of market leaders

Although market leaders typically have a number of significant advantages, including resources, relationships and market power, there is a considerable body of evidence to suggest that few remain as leaders for more than a relatively short time. In discussing this and the factors that contribute to it, it has been suggested that sustained corporate success is the exception and that few companies managed to achieve real growth once they have lost the momentum that enabled them to reach a leadership position. It is also estimated that only about one in 10 companies manage to outperform the stock market over a decade or more, something that suggests that market leadership is less of a competitive advantage than might appear.

In the case of those organizations that do manage to succeed over the long term, Christensen suggests that they do this by avoiding the temptation simply to repeat the strategies that they have used in the past. Instead, they focus upon developing new technologies, business models and organizational skills, even though these reinventions might radically change the basis on which the organization was built. As an example of this, Toyota built its initial competitive advantage around ideas of lean production and attention to quality. As others in the industry copied these ideas, Toyota's focus shifted to vehicle design and marketing, something that led to the Lexus and Scion brands. As the competition again learned from this, Toyota began developing hybrid power technology, initially for the Prius, but now being applied across the range.

This sort of thinking can be seen to be linked to Hamel and Prahalad's (1994) ideas of stretch goals (to be the most innovative and largest car maker) and to possess the foresight to 'develop competences far in advance of products' (refer back to pages 435–6), a strategy that was reflected in the development of hybrid technology when the conventional wisdom was that this company's technology could never be profitable.

The mistake that many other market leaders seemingly make, and which ultimately leads to their (relative) decline, often stems from a reluctance to invest in the low technology and low margin products that will possibly appeal to new customers. Instead, they move ever further upmarket, leaving space for new competitors to enter the market and change the sector's dynamics. It was the recognition of this that led Pascale (1989) to suggest that 'The ultimate and largely ignored task of management is one of creating and breaking paradigms. The problem is that we devote 99 per cent of energy to squeezing more out of existing paradigms.'

The potential vulnerability of market leaders to an attack can also be seen by the way in which companies such as Eastman Kodak, IBM, Cisco, Dell, General Motors, Xerox, Digital Equipment Corporation and Texas

Illustration 12.4 Moving beyond customer-led

Amongst the organizations that have at various stages taken on board the idea of moving beyond being customer-led in the traditional sense are Renault, with its launch in the 1980s of the Espace people carrier; Swatch, with fashionable high-design/low-cost and ultimately disposable watches; and Ryanair and easyJet, with low-cost, no-frills airline travel. Rather than researching customers and tweaking the existing type of service, Michael O'Leary of Ryanair and Stelios Haji-Ioannou of easyJet both identified a need that consumers were not really aware that they had, set about educating them and, in doing this, provided a quantum leap in value. The move beyond being customer-led and the development instead of a strategy based upon consumer insight and a deeper understanding of changes within society was also at the heart of product and market development within the European car industry in the 1990s. Companies such as Mercedes, BMW and Porsche all identified a series of changes in the profiles of consumers and an often fundamental rethinking of values within this market, and responded by launching sports cars that were lower in price than their traditional products. At the heart of this was the emergence of a sizeable cash-rich ageing baby boomer generation intent on recapturing its youth. The characteristics of this market and the ways in which their values were changing are illustrated in Figure 12.9.

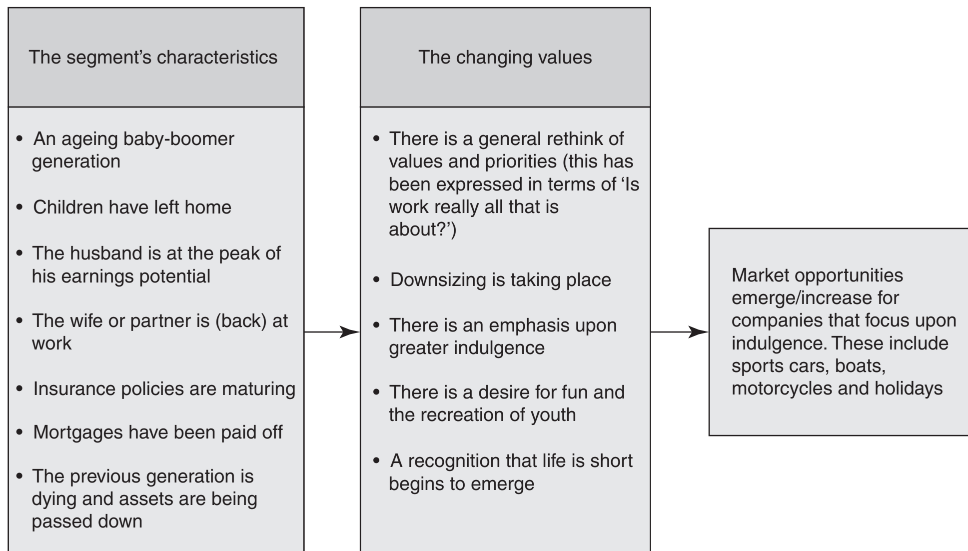


FIGURE 12.9 *Changing markets and marketing opportunities*

Instruments have all been hit hard by competitors with more limited resources, inferior technologies and less market power. Interestingly, most – if not all – of these companies might have appeared impregnable when examined within the context of Porter's five-forces framework.

12.6 STRATEGIES FOR MARKET CHALLENGERS

The Romans didn't build a great empire by organizing meetings. They did it by killing people.

(Anon.)

Companies that are not market leaders are faced with a straightforward strategic choice: either they attack other firms – including perhaps the market leader – in an attempt to build market share and achieve leadership themselves (*market challengers*), or they pursue a far less aggressive strategy and, in doing so, accept the status quo (*market followers*). In deciding between the two, several factors need to be taken into account, the most significant of which are the costs of attacking other firms, the likelihood of success, the eventual probable returns, and the willingness of management to engage in what in most cases will prove to be a costly fight. In commenting on the issue of returns, Fruhan (1972, p. 100) has highlighted the dangers of spending unwisely, arguing that, particularly in mature markets, management can all too easily fall into the trap of chasing market share that proves not to be cost-effective.

This theme has, in turn, been picked up by Dolan (1981), who has suggested that competitive rivalry is typically most intense in industries faced with stagnant demand, high fixed costs and high inventory costs. The implications for a firm in this situation are potentially significant since, while there may well be a need to gain share in order to benefit from greater economies of scale, not only are the costs of doing this high, but the likelihood of the sort of pyrrhic victory referred to above also increases dramatically. Recognition of this should then lead the strategist to a clearer perception of the course of action that is likely to be the most cost-effective. In practice, this means choosing between:

1. Attacking the market leader
2. Attacking firms of similar size to itself, but which are either underfinanced or reactive
3. Attacking smaller regional firms.

In making this choice a variety of factors needs to be considered, but particularly the competitive consequences. Picking off a series of small regional players is, for example, often far more profitable than attacking the market leader. This point has been highlighted by Porter (1985b), who suggests that:

Trying to take business away from the competition that holds the largest share of a market, or makes the most money from that market, may be the most dangerous competitive move a company can make … the leader, by virtue of its pre-eminent position, can afford to cut prices, rain down new products on rivals, or bury their

> *offerings under an advertising blitz – in short the big guy can make the business miserable for everyone else.*

In making this comment, he highlights the way in which a well-established – and clever – market leader can often afford to slash prices, launch a series of new products and boost levels of advertising spend so that the smaller aggressor is unable to gain share. However, he does recognize that, if the challenger behaves cleverly and strategically, many market leaders are vulnerable. In part, he suggests that this is due to the way in which they become complacent and unwittingly allow the competition to make small inroads that then provide the basis for a more serious attack.

More broadly, he identifies a set of principles that provide a framework for challengers who are thinking of attacking. At the heart of these is the idea that they should never attack head-on with a strategy that simply imitates the leader. Instead, he suggests:

> *a successful attack against a strong leader requires that a challenger meet three basic conditions: First, the assailant must have a sustainable competitive advantage, either in cost or in differentiation – the ability to provide the kind of value that commands premium prices. If the challenger's advantage is low cost, the troublemaking upstart can cut prices to lure away the leader's customers or, alternatively, maintain the same price but take the extra money it earns on each product and invest in marketing or R&D. If, on the other hand, the challenger can successfully differentiate itself or its product, then it can invest the proceeds from its premium prices to try to lower its costs or otherwise nullify the leader's cost edge. Whichever advantage the assailant banks on though, must be sustainable – the challenge has to have enough time to close the market share gap before the big guy can come roaring back with his own version of whatever it was that made the challenger successful.*
>
> *Second, the challenger must be able to partly or wholly neutralize the leader's other advantages, typically by doing almost as well as the leader what the leader does best. An upstart relying on differentiation for example, can't have costs that are hopelessly worse than the leader's – the leader will use his higher returns to bring out a similarly superior product, or will cut prices to make the challenger's offering look pricey indeed.*
>
> *Finally, there must be some impediment to the leader's retaliating – don't launch an attack without one. The impediment may derive from the leader's circumstances: it's having trouble with the antitrust enforcers, say, or is strapped for cash because of diversification into other businesses. Or the impediment may arise because of the nature of the upstart's challenge: the leader has hundreds of millions of dollars invested in turning out a*

product based on a particular technology; the challenger attacks with substitute incorporating a new technology which has to be manufactured differently.

At the heart of Porter's ideas is the belief that a challenger must have some kind of strategic insight, something that he or she believes comes from a new or a different way of doing business. The three most common ways of doing this are by:

1. *Reconfiguration*, in which the challenger finds a new and innovative way of performing some of the business's essential activities, such as design, manufacturing, marketing or delivery. An example of this was the way in which Amazon.com used the Internet as the basis of its strategy.

2. *Redefining the market*, either geographically and/or through the product. Federal Express, for example, began by focusing on small packages that required overnight delivery, and operated its own aircraft. easyJet and Ryanair also redefined the market by offering low-cost, no-frills flights, and in this way avoided attacking head-on the established players such as BA, KLM and Lufthansa.

3. *High spending.* Although this is potentially the most costly and risky of the three approaches, it has been used by firms such as Amazon.com to establish both the technological infrastructure and high levels of brand awareness.

Whilst ideally the challenger will meet all three of these conditions, fulfilling just one or two can often offset a degree of weakness in meeting the others. In the USA, for example, the no-frills airline People Express began with the benefits of a lower cost base than its competitors – pilots' salaries were lower than the norm, staffing levels were low, and there was little job demarcation – which meant value was passed on to customers in the form of lower prices. Their product, a cramped seat, was sufficiently similar to the cramped seats of other operations for the market leaders to be unable to persuade customers there was a difference. The condition that People Express was unable to meet was the lasting impediment to retaliation, and eventually others in the industry fought back by matching the People Express prices. Having exhausted the growth potential offered on routes that the majors had largely neglected, People Express was forced to look to the more competitive routes if it was to continue growing, and this sparked off a further round of price-cutting and retaliation.

A successful attack by a challenger is therefore typically based on a degree of reconfiguration of the activities that make up the business, be it in the form of design, manufacture or delivery; it was this approach that

Illustration 12.5 The Dolls Wars: Bratz – the anti-Barbie doll

Launched by Mattel in 1959, Barbie dominated the dolls market for more than four decades. However, in 2001 MGA Entertainment launched its Bratz range and the market began to change dramatically. Positioned as multicultural and streetwise and targeted at the tweens – girls aged between seven and 11 who want to distance themselves from their younger sisters – Bratz sales reached $600 million within just 18 months.

Mattel responded quickly with the launch in 2002 of My Scene, a group of highly fashionable dolls, and then, in 2003, the Flava dolls with names such as P Bo and Happy D. Flavas were a mixed-race range, but faced with a disappointing response from the market, were quickly dropped.

In 2005, Bratz announced a 56.6 per cent share of UK fashion doll sales, a figure that showed that Bratz were selling at twice the level of any other fashion doll in the market and accounted for almost 5 per cent of the total toy market. The strategy pursued since then has been aggressive and designed to keep Barbie at a distance. With additions to the range and cinema releases such as *Bratz : the movie*, the strategic focus was firstly that of developing the Bratz brand as a lifestyle with a series of Bratz-branded consumer electronics, entertainment, music, furnishings and sports products.

Mattel's response was two-pronged, with a combination of Barbie and My Scene, both of which they suggest mothers prefer because they are stylish but safe and arguably less provocative than Bratz. The company also believes that Bratz's tweens market is essentially brand-promiscuous: what they like today, they drop tomorrow.

characterized Dyson's attack on the market leader, Hoover. If the challenger is unable to do this, the safest option is often to ignore the leader and to pursue instead others in the industry who are of equal size or who are smaller and potentially more vulnerable. In this way, any competitive response is likely to be more manageable.

The dimensions of an effective challenge strategy have also been illustrated by Bratz's attack upon the market leader, Barbie, in the dolls market (see Illustration 12.5).

Deciding upon whom to challenge

Given what has been said so far, the choice of *whom* to challenge is fundamental and a major determinant not just of the likelihood of success, but also of the costs and risks involved. However, once this has been done, the strategist is then in a position to consider the detail of the strategy that is to be pursued. Returning to the sorts of military analogies discussed earlier, this translates into a choice between five strategies: a frontal attack, a flanking attack, an encirclement attack, a bypass attack and a guerrilla attack. But before choosing among these we need to return for a moment to the more fundamental issue referred to above of *whom* to attack and *when*. In deciding

this, the options, as we have suggested, can be seen in terms of an assault on the market leader (a high-risk but potentially high-return strategy), an attack upon companies of similar size, or an attack upon the generally larger number of smaller and possibly more vulnerable firms in the industry. In choosing among these various targets the strategist is likely to be influenced by a variety of factors, including perception of the leader's likely response, the availability of the resources needed to launch an effective attack, and the possible pay-offs. In addition, however, the strategist should also perhaps be influenced by the findings of the military historian Basil Liddell-Hart. In an analysis of the 30 most important conflicts of the world from the Greek wars up to First World War (this included 280 campaigns), Liddell-Hart (1967) concluded that a direct head-on assault succeeded on only six occasions. By contrast, indirect approaches proved not only to be far more successful, but also more economic. This thinking, when applied to business, has led to a series of guidelines for challengers, which are summarized in Figure 12.10.

It has long been recognized that market challengers only rarely succeed by relying on just one element of strategy. Instead, the challenging strategy needs to be made up of several strands that, together, provide the basis for competitive advantage. The eight most commonly used and successful strategic strands are:

1. Price discounting
2. Product and/or service innovation
3. Distribution innovation
4. Heavy advertising
5. Market development
6. Clearer and more meaningful positioning
7. Product proliferation
8. Higher added value.

Frontal attacks

The conventional military wisdom is that for a frontal or head-on attack to succeed against a well-entrenched opponent, the attacker must have at least a 3:1 advantage in firepower; history suggests that broadly similar lessons apply to business.

In launching a frontal attack, a market challenger can opt for either the *pure frontal attack* (by matching the leader product for product, price for price, and so on) or a rather more *limited frontal attack* (by attracting away selected customers). Although the record of success with a pure frontal attack is, as we commented above, generally limited, examples of companies

It has long been recognized that market challengers only rarely succeed by relying on just one element of strategy. Instead, success depends on designing a strategy made up of several strands that, by virtue of their cumulative effect, give the challenger a competitive advantage. The ten most commonly used and successful strategic strands used by challengers are:

1. *Price discounting*. Fuji attacked Kodak by offering photographic film and paper that they claimed was of the same quality as the market leader, but 10 per cent cheaper. A similar strategy was pursued by Amstrad in the personal computer market.

2. *Cheaper goods*. Aldi's attack in the grocery retailing market was based on providing a different quality–price combination to that of the other players in the market. Similarly, the coach travel company National Express has based its attack upon the rail industry on a strategy of lower prices.

3. *Product innovation*. By offering a constant stream of new and updated products, a challenger gives buyers a powerful reason for changing their purchasing patterns. Among those to have done this successfully are Polaroid with cameras and, in the 1970s, Apple with microcomputers.

4. *Improved services*. Avis challenged Hertz, the market leader in the car hire market, with a strategy that promised a faster and higher level of service. Its advertising slogan, 'Avis, we're number two, we try harder', is now part of advertising mythology.

5. *Distribution innovation*. Timex watches achieved considerable sales success as the result of a strategy that pioneered a new approach to watch distribution. Rather than selling the product through specialist jewellery stores, the company opted for a far broader approach by distributing through chainstores and supermarkets.

6. *Intensive advertising*.

7. *Market development*. Walker's Crisps achieved considerable success in the 1960s by focusing on the previously ignored market sector of children. The market leader, Smith's, had traditionally concentrated on adults and had distributed through pubs. The attack on such a different front took Smith's by surprise.

8. *Prestige image*. Much of the success achieved in the car market by Mercedes and BMW has been based on the development of an image of quality, reliability and consumer aspiration.

9. *Product proliferation*. The success of Seiko's attack on other watch manufacturers owes much to its strategy of developing some 2400 models designed to satisfy fashion, features, user preferences and virtually anything else that might motivate consumers.

10. *Cost reduction*. Many Japanese companies entered the European and North American markets in the 1960s and 1970s on the back of a cost-reduction, price-led strategy designed to put pressure on domestic manufacturers. Subsequently, a large number of these Japanese companies have modified their approach and repositioned by, for example, emphasizing quality, reliability and prestige. Their place has now been taken by a second wave of companies, this time from Korea, Taiwan and the Phillippines, which are emphasizing cost reduction and lower prices.

FIGURE 12.10 *Attack strategies for market challengers*

that have adopted this approach and succeeded do exist. Included among these is Xerox, which in the copying market attacked companies such as Gestetner and 3M and, by virtue of a better product, captured the market. (Subsequently, Xerox has itself been attacked by a large number of companies, including Sharp, Canon, Panasonic and Toshiba.)

A similar frontal attack was used to great effect by the Japanese producers of magnetic recording tape. Having pioneered the market in the 1960s, 3M fell victim to a series of aggressive pricing moves in the 1970s, led by

TDK. The effect on 3M was significant and by 1982 it had been forced into the position of a minor player.

More frequently, however, it is the case that a frontal attack proves to be both expensive and ultimately self-defeating, something that both Safeway and Sainsbury's have found in attacking the market leader, Tesco.

Flank attacks

As an alternative to a costly and generally risky frontal attack, many strategists have learned the lesson from military history that an indirect approach is both more economical and more effective. In business terms, a flanking attack translates into an attack on those areas where the leader is geographically weak and in market segments or areas of technology that have been neglected. It was the geographical approach that was used in the late 1960s and early 1970s by Honeywell in competing in the USA against IBM. Quite deliberately, the company concentrated its efforts on the small and medium-sized cities in which IBM's representation, while still high, was not as intense as in the major cities. A similar geographical approach was adopted by the Japanese motorcycle industry, which concentrated its efforts progressively on Asia, the USA and then Europe.

As an alternative, many companies have opted for *technological flanking* or leap-frogging. Among those to have done this with considerable success are the Japanese in the car industry, who rewrote the rules of how to mass produce cars to such an extent that they not only managed to undercut the traditional market leaders, but also reversed the flow of technology transfer in the industry.

Others to have used technological flanking include Michelin against companies such as Goodyear, Firestone and Uniroyal, and the state-owned French helicopter manufacturer Aerospatiale. Aerospatiale's competitors – Bell Helicopter, Sikorsky and Boeing – worked to full capacity for several years to satisfy the enormous military demand for helicopters in the Vietnam war and had little time for major technological developments. Aerospatiale took advantage of this and in 1980 simultaneously introduced three new-generation fast, twin-turbine models designed to cover all conceivable military and civilian needs. These models all featured Aerospatiale-developed fail-safe rotor blades manufactured not from conventional metal but from composite materials.

Segmental flanking has been used to equal effect by numerous companies, over the years, including Hewlett–Packard with mini-computers, Apple with micro-computers, and Toyota and Volkswagen in the USA with small, economical cars. The lesson in each case is straightforward: identify the areas of market need not being covered by the market leader and then concentrate resources on building both size and share. In doing this it is, however, essential that the attacker moves quickly, since the challenge

becomes clearer over time and can lead to a sudden competitive response in which the company being attacked regains the initiative. In the majority of cases, however, the company being attacked either fails to recognize the significance of the challenge or is unsure of how best to retaliate and, as a result, responds only slowly. Bic, for example, flanked Gillette in razors by developing the low-priced sector, while Knorr and Batchelor flanked Heinz with the introduction of low-priced soups shortly after Heinz had fought off a head-on attack by Campbell's. In both cases, the defender was slow to respond, possibly because of a fear that a stronger reaction would speed up the growth of the low-price sector.

Encirclement attacks

Whereas flanking in its purest form involves an attack on just one front, encirclement has parallels with a blitzkrieg in that it involves launching an attack on as many fronts as possible in order to overwhelm the competitor's defences. In this way, the defender's ability to retaliate effectively is reduced dramatically. Whilst this is an expensive strategy to pursue, and one that is almost guaranteed to lead to significant short-term losses, its record of success in the hands of certain types of company is impressive. Seiko, for example, has made use of a strategy of encirclement not just with the sheer number of models that are changed constantly, but also by acquiring distribution in every watch outlet possible and by heavy advertising that gives emphasis to fashion, features, user preferences and everything else that might motivate the consumer. Similarly, the Japanese motorcycle, audio and hi-fi manufacturers, having started with flanking strategies, quickly developed these into encirclement strategies with an emphasis on rapid product life cycles, frequent and radical new product launches, wide product ranges, aggressive pricing, strong dealer support and, in the case of the motorcycle companies, a successful racing programme. Other companies that have made use of encirclement, admittedly with varying degrees of success, include Yamaha against Honda and the Japanese construction machinery manufacturer Komatsu in its attack on the market leader, Caterpillar.

In the case of Komatsu and Caterpillar, Komatsu's attack on the market leader was based on the slogan used internally, 'Encircle Caterpillar'. This translated into a series of attacks on market niches, improvements in product quality, extensions to its product range, and pricing at levels 10–15 per cent lower than those of Caterpillar.

Bypass attacks

The fourth approach, a bypass attack, is (in the short-term at least) the most indirect of assaults in that it avoids any aggressive move against the defender's existing products or markets. Instead, the strategist typically concentrates on developing the organization by focusing on *unrelated products*

(the Japanese consumer electronics firms developing video recorders and compact discs rather than traditional audiovisual products), *new geographical markets* for existing products and, in the case of the hi-tech industries, by *technological leap-frogging*. Among those to have used a bypass attack successfully are Sturm Ruger and YKK.

Sturm Ruger, a small US gun manufacturer, recognized in the early 1950s that it did not have the resources to develop a product range that would enable it to compete effectively against Colt, Remington and Browning. It therefore concentrated on a bypass strategy by producing a limited range of high-quality and competitively produced guns that earned a reputation for being the best in their class. In this way, Sturm Ruger managed over a 30-year period to capture almost 20 per cent of the US domestic sporting guns market.

A broadly similar strategy was pursued in the zip fasteners market by YKK. The North American market had long been dominated by Talon. YKK therefore concentrated on avoiding a head-on confrontation with the market leader and, by selling direct to fashion houses, managed both to bypass Talon and turn its zip fasteners into a high-fashion item that commanded a premium price. By doing this, YKK captured 30 per cent of the US market. The same strategy was subsequently used in Europe to achieve broadly similar results.

Guerrilla attacks and ambush marketing

The fifth option open to a challenger is in many ways best suited to smaller companies with a relatively limited resource base. Whereas frontal, flanking, encirclement and even bypass attacks are generally broad-based and costly to pursue, a guerrilla attack is made up of a series of hit-and-run moves designed to demoralize the opponent as a prelude to destabilizing and keeping the competitor off balance. In practice, this typically involves drastic short-term price cuts, sudden and intensive bursts of advertising, product comparisons, damaging public relations activity, poaching a competitor's key staff, legislative moves, and geographically concentrated campaigns. The success of such a strategy has been shown to depend in part upon the competitor's response. In some cases, for example, the competitor chooses to ignore the attack, as has been seen with the way in which the major airlines in the early to mid-1990s chose deliberately not to respond to Virgin's lower prices on the North Atlantic routes. In others, however, the competitor fights back quickly and aggressively in order to minimize any long-term threat. All too often, dealing with guerrilla attacks proves to be difficult.

Guerrilla attacks and No Logo

The attractions and growth of guerrilla marketing have also been highlighted by Naomi Klein (2000), who, in her book *No Logo*, argues that advertisers are extending their tentacles as never before, commercializing

Illustration 12.6 Guerrilla marketing

The difficulties faced in responding effectively to guerrilla marketing tactics were illustrated in 1996 by the way in which easyJet managed to gain a considerable amount of press coverage of a stunt on the inaugural flight of BA's budget airline, Go! EasyJet staff bought several rows of seats on the flight and then, wearing bright orange jackets, began offering free easyJet flights to Go!'s passengers.

BA was also the victim of a guerrilla marketing products stunt when their staff on an early-morning flight from Manchester to London, tried to stop a dwarf wearing a T-shirt with the slogan 'Shorter journey times with Virgin Trains' from boarding the plane.

public spaces, branding celebrities and finding new ways to appeal to the traditionally hard-to-reach groups such as the gay market and ethnic minorities. The result has been an enormous upsurge in the volume of advertising and a reduction in the impact of individual advertisements. (Estimates in the USA suggest that each American now sees some 1500 commercial messages a day. Jupiter Communications estimates that, by 2012, wired consumers will be exposed to almost 1500 online advertisements a day, three times the figure for 2000.)

The problems that this has created have, in turn, been compounded by the degree of media fragmentation, with an ever greater number of magazine titles, the growth of cable and innumerable Internet pages. In an attempt to overcome this, a number of organizations have turned to guerrilla marketing, in which the firm adopts either a strategic approach to attacking its competitors (see Illustration 12.6) or resorts to a series of what are essentially gimmicks. Amongst those to have done this are Pizza Hut, which put a 10-metre-high advertisement on a Russian space programme rocket; Mattel, the toy firm that makes Barbie, which painted a street pink to promote its doll; and Jim Thompson, a Canadian, who created interest in medical applications for the Palm Pilot through his 'Jim's Pal pages' site.

However, a problem that has emerged is that guerrilla marketing campaigns often have a relatively superficial appeal and the stunts are neither memorable nor big enough to raise brand awareness and boost sales, something that led Anita Roddick, the founder of Body Shop, to call most guerrilla campaigns 'the masturbatory indulgences of ad men'.

How challengers defeat the market leaders: lessons from *Eating the Big Fish*

In his book, *Eating the Big Fish*, Adam Morgan (1999) shows how challengers have succeeded against large and well-entrenched brand leaders, and the lessons that emerge from their experiences. Amongst the best of these, he suggests, are:

- *Dyson*, who recognized the vulnerabilities of the established players in the vacuum cleaner market and, with a combination of new

technology and new marketing thinking, quickly eclipsed companies such as Hoover and Electrolux (see Illustration 12.3).

- *Orange*, which overcome people's technological fears by creating a warm and reassuring vision of the future. In doing this, they demonstrated how to build a new technology brand and overtook the established players such as BT.
- *Charles Schwab*, the US discount broker, which launched e-Schwab in 1996. Although they knew that the new division would cannibalize their existing business, they recognized how the market was moving and believed that they had to be the first to create a category killer and redefine the market. The result was that they quickly overtook the market leader, Merrill Lynch.
- *Bertelsmann Napster*. As the number four player in the media world, Bertelsmann was the first to recognize that the firm that was potentially its greatest threat – Napster, the company that allows consumers to swap music online via MP3 technology – could also provide huge opportunities. Given this, Bertelsmann formed an alliance with Napster and, in doing this, not only neutralized the threat but also redefined the industry.

Others who have taken on the big fish within the market include Red Bull who, with the creation of the energy drink market, took Coca-Cola by surprise; Airbus against Boeing; easyJet and Ryanair against the traditional full-service legacy airlines such as BA, KLM and Lufthansa; and Sainsbury within the clothing market.

The single most important lesson to emerge from organizations such as these, Morgan (1999, p. 19) argues, is that of the managerial mindset. The key issue, he suggests, is to think like a challenger rather than to accept the marketing status quo and conventional wisdoms. The ways in which this might best be done include:

1. Forget how the data collectors traditionally define your category. Define it by the way the user thinks of it. Now who is your most dangerous potential competition?
2. Look long and hard at your marketing group's thinking. Be brutal: how much is high interest and how much is low interest? And what are you going to do about the latter?
3. The consumers don't want to know what you think about them. They want to know who you are and what you believe in. Do you know? Honestly? And do they?
4. Everything communicates. How much of your available 'media' – and not just the conventional media you pay for, but the way you act and the way your staff represent you – is projecting your identity?

	Leaders forced to defend their position	Challengers and underdogs intent on strengthening their position
Resources	• Generally substantial	• Often limited
The concept of the future	• A focus on protecting what they have already • Growth from the existing base	• High aspirations • 'Pioneers of a whole new order'
The relationship to the past	• Extrapolation from experience • Fine-tuning of a winning formula	• Expediency • Break the rules where possible

FIGURE 12.11 *Leaders and challengers: the significance of mindset*

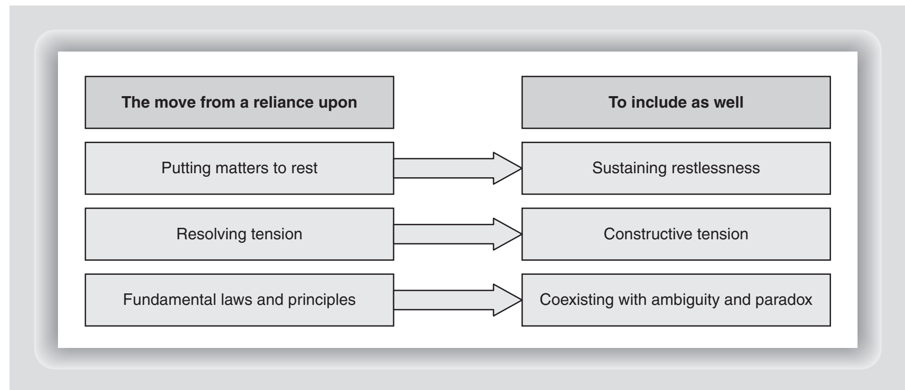


FIGURE 12.12 *The challenger's contextual shift*

5. Take away your primary communications medium. How would you build an emotional relationship with people without any television advertising at all?
6. What is the category killer in your market, and what should you risk to create it yourself?

A similar theme has been pursued by Richard Pascale (1989), who, in explaining the success of market challengers and the often relatively poor performance of leaders forced into a defence of their position, has highlighted three areas that need to be considered: resources, the management's concept of the future, and the relationship to the past (see Figure 12.11).

At the heart of Pascale's ideas of how a challenger can succeed is the development of a particular mindset that requires the sort of contextual shift in management that is shown in Figure 12.12.

12.7 STRATEGIES FOR MARKET FOLLOWERS

As an alternative to challenging for leadership, many companies are content to adopt a far less proactive posture simply by following what others do. The attractions of this have been pointed to by a variety of writers, including Levitt (1966) and Kotler (1997, p. 393). Levitt, for example, suggested that a strategy of product imitation can often be as profitable as a strategy of innovation. Similarly, Kotler has pointed to the way in which:

> *An innovator such as Sony bears the huge expense of developing the new product, getting it into distribution, and informing and educating the market. The reward for all this work and risk is normally market leadership. However, other firms can come along, copy or improve on the new products – for example, Panasonic rarely innovates. Rather, it copies Sony's new products, then sells them at lower prices. Panasonic turns a higher profit than Sony because it did not bear the innovation and education expense.*

For many firms, therefore, the attractions of being and indeed remaining a market follower can be considerable. This is particularly so when the full costs and risks of challenging an entrenched leader are recognized. If a company is to challenge a market leader successfully, it is essential that the basis for challenging is really worthwhile and meaningful. In practice, this would generally mean a major breakthrough in terms of innovation, price or distribution, something that in relatively long-established and stable industries is often difficult to achieve. Without a major breakthrough such as this, any attack is almost certain to fail, since most market leaders will not only have the benefit of better financing, but will also be more firmly entrenched.

Recognizing this leads the majority of market followers to accept the status quo, and to pursue a course of action that avoids the risk of confrontation and retaliation. In strategic terms, this often translates into copying the market leaders by offering broadly similar products, prices and levels of service: this is sometimes referred to as a *me-too strategy*. The net effect is that direct competition is avoided and market shares tend to remain relatively stable over a considerable period.

These comments should not, however, be taken to mean that market followers do not have their own distinct strategies. Indeed, as Saunders (1987, p. 21) has pointed out, the strategies of successful low-share followers tend to exhibit a number of common characteristics, including:

1. Careful market segmentation, competing only in areas where their particular strengths were highly valued.
2. Efficient use of limited R&D budgets – they seldom won R&D battles but channelled their R&D spending into areas that were most likely to generate the greatest financial pay-off, in terms of return

on R&D expenditure. Where R&D capabilities were available, they concentrated on truly innovative products.

3. They thought small and stayed small. They tended to emphasize profitability rather than sales growth and market share, concentrating on specialization rather than diversification, high value added rather than mass products, quality rather than quantity.

4. The companies were willing to challenge conventional wisdom – their leaders were often strong willed, committed and involved in almost all aspects of their companies' operations.

It follows from this that the need for a follower to develop a clear and well-formulated strategy is just as great as it is for an infinitely more proactive market leader or challenger. In practice, however, many market followers fail to recognize this and pursue a 'strategy' that is largely implicit and derivative. At the very least a follower needs to recognize the importance of positioning itself so that its customer base is not eroded, that sales increase in line with rates of market growth, and that it is not overly vulnerable to more aggressive and predatory market challengers. This is particularly important when it is remembered that challengers can gain share in three ways, including by taking sales from smaller or equal-sized competitors. A market follower in these circumstances can often prove to be an attractive and vulnerable target.

Followers do therefore need to decide how they intend operating and, in particular, how closely they intend following the market leader. In doing this, it is essential that the firm reduces its vulnerability as much as possible by a combination of tight cost control, an early recognition of developing opportunities, and a clear product and service strategy. This final point is particularly significant, since there is a danger of seeing market followers quite simply as imitators of the market leader. Where this does happen the dangers of confusion among customers increases and the reasons for buying from the follower decrease markedly.

It is possible to identify three quite distinct postures for market followers, depending on just how closely they emulate the leader:

1. *Following closely*, with as similar a marketing mix and market segmentation combination as possible

2. *Following at a distance*, so that, although there are obvious similarities, there are also areas of differentiation between the two

3. *Following selectively*, both in product and market terms, so that the likelihood of direct competition is minimized.

12.8 STRATEGIES FOR MARKET NICHERS

The fourth and final strategic position for a firm is that of a market nicher. Although niching is typically associated with small companies, it is in practice a strategy that is also adopted by divisions of larger companies in industries in which competition is intense and the costs of achieving a prominent position are disproportionately high. The advantages of niching can therefore be considerable since, if properly done, it is not only profitable but also avoids confrontation and competition.

The attractiveness of a market niche is typically influenced by several factors, the most significant of which are:

1. It needs to be of sufficient size and purchasing power to be profitable
2. There is scope for market growth
3. The niche is of little immediate interest to the major competitors
4. The firm has the abilities and resources to be able to serve the niche effectively
5. The firm is capable of defending itself against an attack through areas such as customer loyalty.

It is specialization that is at the heart of effective niching, something which has been recognized by retailers such as Aga, Bang & Olufsen and Ann Summers, and by car companies such as Porsche (the world's most profitable car company in 2007) and Ferrari.

Specialization can, however, prove dangerous if the market changes in a fundamental way, either as the result of greater competition or an economic downturn, and the nicher is left exposed. For this reason, there is often a strong argument for multiple niching rather than single-sector niching.

The potential profitability of niching has been pointed to by a variety of consultants and authors over the years, including McKinsey & Co. and Biggadike. For example, two of McKinsey's consultants, Clifford and Cavanagh (1985), found from a study of successful mid-size companies that their success was directly attributable to the way in which they niched within a large market rather than trying to go after the whole market. Equally, Biggadike (1977), in a study of 40 firms that entered established markets, found that the majority chose to concentrate upon narrower product lines and narrower market segments than the rather better established incumbents.

The supernichers

The potential attractions of market niching have also been highlighted by Hermann Simon (1996), who, in his book *Hidden Champions*, identified

a group of what he referred to as 'the supernichers'. These firms, he suggests, typically have a particularly detailed understanding of their markets and have achieved the position of being the largest or second largest player within the world market for their products or the largest in the European market. Amongst these organizations are Hohner (85 per cent of the market for harmonicas), Loctite (80 per cent share of the super-glue market), Swarovski (67 per cent of the cut-cross jewellery market), Tetra (80 per cent of the tropical fish food market) and Steiner (80 per cent of the military field glasses market). Although some of these markets might at first sight seem slightly esoteric, the attractions of being a (successful) market nicher are substantial and include a depth of penetration that makes it difficult for others to attack effectively.

Simon identifies 11 lessons that emerge from the supernichers:

1. Set and then aggressively pursue the goal of becoming the market leader in the chosen market
2. Define the target market narrowly
3. Combine a narrow market focus with a global perspective
4. Deal as directly as possible with customers across the globe
5. Be close to customers in both performance and interaction
6. Ensure that all functions have direct customer contacts
7. Strive for continuous innovation in both product and process
8. Create clear-cut advantages in both product and service, and continually strengthen the selling propositions
9. Keep core competencies in the company and outsource non-core activities
10. Select employees rigorously and retain them for the long term
11. Practice leadership that is authoritarian in the fundamentals and participative in the details.

12.9 MILITARY ANALOGIES AND COMPETITIVE STRATEGY: A BRIEF SUMMARY

Given the nature of our comments about the parallels between military strategy and business strategy, these can perhaps best be summarized by referring to von Clausewitz's thoughts, discussed in his book *On War* ([1832] 1984). In this, he argues for planners to adopt eight principles:

1. Select and maintain the aim
2. Use surprise in the form of originality, audacity and speed
3. Maintain morale

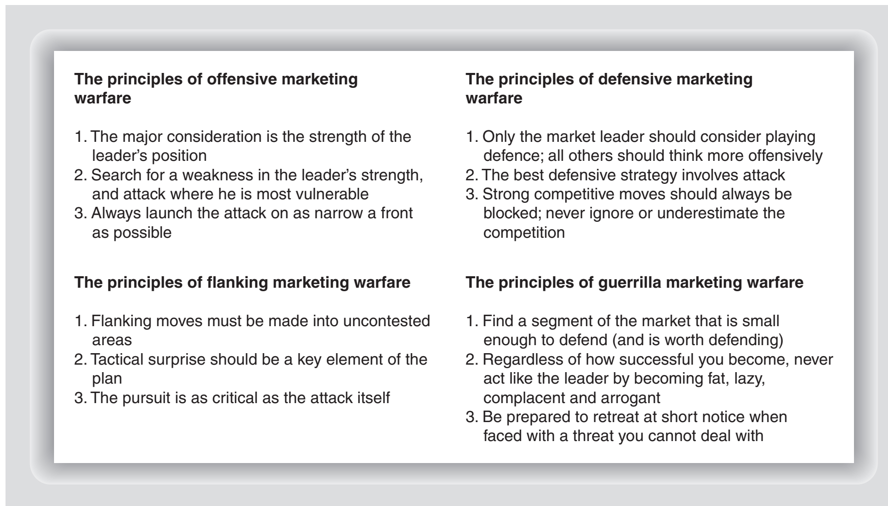


FIGURE 12.13 *Military analogies and competitive strategy: a brief summary*

4. Take offensive action
5. Secure your defences and never be taken by surprise
6. Maintain flexibility
7. Use a concentration of force
8. Use an economy of effort.

These ideas are also summarized in Figure 12.13.

Competitive strategy as a game

It has long been recognized that competition between organizations can be seen in much the same way as a game, in that the outcome in terms of an organization's performance is determined not just by its own actions but also by the actions and reactions of the other players, such as competitors, customers, governments and other stakeholders. However, as the pace of environmental change increases and the nature, sources and bases of competition alter, markets become more complex and the competitive game consequently becomes more difficult to win, something that has been illustrated by a spectrum of markets, including colas, films and cameras, airlines, detergents, disposable nappies, tyres, computer hardware and software, and newspapers. In markets such as these, the ever-present danger is of one company taking a step such as a price cut, which then proves to be mutually destructive, as everyone else responds in a desperate attempt to avoid losing customers, volume and share. From the customers' point of view, of course, moves such as these are often attractive, particularly as

they can lead to a different set of expectations, which any individual firm then finds difficult to reverse.

It follows from this that the need to manage competition and the competitive process, while often difficult, is essential. Although there are no hard and fast rules, it is possible to identify a number of very broad guidelines that companies might follow. These include:

- *Never ignore new competitors*, particularly those who enter at the bottom end of the market, since almost inevitably once a firm gains a foothold it will start targeting other segments of the market. Examples of this include the early manufacturers of calculators, who ignored Casio; IBM, which ignored a series of initially small players such as Apple, Dell and Compaq; the UK motorcycle manufacturers, who underestimated the Japanese such as Honda, Yamaha, Kawasaki and Suzuki; and Xerox, which was hit hard by Canon.
- *Always exploit competitive advantages* and never allow them to disappear unless they are being replaced by an advantage that, from the customer's point of view, is more powerful and meaningful.
- *Never launch a new product or take a new initiative without working out how the competition will respond* and how you will be affected by this.

Although these three guidelines are in many ways self-evident, the reality is that numerous organizations develop and implement strategies that reflect little real understanding or awareness of the competition. Others, however, do manage to develop competitive strategies in the truest sense. According to Day (1996b, p. 2), there appear to be several factors that set these companies apart, including:

- An intense focus upon competitors *throughout* the organization
- The desire and determination to learn as much as possible about each competitor, its strategies, intentions, capabilities and limitations
- A commitment to using this information and the insights it provides in order to anticipate how they are most likely to behave.

The outcome of this sort of approach is, as Day (1996b, p. 3) comments, that:

> *They formulate strategies by devising creative alternatives that minimize or preclude or encourage cooperative competitive responses. They adroitly use many weapons other than price, including advertising, litigation, and product innovation. They play the competitive game as though it were chess, by envisioning the long-term consequences of their moves. Their goal is long-term success, rather than settling for short-run gains, or avoiding immediate losses.*

However, in developing a competitive strategy, many managers appear to make the mistake of focusing upon what competitors have done in the past rather than what they are most likely to do in the future. Whilst behaviour in the future is often influenced by what has been done previously, even small changes on the part of a competitor can invalidate the assumptions being made.

At the same time, much thinking about competitors and the interpretation of competitive intelligence is based on mental models that reflect a simplification of reality. Although this simplification is understandable – and may well prove to be adequate in relatively static markets – it is unlikely to be suited to markets in which there is any real degree of competitive intensity. Because of this, competitively successful organizations appear to put a great deal of effort into learning, not just about competitors, but also into developing a detailed understanding of distributors' perceptions and expectations, and the extent to which these are being met. They appear also to devote significant resources to learning from their own experiences so that future strategies can then be built upon this understanding.

Marketing strategy and the search for future competitiveness

We suggested earlier that, if an enterprise is managed a little better than customers expect, and if this is done in a slightly better way than competitors can manage, then the enterprise should be successful (see page 3). Although the need for a competitively superior approach has long been at the heart of marketing strategy, the search for greater competitive capability has increased dramatically over the past few years. Several factors have contributed to this, a number of which are referred to in the discussion of the strategic challenges facing organizations (pages 153–5) and the dimensions of the new customer and the new forms of competition (pages 201 and 251–2 respectively). Together, these have put pressures on managers to develop strategies that are not only far more clearly focused upon the market, but also infinitely more proactive, flexible and innovative. However, for many managers, the problem is not necessarily that of identifying or gaining an advantage initially, but of *sustaining* it over any length of time. In highly competitive and largely mature markets, for example, an ever greater number of organizations are having to compete directly against competitors who offer almost identical products across 70–80 per cent of the range. Because of this, the focus of competitive advantage is increasingly shifting away from major product and technological breakthroughs to an emphasis upon a series of process improvements. These are illustrated in Figure 12.14.

However, in order to achieve this, it is essential that the interrelationships that exist both internally (between marketing and other functional areas of the business) and externally (between the organization and its suppliers and distributors) are refined – and perhaps rethought – so that the

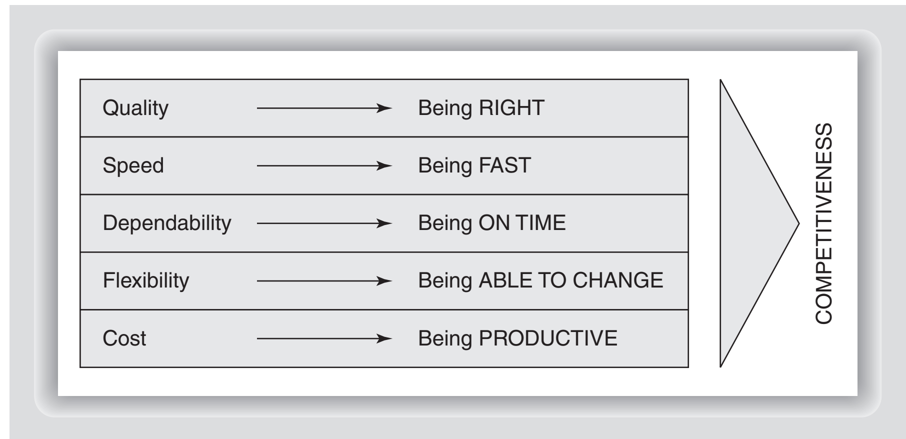


FIGURE 12.14 *The contribution of process improvements to greater competitiveness*

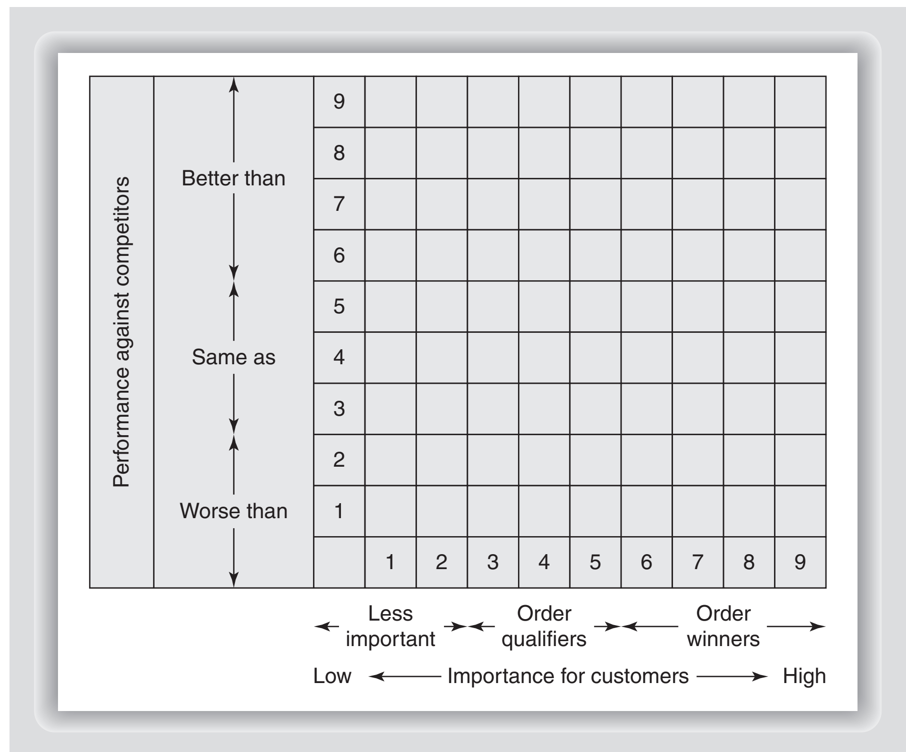


FIGURE 12.15 *Performance against competition*

five dimensions of quality, speed, dependability, flexibility and cost referred to in Figure 12.14 are operating optimally.

As part of this, the marketing planner also needs to develop a far more detailed understanding of what customers see to be of importance and how

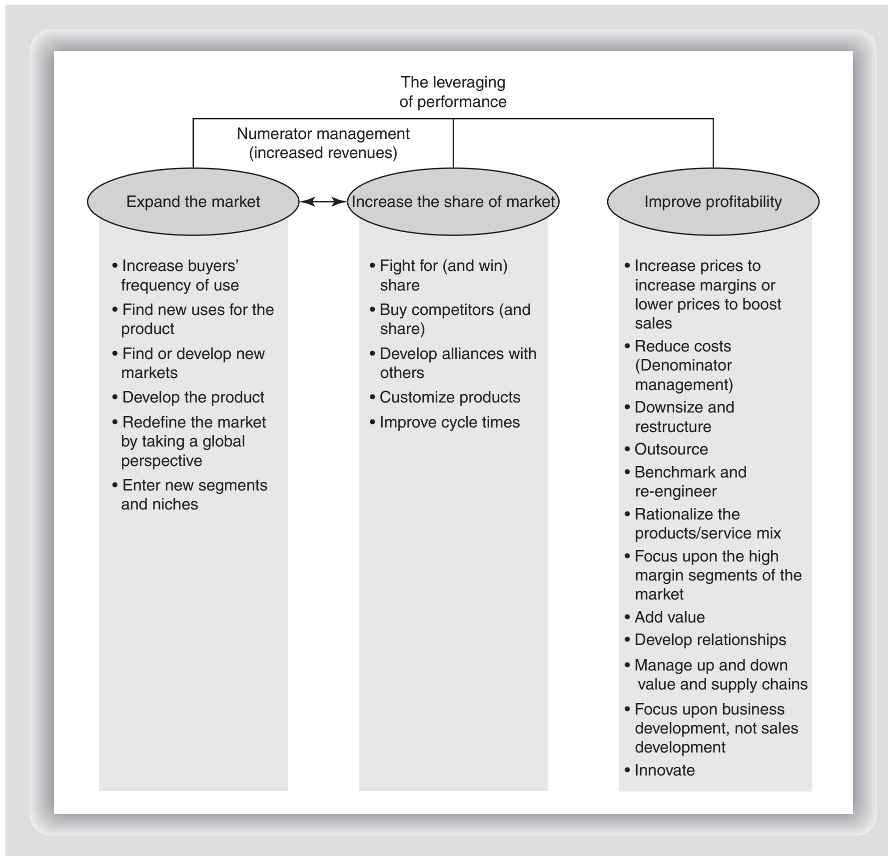


FIGURE 12.16 *Leveraging performance (adapted from Hooley and Saunders, 1993)*

the organization's product range compares with those of its competitors. A framework for this is illustrated in Figure 12.15.

This search for competitiveness has been pursued by numerous writers over the years, including Hooley and Saunders (1993) and Hamel and Prahalad (1994). In discussing how to improve performance, Hooley and Saunders focus upon the detail of marketing activity, arguing that there are three areas to which the marketing planner needs to pay attention (these are illustrated in Figure 12.16).

These ideas are taken further by Hamel and Prahalad (1994), who, in *Competing for the Future* (one of the most influential management books of the 1990s), argue that managers need to rethink their strategies in a series of fundamental ways. However, in many organizations they argue that all or most managers have still failed to come to terms with this and are wedded to old patterns of thinking and old formulae. As a test of this, they suggest posing a series of questions (Hamel and Prahalad, 1994, pp. 1–2).

Look around your company. Look at the high profile initiatives that have been launched recently. Look at the issues that are preoccupying senior

management. Look at the criteria and benchmarks by which progress is being measured. Look at the track record of new business creation. Look into the faces of your colleagues and consider their dreams and fears. Look toward the future and ponder your company's ability to shape that future and regenerate success again and again in the years and decades to come.

Now ask yourself: Does senior management have a clear and broadly shared understanding of how the industry may be different ten years in the future? Are its 'headlights' shining further out than those of competitors? Is its point of view about the future clearly reflected in the company's short-term priorities? Is its point of view about the future competitively unique?

Ask yourself: How influential is my company in setting the new rules of competition within its industry? Is it regularly defining new ways of doing business, building new capabilities, and setting new standards of customer satisfaction? Is it more a rule-maker than a rule-taker within its industry? Is it more intent on challenging the industry status quo than protecting it?

Ask yourself: Is senior management fully alert to the dangers posed by new, unconventional rivals? Are potential threats to the current business model widely understood? Do senior executives possess a keen sense of urgency about the need to reinvent the current business model? Is the task of regenerating core strategies receiving as much top management attention as the task of re-engineering core processes?

Ask yourself: Is my company pursuing growth and new business development with as much passion as it is pursuing operational efficiency and downsizing? Do we have as clear a point of view about where the next $100 million or $1 billion of revenue growth will come from as we do about where the next $10 million, $100 million, or $1 billion of cost savings will come from?

The answer to these and a number of other questions, they suggest, is that far too often, far too little really detailed thinking about how best to compete in the future is going on. As a first step in overcoming this, they suggest that managers focus upon the factors that contribute to greater competitiveness. These are illustrated in Figure 12.17.

They go on to argue that, although many managers have focused upon the first two dimensions in Figure 12.17 (which, it needs to be emphasized, are inward-looking and, in the case of downsizing, if taken to the extreme, can lead to 'anorexia industrialosa', which can best be summarized as the desperate attempt to be ever fitter and ever leaner, leading to emaciation and ultimately death), relatively few have managed to come to terms with the third, even though it is this area that offers the greatest opportunity for an organization to make a major competitive advance. At the same time, of course, it is this area that offers the scope for the greatest competitive disadvantage if a competitor reinvents the industry or strategy first.

Among the organizations that have successfully reinvented the industry and/or regenerated strategy are Xerox, which in the 1970s redefined the

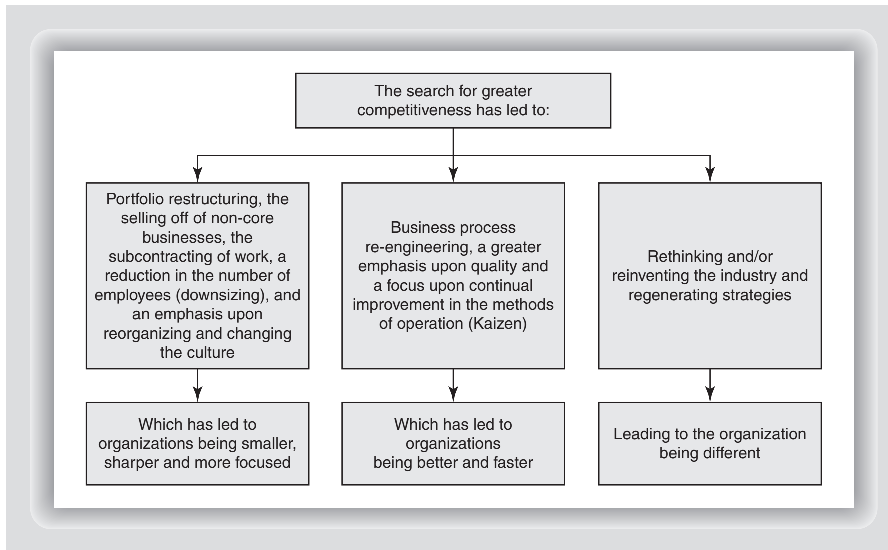


FIGURE 12.17 *The search for greater competitiveness (adapted from Hamel and Prahalad, 1994)*

document-copying market; Pentax and Canon, which developed highly reliable and low-cost 35 mm cameras; Canon, which, in the 1980s, developed small, low-cost photocopiers and, in so doing, opened up vast new markets that, despite its initial innovatory zeal, Xerox had largely ignored; Compaq, which developed the low-cost PC market; Swatch, with fashion watches; The Body Shop, which pioneered the environmentally friendly health and beauty market; Sony with, among other products, the Walkman; Direct Line, which developed the direct selling of insurance; and Häagen-Dazs and Ben & Jerry's which developed the market for premium-quality, premium-priced ice cream.

At the heart of Hamel and Prahalad's thinking on strategy is the idea that, in order to cope with the demands of the future, managers need to make a series of fundamental changes. The starting point in this process, they suggest, involves getting off the treadmill of day-to-day activities and moving away from existing patterns of thought. A fundamental part of this involves managers in 'learning to forget'. In other words, managers need to recognize that, by adhering to the old but possibly successful formulae and to the existing cultural paradigms, failure is almost certain. There needs, therefore, to be an emphasis upon a series of steps, including:

- *Competing for industry foresight* by identifying how the market will or can be encouraged to develop. 'The trick', Hamel and Prahalad (1994, p. 73) suggest, 'is to see the future before it arrives.'
- Having developed a picture of the future, the emphasis then shifts to *crafting the strategic architecture* or blueprint for developing the skills

and structures that will be needed in order to compete in the new environment.

- In turn, this leads to the *stretching and leveraging of strategy* so that the organization's resources are focused, developed and exploited to the full.

Underpinning all of this is the need for a clear understanding of the core competences or skills that the organization has currently, the nature of the core competences that will be needed in the future and how therefore the organization's competences will need to be developed.

12.10 THE INEVITABILITY OF STRATEGIC WEAR-OUT (OR, THE LAW OF MARKETING GRAVITY AND WHY DEAD CATS ONLY BOUNCE ONCE)

Regardless of whether the company is a leader, follower, challenger or nicher, the marketing strategist needs to recognize that even the most successful of strategies will, sooner or later, begin to wear out and lose its impact. It is therefore essential that strategies are modified both to anticipate and meet changing competitive challenges and consumer needs. Among the companies that have failed to do this are Polaroid and the large mail order companies. In the case of Polaroid, its winning strategies of the 1960s and 1970s failed to change sufficiently to come to terms with the radically different markets of the 1980s as non-instant competitors improved product performance and the high street witnessed an explosion in the number and reliability of shops offering one-hour and 24-hour photographic development services.

Similarly, the mass-market mail order companies failed in the 1970s to come to terms with the changing role of women, their greater spending power, the smaller numbers staying at home during the day, the greater attractions of the high street, and the greater availability of instant credit. The result was a rapid decline in their share of consumer spending, an increasingly tired-looking sales formula and, perhaps more fundamentally, an apparent absence at the time of any real understanding of how to fight back. Subsequently, organizations such as Littlewoods have moved online, whilst new(er) entrants to the market such as Land's End and Next have based their strategies on clearer targeting and a move up the socio-economic scale and down the age scale.

The problems of strategic wear-out have also been illustrated by Eastman Kodak. As the long-term market leader in the traditional film business, Kodak's key challenge in recent years has been to build a strong digital imaging business. However, in doing this, the organization has been faced not only with a very different technology and set of consumer buying and usage patterns, but also with the need to compete effectively against a large number of Asian rivals in the digital photography market where margins

are typically very thin and the need for technological advances high. Despite this, in 2004, the company took the lead in digital camera sales in the USA, with 22 per cent of the market compared with Sony's 19 per cent.

Quite obviously, the vulnerability of a company to a predator in these circumstances increases enormously and highlights the need for regular reviews of strategy. In many cases, however, and particularly when a company has been successful, management often proves reluctant to change what is seen to be a winning strategy. The need for change often becomes apparent only at a later stage, when the gap between what the company is doing and what it should be doing increases to a point at which performance and prospects begin to suffer in an obvious way. It is by this stage that an observant and astute competitor will have taken advantage of the company's increased vulnerability. The argument in favour of regular environmental and strategic reviews is therefore unassailable and reinforces the discussion in the earlier parts of the book. Specifically, the sorts of factors that contribute to strategic wear-out and strategic drift include:

- Changes in market structure as competitors enter or exit
- Changes in competitors' stances
- Competitive innovations
- Changes in consumers' expectations
- Economic changes
- Legislative changes
- Technological changes, including in some instances the emergence of a new technology, which at first sight is unrelated or only indirectly related to the company's existing sphere of operations
- Distribution changes
- Supplier changes
- A lack of internal investment
- Poor control of company costs
- A tired and uncertain managerial philosophy.

Some of these are shown diagrammatically in Figure 12.18.

We commented at an earlier stage in this book that, for many companies, strategic development often proves to be a painful and unnatural process. Recognizing this, it is perhaps understandable that, having developed a seemingly successful strategy, many management teams are content either to stick with the strategy or change it only marginally over time.

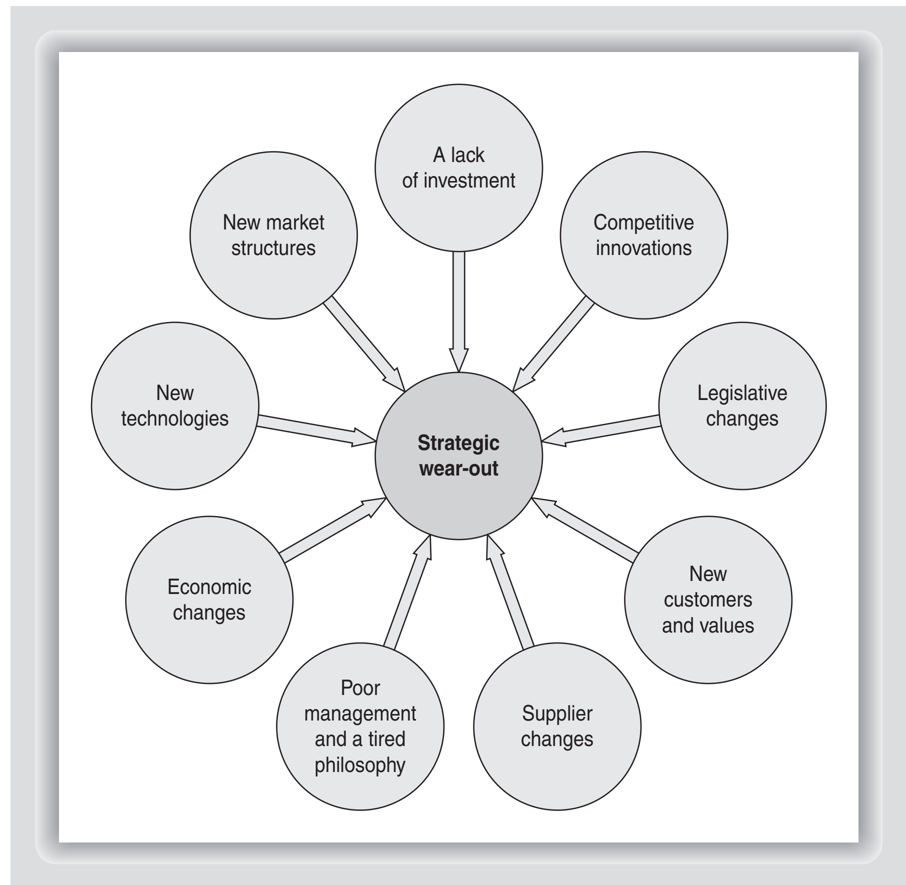


FIGURE 12.18 *The dangers of strategic wear-out*

The law of marketing gravity

The law of marketing gravity states that, regardless of how big or powerful an organization or brand becomes, sooner or later its performance will almost inevitably decline.

Amongst those to have experienced this are Marks & Spencer in the late 1990s, BA and Hoover. According to Mazur (2000), the four principal contributors to marketing gravity are:

1. *Marketing myopia*, or the tendency to apply the letter of marketing while ignoring the spirit. BA's decision to redesign the tailfins of its planes, play down the Britishness of the airline and to focus upon premium-paying first- and business-class passengers had an apparent strategic appeal that was lost in the implementation. The new tailfin designs blurred what had previously been a strongly defined and unique image, whilst the focus upon just a small

number of passengers failed to recognize the imperfections of market segmentation and that not all business executives fly business class.

2. *Marketing arrogance*, or ignoring the impact of your actions on the brand's success. Amongst those to have fallen victim to this was Marks & Spencer's management team, with its belief for a long time that the company did not really need marketing and that they had an unerring feel for customers' needs. The inward-looking culture that emerged led to a series of mistakes and an unprecedented degree of customer disillusionment and defection. The company's revival only came about once new management was brought in from the outside and a new externally focused culture developed.
3. *Marketing hubris*, or believing your own PR to the detriment of the corporate brand. Amongst those guilty of this have been Bill Gates, with his belief that Microsoft should be free of the sorts of constraints that affect other organizations, and Douglas Ivester (the former head of Coca-Cola), who, for some time, ignored the problems faced by the brand when stories began to emerge in Europe of the possible contamination of the product.
4. *The marketing silliness* that affects the organization when it puts common sense to one side in the interest of decisions that are claimed to be 'creative'. A case in point was Abbey's choice of the name Cahoot for its Internet bank.

Dead cats only bounce once

Having come to terms with the law of marketing gravity and the apparent inevitability of strategic wear-out, management teams should never lose sight of the investment analysts' management adage that, at best, dead cats only bounce once. In other words, once the organization's strategy loses its impact (this is the idea of strategic wear-out that is referred to above), the management team typically only has one opportunity to recapture its lost position. If it fails to do this, levels of loyalty and the customer franchise rapidly disappear, and market share begins to slide.

Recognizing this, it should be apparent that many organizations run the risk of competitive oblivion, not least because of the way in which the Internet drives margins downwards. Faced with this, the need for the marketing planner to focus upon strategies that create unique value for customers is self-evident, but all too often ignored. Instead, many organizations rely upon friction as a reliable service of profit (friction is defined as customer ignorance or inertia). The banks, for example, have traditionally derived much of their income from customers' perceptions of the difficulties of transferring their account to another bank and/or a belief that, even if they do transfer, the way in which they will be treated will be little different.

However, with the development of Web-based strategies, a decline in technophobia and generally higher levels of customer promiscuity, the extent to which organizations will be able to rely upon friction is likely to decrease dramatically.

It was the recognition of this that has led companies such as Gateway and First Direct to rethink the ways in which they might interact with customers. In the case of Gateway, having been hit by the economic downturn in the USA in 2001, the company focused upon a two-pronged strategy that involved going 'back to basics' in reducing its product lines and concentrating upon customer satisfaction. As part of the back to basics approach, the company streamlined the number of PC options so that there were fewer chances of things going wrong. The customer strategy concentrated upon satisfaction levels, part of which involved Gateway's employees going to a customer's home or office to guide them through setting up a new PC. The results of this were seen initially in terms of a dramatic reduction in the number of calls to the company's helpline, but then a leap in the number of add-ons that customers bought as the result of a company employee demonstrating their value.

A similar approach, in which the organization rediscovered the business benefits of thinking from their customers' point of view, has been adopted by the telephone and Internet banker First Direct, which has encouraged staff to deal with customers in the same way that they would want to be treated.

There is, however, a more fundamental problem that many organizations face as they grow and that stems from past success. Where an organization has been successful, there is an understandable tendency to continue with what appears to be a winning formula (this is a reflection of the idea that only the very brave or the very stupid change things when they are going well). However, in doing this, the management team may well be sowing the seeds of their own destruction, since the alternative view would be that it is when the organization is doing well that it is in the strongest position to take the next (strategic) step. In practice though, and particularly when faced with a challenging and rapidly changing market, a tension develops within organizations in which the management team finds itself unable to break away from the past and is unable to invent its future.

12.11 THE INFLUENCE OF PRODUCT EVOLUTION AND THE PRODUCT LIFE CYCLE ON STRATEGY

The product life cycle (PLC) is arguably one of the best-known but least understood concepts in marketing. In making this comment, we have in mind the idea that, whilst the concept has an inherent appeal and logic, there is little hard evidence that marketing managers use it in a particularly effective manner when developing strategy. There are several reasons for this, the most obvious being the difficulty in predicting the precise shape

of the life cycle curve and the position of the company on the curve at any particular time. Nevertheless, the idea of the PLC has undoubtedly influenced the thinking of many marketing strategists, albeit at a general rather than a specific level.

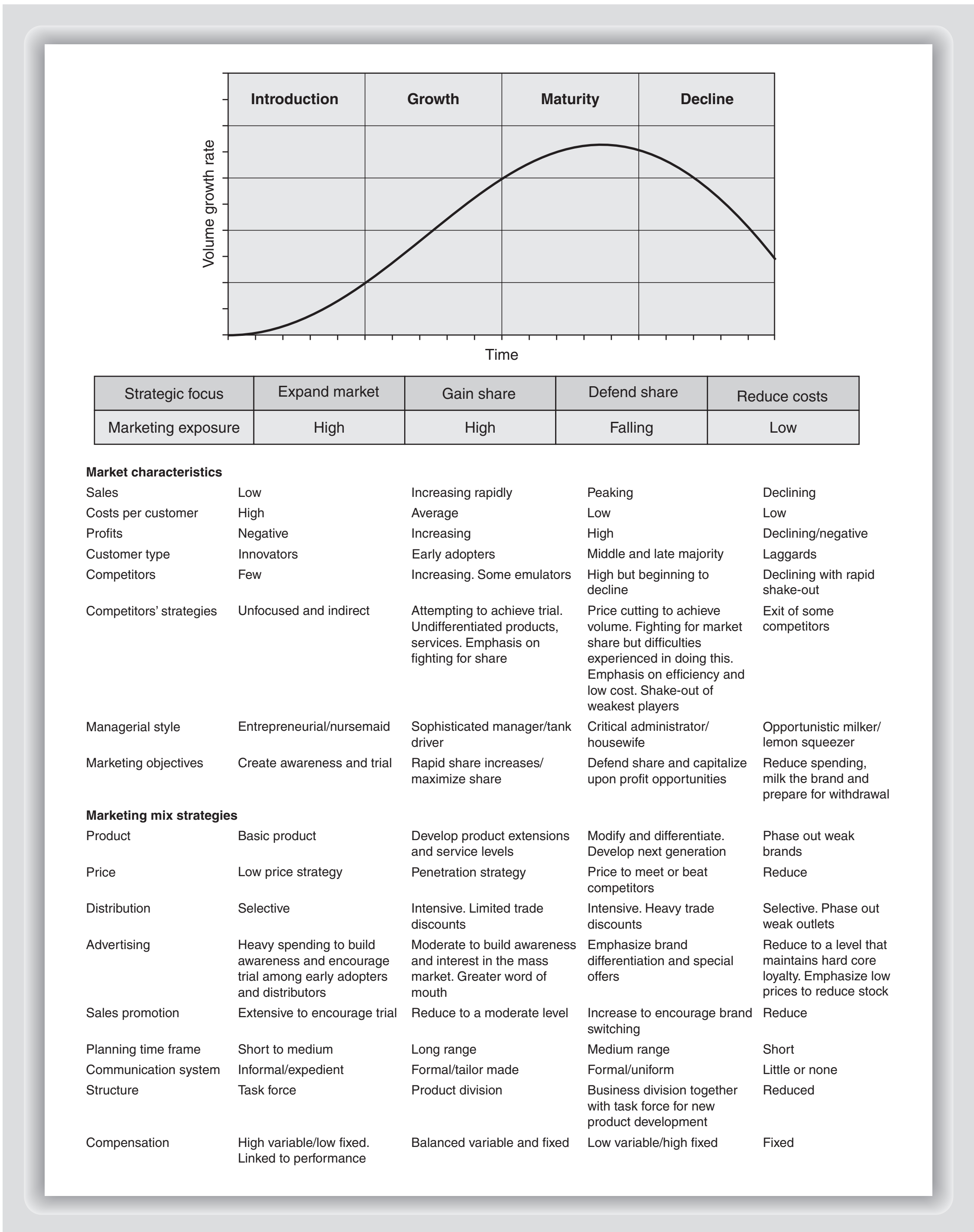
The rationale of the life cycle is straightforward and reflects the way in which products and services pass through a number of distinct stages from their introduction through to their removal from the market. Recognizing this, the planner needs to develop strategies that are appropriate to each stage of the life cycle.

The strategic implications of the life cycle are thus potentially significant and can be summarized as follows:

1. Products have a finite life
2. During this life, they pass through a series of different stages, each of which poses different challenges to the seller
3. Virtually all elements of the organization's strategy need to change as the product moves from one stage to another
4. The profit potential of products varies considerably from one stage to another
5. The demands upon management and the appropriateness of managerial styles also varies from stage to stage.

In terms of operating practice, the most obvious and immediate implication of a model of product and market evolution such as this can be seen as the need for strategy to change over time and to reflect the particular demands of the different stages. These stages, which are illustrated in Figure 12.19, are typically designated as introduction, growth, maturity and decline, and follow an S-shaped curve.

However, despite the simplicity and apparent logic of the life cycle concept, a series of problems are typically experienced in its use. The most common of these stems from the difficulty of identifying where on the life cycle a product is and where each stage begins and ends. In most cases, the decision is arbitrary, although several commentators have proposed rather more objective criteria. Probably the best-known of these is an approach devised by Polli and Cook (1969), which is based on a normal distribution of percentage changes in real sales from year to year. Others, such as Cox (1967), advocate an historically based approach whereby the strategist examines the sales histories of similar products in the industry. If this reveals that in the past the average length of the introductory, growth and maturity periods has been 5, 14 and 48 months respectively, these time scales are, all other factors being equal, assumed to apply to the product in question. The problem, of course, is that other factors almost invariably do intrude, with the result that historical analysis is at best only a vague guide



Strategic focus	Expand market	Gain share	Defend share	Reduce costs
Marketing exposure	High	High	Falling	Low

Market characteristics				
Sales	Low	Increasing rapidly	Peaking	Declining
Costs per customer	High	Average	Low	Low
Profits	Negative	Increasing	High	Declining/negative
Customer type	Innovators	Early adopters	Middle and late majority	Laggards
Competitors	Few	Increasing. Some emulators	High but beginning to decline	Declining with rapid shake-out
Competitors' strategies	Unfocused and indirect	Attempting to achieve trial. Undifferentiated products, services. Emphasis on fighting for share	Price cutting to achieve volume. Fighting for market share but difficulties experienced in doing this. Emphasis on efficiency and low cost. Shake-out of weakest players	Exit of some competitors
Managerial style	Entrepreneurial/nursemaid	Sophisticated manager/tank driver	Critical administrator/ housewife	Opportunistic milker/ lemon squeezer
Marketing objectives	Create awareness and trial	Rapid share increases/ maximize share	Defend share and capitalize upon profit opportunities	Reduce spending, milk the brand and prepare for withdrawal
Marketing mix strategies				
Product	Basic product	Develop product extensions and service levels	Modify and differentiate. Develop next generation	Phase out weak brands
Price	Low price strategy	Penetration strategy	Price to meet or beat competitors	Reduce
Distribution	Selective	Intensive. Limited trade discounts	Intensive. Heavy trade discounts	Selective. Phase out weak outlets
Advertising	Heavy spending to build awareness and encourage trial among early adopters and distributors	Moderate to build awareness and interest in the mass market. Greater word of mouth	Emphasize brand differentiation and special offers	Reduce to a level that maintains hard core loyalty. Emphasize low prices to reduce stock
Sales promotion	Extensive to encourage trial	Reduce to a moderate level	Increase to encourage brand switching	Reduce
Planning time frame	Short to medium	Long range	Medium range	Short
Communication system	Informal/expedient	Formal/tailor made	Formal/uniform	Little or none
Structure	Task force	Product division	Business division together with task force for new product development	Reduced
Compensation	High variable/low fixed. Linked to performance	Balanced variable and fixed	Low variable/high fixed	Fixed

FIGURE 12.19 *The characteristics of the product life cycle and the implications for strategy*

to strategy and at worst misleading. This is particularly so when levels of competitive intensity increase. Moreover, the planner should not lose sight of the way in which life cycles generally are shortening. Other problems with historical analysis stem from the very different life cycle curves that products exhibit. One particular piece of research, for example, has identified seventeen different life cycle patterns (see Swan and Rink, 1982). The combined effect of these few points raises a significant question mark over historical analysis and argues the case for a rather more cautious and individual approach than is normally suggested.

Nevertheless, despite these criticisms, the PLC does offer some scope as a broad planning, control and forecasting tool. As a planning tool its value should be seen in terms of the way in which it highlights the need for marketing strategy to change over time and, indeed, identifies the types of strategy that are best suited to each of the four stages. As a control tool it can be used as a basis for a comparison of a product's performance against broadly similar products in the past, while as a means of forecasting it provides a broad indication of how a product might develop. These are brought together in Figure 12.19, which summarizes the characteristics of the life cycle, and the objectives and strategies best suited to each of the four major stages.

One final word of caution that needs to be uttered here is that life cycle thinking traditionally revolves around the product. In practice, PLCs are just one element of life cycle management, the others being market, brand and technological life cycles, all of which need to be taken into account in the strategic marketing planning process. As an example of this, the development of digital cameras (a significant step on the camera technological life cycle) has implications both for the film processing industry and for the number and type of players within the market, with organizations that previously did not operate within the market but which had digital expertise recognizing the opportunities that were opening up to them.

The influence of market evolution on marketing strategy

The PLC is, as we commented earlier, a model of both product and market evolution. In practice, emphasis tends to be placed on the product's life cycle rather than that of the market, with the result that many strategists work to a product-oriented picture rather than to a market-oriented picture. There is, however, a strong argument for the strategist to take a step sideways and to focus periodically upon the market overall in an attempt to identify how it is likely to evolve and how it will be affected by changing needs, new technology, developments in the channels of distribution, and so on. This, in turn, points to the need for the strategist to recognize the nature of the interrelationships between the demand life cycle curve and the technology life cycle curve, and how in turn these should be reflected in the management of particular brands.

In doing this, the starting point involves focusing upon the demand life cycle, since it is the demand life cycle that is concerned with the underlying need. The technology life cycle, by contrast, is concerned with the particular ways in which this need is satisfied. One of the most commonly used examples to illustrate this point is that of the need for calculating power. The demand life cycle for this is still growing rapidly and looks as if it will continue to do so for the foreseeable future. The technology life cycle is concerned with the detail of how this need is met. This was done initially with fingers and then subsequently with abacuses, slide rules, adding machines, hand-held calculators and then, most recently, with computers. Each of these has a technology life cycle that exists within the overall framework of the demand life cycle. The strategic implications of this need to be seen in terms of what and who the firm is competing against, something which takes us back to Peter Drucker's questions of 'What business are we in?' and 'What business should we be in?' In practical terms, this can be seen by a manufacturer of slide rules in the 1960s continuing to see its competitors as other manufacturers of slide rules rather than the new and emerging forms of technology such as adding machines and low-priced calculators, which subsequently forced slide rules into decline. For a computer manufacturer today the issues are broadly similar as a series of technologies begin to converge. However, although a great deal of the thinking that underpins the life cycle reflects the idea that the marketing planner can, to a greater or lesser extent, manage the pattern of the cycle, the reality is often very different. In 2001–2, for example, the music industry witnessed a major shift in buying patterns as CD sales slowed and Internet downloads increased. Faced with significant drop in their earnings, the music industry initially pursued a strategy designed to close down the internet sites offering downloads. It quickly became apparent, at least to those outside the industry, that the strategy was doomed to failure.

This sort of example highlights the very real need for a company to identify clearly what type of demand technology to invest in and when to shift emphasis to a new technology, something that has been discussed in some detail by Ansoff (1984), who refers to a demand technology as a strategic business area (SBA), 'a distinctive segment of the environment in which the firm does or may want to do business'. The problem faced by many firms, however, is that, confronted by a variety of different markets and technologies, all of which are changing, there is little scope for mastering them all. The strategist is faced with the need to decide where the firm's emphasis is to be placed. In essence, this involves a choice between investing heavily in one area of technology or less heavily in several. This latter strategy, while offering less risk, has the disadvantage of making it less likely that the firm will either become or retain market leadership. Rather it is the pioneering firm that invests heavily in the new technology that is likely to emerge and remain as the leader.

	Stage of industry development		
	Growth	**Maturity**	**Decline**
Strategic position of the firm	Keep ahead of the field Discourage other possible entrants Raise entry barriers	Hit back at challengers Manage costs aggressively Raise entry barriers further Increase differentiation	Redefine scope Divest peripherals Encourage departures Squeeze distributors
Leader	Develop a strong selling proposition and competitive advantage 'Lock in' distributors Build loyalty Advertise extensively	Encourage greater usage Search for new uses Harass competitors Develop new markets Develop new products and product variations Tighten control over distributors	Manage costs aggressively Increase profit margins
Challenger	Enter early Price aggressively Develop a strong alternative selling proposition Search for the leader's weaknesses Constantly challenge the leader Identify possible new segments Advertise aggressively Harass the leader and followers	Exploit the weaknesses of leaders and followers Challenge the leader Leapfrog technologically Maintain high levels of advertising Price aggressively Use short-term promotions Develop alternative distributors Take over smaller companies	If the challenging strategy has not been successful, manage the withdrawal in the least costly way to you but in the most costly way to others
Follower	Imitate at lower cost if possible Search for joint ventures Maintain vigilance and guard against competitive attacks Look for unexploited opportunities	Search for possible competitive advantages in the form of focus or differentiation Manage costs aggressively Look for unexploited opportunities Monitor product and market developments	Search for opportunities created by the withdrawal of others Manage costs aggressively Prepare to withdraw

FIGURE 12.20 *Competitive strategies for leaders, challengers and followers*

This line of thought can be taken a step further by relating the development stage of an industry (growth, maturity or decline) to the organization's strategic position (leader, challenger or follower), since the strategic implications of the interplay between these two dimensions is potentially significant. This is illustrated in Figure 12.20.

Managing in mature markets

Although growth and how it might best be managed has been the focus of a considerable amount of management writing over the past two decades, the reality for the majority of organizations is that most if not all of their products and markets are a long-term maturity. For Larréché and Hamel-Smith (1985), this demands a particular approach to marketing management which, they suggest, is all too often misunderstood. In making this comment, they argue that many managers suffer from strategic astigmatism

in which there is a mismatch between the manager's strategic focus and the demands of the market. There are several possible reasons for this, although the most significant is the failure to distinguish between *behavioural* marketing and *structural* maturity.

For Larréché, and Hamel-Smith a market can be seen to be behaviourally mature when there are typically no new competitors and no new products. Marketing investment is often limited, market shares tend to be stable, and there is little or no growth. When a market is structurally mature, there is little or no change – or likelihood of change – in customer preferences, the technologies, or the distribution networks.

Faced with this, Larréché and Hamel-Smith argue that many marketing planners respond by forgetting about the specifics of market segmentation and pursue instead a policy of undifferentiated marketing. They then compound the problems that this creates by adhering too closely to the generalized assumptions that underpin conventional PLC theory about how to behave in each of the stages. The net effect of this in many cases is a move away from any real thinking about marketing strategy to a focus upon short-term promotions and price incentives.

The weakness of this sort of approach is also reflected in the over-simplistic application of portfolio theory which is underpinned by life cycle thinking about how to manage products and which to retain, invest in, delete or milk. Taken together, the poor application of the two concepts is capable of sending clear messages to a competitor about the organization having lost its focus and commitment to a product, thereby making it an attractive target for an attack. This was illustrated in the 1980s and early 1990s in the floor care market which had long been dominated by Hoover. The market, which exhibited all of the classic signs of a sector in long-term maturity with few, if any, opportunities for growth, proved to be vulnerable when Dyson entered the market with a radically different approach and a far more innovative product (refer to Illustration 12.3). Equally, in the canned soups market which had long been dominated by Heinz, new entrants such as the Covent Garden Soup Company illustrated only too easily the scope for innovation and premium pricing.

The lessons that emerge from examples such as these highlight the way in which mature markets and products need to be managed and managed cleverly. If this is done, maturity is potentially profitable. If done badly, the move towards commoditization and the loss of the consumer franchise is speeded up. Recognition of this raises a question about the value of two of the traditional pillars of marketing thinking: PLC theory and brand share.

Although life cycle theory is, as we suggest earlier, one of the oldest and best-known marketing frameworks, the reality is that the generalized thinking about growth, maturity and decline is often difficult to apply in a marketing planning sense to consumer packaged goods and to services. Instead, it is simply a framework for looking back at the life and sales pattern of a product

and identifying where it *has* been. Equally, although brand share theory suggests that share and profitability are closely linked (the higher the share, the higher the profit), the reality is far more complex and is often influenced as much by the way in which the market is defined as anything else.

Given this, in thinking about how to manage products in what appear to be mature markets, a more logical starting point involves identifying the factors that damage or destroy the product's position in the market. In essence, these fall into two main areas:

- a lack of marketing activity; and
- activities that are inappropriate and/or are taken at the wrong time.

Included within the first of these is a lack of marketing expenditure to support the product, a failure to innovate, poor positioning, and the too aggressive milking of the product's revenues.

The second set of factors that destroys both the product and the market is inappropriate activity or what might be termed *random walk marketing* in which the marketing team fails to pursue a consistent or meaningful approach to positioning, differentiation and the meaning of the brand. Amongst the most obvious examples of this are Woolworths, which at the end of 2008 announced that it was closing all of its UK stores, and WH Smith (in the case of WH Smith, a far greater clarity of marketing thinking emerged from 2005 onwards). Faced with a weakening of the product or brand's position in the marketplace, management teams often respond with a sense of desperation, including aggressive short-term price cuts, retailer promotions, and badly focused advertising. Although these might have a short-term effect, they are often essentially self-destructive and lead to commoditization. As an example of this, numerous consumer products sold through supermarkets in the UK have been faced with having to cope with the supermarket's own-label products, many of which are similar in concept and packaging to branded products, but sold at much lower prices. The scope for a manufacturer's brand to compete on price in these terms is often limited, but despite this, many have taken this approach. A strategically more logical step would be to focus upon unique benefits such as higher quality and the brand image.

Life cycles and managerial style

Although a considerable amount has been written on product and market life cycles and how strategies need to reflect life cycle stages, relatively little has been said about the appropriateness of managerial style. There is, however, a strong argument for the style of management to be tailored to the particular demands of different stages. In the introductory stage, for example, there is a need for an entrepreneurial style of management in which emphasis is placed upon the rapid identification and seizing of opportunities, flexible structures and a risk-taking culture. In the growth stage this

needs to be modified slightly, with greater attention being paid to long-term planning and control. In maturity this needs to change again in order to capitalize on the profit opportunities that exist, something which argues the case for what Arthur D. Little (in Patel and Younger, 1978) refers to as a critical administrator and is particularly important bearing in mind that the majority of products spend most of their lives in the mature stage. In the final stage of the life cycle the managerial needs change yet again, with the focus tending to shorten, costs being reduced and the need for an increased emphasis upon opportunities milking styles. These ideas have been expressed in a slightly different, albeit more colourful, way by Clarke and Pratt (1985), who argue for four styles of management: nursemaid, tank driver, housewife and lemon squeezer.

12.12 SUMMARY

This chapter has focused on the need for a clear statement of marketing strategy and for this strategy to be based on a detailed understanding of corporate capability and competitive advantage. Here, we have examined how the strategic marketing planner, against the background of an understanding of the organization's competitive advantages, needs to begin developing the detail of the strategy. In doing this, explicit consideration needs to be given both to the organization's objectives and to its position within the marketplace.