

## บทที่ 3

### ต้นฉบับ

#### Market Leadership through Risk Management

##### Strategic marketing vision

We start by considering how the business needs to attain a strategic marketing vision.

There is no shortage of marketing threats. Faced with one problem or another, companies often try to win business tactically by cutting prices or spending more on publicity and sales promotion. While this can help the healthy business return to profit, it may compound a weaker company's difficulties, leading to a downward spiral of declining profit.

A more strategic approach is required. Figure 14.1 shows the marketing vision the company should adopt. The organization must have a clear marketing vision. It has to be determined to be in the right market, and to have superior products or service. Strategic marketing vision goes beyond simple brand maintenance. Strategic action is required to realize that vision, whether through acquisition or new product development.

##### Being in the right market

Being in the right or wrong market is often a matter of historical accident, and does not guarantee future success. Many of today's companies are in existence because they were offering the right product ten years ago. To stay in business, companies have to offer products that are right for today's customers.

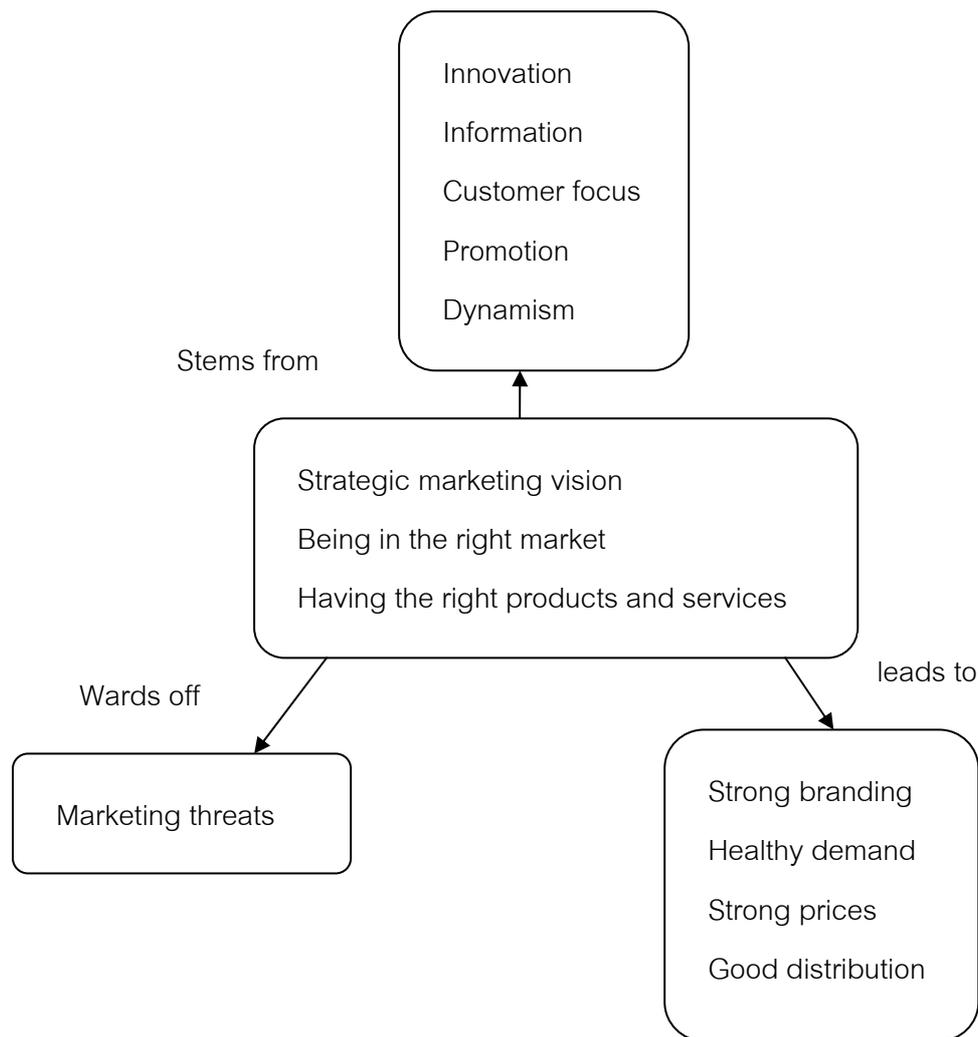


Figure 14.1 Strategic marketing vision

It is easy but dangerous for a company to focus on the products it sells rather than the needs of its customers. This blurs its understanding of its purpose (which is to make profit).

The ideal market would:

- be large enough
- be growing
- be profitable
- have a high cost of entry (to dissuade others)

- require skills not easily imitated
- not be subject to excessive cycles, or be vulnerable to government policies
- not be unduly controversial or unpopular (such as the nuclear industry).

Within its market, the company should:

- be large enough to compete effectively
- be able to achieve growth (by increasing its market share or market penetration)

If the company market fails to conform to these two points, the firm should be seeking new products and markets in which to make money.

#### **The causes of marketing failure**

Falling sales, reduced market share, and lack of distribution are all signs of marketing failure. Lack of profitable sales is a major threat because sales revenue pays the company's bills. If the company cannot maintain profitable sales, every other part of the business (such as production or R&D) is threatened.

Marketing failure comes about because the company is suffering from one or more of the marketing hazards. They can be classified into the following categories.

#### **1. Market problems**

- Changes in government policy
- Changes in the market
- New entrants into the market
- Price wars
- Counterfeiting and mimicry

## 2. Product and corporate problems

- Weak product performance
- Poor promotion
- Branding failure
- Failures of new product development
- Over-reliance on major customers
- Distribution failure

### Problems caused by government policies

Some companies are vulnerable to change in government policies. The EU steel industry suffered when the US government imposed tariffs of up to 30 per cent on steel imports in 2002. The same action is also estimated to have cost the US economy 200000 jobs in industries which required steel, due to increased steel costs. And sales of Geest's Caribbean bananas suffered when general agreement on tariffs and trade (GATT) agreements allowed South American bananas to be sold more widely in Europe.

Some companies are vulnerable to change in government policies.

Macro-economic factors which can harm a company take two forms:

1. Increases in tax, interest rates or inflation, leading to a fall in demand.
2. Regulatory changes (for example, the banning of a product, curbs on waste disposal, or new health and safety policies).

For example, estate agents are directly affected by government policies because house sales fall as interest rates rise. House purchases are often discretionary: people who are trading up to a larger house can postpone their move.

Many industries are affected by the business cycle but some firms manage it better than others, thanks to effective planning and responsive systems.

One management consultancy relied on a government-funded consultancy

programme for its business. Its clients could get from the government half the cost of gaining ISO 9000, the quality standard. Eventually the government stopped this programme, and the consultancy found that these lucrative jobs dried up.

The Swiss chemical firm Sandoz has come under pressure as governments tried to halt rising healthcare costs by reducing the drugs bill. Governments do this by reducing the level of payment for drugs, by de-listing some drugs, and by encouraging the use of generic drugs. Sandoz has sought to counteract this squeeze by launching new products, by controlling costs, and by more efficient marketing.

### **Problems caused by changes in the market**

Markets which are subject to fads or fashion (such as toys or clothing), and those which have a short life cycle (such as information technology products) are difficult ones in which to sustain success. In these markets, companies suffer sales swings.

Since its birth in 1981, the Swiss company Logitech has dramatically changed course several times. In the space of a few years, its computer mice went from being leading-edge products for engineers to mass-market commodity items, and their retail price crashed from \$120 to \$20.

From a small plant in Switzerland, Logitech moved its manufacturing to a big factory in California and then to low-cost bases in Taiwan and China. Seeking to escape its reliance on mice, the company launched into new markets such as webcams and speakers. Logitech now distributes its products in over 100 countries and has strategic partnerships with most IT manufacturers. Today it is the market leader in cordless peripherals, which look set to replace the old technology. Daniel Borel, the company's co-founder, admitted that the upheavals were emotionally draining.

In 2004, Ilford called in the receivers. For photographers, the 125-year-old company was an icon, and had a 60 per cent share of the black-and-white film market. But the switch to colour photography and digital cameras led to a 26 per cent fall in sales of its monochrome film in just six months.

Most companies expect small changes in the market, but they are rarely prepared for major discontinuities. Often a small firm or an overseas company introduces the major change.

#### CHANGES IN CHANNELS - GROWTH OF THE INTERNET

The Internet has wrought the greatest changes, often bringing suppliers and end-users together and displacing the intermediary. This is the process known as 'disintermediation'.

#### CASE STUDY : SKY TELEVISION

When Sky launched in 1989, it boasted new movies that would not be shown on terrestrial television for years. But now the film companies are distributing these films as DVDs soon after their run in the cinemas and before they appear on Sky. In addition, the price of DVD films has dropped by 30 per cent in five years, making them more attractive to consumers, while penetration of DVD players has risen to 61 per cent of UK households, according to research group Screen Broadcast. Now rental clubs such as Lovefilm.com and Netflix have emerged which rent out DVDs by post and with no late payment charges.

All this has eroded part of Sky's unique selling proposition (USP), and while 5 million viewers take Sky's premium-priced movie channels, 2 million Sky subscribers do not. The company's fee-paying subscribers could further decline with the arrival of Sky's free service and the growth of Freeview. The most ironic aspect of this change is that competition has unexpectedly come from a technology of the 1840s, namely postal delivery.

Companies which once sat in the background, such as insurance underwriters, have developed direct sales strategies, with the results that brokers have

in some cases disappeared, such as Norwich Union's Hill House Hammond chain. A survey by Mazars ([www.mazars.com](http://www.mazars.com)) found that brokers regarded direct insurers as the number one high-level threat.

According to the *Financial Times*, many high-street retailers are lagging when it comes to online sales. With online shopping expected to rise above ten per cent of total sales, the high-street retailers are failing to invest in this area. Some major retailers have invested 'next to nothing'. These include BhS, DFS, Hennes and Mauritz, House of Fraser, JJB Sports, Matalan, Monsoon, Safeway, New Look Group, Primark, Selfridges and Somerfield. In some cases, the retailer feels that online shopping doesn't fit their strategy. Many feel that having a store in every high street gives them adequate coverage. But in other cases, retailers such as WH Smith stopped investing just at a time when e-tailing was beginning to burgeon.

## STAYING IN THE SAME MARKET TOO LONG

Some companies are in the wrong market. The last 30 years has seen the decline in the West of big smokestack industries, like iron and steel, along with shipbuilding and coal mining. Other industries have risen in their place, such as electronics, computers and retailing.

Companies can alter their destiny by forecasting what the future will bring, and altering their corporate strategy accordingly.

## GIVING CONSUMERS TOO MUCH OF WHAT THEY WANT

Companies can also become the fall-guy for meeting customers' needs. Food companies, restaurants and supermarkets are now in the firing line for giving consumers food that makes them fat.

In 2001, 23 per cent of women and 21 per cent of men were obese, compared to 8 per cent of women and 6 per cent of men in 1980. The International

Obesity Task Force has warned that over 40 per cent of the UK population could be obese within a generation.

The food industry believes that consumers have to take responsibility for their own nutrition and exercise, that sedentary lifestyles are equally responsible, and that small quantities of processed food won't harm anyone. However, pressure groups are quick to criticize the industry for providing 'junk food'. McDonald's, the most prominent fast food restaurant, featured in the documentary, 'Supersize me', in which the presenter ate in McDonald's three times a day for 30 days, and was duly made ill.

Many food companies are working to meet the challenge of better nutrition. PepsiCo's Frito-Lay removed all trans-fatty acids (linked to cancer and heart disease) from its cooking oil. This included modifications to 187 production lines at 45 plants.

Leading companies in the industry are at risk of being sued by single-issue campaign groups. Not all of these lawsuits succeed - the courts rejected a claim by New York teenagers that eating McDonald's made them fat.

The optimum solution is for companies to produce - and consumers to adopt - healthy foods. But while some companies can make improvements, the consumer often chooses foods that are less healthy. This is because we are drawn to food with extra salt, sugar and fat, and in larger pack sizes. We are also drawn to 'hand-held' food. Food companies say it is pointless to make their foods nutritionally attractive if the consumer then refuses to buy them.

## **NEW ENTRANTS**

Life is hardest for the market leaders, because they have a market to defend. This leads to defensive behaviour that protects the status quo. New competitors, by contrast, look for innovative ways to dislodge the market leader.

In the 1970s IBM held a seemingly impregnable position in the computer market with its System 360 mainframe computer. But it lost control of the market to the upstart PCs that took computing power away from the IT department and put them on to the desks of line managers. Although many people expected them to disappear,

mainframes still produce revenues of \$4 billion for IBM, and are said to hold 70 per cent of the world's data.

Insurance brokers are often worried by bancassurance - the name given to banks that sell insurance through their existing branches. This is a good example of an outsider deciding to attack a new market. However, the banks have often failed to be successful outside the narrow confines of their traditional banking operations.

### **Problems caused by price wars**

A price war can break out due to various factors:

- 1 There is excess production capacity in the industry.
- 2 There has been little innovation in the market.
- 3 One business adopts an aggressive marketing campaign based on lower prices.
- 4 There are few suppliers (an oligopoly). Examples include newspapers, soap, beer, washing powder and cigarettes.

A beer price war in the USA in 1997 saw profits fall for the two largest US brewers, Anheuser-Busch and Miller Brewing. In response to falling beer consumption (largely due to health awareness), Miller, the smaller of the two companies, reduced its prices at a time of year when Anheuser-Busch, the manufacturer of market leader Budweiser, traditionally increased its prices. It initially saw a two per cent increase in market share, but Bud soon struck back. A year-long price war saw revenues-per-barrel fall by a significant amount.

In contrast, Coors, a third brewer, refused to enter the price war and saw its revenue-per-barrel increase by over \$1.50 in the period. It seemed that the price war had served only to cheapen the well-known brands, despite intensive advertising, causing many consumers to trade up, despite the higher prices.

Price wars rarely benefit the manufacturer, and often take the place of innovative marketing and product development.

## WAYS OUT OF A PRICE WAR

The same problem hit the global market for computer chips in 2001. Poor consumer demand for computer processors and poor performance from PC manufacturers meant that the industry leader Intel sought to keep its expensive factories moving by lowering the prices of its chips, some by as much as 20 per cent. The price cut immediately sparked price reductions from the major PC manufacturers and PC sales recovered. However, most chip manufacturers were unable to respond to the price cuts. On the same day as Intel's pricing announcement, six competitors gave profit warnings. Having a competitor leave the market is one of four possible 'solutions' to a price war.

The situation only resolves itself when:

- 1 One or more competitors leave the market.
- 2 Companies scale down their output. New facilities are sometimes mothballed.
- 3 One of the companies innovates its way out of the problem.
- 4 Demand starts to grow sufficiently so that there is enough business for all the firms.

Often, several of these factors combine to pull the market out of the doldrums.

## WHEN FALLING PRICES ARE A SIGN OF HEALTH

Falling prices do not always signal a problem. This is especially true if points one and two above do not apply. When technology or mass production reduces production costs, the consumer price falls correspondingly. This happens in IT markets, and can be a sign of healthy marketing.

Sometimes a price war can benefit the market leader by knocking out weaker competitors. UK supermarkets continue to build new and larger superstores, but the consumer is spending no extra money. This puts pressure on supermarkets to win sales,

and they do this by dropping their prices. The smaller supermarkets and those which are carrying debt will fail first, leaving the biggest operators to emerge victorious.

EuroTunnel initiated a price war with cross-channel ferry operators. With strong performance in other sectors of the company, P&O was able to withstand the competition but not without reducing its Dover-Calais capacity from eight to seven ships. This forced reduction in competition will obviously benefit EuroTunnel.

## PRICING STRATEGY

The company should estimate what levels of sales and profit would result at a given price level. This knowledge will help it respond strategically to competitors' price moves, rather than follow in a knee-jerk reaction.

Some markets grow when prices fall; others are relatively inelastic. Failure to raise prices in line with inflation often leads to sharp falls in profitability. The company should therefore adopt a confident and consistent pricing strategy. It should make small but regular price increases, these being less visible to the customer. Price increases are often best made after the peak sales period or before holidays, so that the rise is less noticeable.

Grocery brand manufacturers such as Unilever and Procter & Gamble have found it hard to maintain market share in supermarkets as consumers find cheaper own label products as effective (see Table 14.1). This is partly attributable to the rise of 'the hard discounter' stores, such as Lidl, initially in Germany but also found in France and other European countries. As a result, the companies have had to spend more money promoting their products, which reduces profits.

In some categories the consumer finds an emotional benefit which serves to keep them buying the branded product. For example, young men continue to buy Unilever's Lynx deodorant (also known as Axe) because it promises to make them more sexually desirable.

Table 14.1 Fastest growing private-label categories

|                      | <i>% private-label growth</i> | <i>% private-label share</i> |
|----------------------|-------------------------------|------------------------------|
| Drinking yoghurt     | 38                            | 8                            |
| Sports energy drinks | 33                            | 6                            |
| Lipstick/gloss       | 26                            | 2                            |
| Facial cleansing     | 21                            | 6                            |
| Baby food            | 20                            | 1                            |
| Face moisturisers    | 20                            | 2                            |
| Complete ready meals | 20                            | 51                           |
| Eye shadow           | 19                            | 3                            |
| Cooking oil          | 16                            | 21                           |
| Flavoured milk       | 13                            | 14                           |

### Counterfeiting

In Paris's *Musee de la Contrefaçon* are the world's earliest fakes. Dating from 27 BC and found in Arles, southern France, they consist of four wine bottles marked with the stamp 'MC Lassius' - a leading wine brand of the time. However, three of the stamps are fake. Evidently the counterfeiters wanted to present their wine as the real thing, and make more money as a result.

Counterfeiting has been with us for a long time, but globalization has turned this problem into a serious issue. According to the museum, a kilo of fake goods is worth eight times more than a kilo of cannabis, so the rewards are clear.

According to the International Chamber of Commerce ([www.iccwbo.org](http://www.iccwbo.org)), seven per cent of the world's trade is in counterfeit goods, valued at \$350 billion. Industries affected include manufacturers of software, automobile and aircraft parts, pharmaceuticals and fast moving consumer goods (FMCGs) such as foodstuffs, beverages, tobacco, clothing and personal-care products. Counterfeiting is a particular risk for companies with strong brands that sell in South America, Eastern Europe and

South East Asia. But the problem can also arise in Europe and the USA. The latter is a major producer of counterfeit goods.

The victim company risks losing not only its revenue, but also its reputation, for many counterfeit brands are of poor quality.

Software and record companies suffer a similar problem over copying. According to the IFPI, the organization which represents the world's record companies, music piracy was worth \$4.6 billion in 2002, up seven per cent on 2001. It was estimated that one in three discs was a pirate copy.

Software piracy is at least as common, with the Business Software Alliance (BSA) estimating that the illegal copying of business programs costs the US software industry around \$11 billion. The BSA has also found that over half of all web users have downloaded software illegally, often using 'Peer to Peer' (P2P) programs such as Kazaa. The Napster court case of 2001 was thought to be a major victory against such illegal file-swapping programs but their use has not abated, with an estimated 300 million Kazaa users worldwide. While the music and software industries are now aggressively pursuing the pirates, a reduction in use does not seem imminent.

One of the worst offenders for counterfeiting is China. According to its Development Research Centre, a research institution affiliated with the Chinese State Council, counterfeiting in China is a \$16 billion industry. Other offenders are Pakistan, the Philippines, Eastern Europe and North Africa.

#### CASE HISTORY : BEATING THE COUNTERFEITERS

100000 bottles of Smirnovskaya vodka were destroyed in St Petersburg, following a successful court action by Grand Metropolitan. Grand Metropolitan continually takes legal action against counterfeiters which produce vodka bearing the crown, shields and other designs of Smirnoff, and with names like Selikoff and Romanoff. In a single year, the company can take action against 50 pirates.

Johnnie Walker, the United Distillers whisky brand, is often imitated by brands calling themselves Johnnie Hawker, Joe Worker and Johnny Black, generally with similar

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| <p><b>CASE HISTORY : BEATING THE COUNTERFEITERS (continue)</b></p> |
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red and black labels.

According to United Distillers, the fake Johnnie Walker whisky can be 3 per cent Scotch, with the rest being 'local spirits of dubious origin'.

Companies such as Grand Metropolitan, Allied Lyons and Guinness now share information about counterfeiters, in an effort to cut their losses.

### Mimicry

Counterfeiting (see above) is illegal, but in most countries mimicry is not. Supermarkets produce own-label products which mimic the brand leaders. According to a survey by Verdict Research, over half (57 per cent) of UK consumers rate own-brand quality as highly as leading brand equivalents. Leading brands complain that supermarkets are parasites which have not invested in creating brands. The supermarkets argue that they are offering the consumer choice and lower prices, as well as powerful own brands. No one, they say, forces the consumer to buy own-label products.

Yet, as *The Grocer* magazine points out, Tesco's own-label brands clearly mimic leading brands. Walkers objected to the company's Sensations crisp range which contained the same livery and same image cues such as potatoes set against a rural background.

NOP research has found that one in five consumers had bought own label by mistake. The British Brands Group, which represents brand owners, is seeking a change in the law to protect brands from copycats. And in Europe, brand owners have successfully brought prosecutions against own-label copycats for slavish imitation or 'free-riding'.

In other markets, an innovation introduced by one firm is soon matched by competitors. Much pharmaceutical R&D is designed to develop drugs which match existing competitors' products.

Brand names need to be jealously guarded. In 1998, the US Federal Trade Commission ruled that US grown rice could be labelled as 'basmati,' partly because

Indian petitions against the move were somewhat lacklustre. Indian rice growers now fight more vigorously to protect their product, which they believe is a specialist, aromatic rice and something that has a specialist market position resulting from its sub-continental origins. The US ruling is in contrast to UK and Saudi Arabian laws which declare that only specific varieties of Indian rice can be called 'basmati.' Now, the Indian growers must hope that the World Trade Organization (WTO) changes international legislation to prevent basmati becoming a generic term. This example shows that companies (and even countries) can lose their exclusive right to brand names if not rigorously protected.

A US appeal court has ruled that 'Swiss army' knives can come from any country. This has cost the Swiss manufacturers Wenger and Victorinox a lot of revenue. More than half of US consumers who buy a pocket knife with the famous red cross think they are getting a Swiss product. In fact, they are probably buying a poor quality Chinese knife which costs one-fifth' of the price, and outsells the original by three to one.

### **Internal marketing failure - weak product performance**

The problems we have examined so far are caused by external forces. They can affect even a company which is excellent at marketing.

Later in this chapter we shall see how these risks can be pre-empted. However, many marketing problems occur as a result of the company's own marketing mistakes. It is these problems we examine next, starting with weak product performance.

Customers buy the product that offers the best performance. In the end, the product with the best performance becomes the market leader. Performance means different things in different markets. It might mean cleaning power, speed of operation, reliability or customer service.

### **DEFINING COMPARATIVE PRODUCT PERFORMANCE**

As Figure 14.2 shows, many markets have three price bands: low price, mid price and

premium products. Customers get better performance at the premium end of the market, but not everyone wants premium performance. Many people are content to drive a small Fiat rather than a big Mercedes. Low price is what created the budget airline market, with carriers such as Ryanair and easyJet.

The thick diagonal line in Figure 14.2 shows average market performance. Product A is offering better value for money, as is any other product to the right of the solid line. Product B is offering worse value, like any other product to the left of the line.

Performance improves over time (shown by the dotted line), so that next year's models will be better than this year's, giving the consumer better value for money. A company which was once a leader can quickly become a laggard.

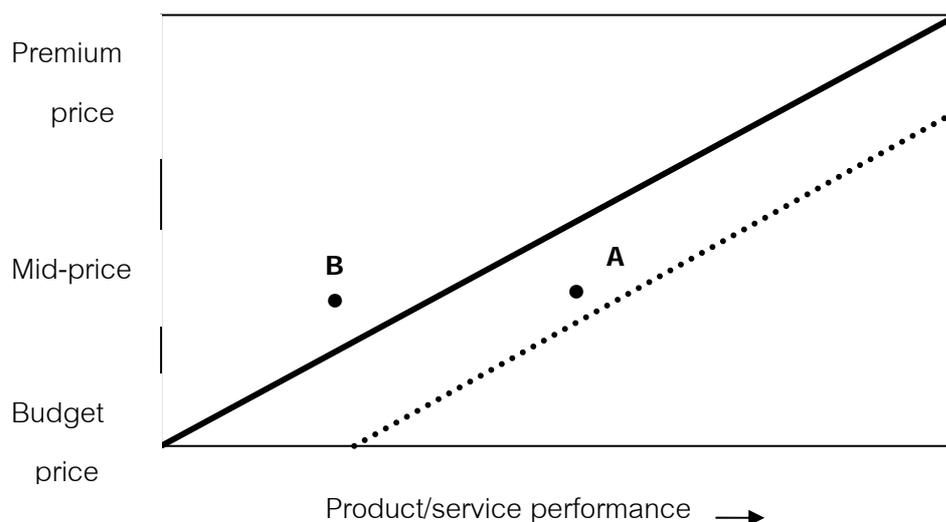


Figure 14.2 Price versus performance

#### WORDPERFECT: HOW A LEADER BECAME A LAGGARD

It is hard to believe that the market leader in word processing software was once WordPerfect, with over 40 per cent of the market while Microsoft Word had less than 20 per cent. That was 1990. Two years later, their positions were reversed, thanks to Microsoft's introduction of an easy-to-use icon-based word processor.

Microsoft leapt ahead with Word for Windows by offering users greater ease of use and by automating tasks. Users no longer had to memorize arcane lists of keystrokes to format their work - they simply clicked an icon using a mouse. This move was hardly unexpected. Microsoft had borrowed the technique from Apple, which in turn had learnt it from Xerox.

WordPerfect then introduced a bug-ridden WordPerfect for Windows. The company also lacked an Office-type bundled suite. In addition, Microsoft withheld the Windows code, which stopped competitors from linking their word processors into the operating system. Some commentators also alleged that Microsoft played tricks to beat the competition. They said its operating system would make non-Microsoft software crash or send it false error messages, making users think that they needed to use Microsoft products on their PCs.

Finally, an even greater mistake was for Novell to buy WordPerfect for the huge sum of \$1 bn in 1994, at a time when WordPerfect sales were plummeting. Two years later Novell sold the program to Corel.

This story has many lessons. It reminds us that innovation can upend a market, that the gatekeeper can control the market, and that a product must work properly to retain even loyal users. It also tells us that a determined innovator can wreak havoc among its competitors, by fair means or foul.

### **Poor promotion**

Service companies tend to stop promotional activity when its staff are fully employed. Marketing takes place when the principals see that long-term projects are ending. This produces 'feast and famine' marketing activity. The same can be seen among engineering companies when they experience a decline in orders.

Promotion should be constant. New customers coming into the market need to be made aware of the product, and existing customers should only change their purchasing behaviour with reluctance. The bigger the price tag, the longer it takes to win the customer, and the greater the need for long-term promotion. And where

competitors are promoting their products, the company has to maintain an adequate 'share of voice' if it is to prevent customers defecting.

## HOW TO AVOID RISK IN PROMOTIONAL ACTIVITY

Companies put themselves at risk in their promotional activities by:

- over-claiming - this leads to disappointment, hostility and possible action
- dumping good advertising executions just when the customer is beginning to recognize them
- failing to be single minded and consistent about the brand's offer
- failing to understand the needs of the customer
- developing ads that win awards rather than customers
- failing to test and measure the advertising, so the company doesn't know whether the campaign is successful, and which media work best
- failing to use all the available media, including online and viral marketing.

### Branding problems

For an industry which preaches the virtues of promoting strong brands, advertising agencies are notorious for their failure to promote themselves. Other than Saatchi and Saatchi, few big agency names can be recalled by more than 25 per cent of big advertisers, according to research.

The same is true of many industrial markets; and in the construction market, where there are thousands of suppliers making everything from roof tiles to carpet tiles, buyers only know the brand leaders' names.

Failure to recognize a brand name is usually due to poor promotion or weak product performance (discussed above). But a strong brand name alone is not enough to make a company immune from marketing problems, as the case history below shows.

## CASE HISTORY : WHEN A BIG BRAND WAS SAVAGED BY AN UNKNOWN COMPANY

Every consumer knows Coca-Cola, but few have heard of Cott. The latter makes private-label soft drinks for supermarkets. In 1991, the company began to launch a series of supermarket sub-brands in Canada. Since then, Cott has gained 20 per cent of the Canadian grocery soft drinks market. Coca-Cola has been relegated to third place.

In the UK, Coca-Cola has 60 per cent of the supermarket sales, well ahead of Pepsi Cola which has 20 per cent and supermarket labels which have 10 per cent. Not surprisingly, Cott has sought to attack the lucrative UK market.

Sainsbury's, the UK's top supermarket, adopted the Cott approach. It launched Classic Cola, which it claimed to be a better-tasting drink than traditional supermarket brands and which sells at a higher price, though cheaper than Coca-Cola. Sainsbury has made substantial gains with Classic Cola. Overall, however, Coca-Cola has suffered little damage because supermarkets account for only a small proportion of its turnover.

Nevertheless, it shows that it is dangerous to rely too heavily on intangible benefits, such as a brand name or advertising skills. If customers find that another firm provides similar performance at lower price they will desert the brand leader. McKinsey, the management consultancy, claims that consumer marketing has grown ineffective and needs to be radically re-thought.

Equally, 42 per cent of Cott's sales come from one customer, the giant Wal-Mart, which makes Cott vulnerable, and something we examine later in this chapter.

### Effective innovation

In any market, there are two types of company: leaders and laggards (see Table 14.2). The leader is constantly trying out new ideas, launching new products and looking for new ways to attract the customer. The laggard usually imitates the leader some months

later, but it is easy to see who is driving the market. The laggard, by its intellectual failure and its lack of vigour, usually slips further behind.

**Table 14.2** Leaders and laggards

| <i>Leader</i>            | <i>Laggard</i>                    |
|--------------------------|-----------------------------------|
| Innovates                | Follows                           |
| Makes news               | Makes imitative 'me-too' products |
| Concentrates on strategy | Concentrates on tactics           |
| Manages for the future   | Manages for the status quo        |

Markets, even the most conservative ones, are constantly changing, even if only because they are affected by the business cycle of growth-inflation-recession. While the elderly Kellogg's Cornflakes is still a brand leader, it is now surrounded by own-label products, new mueslis, and new breakfast foods, many of them made by Kellogg's.

Kellogg's, unlike most market leaders, has stayed on top. Others are less successful. Large airlines now struggle to compete with easyJet, and Marks & Spencer paid heavily for offering outdated products. Market leaders usually stick to what made them successful. They try to protect the 'rent stream' that flows from their big-selling products. This makes them easy prey for the innovative smaller firm.

Sometimes products succeed because they offer new advantages. In the washing-powder market mentioned above, consumers might like faster washing, the ability to shed dirt, or bactericidal action.

Product age is usually a good indicator. If more than half of the company's turnover comes from products which have not changed in the last five years, change is overdue. As Figure 14.3 shows, new product development (NPD) stems from market research, and requires extensive market research input.

## NEW PRODUCT DEVELOPMENT

The management consultancy discussed earlier in this chapter was dependent on just

one product: ISO 9000. Management consultants sell fashionable management ideas, and the demand for any product always declines eventually. As the demand petered out, the company found it had no other product to sell.

Companies should devote substantial efforts to ensuring that its product remains state-of-the-art. New materials or techniques should never be ignored. Static or mature markets are particularly vulnerable, as we saw with Coca-Cola.

For nearly 20 years Milk Tray chocolates were associated with James Bond imagery. Cadbury then boldly decided to abandon this image, and sales rose by 13 per cent. This demonstrates that taking risks is sometimes the only way to rejuvenate a brand or win new business.

Innovation isn't always easy. For years, Woolworth, one of the world's biggest retailers, tried to find a winning formula to replace the declining 'five-and-ten cent' variety store on which it was founded. As long ago as the 1960s, Woolworth sought to develop speciality stores, eventually succeeding with its Foot Locker sports shoe outlets. In 1997, the company finally closed its remaining 400 US Woolworth department stores, and today the chain operates 2000 Foot Locker stores around the world, selling sports shoes to its 12-20-year-old customers. In the UK, the Woolworth name, sold by the parent company in 1982, lives on with 806 high-street variety stores.

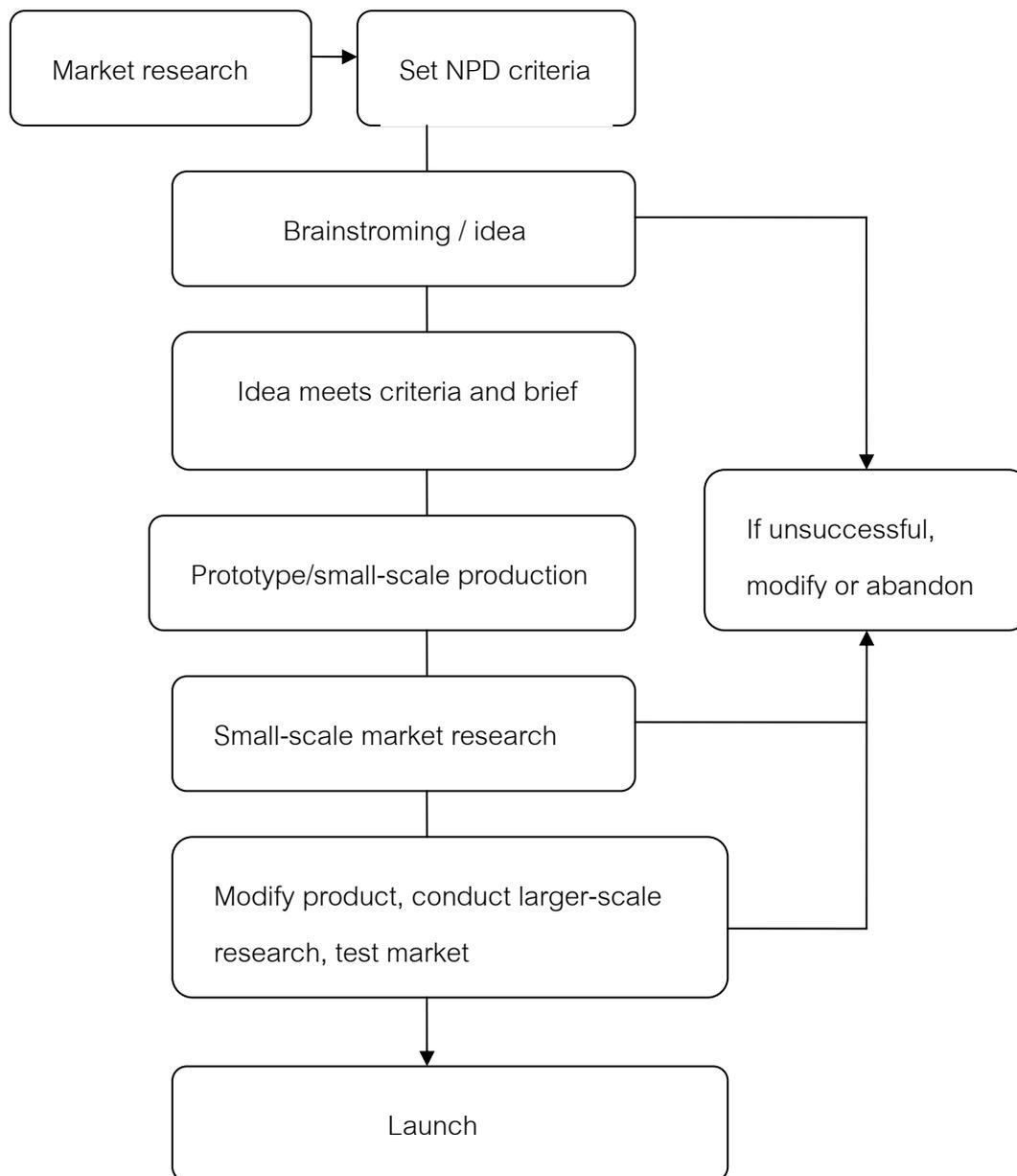


Figure 14.3 New product development strategy

#### New product development errors

It is easier to fail than succeed in new product development. Errors come about because companies develop products which the consumer does not want. This happens when insufficient research is carried out. The most famous failure of this kind

was Sir Clive Sinclair's CS battery-powered trikes. Consumers found that the trikes were unsafe for use on the road, being slow and too low.

Even major companies suffer. When Lever Brothers added manganese to its Persil washing powder, and called it Persil Power, rumours circulated that it rotted clothes. The Good Housekeeping Institute withdrew its endorsement, and eight independent laboratories agreed that the powder did indeed damage clothes. Lever Brothers reduced the level of manganese content by 80 per cent, but the episode reduced Unilever's profits by £57 million. This was in addition to £200 million spent in development and launch costs. The long-term impact on the 85-year-old Persil brand remains to be seen.

Faults in new products must be detected before they reach the market. Intel, the chip maker, admitted that its Pentium chip had 'a subtle flaw' which affected the accuracy of its long division. The fault would not be noticed by the average user, but the company had forecast annual sales of seven million copies of the chip, which indicates the scale of the problem.

#### CASE HISTORY : THE TRIUMPHS AND FAILURES OF BARON BICH

Even the most successful innovators sometimes fail. Baron Bich was famous for his disposable Bic lighter, his disposable razors and especially the throwaway Bic ballpoint pen, of which 15 million are sold every day. When he died in 1994, his company had a turnover of £650 million and owned (among other businesses) the largest lingerie business in France and Italy.

But Bich also had his share of failures. He tried and failed to sell inexpensive Bicperfume through supermarkets, newsagents and petrol stations. He eventually withdrew it, after three years of losses totalling £15 million.

His venture into fashion, with the purchase of Guy Laroche clothing, lost £25 million in one year alone. Expansion into windsurfing boards also cost the group profit.

Some products took a long time to come right. Though Bich bought

**CASE HISTORY : THE TRIUMPHS AND FAILURES OF BARON BICH (continue)**

Waterman, the US pen firm, in 1957, the company did not make profits until 1965.

Bich accepted a degree of failure as the price of innovation. He was also unwilling to rest on his laurels, and strived continuously to stay ahead.

**Over-reliance on a few customers**

Many companies are over-dependent on a few major customers. In some firms 80 per cent of sales often come from just 20 per cent of the customers. The UK grocery market is dominated by five major supermarket chains, so the food processing industry is particularly vulnerable to having its brands de-listed, especially in favour of the supermarket's own-label goods.

In another case, a UK advertising agency got half its work from one US client. When the client sold its UK business, the new owners decided to spend less on promotion, and the agency nearly went bust.

The rating agency Standard & Poors (S&P) says that many European banks are overdependent on important clients. This is especially true of banks in Germany, Italy and Portugal. In Germany, the top 20 clients accounted for 14 per cent of the average bank's equity, while in Italy and Portugal it is 10 per cent. On average, eight per cent of the equity of the top 100 European banks rests on just 20 clients, according to S&P and this represents 40 per cent of net operating income. The banks most at risk are those catering to particular industries, and those that are oriented toward wholesale and corporate banking. If some of these customers got into difficulty, the banks would be vulnerable.

According to S&P, the current regulatory regime, which requires banks to set aside ten per cent of capital, is inadequate.

**Distribution failures**

Large branded-goods companies generally know all the outlets that stock their

products. Other companies are not always so advanced. Many businesses operate regionally, despite having a product suitable for the country as a whole. Others think nationally, when their product could be selling globally. There are many ways a company can expand: through additional sales people, agents or through exporting. One solution is franchising, which we consider overleaf.

## FRANCHISING

Franchising offers several benefits to a company with a strong brand name and a standardized way of doing business. The company can increase its revenue without adding overheads. The franchisee pays for premises, equipment, vehicles, employees and stock.

The more successful the franchisee, the more royalties they pay, and the more product they buy from the franchisor. The franchisee works harder than an employee because they own the business. In bad times, the franchisee shoulders the burden of falling sales. But there are also disadvantages. The company loses the management of its distribution, and franchising may be a less profitable way to do business. The same principle applies to alternatives, such as appointing licensees and agents.