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Report to The General Motors Corporation

Lessons from the Marketing Battlefield
Ten Deadly Sins in Responding to a Competitor
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"Do not consider your enemy's intent, consider his capabilities."
Sun Tzu *On the Art of War*

Sin #1: Use Cost Based Pricing

It seems so logical. Most companies arrive at their prices by adding up all the costs of production and then putting a profit margin on top. This is a fallacious approach. The only valid way to price a product is to start out with what the consumer will pay and then design the new product to that specification. The use of cost based pricing almost destroyed the US machine tool industry when Japanese manufactures used price-led costing to a position of leadership.

Moral: Consumers set prices; not manufacturers.

Sin #2: Believe a Market is "Not Worthy" of Our Entry

In 1974, the Miller Brewing Company introduced Miller Lite beer. While others had tested this product concept before, it was not considered a viable category worthy of a premium brand. The market leader, Anheuser-Busch, waited until 1977 to introduce a competitive entry (Natural Light) and, even then, they were not willing to use the Budweiser name for fear of damage to the mother brand. Meanwhile, Miller Lite created a marketing positioning that was appealing to men, Great Taste and Less Filling, and used retired athletes to position the product. Miller Lite sales soared. Shortly thereafter, Coors introduced Coors Light in 1979 further validating the category. It was not until 1982 that Anheuser-Busch entered the market with Bud Light. In 2004, the light beer category is almost 50% of total beer sales; Bud Light outsells Budweiser by a significant margin. A-B recovered from their late entry but the point remains:

Moral: Consumers, not companies, determine what product categories are going to be successful.

Sin #3: Ignore "Below the Radar" Threats

Sam Walton assured the success start of Wal-Mart by a simple strategy: he did not enter major markets or become visible to competitors until it was too late to stop the juggernaut. The

company was headquartered in Bentonville, AK, hardly a location for a likely formidable competitor. Next he entered only small, outlying markets where the large existing retailers paid little attention. Thus Wal-Mart became a stealth competitor until it had an infrastructure to attack the major markets and competition had little time or opportunity to respond.

Today, Wal-Mart is the largest retailer in the world and the largest private employer in the US. Much of its success can be attributed to its modesty and low profile. Wal-Mart stayed “below the radar.”

Moral: What is obvious is not always the most important.

Sin #4: Charge Whatever the Market Will Bear for New Products

US manufacturers invented the technology for the fax machine and introduced it by charging “what the market would bear.” The Japanese, however, now own the market for fax machines because they priced their machines two-to-three years down the learning curve and quickly captured market leadership.

In contrast, in the mid-1940’s, when DuPont introduced the synthetic fiber Nylon, developed as a substitute for natural silk hose, it offered a price 40% under what it could have initially. This low price immediately created a market no one in the company had even anticipated: as a reinforcing element of auto tires. DuPont gained market leadership and maintained that leadership even after competitors entered the market after five or six years.

Moral: Price down the learning curve for optimum long term results.

Sin #5: Slaughter Tomorrow’s Opportunity on the Alter of Yesterday

In the 1950’s, IBM developed the precursor to the modern computer; its senior management decreed it must not be offered where it might interfere with the possible sale of punch cards, (then the cash cow for the firm). They were “saved” by the Justice Department bringing an antitrust suit for IBM’s domination of the punch card market forcing management to abandon the cards and move to the fledgling computer area.

IBM made the same mistake twenty years later. When Apple introduced the first successful Personal Computer in the 1970’s, IBM followed by introducing their first PC in 1981 and quickly gained market leadership. However, as before, its senior management decreed that it must not sell the PC to potential mainframe customers since it could damage IBM’s core business, thereby opening a window of opportunity for IBM “clones” and guaranteeing that IBM would not reap the benefits of their innovation.

Moral: Yesterday’s business never creates tomorrow’s opportunities.

Sin #6: Feed Problems and Starve Opportunities

Many firms put their best and most promising employees to the task of fixing problems; to old businesses that are fading, to old divisions that are being outflanked by competitors or to old technologies. Almost always, the opportunities are left to fend for themselves. Problem solving is damage containment. Opportunities produce results and growth.

Moral: Our best people must be put where the opportunities are.

Sin #7: Worship Premium Pricing and Feature Creep

Xerox invented the copier as one of the seminal breakthroughs created at the Palo Alto Research Center (PARC) in the 1970's. Few products enjoyed faster or greater success. Soon, however, Xerox began to add features and priced each to attain maximum profit margin. The price and profits of Xerox copiers soared. But the majority of consumers needed only a simple machine. When Japan Canon brought out a simple machine, it immediately took off.

Xerox barely survived its mistake.

Moral: Premium pricing is not always the best long-term strategy for market success.

Sin #8: Trust Conventional Wisdom

If one is to be successful in the home improvement retail market, the male is certainly the target customer. Carpentry, plumbing, sheet rock, electrical supplies, tools and nails are all male dominated. Everyone knows that. Bernie Marcus used this conventional wisdom and created the highly successful Home Depot.

The management of Lowe's Home Improvement decided to take a different approach by making their outlets "female friendly." They created a point of differentiation: fewer cluttered isles, better and more accessible merchandise, a cleaner and more inviting environment all combined to offer women a hospitable shopping environment. While Home Depot is responding to this threat and becoming more like Lowe's, the episode illustrates the danger of doing what is expected.

Moral: Conventional wisdom is often wrong. Invent.

Sin #9: Assume the Wrong World View

At the end of World War II, two national department store chains were poised for great growth and expansion: Sears and Montgomery Ward. Sewell Avery at Montgomery Ward was convinced a major world depression was imminent just like after WWI and as a result chose to

retrench and husband all resources. Management at Sears, on the other hand, had a different view; they believed the US was about to begin a rapid expansion to the suburbs as our military returned from overseas. Sears "bet the farm" on suburban expansion and rapidly built new stores in what were to become burgeoning new markets. Montgomery Ward never recovered.

Moral: History does not always repeat itself.

Sin #10: Focus on the Wrong Competitor

In the airline market, everyone knew the real competition was among the major trunk carriers that dominated hub markets and maintained global networks. The real battle was among American, United and Delta: all three had global alliances, purchased the same planes at the same cost from the same suppliers, had about the same wage structures and paid the same for jet fuel. Finally, loyalty was assured by distinct frequent flyer programs.

But then came Jet Blue who leased new jet equipment on favorable terms. (The manufacturers were hungry!) Since the planes were new, Jet Blue could specify the addition of live TV at every seat for a modest cost. (American has over 700 planes and to retrofit those for live TV would cost over $1 million/plane.) Jet Blue hired young crews with no seniority and thus very low average wage rates. Healthcare costs were minimized and no retirement plan was offered. Routes were cherry picked and airports with acceptable costs were selected. Jet Blue chose not to sell tickets through travel agents thus saving almost 3% of gross revenue. Customers were pushed to use the Web to buy e-tickets and advertising was used to direct customers to that ticketing option. Result: Jet Blue operates a 6¢ per passenger mile flown to American's cost of 9¢ per passenger mile. Today, Jet Blue flies more passengers out of JFK than any other airline; a position once held by American.

Moral: The most important competitor is often not the most logical competitor.