

## **Philips Lighting: Reverse Quality Gap in Transitional Economies**

Many of you may find that the light bulbs in your home do not last very long. You do not know exactly what the reason is: Could it be fluctuations in the electricity supply! Is it because of manufacturing fault? Or has it to do with the retailer at the street corner who sold you the light bulb?

Since 2000, multinational firms have successfully launched light bulbs that come in different shapes, sizes, and most importantly, use less energy and last longer. It is almost the perfect demonstration of how new technology can change our lives, except that there is a catch. The long-lasting light bulbs sell at about eight times the price of the regular ones and promise to last eight times longer or more. Even though they cost more, consumers will benefit from the purchase because these light bulbs use less energy.

If this takes place in Europe, the U.S. or Japan where labor costs are high, the long-lasting light bulbs will reduce maintenance cost, especially in large firms where light bulbs need to be changed regularly. In transitional economies, marketing these long-lasting light bulbs is not as easy a task as it may appear to be.

In China, Philips Lighting, a division within Philips Corporation of Holland, manufactures this new line of light bulbs through its joint venture factories. Philips senior management anticipated that local firms are likely to be able to produce lower quality long-lasting light bulbs soon. So to position itself above the local competitors as well as to establish its global brand equity, Philips decided to specialize in the premium technology product, namely, 10,000 hour light bulbs. Regular light bulbs are made to last for around 1,000 to 1,200 hours. Soon after, Forshan Lighting, the largest local light bulb manufacturer, started a production line that produced 3,000-5,000 hour light bulbs. In terms of price value, Philips has a clear competitive edge. Philips' 10,000 hour light bulbs retailed at RMB 80 while Forshan's 3,000 hour light bulbs retailed at RMB 40. These statistics seemed to support Philips senior management's high confidence that the new product line would do well.

After three months, the results showed otherwise. Forshan's market share outperformed Philips' share by almost three times, Philips tried to understand why. They bought Forshan's light bulbs and found that Forshan advertised its light bulb as lasting up to 5,000 hours. This was not a false, but certainly confusing claim. It muddled the consumer's price-value trade-off. By so doing, Philips' price-value advantage might exist but it was not as clear to the consumer. Philips decided to also interview consumers to find out why so many of them preferred to buy Forshan's light bulbs despite Philips' strong global brand name. They wanted to also find out whether Philips' well-known quality image translated to its lighting division.

Their research produced some comforting results. The consumers confirmed that they preferred Philips to Forshan in brand image. They also had confidence that Philips' products had superior quality compared with Forshan's. However, there were two major findings that caused Philips senior management to reconsider its strategy.

First, more than half surveyed expressed doubts on the performance claims of the 10,000 hour light bulb. There were no physical differences between the two light bulbs. Once the packaging was removed, they could not tell which bulb was Philips' and which was Forshan's. The consumers therefore had doubts that Philips' light bulb would last twice as long. Second, and more importantly, when they were asked to think what 10,000 hours meant in terms of the light bulb's shelf life, many could not comprehend. In a typical family, the average number of hours that the lights were switched on was around 5 hours per day. So it meant that a 10,000-hour light bulb could last 2,000 days or more than five years. When they were told that a Philips light bulb could last over five years, some dismissed it immediately. Many said that even if this might be true, they still would not buy Philips' light bulbs because they would have moved a number of times in those five years and they would not take the light bulbs when they moved." Why would I buy any 10,000-hour light bulbs at all! "

Based on the interview results, Philips senior management debated among themselves and finally adopted new strategies.