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CHAPTER THREE

Where to Play

From **Playing to Win**: *How Strategy Really Works*

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Where to Play

For decades, Bounty was a stalwart brand for P&G. From the 1970s to the 1990s, television commercials featuring Nancy Walker as a diner waitress (and paper towel aficionado) named Rosie established the paper towel brand in the hearts and minds of consumers. The ads' tagline—"The quicker picker-upper"—was as well known as American Express's "Don't leave home without it" or Maxwell House's "Good to the last drop." A proprietary technology advantage meant that Bounty really was more absorbent than competitive brands, and it became the leading paper towel brand in North America. Even after Rosie retired, the brand continued to grow, adding a share point per year, like clockwork.

But by the late 1990s, the Bounty business was struggling. North America had always been Bounty's best and biggest market, but as P&G focused on a globalization agenda, the tissue and towel team (which was responsible for Bounty, Charmin toilet paper, and Puffs facial tissues) had embarked on a global buying spree, acquiring brands and manufacturing capacity in Europe, Asia, and Latin America. The acquisitions consumed cash and constrained growth and profitability in the core US market. By the time Charlie Pierce came on as president of global family care (the renamed tissue and towel business) in 2001, it was time to change course. As Pierce puts it, "I think my job was to declare crisis."[1]

The global expansion was clearly problematic, but so too was the lack of strategic focus, particularly in R&D. The family-care team, inspired by corporate stretch goals to think big, was working on tangential, white-space ideas, like plastic-wrap technology, food containers, and paper plates. These new products might turn out to be worthy initiatives, but they had little connection to better paper towels, toilet paper, and facial tissue. Some of the team had come to believe that global family care could never get great financial returns from the structurally unattractive tissue and towel business, so it looked to other products and segments for growth. Pierce recalls his initial reaction: "If it is true that we can't get a decent return from the existing business, we should get out of the business entirely."

Was it true? P&G had made corporate where-to-play choices to grow in and from the core; to extend into home-care, beauty, health, and personal-care categories; and to build presence in emerging markets. Across these choices, P&G believed it could win through its ability to understand core consumers, by creating and building differentiated brands, and through R&D, innovative product design, global scale, and strong partnerships with both suppliers and channel customers. All of this presented a challenge for family care. In Europe, Asia, and Latin America, manufacturing overcapacity and private-label dominance were turning the category into a commodity. In emerging markets, prices and willingness to pay were so low that brand differentiation conferred little to no advantage. A niche strategy in emerging markets—to target just those few customers who valued premium performance—was nearly impossible because the capital requirements to make paper products mean a business must have substantial scale to be economical. Yet, the idea of building a truly global tissue and towel business was untenable.

The good news was that the business could be structurally attractive in North America; P&G could have a billion-dollar leadership brand with significant manufacturing economies of scale from North American sales alone. The family-care team could pare back and choose to play only in North America, in the top half of the market and, over time, sell off its assets in the rest of the world. Paring back was a choice P&G had made before. The company had chosen to enter or stay in categories that were generally unattractive structurally, but it had played in only the potentially attractive segments, working hard on pricing, capital and operating expenses, product and package design, operating costs, and scale. Laundry care, feminine care, and fine fragrances had all been written off as unwinnable categories, before P&G found a way to play to its strengths in only the most attractive segments. In each case, choosing where to play explicitly involved choosing where not to play as well, all within an overall industry structure.

With geography decided, where-to-play shifted to products. When the where-to-play choice was a global one, the innovation team had logically decided to pursue a series of new products and categories, like food containers and paper cups, that were outside the core of paper towels and tissues. Given the unattractive nature of the global tissue and towel businesses, it made some sense to test potentially more profitable product categories. But this approach meant that instead of innovating on its existing products, the team was chasing more-speculative product categories. Once the geographic choice was narrowed, family care could reorient the product where-to-play choice back to the core business, focusing on improving its competitive position in paper towels and bath and facial tissue. It could focus on Bounty, Charmin, and Puffs again.

The team began with Bounty and with consumers. Deep consumer understanding is at the heart of the strategy discussion. To be effective, strategy must be rooted in a desire to meet user needs in a way that creates value for both the company and the consumer. In considering where to play among consumer segments, the Bounty team asked some critical questions: Who is the consumer? What is the job to be done? Why do consumers choose what they do, relative to the job to be done? Bounty had tremendous awareness and brand equity in the North American marketplace. "It had by far the best equity in its category—one of the strongest brand equities in the company," says Pierce. "If you asked, virtually 100 percent of people would say Bounty is a great brand and a really good product. Then some would go off and buy something else. What's wrong with this picture?" Pierce and his team set out to truly understand consumer needs, habits, and practices as they relate to paper towels.

In watching and talking to consumers, they found that there were three distinct types of paper towel users. The first group cared about both strength and absorbency. For this group, Bounty was a perfect fit—a great combination of the two attributes they cared most about. The team found that among these consumers, Bounty was already the clear winner. Here, "Bounty didn't have a forty share," Pierce says. "It had an eighty share."

But many consumers didn't fit into the strength-and-absorbency category; those consumers fell squarely into the remaining two segments. The second segment consisted of consumers who wanted a paper towel with a cloth-like feel. They didn't care much about strength or absorbency, certainly much less than the core Bounty group did. Rather, this group of customers cared about how soft the paper towel felt in their hand. The final segment had price as their top priority, though not as their sole concern, says Pierce: "The need of those consumers was also on strength. It wasn't at all on absorbency, because they had a compensating behavior to address the absorbency shortfalls of lower-priced paper-towel products: they would simply use more sheets." These consumers were happy to use more sheets of a lower-priced paper towel, when needed, rather than spend more money for a premium brand that enabled the use of fewer sheets each time. It was a trade-off that made good sense to them.

Bounty had captured most of the first consumer segment, but had made few inroads with the other two groups. Pierce wanted to play in all three segments to achieve more scale and enhance profitability. Going forward, Bounty would become not one but three distinct products—each one designed to target a specific consumer segment. Traditional Bounty would remain unchanged and serve the first segment, which already loved the brand. A new product called Bounty Extra Soft would target the consumers who craved a soft, cloth-like feel. And then there was the final segment—the strength-and-price segment. These consumers presented something of a challenge.

Most of the lower-priced paper towels on the market were of poor quality, and the Bounty team didn't want to devalue the core brand by associating it with a subpar product. "Those products fail miserably on strength," Pierce notes. "They shred, they tear. They disintegrate in the face of a spill. Then, you not only have to deal with the spill, but you also have the mess of the towel residue to deal with." To have the Bounty name—even at a value price point—a product would have to live up to the equity of the Bounty brand. The new offering for the strength-and-price segment was designed not as a stripped-down version of Bounty, but as a new product with specific consumer needs in mind. Bounty Basic was considerably stronger than any other value brand and priced at about 75 percent of the cost of regular Bounty. Shelved away from traditional Bounty, with the other lower-priced brands, it spoke directly to the third segment of consumers.

While there was some concern that existing Bounty consumers might trade down to Bounty Basic, the relative attributes of the three products fit each segment's needs so perfectly that little shifting actually occurred. Pierce notes, "The old Bounty was one product that existed for decades. The modern-day Bounty is now three products that were designed against very clear consumer understanding and consumer segmentation. They're all very different from each other on a product performance standpoint, and each is designed to meet the needs of its users."

Ultimately, the family-care team chose not to play in the truly commodity portion of the market; while Bounty Basic is a value offering, it is priced at a premium to private-label brands and offers a clear strength advantage. By staying in the noncommodity space, in terms of both product assortment and price point, P&G can target its core consumers through its most valued core retailers (its best and biggest customers), levering core advantages in innovation and brand building. Pierce and his team made where-to-play choices on geography (North America), consumers (three segments in the top half of the market), products (paper towels, branded basic and premium), channels (grocery stores, mass discounters, drugstores, and membership club stores like Costco), and stages of production (R&D and production of the paper towel itself, but not growing, harvesting, or pulping the trees). Making these clear where-to-play choices, for Bounty and the family-care category, spurred innovation and helped powerful brands grow even stronger. As a result, P&G family care consistently delivered business growth and value creation at industry-leading levels.

The Importance of the Right Playing Field

The choice of where to play defines the playing field for the company (or brand, or category, etc.). It is a question of what business you are really in. It is a choice about where to compete and where not to compete. Understanding this choice is crucial, because the playing field you choose is also the place where you will need to find ways to win. Where-to-play choices occur across a number of domains, notably these:

- *Geography*. In what countries or regions will you seek to compete?
- *Product type*. What kinds of products and services will you offer?
- *Consumer segment*. What groups of consumers will you target? In which price tier? Meeting which consumer needs?
- *Distribution channel*. How will you reach your customers? What channels will you use?
- *Vertical stage of production*. In what stages of production will you engage? Where along the value chain? How broadly or narrowly?

Many individual considerations need to go into the comprehensive where-to-play choice. And the considerations are the same, no matter the size of the company or type of industry. Think of a small farmer. He must answer a number of questions to get a clear sense of his playing field. Will he sell only locally or to his friends and neighbors, or will he attempt to join a co-op that has a larger geographic footprint? Which fruits and vegetables will he grow? Will he sell organic products or standard ones? Will he sell bushels of fruit unprocessed or process apples into juice before selling them? Will he sell direct to consumers, or through a warehouse middleman? If he does process the fruit into juice, will he do that himself or outsource that phase of production? If he is thoughtful, the farmer will consider where to play in a manner that enables him to choose geographies, segments, products, channels, and production options that work well together (e.g., selling organic veggies locally at farmer's markets or processing fruit to sell nationally while minimizing spoilage).

Start-ups, small businesses, regional or national companies, and even huge multinationals all face an analogous set of where-to-play choices. The answers, of course, differ. Small businesses may well have narrower where-to-play choices than larger companies do, largely as a function of capacity and scale. But even the largest companies must make explicit choices to compete in some places, with some products, for some customers (and not in others). A choice to serve everyone, everywhere—or to simply serve all comers—is a losing choice.

Choosing where to play is also about choosing where not to play. This is more straightforward when you are considering where to expand (or not), but considerably harder when considering if you should stay in the places and segments you currently serve. The status quo—continuing on in the locations and segments you've always been—is all too often an implicit, unexamined choice. Simply because you have made a given where-to-play choice in the past is not a reason to stay there. Consider a company like General Electric. A decade ago, it derived considerable revenue from its entertainment holdings (NBC and Universal) and materials businesses (plastic and silicon). Today, it has remade its portfolio to focus much more on infrastructure, energy, and transportation, where its distinctive capabilities can make a real difference to winning. This was an explicit choice about where not to play.

Inevitably, the significance of each dimension of the where-to-play choice will vary by context. Each dimension must be considered thoughtfully and will hold different weight in different situations. A start-up might focus first on the products or services to be offered. A stagnating giant might focus on customers—looking for a deeper understanding of needs and new ways to approach segmentation—to narrow and refine an overly broad where-to-play choice.

At P&G, where to play choices start with the consumer: Who is she? What does the consumer want and need? To win with mom, P&G invests heavily in truly understanding her—through observation, through home visits, through a significant investment in uncovering unmet and unexpressed needs. Only through a concerted effort to understand the consumer, her needs, and the way in which P&G can best serve those needs is it possible to effectively determine where to play—which businesses to enter or leave, which products to sell, which markets to prioritize, and so on. As current CEO Bob McDonald explains, "We don't give lip service to consumer understanding. We dig deep. We immerse ourselves in people's day-to-day lives. We work hard to find the tensions that we can help resolve. From those tensions come insights that lead to big ideas."[2] Those big ideas can be the basis of a powerful where-to-play choice.

The distribution channel choice also tends to loom large for P&G, because of the dominant size and market power of the retailers in question. Tesco has more than 30 percent of the UK market.[3] Walmart serves some 200 million Americans every week.[4] Other players, like Loblaw in Canada or Carrefour in Europe, have substantial regional presence. For this reason, channel is a particularly crucial where-to-play consideration for the company. Of course, for some industries, there is no real channel consideration (e.g., in service industries that deal directly with the end consumer). Again, context matters—and each company must assess the weight of the different where-to-play choices for itself.

One final consideration for where to play is the competitive set. Just as it does when it defines winning aspirations, a company should make its where-to-play choices with the competition firmly in mind. Choosing a playing field identical to a strong competitor's can be a less attractive proposition than tacking away to compete in a different way, for different customers, or in different product lines. But strategy isn't simply a matter of finding a distinctive path. A company may choose to play in a crowded field or in one with a dominant competitor if the company can bring new and distinctive value. In such a case, winning may mean targeting the lead competitor right away or going after weaker competitors first.

So it was with Tide. When Liquid Tide was introduced in 1984, P&G was entering the liquid-detergent category against a strong, established competitor. Even with strong brand equity from its powdered detergent, this wouldn't be an easy win. Wisk, Unilever's market-leading liquid detergent, was a powerful, established brand with loyal customers. For the first two or three years, Wisk did not give up a share point against Liquid Tide. In Liquid Tide's first year, Wisk actually gained share. Clearly, Wisk users weren't moving to Tide. But P&G didn't need to steal Wisk users to win in the category, at least not right away. The high-profile launch of Liquid Tide helped expand the overall liquid-detergent category, and P&G picked up the lion's share of the expansion. Liquid Tide created new consumers for liquid detergent, and none of them had a loyalty to Wisk. As the category grew, Tide could begin to take share from smaller players, like Dynamo, which couldn't compete with P&G's R&D, scale, and brand-building expertise. Only then, having built critical mass, would Liquid Tide need to go after Wisk directly. At that point, the battle was all but won.

For Liquid Tide, it wasn't a matter of avoiding a playing field that held a fierce competitor. It was about expanding the playing field to make room for the two competitors and creating time to gain momentum. In the end, Liquid Tide won and took the market lead decisively.

Three Dangerous Temptations

As we've noted, there is a lot to consider when crafting a winning where-to-play choice, from consumers to channels and customers; to competition; to local, regional, and global differences. In the face of that kind of complexity, your strategy can easily fall prey to oversimplification, resignation, even desperation. In particular, you should avoid three pitfalls when thinking about where to play. The first is to refuse to choose, attempting to play in every field all at once. The second is to attempt to buy your way out of an inherited and unattractive choice. The third is to accept a current choice as inevitable or unchangeable. Giving in to any one of these temptations leads to weak strategic choices and, often, to failure.

Failing to Choose

Focus is a crucial winning attribute. Attempting to be all things to all customers tends to result in underserving everyone. Even the strongest company or brand will be positioned to serve some customers better than others. If your customer segment is "everyone" or your geographic choice is "everywhere," you haven't truly come to grips with the need to choose. But, you may argue, don't companies like Apple and Toyota choose to serve everyone? No, not really. While they do have very large customer bases, the companies don't serve all parts of the world and all customer segments equally. As late as 2009, Apple derived just 2 percent of its revenue from China. That was a choice—about where and when to play.

It was a choice based on resources, capabilities, and an understanding that even Apple can't be everywhere at once.

P&G, too, can't serve all markets equally well. With Bounty, it chose to target three segments of consumers in the top end of the North American paper towel market; it chose not to serve the rest of the world or consumers for whom price was the primary decision criteria. For P&G overall, in choosing where to play in emerging markets, the focus was on regions where it had an established business (like Mexico) and where new markets opened equally to all comers at the same time (e.g., Eastern Europe right after the fall of the Berlin Wall and China when Deng Xiaoping opened the first enterprise zones in Guangzhou City). The decision to focus on a very few emerging markets at a time enabled P&G to prioritize resource allocation, cash, and, most importantly, people, against moving up the learning curve and establishing successful businesses. Without such an explicit choice, P&G would have wound up with a mix of middling businesses scattered around the world, all starved for the attention and resources needed to become a market leader.

Trying to Buy Your Way Out of an Unattractive Game

Companies often attempt to move out of an unattractive game and into an attractive one through acquisition. Unfortunately, it rarely works. A company that is unable to strategize its way out of a current challenging game will not necessarily excel at a different one—not without a thoughtful approach to building a strategy in both industries. Most often, an acquisition adds complexity to an already scattered and fragmented strategy, making it even harder to win overall.

Resource companies are particularly susceptible to this trap, as they often lust after the value-added producers in their industries. Whether in aluminum, newsprint, or coal, an acquirer is often seduced by the idea of access to the higher prices and faster growth rates of a downstream industry. Unfortunately, there are two big problems with this kind of acquisition. The first is price. It costs a great deal to buy into attractive industries—quite often, acquirers must pay more than the asset could ever be worth to them, which dooms the acquirer in the long run. Second, the strategy and capabilities required in the targeted industry are often very different from those in the current industry; it is seriously tough sledding to bridge the two approaches and have an advantage in both (in mining bauxite and processing aluminum, for instance). Such acquisitions tend to be both overly expensive and strategically challenging.

Rather than attempting to acquire your way into a more attractive position, you can set a better goal for your company. The real goal should be to create an internal discipline of strategic thinking that enables a more thoughtful approach to the current game, regardless of industry, and connects to possible different futures and opportunities.

Accepting an Existing Choice as Immutable

It can also be tempting to view a where-to-play choice as a given, as having been made for you. But a company always has a choice of where to play. To return to a favorite example, Apple wasn't bound entirely by its first where-to-play choice—which was desktop computers. Though it eventually established a comfortable niche in that world, as the desktop of choice for creative industries, Apple chose to change its playing field to move into the portable communication and entertainment space with the iPod, iTunes, iPhone, and iPad.

It is tempting to think that you have no choice in where to play, because it makes for a great excuse for mediocre performance. It is not easy to change playing fields, but it is doable and can make all the difference. Sometimes the change is subtle, like a shift in consumer focus within a current industry—as with Olay. Other times the change can be dramatic, like at Thomson Corporation. Twenty years ago, the company's where-to-play choice was North American newspapers, North Sea oil, and European travel; today (as Thomson Reuters), it competes only in must-have, software-enhanced, subscription-based information delivered over the web. There is almost zero overlap between the old and new where-to-play choices for Thomson. The change didn't happen overnight—it took twenty years of dedicated work—but it demonstrates that changing an existing where-to-play choice is doable.

Even well-established brands have multiple choices. We've already seen the Olay where-to-play choice and how it changed over time. Rather than attempting to deliver products to all women, in all age categories, at the lower end of the market, the Olay team chose to compete primarily on a narrower field—women aged thirty-five-plus who were newly concerned with the signs of aging. This was just one of many possible choices for the brand, an explicit narrowing and shifting of the previous where-to-play choice. Then there is one of P&G's biggest brands: Tide. It gained strength by broadening its where-to-play choice.

Once, the Tide team was focused almost entirely on the dirt you can actually see on clothes. As late as the 1980s, Tide had two forms—the traditional washing powder and the liquid version—both geared at getting the visible dirt out of your clothes ("Tide's in, Dirt's out"). P&G broadened its where-to-play choice for Tide by moving beyond visible dirt. Tide introduced product versions designed to address a whole range of cleaning needs—Tide with Bleach, Tide Plus a Touch of Downy, Tide Plus Febreze, Tide for Coldwater, Tide Unscented; then, P&G expanded the Tide offering from detergents to other laundry-related products—creating a line of stain-release products, most notably the highly successful Tide-to-Go instant stain remover. The goal was to build a product line that effectively addressed different loads, different consumers, even different family members.

Tide expanded its distribution model as well. The team started to look at the distributors that offer a very limited number of brands, like drugstores, wholesale stores like Costco, dollar stores, and vending machines at self-service laundries and campgrounds. These channels tend to offer just one national brand and a private-label option. P&G pushed hard to have Tide chosen as the national brand in each case. As the leading brand in the category, it had a compelling case. The horizon has even expanded to Tide-branded dry cleaners. A broader definition of where to play served as the building block to extend the brand. Each new Tide product is built on the superior cleaning ability of Tide and its value-added benefits, reinforcing the core brand. In this way, Tide broadened to get stronger.

Imagining a New Where to Play

Sometimes the key to finding a new place to play is to simply believe that one is possible. In 1995, Chip Bergh was appointed general manager for P&G's US hard-surface cleaners business. Bergh reflects, with a laugh, "It sounds like a very nonelegant, unsexy business, and that's exactly what it was. It was not a strategic priority in the company. But interestingly, for all of our competitors, it was a core business. We knew our CEO never rolled out of bed and thought about this business. But for our competitors, every morning when the CEO was getting out of bed, he was worrying about this business."[5] The competitive landscape was challenging. Bergh's brands included past-their-prime names like Comet, Spic 'n Span, and Mr. Clean. It was, Bergh notes, "about a $200 million business at the time, and it was in free fall." At one point in the mid-1970s, Comet had enjoyed a 50 percent market share of the category. By 1995, all of P&G's brands in this category, combined, had less than 20 percent of the market.

Times had changed, and P&G had failed to change with them. There were fewer hard surfaces in homes, as fiberglass (and porous marbles and other stones) replaced porcelain. Competitors had introduced less abrasive cleansers that resonated with consumers; P&G had not. "It was clear we had to do something very, very different," Bergh notes. "We realized that our products were no longer relevant for the consumer and that we had been out-innovated."

So Bergh challenged his team to think about where to play from an entirely new perspective that would be grounded in an understanding of the competitive landscape and of P&G's core capabilities. "I took my leadership team off-site for two days," he says. "The focus was to come up with a set of choices that would make a difference on the business. The rallying cry we had around the new choices, and around the new strategy, was to fundamentally change the game of cleaning at home and make cleaning less of a chore." As ever, the starting point was consumer needs—like quick surface cleaning without muss and fuss, addressing a particular job and doing it better than current offerings. Bergh continues: "We asked, how do we leverage the company scale and size and technology expertise to fundamentally change cleaning at home? The key breakthrough for us was to start putting together different technologies that P&G had, but our competitors didn't. How do you marry chemistry, surfactant technology, and paper technology? All of that led, within two years, to the launch of Swiffer."

Swiffer proved to be a whole new where-to-play choice for the hard-surface cleaners business. It was a consumer-led blockbuster. *BusinessWeek* listed it as one of "20 Products That Shook the Stock Market."[6] Ten years later, Swiffer is now in 25 percent of US households. And as competition enters into the category it created, P&G is turning its attention to the next strategic frontier for Swiffer, asking what's next.

Digging Deeper

It can be easy to dismiss new and different where-to-play choices as risky, as a poor fit with the current business, or as misaligned with core capabilities. And it is just as easy to write off an entire industry on the basis of the predominant where-to-play choices made by the competitors in that industry. But sometimes, you must dig a bit deeper—to examine unexpected where-to-play choices from all sides—to truly understand what is possible and how an industry can be won with a new place to play. This was the case with fine fragrances at P&G.

The P&G fine-fragrance business had an inauspicious start. In fact, P&G's entry into the category was accidental. In 1991, the company acquired Max Factor to bolster the international reach of its color cosmetics business (entered in 1989 with the purchase of Noxell, the parent company that owned Cover Girl). Cover Girl was exclusively a North American brand at the time. Max Factor's cosmetics business was primarily outside North America and thus was a nice, logical fit. As it turned out, Max Factor had a tiny fragrance line—so now, P&G was in the fine-fragrance business too. In 1994, then chairman and CEO, Ed Artzt, acted to deepen P&G's participation in the fine-fragrance business with the purchase of Giorgio of Beverly Hills for $150 million. At the time, most thought it was a strange acquisition—staid, Midwestern P&G buying a chic Rodeo Drive perfumery.

In many ways, it was an odd mix. The fragrance business featured a combination of company-owned brands, like Giorgio, and external brands for which P&G licensed only the perfume rights, like Hugo Boss. For one of the world's acknowledged branding leaders, licensing presented a strange situation—having to depend entirely on another company to create an overall brand image, to which P&G would simply add a line of consistent fine-fragrance products. Very little of P&G's brand-building expertise appeared to come into play. Plus, the reputations of these fashion brands were highly volatile. They waxed and waned, and there seemed to be little that the brands could do (and even less that P&G could do) about it. Very, very few perfume brands endured and grew for decades, as Tide and Crest had done. Fragrances were also sold substantially through a channel in which P&G was otherwise not present—department stores and perfumeries. And finally, P&G's R&D labs couldn't easily develop streams of innovation of the sort that kept Bounty and Pantene ahead of their competitors. Fine fragrances felt more like the hope-in-a-bottle business: lots of hype and little real technology. The strategic choices and capabilities for fine fragrances had little in common with the choices for most other P&G businesses. No surprise, then, that the fragrance business struggled along during the 1990s, underperforming relative to the industry and to P&G's company standards.

On the surface at least, fine fragrances looked like an obvious choice for divestiture. The business appeared to have a tenuous fit with the broader P&G. What's more, it had these complicating features—fashion-house dependence and tricky distribution. P&G had no road map for running businesses like this internally, and there wasn't a good analog on the outside to benchmark against. P&G hadn't been in the portfolio for very long, especially in its post-Giorgio format, so there wasn't much of a track record either. The company came very close to divesting the business but instead reframed the thinking.

Fine fragrances, however, were important to hang on to, for two strategic reasons. First, a fine-fragrance presence was an important component of a credible and competitive beauty business. P&G wanted to be a beauty leader, on the strength of hair care (Pantene, Head & Shoulders) and skin care (Olay). But to be truly credible with the industry and consumers as a beauty player, the company needed a position in cosmetics and fragrances as well. The knowledge transfer between the different categories is significant, meaning that what you learn in cosmetics and fragrances—through both product R&D and consumer research—has a lot of spillover into hair care and skin care, and vice versa. In other words, just being in the fragrance business makes you better in beauty categories overall.

In addition, fragrance is a very important part of the hair-care experience—scent alone can significantly influence consumer product preferences. And it isn't just true in hair care, which leads to the second strategic reason to play in fine fragrances: in many household and other personal-care businesses, there were significant consumer segments that cared deeply about the sensory experience. P&G could affect consumer purchase intent with the right fragrance. It soon became clear that fragrance was an important part of creating delightful consumer experiences and that P&G was the biggest fragrance user in the world. This little fine-fragrance business was important well beyond its existing size; it was crucial to building core capabilities and systems that could differentiate and create competitive advantage for brands and products across the entire corporation.

So P&G not only held on to the fine-fragrances business, but also built it strategically. P&G turned the industry business model inside out by making a totally different set of strategic where-to-play and how-to-win choices. Within the fine-fragrances industry, there was a well-established way to do business: new fragrances were pushed out of the fashion studios and fragrance houses, down the fashion runway, and into department stores at Christmas time. Most new fragrance brands were launched for holiday shopping and began to decline by the next spring. It was a push-and-churn model. And in most cases, it was secondary to another, primary business: fashion.

By contrast, P&G started with the consumer, hiring its own internal team of master perfumers to design fragrances against specific consumer wants and needs, as well as brand concepts. It partnered with the very best fragrance-house perfumers and designers. Before long, P&G became the preferred innovation partner in the fine-fragrance space. P&G brands are consumer-centric, concept-led, and designed to delight consumers. As it dedicated time and attention to the fine-fragrance business, P&G attracted the best agency partners and won numerous awards for advertising, marketing, and packaging. It built product portfolios that expanded and strengthened its consumer user base. It built brands that became leaders in their segments.

Another norm for the fragrance industry was to compete most aggressively within the high-end women's market. Rather than go head-to-head with the biggest players, the P&G fine-fragrance team decided to attack along the line of least expectation and least resistance—in men's fragrances with Hugo Boss and in younger, sporty fragrances through a partnership with Lacoste. The competition was focused on women's classic and fashion fragrances, where existing sales and profits were. Choosing a different place to play gave the fine-fragrance team the time and opportunity to test its strategy and business model, to hone its capabilities, and to build confidence that it could win.

To win in fine fragrances, the team leveraged all it could from P&G's core capabilities. It used P&G brand-building expertise to assess the strength and value of brands to determine which fashion brands to license and how much to pay for them. It used an understanding of the discipline of strategy to match its choices with the choices of the licensors, creating greater value for both.

On the innovation front, world-leading expertise with scents enabled P&G to create licensed-brand products that were uniquely appealing to consumers and that could last beyond a season. And P&G's scale as the world's largest purchaser of fragrances enabled it to buy critical and expensive perfume ingredients at lower cost than any competitors could.

With all these capabilities applied full force to the business, P&G built a fragrance house with licenses from Dolce & Gabbana, Escada, Gucci, and others. In the process, P&G became one of the largest and most profitable fine-fragrance businesses in the world, less than two decades after a modest entry into the industry. Staying in the fine-fragrances business is a choice that seemed counterintuitive at first and required a new way of thinking about just where to play within it, but the choice has paid huge dividends to the company overall.

Some things, however, happen by way of serendipity, and the acquisition of Max Factor is a perfect case in point. Max Factor was acquired to make the P&G cosmetics business more global. That really never panned out. Max Factor did sufficiently poorly in North America that it was discontinued there. Nor did it provide much of a cosmetics platform outside North America. So, the acquisition would likely be called a failure, considering the intent of the purchase. But as it turns out, the cosmetics business came along with two businesses—a small fine-fragrances portfolio and a tiny, super-high-end Japanese skin-care business called SK-II. That fragrance portfolio became the seed of a multi-billion-dollar, world-leading fine-fragrances business. SK-II has expanded into international markets and has crossed the billion-dollar mark in global sales, with extremely attractive profitability. In this case, serendipity smiled on P&G—though it also took smart choices and hard work to realize the potential of the businesses.

The Heart of Strategy

Where to play is about understanding the possible playing fields and choosing between them. It is about selecting regions, customers, products, channels, and stages of production that fit well together—that are mutually reinforcing and that marry well with real consumer needs. Rather than attempt to serve everyone or simply buy a new playing field or accept your current choices as inevitable, find a strong set of where-to-play choices. Doing so requires deep understanding of users, the competitive landscape, and your own capabilities. It requires imagination and effort. And every so often, some luck doesn't hurt.

As you work through your own choices, recall that where-to-play choices are equally about where not to play. They take options off the table and create true focus for the organization. But there is no single right answer. For some companies or brands, a narrow choice works best. For others, a broader choice fits. Or it may be that the best option is a narrow customer choice within a broad geographic segment (or vice versa). As with all things, context matters.

The heart of strategy is the answer to two fundamental questions: where will you play, and how will you win there? The next chapter will turn to the second question and to the matter of creating integrated choices, in which where to play and how to win reinforce and support, rather than fight against, one another.

WHERE-TO-PLAY DOS AND DON'TS

✓ Do choose where you will play and where you will not play. Explicitly choose and prioritize choices across all relevant *where* dimensions (i.e., geographies, industry segments, consumers, customers, products, etc.).

✓ Do think long and hard before dismissing an entire industry as structurally unattractive; look for attractive segments in which you can compete and win.

✓ Don't embark on a strategy without specific *where* choices. If everything is a priority, nothing is. There is no point in trying to capture all segments. You can't. Don't try.

✓ Do look for places to play that will enable you to attack from unexpected directions, along the lines of least resistance. Don't attack walled cities or take on your strongest competitors head-to-head if you can help it.

✓ Don't start wars on multiple fronts at once. Plan for your competitors' reactions to your initial choices, and think multiple steps ahead. No single choice needs to last forever, but it should last long enough to confer the advantage you seek.

✓ Do be honest about the allure of white space. It is tempting to be the first mover into unoccupied white space. Unfortunately, there is only one true first mover (as there is only one low-cost player), and all too often, the imagined white space is already occupied by a formidable competitor you just don't see or understand.

Notes

Chapter Three

1. All quotes from Charlie Pierce are from an interview with Roger Martin and Jennifer Riel, Cincinnati, November 18, 2010.

2. Bob McDonald, speech delivered to Global Business Leadership Council Year End Meeting, November 11, 2009, P&G Global Employee webcast.

3. "Tesco Loses More Market Share," *Guardian* (Manchester), April 24, 2012, www.guardian.co.uk/business/2012/apr/24/tesco-loses-market-share-kantar-worldpanel.

4. "Global 2000: Top Retail Companies; Wal-Mart," *Forbes*, accessed July 12, 2012, www.forbes.com/pictures/eggh45lgg/wal-mart-stores-3/#gallerycontent.

5. Chip Bergh, telephone interview with Jennifer Riel, November 1, 2010.

6. Ben Steverman, "Twenty Products That Rocked the Stock Market: Hits or Misses," *Bloomberg Businessweek*, January 2010, http://imA.G.es.businessweek.com/ss/10/01/0127_20_stock_market_rocking_products/17.htm.