Designing Marketing Programs to Build Brand Equity

Learning Objectives

After reading this chapter, you should be able to

1. Identify some of the new perspectives and developments in marketing.
2. Describe how marketers enhance product experience.
3. Explain the rationale for value pricing.
4. List some of the direct and indirect channel options.
5. Summarize the reasons for the growth in private labels.

Part of John Deere's success is its well-conceived and executed product, pricing, and channel strategies.

Source: Eric Schlegel/The
New York Times/Redux Pictures

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Preview

This chapter considers how marketing activities in general—and product, pricing, and distribution strategies in particular—build brand equity. How can marketers integrate these activities to enhance brand awareness, improve the brand image, elicit positive brand responses, and increase brand resonance?

Our focus is on designing marketing activities from a branding perspective. We'll consider how the brand itself can be effectively integrated into the marketing program to create brand equity. Of necessity, we leave a broader perspective on marketing activities to basic marketing management texts.1 We begin by considering some key developments in designing marketing programs. After reviewing product, pricing, and channel strategies, we conclude by considering private labels in Brand Focus 5.0.

NEW PERSPECTIVES ON MARKETING

The strategy and tactics behind marketing programs have changed dramatically in recent years as firms have dealt with enormous shifts in their external marketing environments. As outlined in Chapter 1, changes in the economic, technological, political–legal, sociocultural, and competitive environments have forced marketers to embrace new approaches and philosophies. Some of these changes include:2

• Rapid technological developments
• Greater customer empowerment
• Fragmentation of traditional media
• Growth of interactive and mobile marketing options
• Channel transformation and disintermediation
• Increased competition and industry convergence
• Globalization and growth of developing markets
• Heightened environmental, community, and social concerns
• Severe economic recession

These changes, and others such as privatization and regulation, have combined to give customers and companies new capabilities with a number of implications for the practice of brand management (see Figure 5-1). Marketers are increasingly abandoning the mass-market strategies that built brand powerhouses in the twentieth century to implement new approaches for a new marketing era. Even mar- keters in staid, traditional categories and industries are rethinking their practices and not doing business as usual.

Consumers

Can wield substantially more customer power.

Can purchase a greater variety of available goods and services.

Can obtain a great amount of information about practically anything.

Can more easily interact with marketers in placing and receiving orders.

Can interact with other consumers and compare notes on products and services.

Companies

Can operate a powerful new information and sales channel with augmented geographic reach to inform and promote their company and its products.

Can collect fuller and richer information about their markets, customers, prospects, and competitors.

Can facilitate two-way communication with their customers and prospects, and facilitate transaction efficiency.

Can send ads, coupons, promotion, and information by e-mail to customers and prospects who give them permission.

Can customize their offerings and services to individual customers.

Can improve their purchasing, recruiting, training, and internal and external communication.

FIGURE 5-1 The New Capabilities of the New Economy

CLIF BAR

Started in 1990 by avid cyclist Gary Erickson and named to honor his father, CLIF® Bar set out to offer a better- tasting energy bar with wholesome ingredients. With very little advertising support, it grew in popularity through the years via word-of-mouth and PR. The CLIF Bar product line also grew to include dozens of flavors and varieties, some formulated especially for kids and women, and for energy, healthy snacking, and sports nutrition. Behind CLIF Bar products is a strong socially and environmentally responsible corporate message. The company is active in its local community and known for its passionate employees, who are allowed to do volunteer work on company time. It uses extensive organic ingredients, relies on biodiesel-powered vehicles, and supports the constructions of farmer- and Native American–owned wind farm through carbon offsets. Its nontraditional marketing activities focus on athletic sponsorships and public events. To broaden its appeal, it launched its “Meet the MomentTM”campaign in the summer of 2011, in which participants provided stories and photos of inspirational athletic adventures. The integrated marketing campaign featured a fully interactive Web site and mobile applications for iPhone and An- droid systems. All these marketing efforts have paid off: CLIF Bar was the number one breakaway brand in a survey by Forbes magazine and Landor Associates measuring brand momentum from 2006 to 2009. CLIF Bar has adopted modern marketing practices to build a highly successful twenty-first-century brand.

Source: Clif Bar & Company

The new marketing environment of the twenty-first century has forced marketers to fundamentally change the way they develop their marketing programs. Integration and personalization, in particular, have become increasingly crucial factors in building and maintaining strong brands, as companies strive to use a broad set of tightly focused, personally meaningful marketing activities to win customers.

INTEGRATING MARKETING

In today's marketplace, there are many different means by which products and services and their cor- responding marketing programs can build brand equity. Channel strategies, communication strategies, pricing strategies, and other marketing activities can all enhance or detract from brand equity. The customer-based brand equity model provides some useful guidance to interpret these effects. One im- plication of the conceptualization of customer-based brand equity is that the manner in which brand associations are formed does not matter—only the resulting awareness and strength, favorability, and uniqueness of brand associations.

In other words, if a consumer has an equally strong and favorable brand association from Rolaids antacids to the concept "relief," whether it's based on past product experiences, a Consumer Reports article, exposure to a "problem-solution" television ad that concludes with the tag line "R-O-L-A-I-D-S spells relief," or knowledge that Rolaids has sponsored the "Rolaids Relief Man of the Year" award to the best relief pitchers in major league baseball since 1976, the impact in terms of customer-based brand equity should be identical unless additional associations such as "advertised on television" are created, or existing associations such as "speed or potency of effects" are affected in some way.3

Thus, marketers should evaluate all possible means to create knowledge, considering not just effi- ciency and cost but also effectiveness. At the center of all brand-building efforts is the actual product or service. Marketing activities surrounding that product, however, can be critical, as is the way marketers integrate the brand into them.

Consistent with this view, Schultz, Tannenbaum, and Lauterborn conceptualize one aspect of inte- grated marketing, integrated marketing communications, in terms of contacts.4 They define a contact as any information-bearing experience that a customer or prospect has with the brand, the product cate- gory, or the market that relates to the marketer's product or service. According to these authors, a person can come in contact with a brand in numerous ways:

For example, a contact can include friends' and neighbors' comments, packaging, newspaper, magazine, and television information, ways the customer or prospect is treated in the retail store, where the product is shelved in the store, and the type of signage that appears in retail establish- ments. And the contacts do not stop with the purchase. Contacts also consist of what friends, relatives, and bosses say about a person who is using the product. Contacts include the type of customer service given with returns or inquiries, or even the types of letters the company writes to resolve problems or to solicit additional business. All of these are customer contacts with the brand. These bits and pieces of information, experiences, and relationships, created over time, influence the potential relationship among the customer, the brand, and the marketer.

In a similar vein, Chattopadhyay and Laborie develop a methodology for managing brand experience contact points.5

The bottom line is that there are many different ways to build brand equity. Unfortunately, there are also many different firms attempting to build their brand equity in the marketplace. Creative and original thinking is necessary to create fresh new marketing programs that break through the noise in the mar- ketplace to connect with customers. Marketers are increasingly trying a host of unconventional means of building brand equity.

CAFÉ COFFEE DAY: CONNECTING WITH THE YOUNG

Starting from its first café in Bangalore's Brigade Road in 1996, Café Coffee Day (CCD as it is known among the youth) is a pan Indian brand. CCD has approximately 1,497 outlets, out of which three are in square format, 47 in lounge, and rest in café formats. It has institutionalized coffee drinking in a country which was hitherto the home of tea drinkers. CCD's menu ranges from its signature hot and cold coffees to several exotic international coffees, desserts, sandwiches, and pastries. Great value-for-money items have made the price-conscious Indian youth to upgrade from roadside dhabas to CCDs in large numbers.

Market research had revealed that 25 percent of CCD customers are teenagers, 38 percent are between the age of 20–24, and 23 percent are between 25 and 29. In sum, more than 80 percent of CCD customers are below the age of 29, with a large majority below 25. CCD has tried to ensure that this core customer group stays en- gaged with the brand, even as new competition is expected to enter in the Indian market.

The brand has tried to offer a perfect café experience to its target group by offering value-added services such as Wi-Fi facilities, youthful music, and a highly trained and friendly staff.

CCD has also managed to expand its format to cater to changing customer preferences. It has launched its most premium offering—"The Square"—in Mumbai, serving the best Single Origin coffee from across the world and offering an unique ambience for the food blogger fraternity and twitteratis of the city.

Café Coffee Day outlet in Pune.

Sources: K. R. Balasubramanyam, "Café Coffee Day—Coffee Raj", Business Today, 2 October 2011; "Café Coffee Day to add 500 outlets by 2015," The Times of India, 27 June 2014; http://www.cafecoffeeday.com/news/single-origin-coffee-food-and-indulgence-launch-of-the-square-by-cafe-coffee-day-at-nariman-point-mumbai, accessed on 19 September 2014.

Creativity must not sacrifice a brand-building goal, however, and marketers must orchestrate pro- grams to provide seamlessly integrated solutions and personalized experiences for customers that create awareness, spur demand, and cultivate loyalty.

Personalizing Marketing

The rapid expansion of the Internet and continued fragmentation of mass media have brought the need for personalized marketing into sharp focus. Many maintain that the modern economy cel- ebrates the power of the individual consumer. To adapt to the increased consumer desire for per- sonalization, marketers have embraced concepts such as experiential marketing and relationship marketing.

Experiential Marketing. Experiential marketing promotes a product by not only communicat- ing a product's features and benefits but also connecting it with unique and interesting consumer experiences.
Image source: Café Coffee Day

Pine and Gilmore, pioneers on the topic, argued over a decade ago that we are on the threshold of the "Experience Economy," a new economic era in which all businesses must orchestrate memorable events for their customers.6 They made the following assertions:

• If you charge for stuff, then you are in the commodity business.
• If you charge for tangible things, then you are in the goods business.
• If you charge for the activities you perform, then you are in the service business.
• If you charge for the time customers spend with you, then and only then are you in the experience business.

Citing a range of examples from Disney to AOL, they maintain that saleable experiences come in four varieties: entertainment, education, aesthetic, and escapist.

Columbia University's Bernd Schmitt, another pioneering expert on the subject, notes that "ex- periential marketing is usually broadly defined as any form of customer-focused marketing activity, at various touchpoints, that creates a sensory-emotional connection to customers."7

Schmitt details five different types of marketing experiences that are becoming increasingly vital to consumers' perceptions of brands:

• Sense marketing appeals to consumers' senses (sight, sound, touch, taste, and smell).
• Feel marketing appeals to customers' inner feelings and emotions, ranging from mildly positive moods linked to a brand (e.g., for a noninvolving, nondurable grocery brand or service or industrial product) to strong emotions of joy and pride (e.g., for a consumer durable, technology, or social marketing campaign).
• Think marketing appeals to the intellect in order to deliver cognitive, problem-solving experiences that engage customers creatively.
• Act marketing targets physical behaviors, lifestyles, and interactions.
• Relate marketing creates experiences by taking into account individuals' desires to be part of a social context (e.g., to their self-esteem, being part of a subculture, or a brand community).

He also describes how various "experience providers" (such as communications, vi- sual/verbal identity and signage, product presence, co-branding, spatial environments, electronic media, and salespeople) can become part of a marketing campaign to create these experiences. In describing the increasingly more demanding consumer, Schmitt writes that customers want to be entertained and be affected emotionally.

Figure 5-2 displays a scale developed by Schmitt and his colleagues to measure experi- ences and its dimensions. Their study respondents rated LEGO, Victoria's Secret, iPod, and Starbucks as the most experiential brands.8

Meyer and Schwager describe a customer experience management (CEM) process that involves monitoring three different patterns: past patterns (evaluating completed transac- tions), present patterns (tracking current relationships), and potential patterns (conducting inquiries in the hope of unveiling future opportunities).9 The Science of Branding 5-1 de- scribes how some marketers are thinking more carefully about one particularly interesting aspect of brand experiences—brand scents!

Relationship Marketing. Marketing strategies must transcend the actual product or ser- vice to create stronger bonds with consumers and maximize brand resonance. This broader set of activities is sometimes called relationship marketing and is based on the premise that current customers are the key to long-term brand success.10 Relationship marketing attempts to provide a more holistic, personalized brand experience to create stronger consumer ties. It expands both the depth and the breadth of brand-building marketing programs.

Victoria's Secret has been praised for its success in creating an experiential brand.

Source: Louis Johnny/SIPA/Newscom

SENSORY

This brand makes a strong impression on my visual sense or other senses. I find this brand interesting in a sensory way.

This brand does not appeal to my senses.

AFFECTIVE

This brand induces feelings and sentiments.

I do not have strong emotions for this brand. This brand is an emotional brand.

BEHAVIORAL

I engage in physical actions and behaviors when I use this brand. This brand results in bodily experiences.

This brand is not action oriented.

INTELLECTUAL

I engage in a lot of thinking when I encounter this brand. This brand does not make me think. This brand stimulates my curiosity and problem solving.

FIGURE 5-2 Brand Experience Scale

Source: Based on J. Joško Brakus, Bernd H. Schmitt, and Lia Zarantonello, "Brand Experience: What Is It? How Is It Measured? Does It Affect Loyalty?," Journal of Marketing 73 (May 2009): 52–68.

Here are just a few of the basic benefits relationship marketing provides:11

- Acquiring new customers can cost five times as much as satisfying and retaining current customers.
- The average company loses 10 percent of its customers each year.
- A 5 percent reduction in the customer defection rate can increase profits by 25–85 percent, depending on the industry.
- The customer profit rate tends to increase over the life of the retained customer.

We next review three concepts that can be helpful with relationship marketing: mass customization, one-to-one marketing, and permission marketing.

Mass Customization. The concept behind mass customization, namely making products to fit the customer's exact specifications, is an old one, but the advent of digital-age technology enables companies to offer customized products on a previously unheard-of scale. Going online, customers can communicate their preferences directly to the manufacturer, which, by using advanced production methods, can assemble the product for a price comparable to that of a noncustomized item.

In an age defined by the pervasiveness of mass-market goods, mass customization enables consum- ers to distinguish themselves with even basic purchases. The online jeweler Blue Nile lets customers design their own rings. Custom messenger-bag maker Rickshaw Bagworks lets customers design their own bags before they are made to order. Sportswear vendor Shortomatic lets customers upload their own images and overlay them on a pair of custom-designed shorts. Land's End also allows customiza- tion of certain styles of pants and shirts on its Web site to allow for a better fit.12

Mass customization is not restricted to products. Many service organizations such as banks are de- veloping customer-specific services and trying to improve the personal nature of their service experience with more service options, more customer-contact personnel, and longer service hours.13

Mass customization can offer supply-side benefits too. Retailers can reduce inventory, saving ware- house space and the expense of keeping track of everything and discounting leftover merchandise.14 Mass customization has its limitations, however, because not every product is easily customized and not every product demands customization. Returns are also more problematic for a customized product that may not have broader appeal.

THE SCIENCE OF BRANDING 5-1

Making Sense Out of Brand Scents

The smell of a new car is distinctive. When Rolls-Royce cus- tomers complained in the 1990s that the new cars weren't as good as the old models, researchers tracked the problem to a surprising source: the car's smell. The company then recreated the aroma of a 1965 Rolls and now sprays it in all the new models. So can scent be used to entice customers or to make a place a little more memorable?

Las Vegas casinos have long infused scents into gaming areas to encourage gamblers to stay a little longer. Now the connection between scent and shopping experience is being explored in more venues than ever. More and more companies looking for an edge are tinkering with scent as a way to dis- tinguish their brand or store. The ever-growing barrage of ad- vertising consumers take in is heavily weighted toward visuals. Although distinctive ring tones and other sounds are used to build brand awareness, most communication appeals to only one of the five human senses: sight.

Retailers are looking to capitalize on scent as a way to lure customers into their stores and into lingering longer than they otherwise might. Victoria's Secret has long used vanilla scents in its stores, but now retailers like the Samsung Experience con- cept store are starting to get in on the action as a way to dis- tinguish themselves from competitors. But experts caution that scents aren’t guaranteed to boost sales. The best scents are unobtrusive. Anything overwhelming can be a negative. And smells should appeal to the same gender the product is trying to appeal to. Scents that are appropriate or consistent with a product can influence brand evaluations and judgments. Westin Hotels carefully developed a new fragrance, White Tea, to infuse into the hotels’ public spaces. The scent is designed to have inter- national appeal and contribute to a subtle, relaxing vibe in the lobbies. Travelers also encounter a unique scent on Singapore Airlines through the scented towels handed out during all flights. The theory is that passengers will associate the subtle scent with a positive, relaxing experience.

Some brands have a built-in sensory marketing advantage. Crayola Crayons were not originally designed to have a signa- ture scent, but the manufacturing process left them with a rec- ognizable odor. Many adults connect the smell of Crayons with childhood, leaving Crayola with an incidental brand element that can be very valuable. When Crayola’s parent company was recently considering ways to stand out among the generic competition in new markets, it decided to trademark the smell. Scents have actually been shown to improve product memory across a range of product attributes.

Of course, some products are all about scent. Procter & Gamble built a $1 billion brand with Febreze air freshener. From its origins as a fabric treatment to freshen up coats, drapes, and mattresses, the brand’s product line grew to in- clude specific sprays for cars, sportswear, pets, carpets, and al- lergen reduction, as well as decorative candles, scented reed diffusers, and flameless scented luminaries. Scents are available for those looking to solve a problem (such as pet odor) or to create an ambiance around the house.

Sources: Linda Tischler, “Smells Like Brand Spirit,” Fast Company, August 2005; Martin Lindstrom, “Smelling a Branding Opportunity,” Brandweek, 14 March 2005; Lucas Conley, “Brand Sense,” Fast Com- pany, March 2005; Maureen Morrin and S. Ratneshwar, “Does It Make Sense to Use Scents to Enhance Brand Memory?,” Journal of Market- ing Research 40 (February 2003): 10–25; Anick Bosmans, “Scents and Sensibility: When Do (In)congruent Ambient Scents Influence Product Evaluations?,” Journal of Marketing 70 (July 2006): 32–43; Aradhna Krishna, A., Ryan S. Elder, and Cindy Caldara, “Feminine to Smell but Masculine to Touch? Multisensory Congruence and Its Effects on the Aesthetic Experience,” Journal of Consumer Psychology 20, no. 4 (2010): 410–418; Aradhna Krishna, May Lwin, and Maureen Morrin, “Product Scent and Memory,” Journal of Consumer Research 37 (June 2010): 57–67; Ellen Byron, “Febreze Joins P&G’s $1 Billion Club,” Wall Street Journal, 9 March 2011; Joann Peck and Terry L. Childers, “Effect of Sensory Factors on Consumer Behavior,” in Handbook of Consumer Psychology, eds. Curtis T. Haugtvedt, Paul M. Herr, and Frank R. Kardes (New York: Taylor & Francis, 2008), 193–220.

With the advent of social media, customers can now share with others what they have co-created with firms. For example, Nike enables customers to put their own personalized message on a pair of shoes with the NIKEiD program. At the NIKEiD Web site, visitors can make a customized shoe by selecting the size, width, and color scheme and affixing an eight-character personal ID to their creation. Then they can share it with others for them to admire.15

One-to-One Marketing. Don Peppers and Martha Rogers popularized the concept of one-to-one mar- keting, an influential perspective on relationship marketing.16 The basic rationale is that consumers help add value by providing information to marketers; marketers add value, in turn, by taking that information

With NIKEiD, custom- ers can customize their shoes and share their cre- ations with others online.
Source: Getty Images/Getty Images for Nike

and generating rewarding experiences for consumers. The firm is then able to create switching costs, reduce transaction costs, and maximize utility for consumers, all of which help build strong, profitable relationships.

One-to-one marketing is thus based on several fundamental strategies:

- Focus on individual consumers through consumer databases—“We single out consumers.”
- Respond to consumer dialogue via interactivity—“The consumer talks to us.”
- Customize products and services—“We make something unique for him or her.”

Another tenet of one-to-one marketing is treating different consumers differently because of their dif- ferent needs, and their different current and future value to the firm. In particular, Peppers and Rogers stress the importance of devoting more marketing effort to the most valuable consumers.

Peppers and Rogers identified several examples of brands that have practiced one-to-one market- ing through the years, such as Avon, Owens-Corning, and Nike.17 They note how Ritz-Carlton hotels use databases to store consumer preferences, so that if a customer makes a special request in one of its hotels, it is already known when he or she stays in another.

Peppers and Rogers also provide an example of a localized version of one-to-one marketing. For example, Kate might receive a postcard from the local florist reminding her that she had send flowers to her mother on her birthday last year. A phone call would make the florist put a beautiful bouquet on her doorstep on her birthday this year. Although such online or offline reminders can be helpful, marketers must not assume that customers always want to repeat their behaviors. For example, what if the flowers were a doomed, last-chance attempt to salvage a failing relationship? Then a reminder under such cir- cumstances may not be exactly welcome!

An example of a highly successful relationship marketing program comes from Shoppers Stop, in India.

SHOPPERS STOP

Shoppers Stop is one of the pioneers in setting up large format departmental stores in India. With 68 stores across 31 cities, Shoppers Stop is now one of India’s largest retail chains.

It is a one-stop shop for products across multiple categories, including apparel, cosmetics, fragrances, artificial and fine jewellery, footwear, and personal accessories such as watches, sunglasses, handbags, wallets and belts, kids wear, toys, home decor, and much more. Shoppers Stop offers more than 400 of the finest national and international brands across such categories.

The brand’s virtue of always “Putting the customer first” has enabled it to pioneer a reward-based loyalty pro- gram called The Shoppers Stop First Citizen Loyalty Program. With a growing base of over 3.2 million members who annually contribute to over 72 percent of sales, this program is one of the biggest and most successful initiative in this category.

The First Citizen Loyalty Program is a 3-tiered program—Classic Moments, Silver Edge, and Golden Glow. Cus- tomers can enter the program by paying a subscription fee of ` 300. Subsequently, First Citizen members earn reward points on all their purchases. Apart from this, members also enjoy special benefits and privileges such as ex- clusive preview of the end-of-season sale, free parking, tailor-made offers, access to the state-of-the-art First Citizen lounge , and more.

The loyalty program is not only beneficial to customers, but it is advantageous to the store as well. The loyalty program enables Shoppers Stop to record and store First Citizens’ purchase data. This data is analyzed routinely to get rich insights into customer behavior. These insights, in turn, help Shoppers Stop craft targeted offers and pro- motions that lead to incremental sales. In FY 14, Shoppers Stop was able to generate ` 100 crore from monetizing such insights.

It is clear that the Shoppers Stop First Citizen Loyalty Program is a huge success. It represents a serious, en- gaged, and committed base of customers who are resolutely loyal to the retailer.

Shoppers Stop

Source: Shoppers Stop

Permission Marketing. Permission marketing, the practice of marketing to consumers only after gain- ing their express permission, was another influential perspective on how companies can break through the clutter and build customer loyalty. A pioneer on the topic, Seth Godin, has noted that marketers can no longer employ “interruption marketing” or mass media campaigns featuring magazines, direct mail, billboards, radio and television commercials, and the like, because consumers have come to expect—but not necessar- ily appreciate—these interruptions.18 By contrast, Godin asserts, consumers appreciate receiving marketing messages they gave permission for: “The worse the clutter gets, the more profitable your permission market- ing efforts become.”

Image source: Shoppers Stop

Given the large number of marketing communications that bombard consumers every day, Godin argues that if marketers want to attract a consumer’s attention, they first need to get his or her permis- sion with some kind of inducement—a free sample, a sales promotion or discount, a contest, and so on. By eliciting consumer cooperation in this manner, marketers might develop stronger relationships with consumers so that they desire to receive further communications in the future. Those relationships will only develop, however, if marketers respect consumers’ wishes, and if consumers express a willingness to become more involved with the brand.19

With the help of large databases and advanced software, companies can store gigabytes of cus- tomer data and process this information in order to send targeted, personalized marketing e-mail mes- sages to customers. Godin identifies five steps to effective permission marketing:

1. Offer the prospect an incentive to volunteer.

2. Offer the interested prospect a curriculum over time, teaching the consumer about the product or service being marketed.
3. Reinforce the incentive to guarantee that the prospect maintains his or her permission.
4. Offer additional incentives to get more permission from the consumer.
5. Over time, leverage the permission to change consumer behavior toward profits.

In Godin's view, effective permission marketing works because it is expected and relevant. A recent consumer research study provides some support: 87 percent of respondents agreed that e-mail is a great way to hear about new products available from retail companies; 88 percent of respondents said a retail- er's e-mail has prompted them to download/print out a coupon; 75 percent said it has led them to buy a product online; 67 percent said it has prompted an offline purchase; and 60 percent have been persuaded to experiment with a product for the first time.20 Amazon.com has successfully applied permission mar- keting on the Web for years.21

AMAZON

With customer permission, online retailer Amazon uses database software to track its customers' purchase habits and send them personalized marketing messages. Each time a customer purchases something from Amazon.com, he or she can receive a follow-up e-mail containing information about other products that might interest him or her based on that purchase. For example, if a customer buys a book, Amazon might send an e-mail containing a list of titles by the same author, or of titles also purchased by customers who bought the original title. With just one click, the customer can get more detailed information. Amazon also sends periodic e-mails to customers in- forming them of new products, special offers, and sales. Each message is tailored to the individual customer based on past purchases and specified preferences, according to customer wishes. Amazon keeps an exhaustive list of past purchases for each customer and makes extensive recommendations.

Permission marketing is a way of developing the "consumer dialogue" component of one-to-one marketing in more detail. One drawback to permission marketing, however, is that it presumes that con- sumers have some sense of what they want. In many cases, consumers have undefined, ambiguous, or conflicting preferences that might be difficult for them to express. Thus, marketers must recognize that consumers may need to be given guidance and assistance in forming and conveying their preferences. In that regard, participation marketing may be a more appropriate term and concept to employ, because mar- keters and consumers need to work together to find out how the firm can best satisfy consumer goals.22

Reconciling the Different Marketing Approaches

These and other different approaches to personalization help reinforce a number of important marketing concepts and techniques. From a branding point of view, they are particularly useful means of both elic- iting positive brand responses and creating brand resonance to build customer-based brand equity. Mass customization and one-to-one and permission marketing are all potentially effective means of getting consumers more actively engaged with a brand.

According to the customer-based brand equity (CBBE) model, however, these different approaches emphasize different aspects of brand equity. For example, mass customization and one-to-one and per- mission marketing might be particularly effective at creating greater relevance, stronger behavioral loyalty, and attitudinal attachment. Experiential marketing, on the other hand, would seem to be par- ticularly effective at establishing brand imagery and tapping into a variety of different feelings as well as helping build brand communities. Despite potentially different areas of emphasis, all four approaches can build stronger consumer–brand bonds.

One implication of these new approaches is that the traditional “marketing mix” concept and the notion of the “4 Ps” of marketing—product, price, place (or distribution), and promotion (or marketing communications)—may not fully describe modern marketing programs, or the many activities, such as loyalty programs or pop-up stores, that may not necessarily fit neatly into one of those designations. Nev- ertheless, firms still have to make decisions about what exactly they are going to sell, how (and where) they are going to sell it, and at what price. In other words, firms must still devise product, pricing, and distribution strategies as part of their marketing programs.

The specifics of how they set those strategies, however, have changed considerably. We turn next to these topics and highlight a key development in each area, recognizing that there are many other important areas beyond the scope of this text. With product strategy, we emphasize the role of extrinsic factors; with pricing strategy, we focus on value pricing; and with channel strategy, we concentrate on channel integration.

PRODUCT STRATEGY

The product itself is the primary influence on what consumers experience with a brand, what they hear about a brand from others, and what the firm can tell customers about the brand. At the heart of a great brand is invariably a great product.

Designing and delivering a product or service that fully satisfies consumer needs and wants is a prerequisite for successful marketing, regardless of whether the product is a tangible good, service, or organization. For brand loyalty to exist, consumers’ experiences with the product must at least meet, if not actually surpass, their expectations.

After considering how consumers form their opinions of the quality and value of a product, we consider how marketers can go beyond the actual product to enhance product experiences and add ad- ditional value before, during, and after product use.

Perceived Quality

Perceived quality is customers’ perception of the overall quality or superiority of a product or service compared to alternatives and with respect to its intended purpose. Achieving a satisfactory level of per- ceived quality has become more difficult as continual product improvements over the years have led to heightened consumer expectations.23

Much research has tried to understand how consumers form their opinions about quality. The spe- cific attributes of product quality can vary from category to category. Nevertheless, consistent with the brand resonance model from Chapter 3, research has identified the following general dimensions: pri- mary ingredients and supplementary features; product reliability, durability and serviceability; and style and design.24 Consumer beliefs about these characteristics often define quality and, in turn, influence attitudes and behavior toward a brand.

Product quality depends not only on functional product performance but on broader performance considerations as well, like speed, accuracy, and care of product delivery and installation; the prompt- ness, courtesy, and helpfulness of customer service and training; and the quality of repair service.

Brand attitudes may also depend on more abstract product imagery, such as the symbolism or per- sonality reflected in the brand. These “augmented” aspects of a product are often crucial to its equity. Finally, consumer evaluations may not correspond to the perceived quality of the product and may be formed by less thoughtful decision making, such as simple heuristics and decision rules based on brand reputation or product characteristics such as color or scent.

Aftermarketing

To achieve the desired brand image, product strategies should focus on both purchase and consumption. Much marketing activity is devoted to finding ways to encourage trial and repeat purchases by con- sumers. Perhaps the strongest and potentially most favorable associations, however, result from actual product experience—what Procter & Gamble calls the “second moment of truth” (the “first moment of truth” occurs at purchase).

Unfortunately, too little marketing attention is devoted to finding new ways for consumers to truly appreciate the advantages and capabilities of products. Perhaps in response to this oversight, one no- table trend in marketing is the growing role of aftermarketing, that is, those marketing activities that occur after customer purchase. Innovative design, thorough testing, quality production, and effective communication—through mass customization or any other means—are without question the most im- portant considerations in enhancing product consumption experiences that build brand equity.

In many cases, however, they may only be necessary and not sufficient conditions for brand suc- cess, and marketers may need to use other means to enhance consumption experiences. Here we con- sider the role of user manuals, customer service programs, and loyalty programs.

User Manuals. Instruction or user manuals for many products are too often an afterthought, put to- gether by engineers who use overly technical terms and convoluted language. Online help forums put the consumer at the mercy of other equally ignorant users or so-called experts who may not understand or appreciate the obstacles the average consumer faces.

As a result, consumers’ initial product experiences may be frustrating or, even worse, unsuccessful. Even if consumers are able to figure out how to make the product perform its basic functions, they may not learn to appreciate some of its more advanced features, which are usually highly desirable and pos- sibly unique to the brand.

To enhance consumers’ consumption experiences, marketers must develop user manuals or help fea- tures that clearly and comprehensively describe both what the product or service can do for consumers and how they can realize these benefits. With increasing globalization, writing easy-to-use instructions has be- come even more important because they often require translation into multiple languages.25 Manufacturers are spending more time designing and testing instructions to make them as user friendly as possible.

User manuals increasingly may need to appear in online and multimedia formats to most effec- tively demonstrate product functions and benefits. Intuit, makers of the Quicken personal finance man- agement software package, routinely sends researchers home with first-time buyers to check that its software is easy to install and to identify any sources of problems that might arise. Corel software adopts a similar “Follow Me Home” strategy and also has “pizza parties” at the company where mar- keting, engineering, and quality assurance teams analyze the market research together, so that market- ing does not just hand down conclusions to other departments.26

Customer Service Programs. Aftermarketing, however, is more than the design and communication of product instructions. As one expert in the area notes, “The term ‘aftermarketing’ describes a neces- sary new mind-set that reminds businesses of the importance of building a lasting relationship with customers, to extend their lifetimes. It also points to the crucial need to better balance the allocation of marketing funds between conquest activities (like advertising) and retention activities (like customer communication programs).”27

Creating stronger ties with consumers can be as simple as creating a well-designed customer ser- vice department. Research by Accenture in 2010 found that two in three customers switched companies in the past year due to poor customer service.28 In the auto industry, after-sales service from the dealer is a critical determinant of loyalty and repeat buying of a brand. Routine maintenance and unplanned repairs are an opportunity for dealers to strengthen their ties with customers.29

Aftermarketing can include the sale of complementary products that help make up a system or in any other way enhance the value of the core product. Printer manufacturers such as Hewlett-Pack- ard derive much of their revenue from high-margin postpurchase items such as ink-jet cartridges, laser

HP makes much more money selling printer cartridges than from selling the printer itself. Source: Brown Adrian/SIPA/ Newscom

toner cartridges, and paper specially designed for PC printers. The average owner of a home PC printer spends much more on consumables over the lifetime of the machine than on the machine itself.30

Aftermarketing can be an important determinant of profitability. For example, roughly three-quarters of revenue for aerospace and defense providers comes from aftermarket support and related sales. After- market sales are strongest when customers are locked in to buying from the company that sold them the primary product due to service contracts, proprietary technology or patents, or unique service expertise.31

Loyalty Programs. Loyalty or frequency programs have become one popular means by which market- ers can create stronger ties to customers.32 Their purpose is “identifying, maintaining, and increasing the yield from a firm’s ‘best’ customers through long-term, interactive, value-added relationships.”33 Firms in all kinds of industries—most notably the airlines—have established loyalty programs through different mixtures of specialized services, newsletters, premiums, and incentives. Often they include extensive co- branding arrangements or brand alliances.

AMERICAN AIRLINES

In 1981, American Airlines founded the first airline loyalty program, called AAdvantage. This frequent-flier program rewarded the airline’s top customers with free trips and upgrades based on mileage flown. By recognizing customers for their patronage and giving them incentives to bring their business to American Airlines, the airline hoped to increase loyalty among its passengers. The program was an instant success, and other airlines quickly followed suit. These days, members can earn miles at more than 1,000 participating companies, which include over 35 hotel chains representing more than 75 brands, more than 20 airlines, eight car rental companies, and approximately 25 major retail/financial companies. In addition, members can earn miles when making purchases with one of more than 60 affinity card prod- ucts in 30 countries. Today, scores of frequent-traveler programs exist, but American Airlines is still one of the largest, with membership of over 67 million in 2011.34

Many businesses besides airlines introduced loyalty programs in the intervening years because they of- ten yield results.35 As one marketing executive said, "Loyalty programs reduce defection rates and increase retention. You can win more of a customer's purchasing share." The value created by the loyalty program cre- ates switching costs for consumers, reducing price competition among brands.

To get discounts, however, consumers must typically hand over personal data, raising privacy concerns. When the loyalty program is tied into a credit card, as is sometimes the case, privacy concerns are even

more acute. Nevertheless, the lure of special deals can be compelling to consumers, and in 2011, there were more than 2 billion memberships in loyalty programs, with an average value of $622 points issues per household. A third of these rewards, however, remain unredeemed.36

The appeal to marketers is clear too. Fifteen percent of a retailer's most loyal customers can ac- count for as much as half its sales, and it can take between 12 and 20 new customers to replace a lost loyal customer.37 Some tips for building effective loyalty programs follow:38

• Know your audience: Most loyalty marketers employ sophisticated databases and software to deter- mine which customer segment to target with a given program. Target customers whose purchasing behavior can be changed by the program.
• Change is good: Marketers must constantly update the program to attract new customers and pre- vent other companies in their category from developing "me-too" programs. "Any loyalty program that stays static will die," said one executive.
• Listen to your best customers: Suggestions and complaints from top customers deserve careful con- sideration, because they can lead to improvements in the program. Because they typically represent a large percentage of business, top customers must also receive better service and more attention.
• Engage people: Make customers want to join the program. Make the program easy to use and offer immediate rewards when customers sign up. Once they become members, make customers "feel special," for example, by sending them birthday greetings, special offers, or invitations to special events.

Summary

The product is at the heart of brand equity. Marketers must design, manufacture, market, sell, deliver, and service products in a way that creates a positive brand image with strong, favorable, and unique brand associations; elicits favorable judgments and feelings about the brand; and fosters greater degrees of brand resonance.

Product strategy entails choosing both tangible and intangible benefits the product will embody and marketing activities that consumers desire and the marketing program can deliver. A range of possible associations can become linked to the brand—some functional and performance-related, and some abstract and imagery-related. Perceived quality and perceived value are particularly important brand associations that often drive consumer decisions. Because of the importance of loyal customers, relationship marketing has become a branding prior- ity. Consequently, consumers' actual product experiences and aftermarketing activities have taken on increased importance in building customer-based brand equity. Those marketers who will be most suc- cessful at building CBBE will take the necessary steps to make sure they fully understand their custom- ers and how they can deliver superior value before, during, and after purchase.

CROSSWORD BOOK REWARD PROGRAMME

Crossword Bookstores—a point of cultural and social interaction where authors and poets hold court, where chil- dren are regaled, where people gravitate to be informed, to be entertained, and even enlightened. Crossword is a national phenomenon and a book lovers' delight, now spanning across the country with almost 90 stores.

In addition to offering book lovers a lovely ambience to shop, the brand also introduced its loyalty programme, Crossword Book Reward Program (BRP), in the year 1999. It has rewarded more than 4.5 lakh loyal customers with reward points, exclusive offers, "eWords", a monthly e-newsletter with reviews of new books, news about in store events, bestseller lists, and more. Crossword customers can now enroll as a Book Rewards Member on payment of ` 200. Every ` 40 and its multiple spent at Crossword on any merchandise earns one point. The points can be redeemed at all Crossword bookstores.

Customers also receive several allied benefits like extended exchange period, additional discounts on annual sale, discounts on birthdays, and free home delivery, which makes the customers feel special. This program has significantly increased average spending of loyal customers per visit and also the sales derived from such purchases.

Crossword

Source: www.crossword.in/default/default/p-gifts-b-r.html, accessed on 18 September 2014; www.desidime.com/forums/hot-deals-online/topics/crossword-book-rewards-member-rs75, accessed on 18 September 2014; corporate.shoppersstop.com/Brand/Crossword.aspx, accessed on 18 September 2014.

PRICING STRATEGY

Price is the one revenue-generating element of the traditional marketing mix, and price premiums are among the most important benefits of building a strong brand. This section considers the different kinds of price perceptions that consumers might form, and different pricing strategies that the firm might adopt to build brand equity.

Consumer Price Perceptions

The pricing strategy can dictate how consumers categorize the price of the brand (as low, medium, or high), and how firm or how flexible they think the price is, based on how deeply or how frequently it is discounted. Consumers often rank brands according to price tiers in a category.39 For example, Figure 5-3 shows the price tiers that resulted from a study of the ice cream market.40 In that market, as the figure shows, there is also a relationship between price and quality. Within any price tier, there is a range of accept- able prices, called price bands, that indicate the flexibility and breadth marketers can adopt in pricing their brands within a tier. Some companies sell multiple brands to better compete in multiple categories. Figure 5-4 displays clothing offerings from Phillips Van Huesen that at one time covered a wide range of prices and corresponding retail outlets.41

Besides these descriptive "mean and variance" price perceptions, consumers may have price per-
ceptions that have more inherent product meaning. In particular, in many categories, they may infer the quality of a product on the basis of its price and use perceived quality and price to arrive at an assessment of perceived value. Costs here are not restricted to the actual monetary price but may reflect opportunity costs of time, energy, and any psychological involvement in the decision that consumers might have.42

Image source: Crosswords

Quality
Consumer Reports rating
Excellent
Very good
Good
Fair
Lady Lee
Sealtest
Foremost Borden
Howard Johnson's
Breyer's
Lucerne Deluxe
20
Schrafft's Häagen- Dazs
Baskin-Robbins
30 40 50¢
Distribution Channels
$10 Brand Pricing Strategy Price Range
FIGURE 5-4 Phillips Van- Heusen Brand Price Tiers
0
10
Generic
FIGURE 5-3
Price Tiers in the Ice Cream Market

Consumer price, cents per 4-ounce serving
Calvin Klein Collection ck Calvin Klein
BCBG Max Azria Sean John

Kenneth Cole New York Calvin Klein
MICHAEL Michael Kors
BCBG Attitude Kenneth Cole Reaction
Geoffrey Beene IZOD
Bass Chaps
$10,000
Van Heusen Arrow

Consumer associations of perceived value are often an important factor in purchase decisions. Thus many marketers have adopted value-based pricing strategies—attempting to sell the right product at the right price—to better meet consumer wishes, as described in the next section.

In short, price has complex meaning and can play multiple roles to consumers. The Science of Branding 5-2 provides insight into how consumers perceive and process prices as part of their shop- ping behavior. Marketers need to understand all price perceptions that consumers have for a brand, to uncover quality and value inferences, and to discover any price premiums that exist.

Setting Prices to Build Brand Equity

Choosing a pricing strategy to build brand equity means determining the following:
• A method for setting current prices
• A policy for choosing the depth and duration of promotions and discounts

Commodity Specialty
Collection stores
Specialty stores
Premier department stores
Department stores
Mid-tier department stores
Company stores
Discount stores

 THE SCIENCE OF BRANDING 5-2

Understanding Consumer Price Perceptions

Economists traditionally assumed that consumers were “price takers” who accepted prices as given. However, as Ofir and Winer note, consumers and customers often actively process price information, interpreting prices in terms of their knowledge from prior purchasing experience, formal commu- nications such as advertising, informal communications from friends or family members, and point-of-purchase or online information. Consumer purchase decisions are based on con- sumers’ perceived prices, however, not the marketer’s stated value. Understanding how consumers arrive at their percep- tions of prices is thus an important marketing priority.

Much research has shown that surprisingly few consum- ers can recall specific prices of products accurately, although they may have fairly good knowledge of the relevant range of prices. When examining or considering an observed price, however, consumers often compare it with internal frames of reference (prices they remember) or external frames of refer- ence (a posted “regular retail price”). Internal reference prices occur in many forms, such as the following:

as a stated price higher than the perceived price, have a greater impact on purchase likelihood than pleasant surprises.

Consumer perceptions of prices are also affected by alterna- tive pricing strategies. For example, research has shown that a rela- tively expensive item can seem less expensive if the price is broken down into smaller units (a $500 annual membership seems pricier than "less than $50 a month"). One reason prices often end with the number nine (as in, say, $49.99) is that consumers process prices in a left-to-right manner rather than holistically or by round- ing. This effect is more pronounced when competing products' prices are numerically and psychologically closer together.

Even the competitive environment has been shown to af- fect consumer price judgments: deep discounts (like everyday low pricing or EDLP) can lead to lower perceived prices over time than frequent, shallow discounts (high-low pricing or HILO), even if the average prices are the same in both cases. Clearly, consumer perceptions of price are complex and de- pend on the pricing context involved.

Sources: Chezy Ofir and Russell S. Winer, "Pricing: Economic and Behavioral Models," in Handbook of Marketing, eds. Bart Weitz and Robin Wensley (New York: Sage Publications, 2002): 5–86; John T. Gourville, "Pennies-a-Day: The Effect of Temporal Reframing on Transaction Evaluation," Journal of Consumer Research (March 1998): 395–408; Manoj Thomas and Vicki Morwitz, "Penny Wise and Pound Foolish: The Left-Digit Effect in Price Cognition," Journal of Con- sumer Research 26 (June 2005): 54–64; Eric Anderson and Duncan Simester, "Mind Your Pricing Cues," Harvard Business Review 81, no. 9 (September 2003): 96–103; Tridib Mazumdar, S. P. Raj, and Indrajit Sinha, "Reference Price Research: Review and Propositions," Journal of Marketing 69 (October 2005): 84–102.

• "Fair price" (what product should cost)
• Typical price
• Last price paid
• Upper-bound price (the most consumer would pay)
• Lower-bound price (the least consumer would pay)
• Competitive prices
• Expected future price • Usual discounted price

When consumers evoke one or more of these frames of reference, their perceived price can vary from the stated price. Most research on reference prices has found that "unpleasant surprises," such

There are many different approaches to setting prices, and the choice depends on a number of consider- ations. This section highlights a few of the most important issues as they relate to brand equity.43

Factors related to the costs of making and selling products and the relative prices of competi- tive products are important determinants in pricing strategy. Increasingly, however, firms are placing greater importance on consumer perceptions and preferences. Many firms now are employing a value- pricing approach to setting prices and an everyday-low-pricing (EDLP) approach to determining their discount pricing policy over time. Let's look at both.

Value Pricing. The objective of value pricing is to uncover the right blend of product quality, product costs, and product prices that fully satisfies the needs and wants of consumers and the profit targets of the firm. Marketers have employed value pricing in various ways for years, sometimes learning the hard way that consumers will not pay price premiums that exceed their perceptions of the value of a brand. Perhaps the most vivid illustration was the legendary price cut for Philip Morris's leading cigarette brand, Marlboro, described in Branding Brief 5-1.44

 BRANDING BRIEF 5-1

Marlboro's Price Drop

On April 2, 1993, or "Marlboro Friday," Philip Morris dropped a bombshell in the form of an advertorial announcing that Philip Morris USA has dramatically shifted its corporate strategy and is now aligning it to building long-term profit- ability in a highly valuable and price sensitive market. Tobacco unit president and CEO William I. Campbell reiterated that the company was concerned about the prolonged economic con- ditions and depressed consumer confidence, and thus required the price decrease strategy to grow market share in order to maintain Philip Morris's leadership position in the market.

Philip Morris announced four major steps, the fourth of which caught the eye of marketers and Wall Street alike: a major promotional cut in the price of Marlboro (roughly 40 to 50 cents a pack), which was expected to decrease earnings in Philip Morris's most profitable unit by 40 percent. The action was justified by the results of a month-long test in Portland, Oregon, the previous December in which a 40-cent decrease in pack price had increased market share by 4 points.

The stock market reaction to the announcement was swift. By day's end, Philip Morris's stock price had declined from $64.12 to $49.37, a 23 percent drop that represented a one-day loss of $13 billion in shareholder equity! There was a ripple effect in the stock market, with significant stock price de- clines for other consumer goods companies with major brands like Sara Lee, Kellogg's, General Mills, and Procter & Gamble. A company that took one of the biggest hits was Coca-Cola, whose shareholders lost $5 billion in paper earnings in the days following "Black Friday."

A number of factors probably led Marlboro to cut prices so dramatically. The economy certainly was still sluggish, coming out of a recession. Private-label or store-brand cigarettes had been increasing in quality and were receiving more attention from customers and retailers. A prime consideration suggested by many was related to Philip Morris's hefty price increases. These had often occurred two to three times a year, so that the retail price of a pack of Marlboros more than tripled between 1980 and 1992. The 80 cents to $1 difference between pre- mium brands and discount brands that prevailed at that time was thought to have resulted in steady sales increases for the discount brands at the expense of Marlboro's market share, which had dropped to 22 percent and was projected to decline further to 18 percent if Philip Morris made no changes.

Although much of the popular press attempted to exploit Marlboro's actions to proclaim that "brands were dead," noth- ing could have been further from the truth. In fact, a more ac- curate interpretation of the whole episode is that it showed that new brands were entering the scene, as evidenced by the ability of discount brands to create their own brand equity on the basis of strong consumer associations to "value."

At the same time, existing brands, if properly managed, can command loyalty, enjoy price premiums, and still be ex- tremely profitable. By cutting the difference between discount cigarettes and Marlboro to roughly 40 cents, Philip Morris was able to woo back many customers. Within nine months after the price drop, its market share increased to almost 27 percent. Years later, Marlboro currently owns 42 percent of the market. Priced at $5.70 a pack, the brand commands a significant pre- mium over the average $4.21 price for the cheapest brands on the market.

Sources: Laura Zinn, “The Smoke Clears at Marlboro,” BusinessWeek, 31 January 1994, 76–77; Al Silk and Bruce Isaacson, “Philip Morris: Marlboro Friday (A),” Harvard Business School Case 9–596–001; Michael Felberbaum, “Altria 1Q Net Rises, but Marlboro Loses Ground,” Bloomberg BusinessWeek, 20 April 2011.

Two important and enduring branding lessons emerged from the Marlboro episode. First, strong brands can command price premiums. Once Marlboro’s price entered a more acceptable range, consumers were willing to pay the still-higher price, and sales of the brand started to in- crease. Second, strong brands cannot command an excessive price premium. The clear signal sent to marketers everywhere is that price hikes without corresponding investments in the value of the brand may increase the vulnerability of the brand to lower-priced competition. In these cases, con- sumers may be willing to “trade down” because they no longer can justify to themselves that the higher-priced brand is worth it. Although the Marlboro price discounts led to short-term profitabil- ity declines, they also led to regained market share that put the brand on a stronger footing over the longer haul.

In today’s challenging new climate, several firms have been successful by adopting a value-pricing strategy. For example, Walmart’s slogan, “Save Money. Live Better,” describes the pricing

Walmart’s “Save Money. Live Better” slogan succinctly summarizes its strong value positioning.
Source: Beth Hall/Bloomberg via Getty Images

strategy that has allowed it to become the world’s largest retailer. Southwest Airlines combined low fares with no-frills—but friendly—service to become a powerful force in the airline industry. The success of these and other firms has dramatized the potential benefits of implementing a value- pricing strategy.

As you might expect, there are a number of opinions regarding the keys for success in adopting a value-based pricing approach. In general, however, an effective value-pricing strategy should strike the proper balance among three key components:

- Product design and delivery
- Product costs
- Product prices

In other words, as we’ve seen before, the right kind of product has to be made the right way and sold at the right price. We look at each of these three elements below. Meanwhile, a brand that has experienced much success in recent years balancing this formula is Hyundai.

HYUNDAI

Taking a page from the Samsung playbook, Korean upstart automaker Hyundai is trying to do to Toyota and Honda what Samsung successfully did to Sony—provide an affordable alternative to a popular market leader. Like Samsung, Hyundai has adopted a well-executed value pricing strategy that combines advanced technol- ogy, reliable performance, and attractive design with lower prices. While discussing the 2011 Sonata Sedan and revamped Tuscon crossover, the head of US design said, that the idea is to make a car that looks like a premium car which does not have a premium price attached to it. He also said that Hyundai wanted people to be pulled out of Camrys and Accords and give them something different with better value. Hyundai's 10-year or 100,000 mile power train warranty programs and positive reviews from car analysts such as J. D. Power provided additional reassurance to potential buyers of the quality of the products and the company's stability. To maintain momentum during the recession, Hyundai's "Assurance" program, featuring a highly publicized Super Bowl TV spot, allowed new buyers to return their Hyundai vehicles if they lost their job. All these efforts were met with greater customer acceptance: the number of potential U.S. buyers who say they would "defi- nitely" consider a Hyundai tripled from 2000 to 2009. Hyundai's current Assurance program is centered on a new Trade-in Value Guarantee that preserves the market value of a new Hyundai by guaranteeing to customers at the time of purchase exactly how much it would be worth, two, three, or four years from now.45

Hyundai has a strong value proposition, anchored by its 10-year or 100,000-mile warranty.
Source: Hyundai Motor America

Product Design and Delivery. The first key is the proper design and delivery of the product. Product value can be enhanced through many types of well-conceived and well-executed marketing programs, such as those covered in this and other chapters of the book. Proponents of value pricing point out that the concept does not mean selling stripped-down versions of products at lower prices. Consumers are willing to pay premiums when they perceive added value in products and services.

Some companies actually have been able to increase prices by skillfully introducing new or im- proved "value-added" products. Some marketers have coupled well-marketed product innovations and improvements with higher prices to strike an acceptable balance to at least some market segments. Here are two examples of Procter & Gamble brands that used that formula to find marketplace success in the midst of the deep recession of 2008–2010.

• P&G introduced its most expensive Gillette razor ever, the Fusion ProGlide, by combining an inno- vative product with strong marketing support. Its "Turning Shaving into Gliding and Skeptics into Believers" campaign for Fusion ProGlide gave sample razors to bloggers and ran ads online and on TV showing men outside their homes given impromptu shaves with the new razor.46

• P&G's Pepto-Bismol stomach remedy liquid was able to command a 60 percent price premium over private labels through a blend of product innovation (new cherry flavors) and an engaging advertising campaign that broke copy-testing research records for the brand ("Coverage" featuring a headset-wearing, pink-vested "Pepto Guy" fielding calls and offering humorous advice to gastro- intestinally challenged callers).47

With the advent of the Internet, many critics predicted that customers' ability to perform extensive, assisted online searches would result in only low-cost providers surviving. In reality, the advantages of creating strong brand differentiation have led to price premiums when brands are sold online just as much as when sold offline. For example, although undersold by numerous book and music sellers online, Amazon.com was able to maintain market leadership, eventually forcing low-priced competitors such as Books.com and others out of business.48

Product Costs. The second key to a successful value-pricing strategy is to lower costs as much as pos- sible. Meeting cost targets invariably requires finding additional cost savings through productivity gains, outsourcing, material substitution (less expensive or less wasteful materials), product reformulations, and process changes like automation or other factory improvements.49 As one marketing executive once put it:

The customer is only going to pay you for what he perceives as real value-added. When you look at your overhead, you've got to ask yourself if the customer is really willing to pay for that. If the answer is no, you've got to figure out how to get rid of it or you're not going to make money.50

Famous athletes and celebrities— such as NBA player Tony Parker, WWE wrestler John Cena, and TV sportscaster Erin Andrews—have promoted Gillette's latest Fusion ProGlide razor and its innovative performance features.

Source: mZUMA Press/Newscom

To reduce its costs to achieve value pricing, Procter & Gamble cut overhead according to four simple guidelines: change the work, do more with less, eliminate work, and reduce costs that cannot be passed on to consumers. P&G simplified the distribution chain to make restocking more efficient through continuous product replenishment. The company also scaled back its product portfolio by elim- inating 25 percent of its stock-keeping units.

Firms have to be able to develop business models and cost structures to support their pricing plans. Taco Bell reduced operating costs enough to lower prices for many items on the menu to under $1, spark- ing an industry-wide trend in fast foods. Unfortunately, many other fast food chains found it difficult to lower their overhead costs enough or found that their value menu cannibalized more profitable items.51

Cost reductions certainly cannot sacrifice quality, effectiveness, or efficiency. Toyota and Johnson & Johnson's Tylenol both experienced brand crises due to product problems, which analysts and even some of the management of the two firms attributed to overly zealous cost reductions. When H&R Block cut costs as it moved into new areas outside tax preparation, customer service suffered and cus- tomers began to complain about long wait times and rudeness.52

Product Prices. The final key to a successful value-pricing strategy is to understand exactly how much value consumers perceive in the brand and thus to what extent they will pay a premium over product costs.53 A number of techniques are available to estimate these consumer value perceptions. Perhaps the most straightforward approach is to directly ask consumers their perceptions of price and value in different ways.

The price suggested by estimating perceived value can often be a starting point for marketers in determining actual marketplace prices, adjusting by cost and competitive considerations as necessary. For example, to halt a precipitous slide in market share for its flagship 9-Lives brand, the pet products division of H. J. Heinz took a new tack in its pricing strategy. The company found from research that consumers wanted to be able to buy cat food at the price of "four cans for a dollar," despite the fact that its cat food cost between 29 and 35 cents per can. As a result, Heinz reshaped its product packag- ing and redesigned its manufacturing processes to be able to hit the necessary cost, price, and margin targets. Despite lower prices, profits for the brand doubled.

Communicating Value. Combining these three components in the right way to create value is crucial. Just delivering good value, however, is necessary but not sufficient for achieving pricing success—con- sumers have to actually understand and appreciate the value of the brand. In many cases, that value may be obvious—the product or service benefits are clear and comparisons with competitors are easy. In other cases, however, value may not be obvious, and consumers may too easily default to purchasing lower- priced competitors. Then marketers may need to engage in marketing communications to help consumers

better recognize the value. In some cases, the solution may simply require straightforward communications that expand on the value equation for the brand, such as stressing quality for price. In other cases, it may involve "framing" and convincing consumers to think about their brand and product decisions differently.

For example, take a premium-priced brand such as Procter & Gamble's Pantene. It faces pressure from many competing brands, but especially private-label and store and discount brands that may cost much less. In tough times, even small cost savings may matter to penny-pinching consumers. Assume a bottle of Pantene cost a $1 more than its main competitors but could be used for up to 100 shampoos. In that case, the price difference is really only one cent per shampoo. By framing the purchase decision in terms of cost per shampoo, P&G could then advertise, "Isn't it worth a penny more to get a better- looking head of hair?"

Price Segmentation. At the same time, different consumers may have different value perceptions and therefore could—and most likely should—receive different prices. Price segmentation sets and ad- justs prices for appropriate market segments. Apple has a three-tier pricing scheme for iTunes down- loads—a base price of 99 cents, but $1.29 for popular hits and 69 cents for oldies-but-not-so-goodies.54 Starbucks similarly has raised the prices of some of its specialty beverages while charging less for some basic drinks.55

In part because of wide adoption of the Internet, firms are increasingly employing yield manage- ment principles or dynamic pricing, such as those adopted by airlines to vary their prices for different market segments according to their different demand and value perceptions. Here are several examples:

• Allstate Insurance embarked on a yield management pricing program, looking at drivers' credit history, demographic profile, and other factors to better match automobile policy premiums to cus- tomer risk profiles.56

• To better compete with scalpers and online ticket brokers such as StubHub, concert giant Tick- etmaster has begun to implement more efficient variable pricing schemes based on demand that charge higher prices for the most sought-after tickets and lower prices for less-desirable seats for sporting events and concerts.57

• The San Francisco Giants now uses a software system that allows the team to look at different vari- ables such as current ticket sales, weather forecasts, and pitching matchups to determine whether it should adjust prices—right up until game day. The software allows the team to take the price-tier strategy baseball has traditionally used and make it more dynamic.58
• New start-up Village Vines offers a demand-management solution to restaurants that allows them to effectively price discriminate by offering deal-prone customers the option of making reservations for 30 percent off the entire bill on select (less desirable) days and times.59

Everyday Low Pricing. Everyday low pricing (EDLP) has received increased attention as a means of determining price discounts and promotions over time. EDLP avoids the sawtooth, whiplash pattern of alternating price increases and decreases or discounts in favor of a more consistent set of "everyday" base prices on products. In many cases, these EDLP prices are based on the value-pricing considerations we've noted above.

The P&G Experience. In the early 1990s, Procter & Gamble made a well-publicized conversion to EDLP.60 By reducing list prices on half its brands and eliminating many temporary discounts, P&G reported that it saved $175 million in 1991, or 10 percent of its previous year's profits. Advocates of EDLP argue that maintaining consistently low prices on major items every day helps build brand loy- alty, fend off private-label inroads, and reduce manufacturing and inventory costs.61

Even strict adherents of EDLP, however, see the need for some types of price discounts over time. When P&G encountered some difficulties in the late 1990s, it altered its value-pricing strategy in some segments and reinstated selected price promotions. More recently, P&G has adopted a more fluid pric- ing strategy in reaction to market conditions.62 Although P&G lowered prices in 2010 to try to gain market share in the depths of a severe recession, the company actually raised some prices to offset

The San Francisco Giants have used yield pricing at their AT&T Park home, basing prices for any seat at any game on a number of different factors.

Source: Aurora Photos/Alamy

rising commodity costs in 2011. Management felt confident about the strength of some of the firm's popular premium-priced brands—such as Fusion ProGlide, Crest 3-D products, and Old Spice body wash—where demand had actually even exceeded supply.

As Chapter 6 will discuss, well-conceived, timely sales promotions can provide important financial incentives to consumers and induce sales. As part of revenue-management systems or yield-manage- ment systems, many firms have been using sophisticated models and software to determine the optimal schedule for markdowns and discounts.63

Reasons for Price Stability. Why then do firms seek greater price stability? Manufacturers can be hurt by an overreliance on trade and consumer promotions and the resulting fluctuations in prices for several reasons.

For example, although trade promotions are supposed to result in discounts on products only for a certain length of time and in a certain geographic region, that is not always the case. With forward buy- ing, retailers order more product than they plan to sell during the promotional period so that they can later obtain a bigger margin by selling the remaining goods at the regular price after the promotional pe- riod has expired. With diverting, retailers pass along or sell the discounted products to retailers outside the designated selling area.

From the manufacturer's perspective, these retailer practices created production complications: fac- tories had to run overtime because of excess demand during the promotion period but had slack capacity when the promotion period ended, costing manufacturers millions. On the demand side, many market- ers felt that the seesaw of high and low prices on products actually trained consumers to wait until the brand was discounted or on special to buy it, thus eroding its perceived value. Creating a brand associa- tion to "discount" or "don't pay full price" diminished brand equity.

Summary

To build brand equity, marketers must determine strategies for setting prices and adjusting them, if at all, over the short and long run. Increasingly, these decisions will reflect consumer perceptions of value. Value pricing strikes a balance among product design, product costs, and product prices. From a brand equity perspective, consumers must find the price of the brand appropriate and fair given the benefits they feel they receive by the product and its relative advantages with respect to competitive offerings, among other factors. Everyday low pricing is a complementary pricing approach to determine the nature of price discounts and promotions over time that maintains consistently low, value-based prices on ma- jor items on a day-to-day basis.

There is always tension between lowering prices on the one hand and increasing consumer percep- tions of product quality on the other. Academic researchers Lehmann and Winer believe that although marketers commonly use price reductions to improve perceived value, in reality discounts are often a more expensive way to add value than brand-building marketing activities.64 Their argument is that the lost revenue from a lower margin on each item sold is often much greater than the additional cost of value-added activities, primarily because many of these costs are fixed and spread over all the units sold, as opposed to the per unit reductions that result from lower prices.

CHANNEL STRATEGY

The manner by which a product is sold or distributed can have a profound impact on the equity and ulti- mate sales success of a brand. Marketing channels are defined as "sets of interdependent organizations involved in the process of making a product or service available for use or consumption."65 Channel strategy includes the design and management of intermediaries such as wholesalers, distributors, bro- kers, and retailers. Let's look at how channel strategy can contribute to brand equity.66

Channel Design

A number of possible channel types and arrangements exist, broadly classified into direct and indirect chan- nels. Direct channels mean selling through personal contacts from the company to prospective customers by mail, phone, electronic means, in-person visits, and so forth. Indirect channels sell through third-party intermediaries such as agents or broker representatives, wholesalers or distributors, and retailers or dealers.

Increasingly, winning channel strategies will be those that can develop “integrated shopping ex- periences” that combine physical stores, Internet, phone, and catalogs. For example, consider the wide variety of direct and indirect channels by which Nike sells its shoes, apparel, and equipment products:67

• Branded Niketown stores: Over 500 Niketown stores, located in prime shopping avenues in metro- politan centers around the globe, offer a complete range of Nike products and serve as showcases for the latest styles. Each store consists of a number of individual shops or pavilions that feature shoes, clothes, and equipment for a different sport (tennis, jogging, biking, or water sports) or different lines within a sport (there might be three basketball shops and two tennis shops). Each shop develops its own concepts with lights, music, temperature, and multimedia displays. Nike is also experimenting with newer, smaller stores that target specific customers and sports (a running-only store in Palo Alto, CA; a soccer-only store in Manchester, England).
• NikeStore.com: Nike’s e-commerce site allows consumers to place Internet orders for a range of products or to custom-design some products through NIKEiD, which surpassed $100 million in sales in 2010.
• Outlet stores: Nike’s outlet stores feature discounted Nike merchandise.
• Retail: Nike products are sold in retail locations such as shoe stores, sporting goods stores, depart-
ment stores, and clothing stores.
• Catalog retailers: Nike’s products appear in numerous shoe, sporting goods, and clothing catalogs.
• Specialty stores: Nike equipment from product lines such as Nike Golf is often sold through spe-
cialty stores such as golf pro shops.

Nike uses a variety of different channels
for different purposes. Its Niketown stores have been very useful as a brand-building tool.
Source: AP Photo/Marcio Jose Sanchez

Much research has considered the pros and cons of selling through various channels. Although the deci- sion ultimately depends on the relative profitability of the different options, some more specific guide- lines have been proposed. For example, one study for industrial products suggests that direct channels may be preferable when product information needs are high, product customization is high, product quality assurance is important, purchase lot size is important, and logistics are important. On the other hand, this study also suggests that indirect channels may be preferable when a broad assortment is es- sential, availability is critical, and after-sales service is important. Exceptions to these generalities exist, especially depending on the market segments.68

From the viewpoint of consumer shopping and purchase behaviors, we can see channels as blend- ing three key factors: information, entertainment, and experiences.

• Consumers may learn about a brand and what it does and why it is different or special.
• Consumers may also be entertained by the means by which the channel permits shopping and purchases.

• Consumers may be able to participate in and experience channel activities.

It is rare that a manufacturer will use only a single type of channel. More likely, the firm will choose a hybrid channel design with multiple channel types.69 Marketers must manage these channels carefully, as Tupperware found out.

TUPPERWARE

In the 1950s, Tupperware pioneered the plastic food-storage container business and the means by which the contain- ers were sold. With many mothers staying at home and growth in the suburbs exploding, Tupperware parties with a local neighborhood host became a successful avenue for selling. Unfortunately, with more women entering the workforce and heightened competition from brands such as Rubbermaid, Tupperware sales closed out the twentieth century with a 15-year decline. Sales turned around only with some new approaches to selling, including booths at shopping malls and a move to the Internet. The decision to place products in all 1,148 Target stores, however, was a complete disaster. In-store selling was difficult given the very different retail environment. Moreover, because the prod- uct was made more widely available, interest in traditional in-home parties plummeted. Frustrated, many salespeople dropped out and fewer new ones were recruited. Although the products were yanked from the stores, the damage was done and profit plunged almost 50 percent. One of the key distributors observed that they had just bit off more than they could chew.70

Tupperware made a serious mistake revising its channel strategy to sell through Target.
Source: Justin Sullivan/Getty Images

The risk in designing a hybrid channel system is having too many channels (leading to conflict among channel members or a lack of support), or too few channels (resulting in market opportunities being overlooked). The goal is to maximize channel coverage and effectiveness while minimizing chan- nel cost and conflict.

Because marketers use both direct and indirect channels, let’s consider the brand equity implica- tions of the two major channel design types.

Indirect Channels

Indirect channels can consist of a number of different types of intermediaries, but we will concentrate on retailers. Retailers tend to have the most visible and direct contact with customers and therefore have the greatest opportunity to affect brand equity. As we will outline in greater detail in Chapter 7, con- sumers may have associations to any one retailer on the basis of product assortment, pricing and credit policy, and quality of service, among other factors. Through the products and brands they stock and the means by which they sell, retailers strive to create their own brand equity by establishing awareness and strong, favorable, and unique associations.

At the same time, retailers can have a profound influence on the equity of the brands they sell, es- pecially in terms of the brand-related services they can support or help create. Moreover, the interplay between a store’s image and the brand images of the products it sells is an important one. Consumers make assumptions such as “this store only sells good-quality, high-value merchandise, so this particular product must also be good quality and high value.”

Push and Pull Strategies. Besides the indirect avenue of image transfer, retailers can directly affect the equity of the brands they sell. Their methods of stocking, displaying, and selling products can enhance or detract from brand equity, suggesting that manufacturers must take an active role in helping retailers add value to their brands. A topic of great interest in recent years in that regard is shopper marketing.

Though defined differently by different people, at its core shopper marketing emphasizes collabo- ration between manufacturers and retailers on in-store marketing like brand-building displays, sampling promotions, and other in-store activities designed to capitalize on a retailer's capabilities and its custom- ers. Vlasic is a brand that has ramped up its shopper marketing program.

VLASIC

Although many homes keep a jar of pickles in their refrigerator, too often it ends up in the back of a shelf, where it is forgotten. When summer barbecue season rolls along, pickle consumption increases, although still not as much as market leader Vlasic would like. Company research revealed that about 80 percent of pickles consumed in U.S. homes accompany a hamburger or other sandwich, but only 3 percent of all sandwiches consumed are served with pickles. Compounding the consumption problem is a shopping obstacle. Pickles typically are stocked in the center aisles of stores, where only about 20 percent of shoppers turn on any given trip, compared with the produce or deli aisles on the perimeter of the store, where about 60 percent shop. Vlasic did have one advantage with which to work. Through the years, its iconic brand character—a stork with a Groucho Marx look and personality—had become widely recognizable from all its advertising appear- ances. For the 2011 summer selling season, Vlasic decided to pull all those factors together to try something different in its marketing. In-store ad cutouts with the stork began to appear in sections of the supermarket away from where pickles were stocked. In the meat section, for example, an ad was placed that included a speech balloon near the stork's beak proclaiming: "Pro tip: Serve your burgers with a Vlasic pickle. Amateur tip: Don't." Similar type ads appeared near the hamburger buns in the bread aisle and all through the cheese aisles. The ads also appeared on shopping carts and on vinyl ads on the supermarket floor. To provide further marketing support outside the store, print ads for the brand stating "Bring On the Bite" appeared in maga- zines and on Web sites.71

Vlasic's concerted shopper marketing program paid off nicely in the marketplace.

Source: Pinnacle Foods Group LLC

Such collaborative efforts can spur greater sales of a brand. Yet, at the same time, much conflict has also emerged in recent years between manufacturers and the retailers making up their channels of distri- bution. Because of greater competition for shelf space among what many retailers feel are increasingly undifferentiated brands, retailers have gained power and are now in a better position to set the terms of trade with manufacturers. Increased power means that retailers can command more frequent and lucra- tive trade promotions.

One way for manufacturers to regain some of their lost leverage is to create strong brands through some of the brand-building tactics described in this book, for example, by selling innovative and unique products—properly priced and advertised—that consumers demand. In this way, consumers may ask or even pressure retailers to stock and promote manufacturers' products.

By devoting marketing efforts to the end consumer, a manufacturer is said to employ a pull strat- egy, since consumers use their buying power and influence on retailers to "pull" the product through the channel. Alternatively, marketers can devote their selling efforts to the channel members themselves, providing direct incentives for them to stock and sell products to the end consumer. This approach is called a push strategy, because the manufacturer is attempting to reach the consumer by "pushing" the product through each step of the distribution chain.

Although certain brands seem to emphasize one strategy more than another (push strategies are usually associated with more selective distribution, and pull strategies with broader, more intensive distribution), the most successful marketers—brands like Apple, Coca-Cola, and Nike—skillfully blend push and pull strategies.

Channel Support. A number of different services provided by channel members can enhance the value to consumers of purchasing and consuming a brand name product (see Figure 5-5). Although firms are increasingly providing some of the services themselves through toll-free numbers and Web sites, establishing a "marketing partnership" with retailers may nevertheless be critical to ensuring proper channel support and the execution of these various services.

Manufacturers can take a number of steps to keep retail partners happy and prevent breaks in the supply chain. Resellers often sink significant amounts of money into maintaining their facilities and paying sales staffs. To compensate them, manufacturers can offer dealers exclusive access to new products, or branded variants, as described below. Experts also advise that manufacturers stick to fixed prices when they offer products directly to consumers. If they do offer big discounts, they should offer them at outlet malls, where they won't confuse customers.

Manufacturers also can back up their distributors by educating them about their products so the retail partners can shape an effective sales force. When makeup giant Mary Kay began selling its cos- metics online in 1997, it also helped the members of its direct sales force set up their own online stores. Sharing product information and also doing good advertising contributes to distributors' success. John Deere effectively partnered with its channel members on customer service.

Marketing research Communications
Contact Matching
Negotiations
Physical distribution Financing Risk-taking
Service
Gathering information necessary for planning and facilitating interactions with customers
Developing and executing communications about the product and service
Seeking out and interacting with prospective customers
Shaping and fitting the product/service to the customer's requirements
Reaching final agreement on price and other terms of trade
Transporting and storing goods (inventory) Providing credit or funds to facilitate the transaction

Assuming risks associated with getting the product or service from firm to customer
Developing and executing ongoing relationships with customers, including maintenance and repair
FIGURE 5-5
Services Provided by Channel Members
Source: Reprinted from Donald Lehmann and Russell Winer, Product Management, 2nd ed (Burr Ridge, IL: Irwin, 1997), Figure 13-8 on p. 379. © The McGraw-Hill Companies.

 JOHN DEERE
John Deere was founded in 1837 by a blacksmith who devised a new type of cast-steel plow that revolutionized Midwest farming. The firm is now best known, however, for its tractors and residential and commercial-use products, such as mowers, ATVs, and saws. Over the decades, Deere dealers sprouted throughout the country, growing to more than 10,000 in the 1920s. Consolidation led to a contraction of the dealer network, a trend that Deere has actively encouraged in recent years as it tries to ensure that dealers have the necessary technological and business expertise to deal with increasingly large and sophisticated farm conglomerates. In 2003, John Deere expanded beyond its mainly rural network of more than 2,500 dealers to gain access to an additional 100,000 customers by selling its products through Home Depot. In doing so, Deere avoided conflict by assigning dealers to handle the service for purchases made from the mass channel, ensuring that they gained immediate revenue and an opportunity for future sales.72
Ultimately, companies have to share the power to make decisions with their distributors and recog- nize that dealers' success benefits them too. In many markets, dealers have captured more of the retail sales, so manufacturers must keep them happy and profitable if they want the benefits of a smooth sup- ply chain. Two important components of partnership strategies are retail segmentation activities and cooperative advertising programs.
Retail Segmentation. Retailers are "customers" too. Because of their different marketing capabili- ties and needs, retailers may need to be divided into segments or even treated individually so they will provide the necessary brand support.73 Consider how the following packaged goods companies have customized their marketing efforts to particular retailers:74
• Frito-Lay developed a tailored supply-chain system for its corn chip and potato chip markets, mak- ing fast and broad distribution possible, reducing stock-outs, and creating better-turning store dis- plays for its various retail customers.
• SC Johnson has leveraged customized market research insights to develop unique category man- agement solutions to its strategic retail customers.
• Scotts Miracle-Gro customizes its product lines, marketing events, and supply chain for "big box," club, and hardware co-op channels.
Different retailers may need different product mixes, special delivery systems, customized promotions, or even their own branded version of the products.
Branded variants have been defined as branded items in a diverse set of durable and semidurable goods categories that are not directly comparable to other items carrying the same brand name.75 Manu- facturers create branded variants in many ways, including making changes in color, design, flavor, op- tions, style, stain, motif, features, and layout. For example,

portable stereo “boom boxes” from brands like Sony, Panasonic, and Toshiba come in a broad assortment of variants, varying in speaker size, total weight, number of audio controls, recording features, and SKU number.

Branded variants are a means to reduce retail price competition because they make direct price comparisons by consumers difficult. Thus, different retailers may be given different items or models of the same brand to sell. Shugan and his colleagues show that as the manufacturer of a product offers more branded variants, a greater number of retail stores carry the product, and these stores offer higher levels of retail service for these products.76

Cooperative Advertising. One relatively neglected means of increasing channel support is well-de- signed cooperative advertising programs. Traditionally, with co-op advertising, a manufacturer pays for a portion of the advertising that a retailer runs to promote the manufacturer’s product and its availability in the retailer’s place of business. To be eligible to receive co-op funds, the retailer usually must follow the manufacturer’s stipulations as to the nature of brand exposure in the ad. Manufacturers generally share the cost of the advertising on a percentage basis up to a certain limit but usually 50–50. The total amount of cooperative advertising funds the manufacturer provides to the retailer is usually based on a percentage of dollar purchases made by the retailer from the manufacturer.77

The rationale behind cooperative advertising for manufacturers is that it concentrates some of the com- munication efforts at a local level where they may have more relevance and selling impact with consumers. Unfortunately, the brand image communicated through co-op ads is not as tightly controlled as when the manufacturer runs its own ads, and there is a danger that the emphasis in a co-op ad may be on the store or on a particular sale it is running rather than on the brand. Perhaps even worse, there is also a danger that a co-op ad may communicate a message about the brand that runs counter to its desired image.

An ideal situation is to achieve synergy between the manufacturer’s own ad campaigns for a brand and its corresponding co-op ad campaigns with retailers. The challenge in designing effective co-op ads will continue to be striking a balance between pushing the brand and the store at the same time. In that sense, cooperative advertising will have to live up to its name, and manufacturers will have to get involved in the design and execution of retailers’ campaigns rather than just handing over money or sup- plying generic, uninspired ads.

Summary. In eliciting channel support, manufacturers must be creative in the way they develop marketing and merchandising programs aimed at the trade or any other channel members. They should consider how channel activity can encourage trial purchase and communicate or demonstrate product information, to build brand awareness and image and to elicit positive brand responses.

Direct Channels

For some of the reasons we’ve already noted, manufacturers may choose to sell directly to consumers. Let’s examine some of the brand equity issues of selling through direct channels.

Company-Owned Stores. To gain control over the selling process and build stronger relationships with customers, some manufacturers are introducing their own retail outlets, as well as selling their product di- rectly to customers through various means. These channels can take many forms, the most complex of which, from a manufacturer's perspective, is company-owned stores. Hallmark, Goodyear, and others have sold their own products in their own stores for years. They have eventually been joined by a number of other firms—including some of the biggest marketers around.

For example, in December 1994, after the Federal Trade Commission amended a 16-year ban on the jeans maker selling its own wares, Levi Strauss began to open up Levi's Stores in the United States and abroad, located mostly in downtown areas and upscale suburban malls.78

Only launched in 2001, Apple now derives 20 percent of its revenue from its physical stores, generating revenue at a rate of about $4,000 per square foot a year. Apple's own-store success is attributed to strong customer service, a clear link be- tween the retail space and the product's user-friendly design, and the "community center" environment that add up to create a distinctively Apple retail experience.79

A number of other brands of all kinds have created their own stores, such as Bang & Olufsen audio equipment, OshKosh B'Gosh children's wear, Dr. Martens boots and shoes, and Warner Bros. entertain- ment. But not all company stores are big structures with extensive inventory. One recent trend is the launch- ing of pop-up stores—temporary stores that blend retail and event marketing.80

POP-UP STORES

As a means to complement their existing channels and even own brick-and-mortar stores, some companies are introducing temporary store locations, especially during the holiday season. One popular location is New York City, which at times can have many appealing vacant spaces to choose from. During the 2010 holiday season, Procter & Gamble's 4,000-square-foot pop- up location on Fifty-Seventh Street in Manhattan drew 14,000 visitors in the first 10 days it was open. P&G's store, with tinted windows and neon lights, was designed as a flashy means to distribute samples of its products and experiences—from a full CoverGirl makeover or Head & Shoulders wash-and-blow-dry to free Febreze scented candles. Levi Strauss's 10,000-square-foot "workshop" in a former art gallery in Manhattan's SoHo district was designed to reinforce craftsmanship and col- laboration themes in its "Go Forth" ad campaign. Target's Liberty of London pop-up shop closed a day early when it sold out of all its merchandise. For all these companies, pop-up stores are a way to create buzz, try out some new products and merchandising, and connect with some consumers in a unique way.

Temporary pop-up stores have given marketers a creative way to generate consumer interest and involvement.

Source: Andrew H. Walker/Getty Images for Target

Company stores provide many benefits.81 Primarily, they are a means to showcase the brand and all its different product varieties in a manner not easily achieved through normal retail channels. For example, Nike might find its products spread all through department stores and athletic specialty stores. These products may not be displayed in a logical, coordinated fashion, and certain product lines may not even be stocked. By opening its own stores, Nike was able to effectively put its best foot forward by showing the depth, breadth, and variety of its branded products. Company stores can provide the added benefit of functioning as a test market to

gauge consumer response to alternative product designs, pre- sentations, and prices, allowing firms to keep their fingers on the pulse of consumers' shopping habits.
A disadvantage of company stores is that some companies lack the skills, resources, or contacts to operate effectively as a retailer. For example, The Disney Store, started in 1987, sells exclusive Dis- ney-branded merchandise, ranging from toys and videos to collectibles and clothing, priced from $3 to $3,000. Disney views the stores as an extension of the "Disney experience," referring to customers as "guests" and employees as "cast members," just as it did in its theme parks. The company has struggled, however, to find the right retail formula through the years, even selling the chain of stores in Japan and North America to a set of other companies before eventually buying them back.82
Another issue with company stores, of course, is potential conflict with existing retail channels and distributors. In many cases, however, company stores can be a means of bolstering brand image and build- ing brand equity rather than as direct sales devices. For example, Nike views its stores as essentially adver- tisements and tourist attractions. The company reports that research studies have confirmed that Niketown stores enhanced the Nike brand image by presenting the full scope of its sports and fitness lines to custom- ers and "educating them" on the value, quality, and benefits of Nike products. The research also revealed that although only about 25 percent of visitors actually made a purchase at a Niketown store, 40 percent of those who did not buy during their visit eventually purchased Nike products from some other retailer.
These manufacturer-owned stores can also be seen as a means of hedging bets with retailers who continue to push their own labels. With one of its main distributors, JCPenney, pushing its own Ari- zona brand of jeans, Levi's can protect its brand franchise to some extent by establishing its own dis- tribution channel. Nevertheless, many retailers and manufacturers are dancing around the turf issue, avoiding head-on clashes in establishing competitive distribution channels. Manufacturers in particu- lar have been careful to stress that their stores are not a competitive threat to their retailers but rather a "showcase" that can help sell merchandise for any retailer carrying their brand. Branding Brief 5-2 describes some of Goodyear's channel conflict experiences.

BRANDING BRIEF 5-2

Goodyear's Partnering Lessons

Goodyear is a good example of some of the challenges in man- aging channel conflict, having had to work hard to recover from missteps it took with the middlemen it uses to distribute its tires. A well-respected brand that once managed the top tire reseller net- work in the United States, Goodyear earned dealer loyalty in the 1970s and 1980s through competitive pricing, on-time deliveries, and very visible marketing in the form of the Goodyear blimp.
Subsequent years produced a number of problems. Good- year managed to damage its own reputation through its apparent indifference to the distributors who sold its products. The com- pany's prices varied from month to month, and when distributors ordered tires, often only 50 percent of their order would be filled. Distributors nationwide said it was just getting hard to do business with Goodyear and many began hawking other brands instead.
Goodyear announced a distribution deal with Sears, even though the company had previously promised dealers that it would not sell tires through discount retailers, and then made similar

deals with Walmart and Sam's Club. To increase sales, the company began to offer the big retailers bulk discounts. As a result, smaller individually owned dealers had to pay as much for their tires as customers could pay at other retailers.

Shortly after Firestone was forced to recall 6.5 million tires in 2000, Goodyear management annoyed many of its distribu- tors instead of taking advantage of its competitor's legal and image problems. Goodyear dealership owners complained of pressure to buy more tires than they needed, uneven pricing, and poor quality. At that time, Goodyear had 5,300 authorized dealers, about the same number it had had since 1994. While overall U.S. tire sales grew during that time, Goodyear's replace- ment tire sales slumped 14 percent, representing a loss of about $550 million in sales.

Goodyear has taken a number of steps in trying to win back its dealers since that time, including originally selling its popular Assurance tires exclusively through authorized dealers. Recent Goodyear price hikes, however, have forced dealers to take lower profits in selling its tires.

Sources: Kevin Kelleher, "Giving Dealers a Raw Deal," Business 2.0, December 2004; Nirmalya Kumar, "Living with Channel Conflict," CMO Magazine, October 2004; Louis Uchitelle, "Oil Prices Raise Cost of Making a Range of Goods," New York Times, 8 June 2008.

Store-Within-a-Store. Besides creating their own stores, some marketers—such as Nike, Polo, and Levi Strauss (with Dockers)—are attempting to create their own shops within major department stores. More common in other parts of the world such as Asia, these approaches can offer the dual benefits of appeasing retailers—and perhaps even allowing them to benefit from the retailer's brand image—while at the same time allowing the firm to retain control over the design and implementation of the product presentation at the point of purchase.83

The store-within-a-store concept can take hold through actual leasing arrangements or less formal arrangements where branded mini-stores are used. For retailers, these arrangements help drive foot traf- fic and acquire new capabilities quickly. For smaller brands, like Murray's Cheese Shop, which has an arrangement with Kroger, they allow for quick distribution growth.

Retailers are also combining with other retailers to seek similar benefits.84 Sears has partnered with much trendier retailer Forever 21 to upgrade its image as well as established in-store leases with Edwin Watts Golf Shops, uniform apparel seller Work N' Gear, and Whole Foods organic foods grocer. Macy's has partnered with Sunglass Hut, maternity apparel brand Destination Modernity, and UK toiletries brand Lush.

The goal in all these situations is to find "win–win" solutions that benefit channel partners and con- sumers alike. In explaining the rationale of hosting beauty-products retailer Sephora in its stores, one JCPenny's executive noted that the long-term customers come in and become loyal JCPenny shoppers and vice versa.85

Other Means. Finally, another channel option is to sell directly to consumers via phone, mail, or electronic means. Retailers have sold their goods through catalogs for years. Many mass marketers, es- pecially those that also sell through their own retail stores, are increasingly using direct selling, a long- successful strategy for brands such as Mary Kay and Avon. These vehicles not only help sell products

Beauty-products retailer Sephora has found success with its “store-within-a-store” retail strategy with JCPenney.
Source: J. C. Penney Company Inc.
but also contribute to brand equity by increasing consumer awareness of the range of products associ- ated with a brand and increasing consumer understanding of the key benefits of those products. Market- ers can execute direct marketing efforts in many ways, such as catalogs, videos, or physical sites, all of which are opportunities to engage in a dialogue and establish a relationship with consumers.

Online Strategies

The advantages of having both a physical “brick and mortar” channel and a virtual, online retail channel are becoming clearer to many firms. Integrated channels allow consumers to shop when and how they want. Many consumers value the convenience of ordering from companies online or over the phone and picking up the physical product at their local store rather than having it shipped. They also want to be able to return merchandise at a store even if they originally bought it and had it shipped outside the store.86

Many consumers also like the convenience of being able to access their online account inside the store and use Internet kiosks to research purchase decisions in the store itself.87 The influence of the In- ternet extends outside the store too. In a Forrester research report, it was estimated that 16 percent of all store sales were influenced by consumers initially searching on the Web outside the store.88

Integrating channels does not benefit only consumers. Figure 5-6 shows an analysis of JCPenney’s channel mix, which reveals that its most profitable customers were those who shopped multiple chan- nels. Similarly, a Deloitte study revealed that multichannel shoppers spent 82 percent more in each transaction than those who shopped in only one store.89

157
Internet
195 201
Retail
Catalog
Internet1 retail
Catalog retail

FIGURE 5-6 JCPenney Customer Channel Value Analysis
Source: Customer Values Analysis, Doublecheck (2004). Courtesy of Abacus Direct, LLC.

446
Internet1 catalog
608 485
887
Catalog1 retail+ Internet
Average Yearly Dollars Spent by Customer

 The Boston Consulting Group concluded that multichannel retailers were able to acquire customers at half the cost of Internet-only retailers, citing a number of advantages for the multichannel retailers:90

• They have market clout with suppliers.
• They have established distribution and fulfillment systems (L.L. Bean and Land's End).
• They can cross-sell between Web sites and stores (The Gap and Barnes & Noble).

Many of these same advantages are realized by multichannel product manufacturers. Recognizing the power of integrated channels, many Internet-based companies are also engaging in "physi- cal world" activities to boost their brand. For example, Yahoo! opened a promotional store in New York's Rockefeller Center, and eTrade.com opened a flagship own-brand financial center on New York's Madison Avenue as well as mini-centers and kiosks in Target stores.

Summary

Channels are the means by which firms distribute their products to consumers. Channel strategy to build brand equity includes designing and managing direct and indirect channels to build brand awareness and improve the brand image. Direct channels can enhance brand equity by allowing consumers to better understand the depth, breadth, and variety of the products associated with the brand as well as any distinguishing characteristics. Indirect channels can influence brand equity through the actions and support of intermediaries such as retailers, and the transfer of any associa- tions that these intermediaries might have to the brand.

Direct and indirect channels offer varying advantages and disadvantages that marketers must thoughtfully combine, both to sell products in the short run, and maintain and enhance brand equity in the long run. As is often the case with branding, the key is to mix and match channel options so that they collectively realize these goals. Thus, it is important to assess each possible channel option in terms of its direct effect on product sales and brand equity, as well as its indirect effect through interactions with other channel options.

REVIEW

Marketing activities and programs are the primary means that firms build brand equity. Brand-building prod- uct, pricing, channel, and communication strategies must be put into place. In terms of product strategies, both tangible and intangible aspects of the brand will matter. Successful brands often create strong, favorable, and unique brand associations to both functional and symbolic benefits. Although perceived quality is often at the heart of brand equity, there is a wide range of associations that consumers may make to the brand.

Marketers are personalizing their consumer interactions through experiential and relationship mar- keting. Experiential marketing promotes a product by not only communicating a product's features and benefits but also connecting it with unique and interesting consumer experiences. Relationship market- ing includes marketing activities that deepen and broaden the way consumers think and act toward the brand. Mass customization, one-to-one, and permission marketing are all means of getting consumers more actively engaged with the product or service. Aftermarketing and loyalty programs are also ways to help create holistic, personalized buying experiences.

In terms of pricing strategies, marketers should fully understand consumer perceptions of value. Increasingly, firms are adopting value-based pricing strategies to set prices and everyday-low-pricing strategies to guide their discount pricing policy over time. Value-based pricing strategies attempt to properly balance product design and delivery, product costs, and product prices. Everyday-low-pric- ing strategies establish a stable set of “everyday” prices and introduce price discounts very selectively.

In terms of channel strategies, marketers need to appropriately match brand and store images to maximize the leverage of secondary associations, integrate push strategies and shopper marketing activities for retailers with pull strategies for consumers, and consider a range of direct and indirect distribution options.

In the next chapter, we consider how to develop integrated marketing communication programs to build brand equity.

 DISCUSSION QUESTIONS

1. Have you had any experience with a brand that has done a great job with relationship marketing, permission marketing, experiential marketing, or one-to-one marketing? What did the brand do? Why was it effective? Could others learn from that?
2. Think about the products you own. Assess their product design. Critique their aftermarketing efforts. Are you aware of all of the products’ capabilities? Identify a product whose benefits you feel you are not fully capitalizing on. How might you suggest improvements?
3. Choose a product category. Profile all the brands in the category in terms of pricing strategies and perceived value. If possible, review the brands’ pricing histories. Have these brands set and ad- justed prices properly? What would you do differently?
4. Visit a department store and evaluate the in-store marketing effort. Which categories or brands seem to be receiving the biggest in-store push? What unique in-store merchandising efforts do you see?
5. Take a trip to a supermarket and observe the extent of private-label brands. In which categories do you think private labels might be successful? Why?

BRAND FOCUS 5.0

Private-Label Strategies and Responses

This appendix considers the issue of private labels or store brands. After portraying private-label branding strategies, it de- scribes how major manufacturers’ brands have responded to their threat.

Private Labels

Although different terms and definitions are possible, private labels can be defined as products marketed by retailers and other members of the distribution chain. Private labels can be called store brands when they actually adopt the name of the store itself in some way (such as Safeway Select). Private labels should not be confused with generics, whose simple black-and-white packaging typically provides no information about who made the product.

Private-label brands typically cost less to make and sell than the national or manufacturer brands with which they compete. Thus, the appeal to consumers of buying private labels and store brands often is the cost savings involved; the appeal to retailers of selling private labels and store brands is that their gross margin is often 25 percent to 30 percent—nearly twice that of national brands.

The history of private labels is one of many ups and downs. The first private-label grocery products in the United States were sold by the Great Atlantic and Pacific Tea Company (later known as A&P), which was founded in 1863. During the first half of the twentieth century, a number of store brands were successfully introduced. Under competitive pressure from the sophisticated mass-marketing practices adopted by large packaged-goods com- panies in the 1950s, private labels fell out of favor with consumers.

Because the appeal of private labels to consumers has tra- ditionally been their lower cost, the sales of private labels gen- erally have been highly correlated with personal disposable income. The recession of the 1970s saw the successful introduc- tion of low-cost, basic-quality, and minimally packaged generic products that appealed to bargain-seeking consumers. During the subsequent economic upswing, though, the lack of per- ceived quality eventually hampered sales of generics, and many consumers returned to national or manufacturers' brands.

To better compete in today's marketplace, private-label makers have begun improving quality and expanding the vari- ety of their private-label offerings to include premium products. In recognition of the power of bold graphics, supermarket re- tailers have been careful to design attractive, upscale packages for their own premium branded products. Because of these and other actions, private-label sales have recently made some major inroads in new markets.

Retailers value private labels for their profit margins and their means of differentiation to drive customer loyalty. Retailer Target has introduced a steady stream of exclusives through the years, such as its stylish Mossimo apparel and Michael Graves houseware brands.91

Private-Label Status

The major recession that began in 2008 heightened inter- est once again in private labels. Given retailers' success in improving private-label quality and developing cohesive brand- ing and marketing programs, many critics wondered whether this time things would be different and sales would not drop after the end of the recession.92

In the United States, private-label goods have accounted for roughly 16–17 percent of total supermarket dollar volume. In other countries, these percentages are often quite higher, on average twice as much. For example, Western Europe domi- nates the market for private labels in the supermarket, with the biggest being Switzerland at 45 percent, Germany at 30 percent, Spain at 26 percent, and Belgium at 25 percent.93

Private labels in the United Kingdom make up over a third of sales at grocery stores, in part because the grocery industry is more concentrated. Two of the largest UK grocery chains are Tesco and Sainsbury.94

• Tesco, with the brand slogan "Every Little Helps," has a number of its own private-label brands, ranging from Value to Finest, and has its own lifestyle brands, such as Organic, Free Form, and Healthy Living, positioned as "Making Life Taste Better."

• Sainsbury's originally used its name to introduce a wide variety of fruit, vegetables, grocery, and household prod- ucts, later expanding to clothing, housewares, and other nonsupermarket products. Sainsbury's own brand products are categorized into one of three quality tiers; for example, the lasagna range is comprised of the Basics sub-brand for "good," the core, Sainsbury's label line for "better," and the premium "Taste the Difference" line for "best." Sainsbury's began a major overhaul of these various brand lines in 2010.

Private-label appeal is widespread. In supermarkets, private- label sales have always been strong in product categories such as dairy goods, vegetables, and beverages. More recently, private labels have been successful in previously "untouchable" catego- ries such as cigarettes, disposable diapers, and cold remedies. Consumer Reports conducted a study on private labels published in September 2010. Key findings included the facts that 84 percent of U.S. consumers have purchased a store brand and 93 percent of store-brand shoppers indicated that they would con- tinue to purchase private labels even as the economy recovered.95

Nevertheless, some categories have not seen a strong private-label presence. Many shoppers, for example, still seem unwilling to trust their hair, complexion, or dental care to store brands. Private labels also have been relatively unsuccessful in categories such as candy, cereal, pet foods, baby food, and beer. One implication that can be drawn from this pattern of product purchases is that consumers are being more selective in what they buy, no longer choosing to buy only national brands. For less important products in particular, consumers seem to feel "that the very best is unnecessary and good is good enough." Categories that are particularly vulnerable to private- label advances are those in which there is little perceived quality differences among brands in the eyes of a sizable group of consumers, for example, over-the-counter pain relievers, bot-
tled water, plastic bags, paper towels, and dairy products.

Private-Label Branding Strategy

Although the growth of private labels has been interpreted by some as a sign of the decline of brands, the opposite con- clusion may in fact be more valid: private-label growth could be seen in some ways as a consequence of cleverly designed branding strategies. In terms of building brand equity, the key point-of-difference for private labels in consumers' eyes has al- ways been "good value," a desirable and transferable association across many product categories. As a result, private labels can be extremely broad, and their name can be applied across many di- verse products.

As with national brands, implementing a value-pricing strategy for private labels requires determining the right price and product offering. For example, one reported rule of thumb is that the typical "no-name" product has to sell for at least 15 percent less than a national brand, on average, to be success- ful. The challenge for private labels has been to determine the appropriate product offering.

Specifically, to achieve the necessary points-of-parity, or even to create their own points-of-difference, private labels have been improving quality, and as a result are now aggressively position- ing against even national brands. In its September 2010 study, Consumer Reports conducted taste tests in 21 categories com- paring the two and found that national brands won seven times, private labels won three times, with the rest resulting in a tie. Consumer Reports concluded that con- sumers could cut their costs by as much as half by switching to a store brand.96

Many supermarket chains have intro- duced their own premium store brands, such as Safeway Select, Von's Royal Re- quest, and Ralph's Private Selection. For example, A&P positioned its premium Mas- ter Choice brand to fill the void between the mass-market national brands and the upscale specialty brands it sells. It has used the brand across a wide range of products, such as teas, pastas, sauces, and salad dressings. Trader Joe's offers 2,000 private- label products—only 10 percent of what would be found in a typical supermarket— but creates a fun, roomy atmosphere for

Decrease costs.

Cut prices.

Increase R&D expenditures to improve products and identify new product innovations.
Increase advertising and promotion budgets.
Eliminate stagnant brands and extensions and concentrate efforts on smaller number of brands.
Introduce discount "fighter" brands.
Supply private label makers.
Track store brands' growth and compete market-by-market.
FIGURE 5-7
Major Brand Response to Private Labels

bargain seekers wanting the best in gourmet-style foods, health food supplements, and wines.97

Sellers of private labels are also adopting more extensive marketing communication programs to spread the word about their brands. For example, Walgreens launched its first national advertising campaign for Walgreens-branded health and well- ness products in February 2011. The campaign emphasized the durability and quality of the Walgreens-brand products, using the store's 26,000 pharmacists as endorsers.98 Loblaws has been a pioneer in marketing its private-label brands.

One problem faced by marketers of major brands is that it can be difficult to actually lower prices even if they so de- sire. Supermarkets may not pass along the wholesale price cuts they are given. Moreover, marketers of major brands may not want to alienate retailers by attacking their store brands too forcefully, especially in zero-sum categories in which their brands could be easily replaced.

Besides these various pricing moves to achieve points-of-par- ity, marketers of major brands have used other tactics to achieve additional points-of-difference to combat the threat of private labels. They have increased R&D expenditures to improve prod- ucts and identify new product innovations, as was the case with Kimberly-Clark and its Kleenex brand.100

LOBLAWS

Loblaws is Canada's largest food distributor. In 1978, Loblaws was the first store in Canada to introduce generics, reflecting a carefully crafted strategy to build an image of quality and high value in six areas. By 1983, Loblaws carried over 500 generic products that accounted for 10 percent of store sales. This suc- cess was due to innovative marketing, low costs, and a large network of suppliers. In 1984, Loblaws chose to introduce a private-label brand, President's Choice, which was designed to offer unique value through exceptional quality and moderate prices. These categories ranged from basic supermarket catego- ries such as chocolate chip cookies, colas, and cereals to more exotic categories such as Devonshire custard from England and gourmet Russian mustard. These products also used distinctive and attractive packaging with modern lettering and colorful la- bels and names ("decadent" cookies, "ultimate" frozen pizza, "and "too good to be true" peanut butter). In terms of market- ing communications, Loblaws put into place a strong promo- tional program with much in-store merchandising. Loblaws also introduced its Insider's Report, a quarterly publication featuring its own store brands and offering consumers shopping tips.99

KLEENEX

Kleenex has dominated the facial tissue category for years, currently holding 46 percent market share. In recent years, with the economic downturn, more consumers are switch- ing to less-expensive store brands as private labels in the category have increased quality to provide a more viable alternative. Kimberly-Clark—maker of Kleenex—chose to respond through product innovation. The average home purchases facial tissues about eight times a year and contains four boxes at any point in time. Increasingly, those boxes are not placed inside a decorative cover. Much of that is due to Kimberly-Clark's innovative efforts to improve the design aesthetics of the Kleenex box. Oval-shaped packages and embossed wallpaper-like patterns have been introduced as well as seasonal offerings. An oval package with a pattern of Christmas lights was introduced that actually flickered when a tissue was taken out. To boost summer sales—when revenue typically drops by as much as 60 percent from the winter months—new packages were launched that resem- bled wedges of fruit such as watermelon, orange, and lime. Through all these packaging innovations, Kimberly-Clark hopes to keep Kleenex differentiated as the market leader.

By emphasizing packaging innovation and design, Kimberly-Clark has been able to fend off private label competition for its Kleenex brand.

Source: David Paul Morris/Bloomberg via Getty Images

Major Brand Response to Private Labels

Procter & Gamble's value-pricing program was one strategy to combat competitive inroads from private labels and other brands. To compete with private labels, a number of different other tactics also have been adopted by marketers of major national or manufacturer brands (see Figure 5-7).

First, marketers of major brands have attempted to decrease costs and reduce price to negate the primary point-of-difference of private labels and achieve a critical point-of-parity. In many categories, prices of major brands had crept up to a point at which price premiums over private labels were 30–50 percent, or even 100 percent. In those categories in which consumers make frequent purchases, the cost savings of "trading down" to a private label brand were therefore quite substantial.

In instances in which major brands and private labels are on a more equal footing with regard to price, major brands often compete well because of other favorable brand percep- tions that consumers might have. Procter & Gamble, Colgate, and Unilever cut prices on a number of old standbys during the recent recession to help fend off private-label competition.

Marketers of major brands have also increased advertising and promotion budgets. They have also tracked store-brand growth more closely than in the past and are competing on a market-by-market basis. Marketers of major brands have also adjusted their brand portfolios. They have eliminated stag- nant brands and extensions and concentrated their efforts on smaller numbers of brands. They have introduced discount "fighter" brands that are specially designed and promoted to compete with private labels.

Marketers of major brands have also been more aggres- sive about legally protecting their brands. For example, Unilever filed suit against global supermarket giant Ahold alleging trademark and trade dress (the design and visual appearance of the product and package) infringement across four of its Eu- ropean margarine brands. Unilever also filed suit against

Lipton iced tea and Bertolli olive oil, maintaining that their packaging looked too similar to its own brands.101

One controversial move by some marketers of major brands is to actually supply private-label makers. For example, Sara Lee, Del Monte, and Birds Eye have all supplied products—sometimes lower in quality—to be used for private labels in the past. Other marketers, however, criticize this "if you can't beat 'em, join 'em" strategy, maintaining that these actions, if revealed, may create confusion or even reinforce a perception by consum- ers that all brands in a category are essentially the same.

Designing Marketing Programs to Build Brand Equity

Learning Objectives

After reading this chapter, you should be able to

1. Identify some of the new perspectives and developments in marketing.
2. Describe how marketers enhance product experience.
3. Explain the rationale for value pricing.
4. List some of the direct and indirect channel options.
5. Summarize the reasons for the growth in private labels.

Part of John Deere's success is its well-conceived and executed product, pricing, and channel strategies.

Source: Eric Schlegel/The
New York Times/Redux Pictures

5

 Preview

This chapter considers how marketing activities in general—and product, pricing, and distribution strategies in particular—build brand equity. How can marketers integrate these activities to enhance brand awareness, improve the brand image, elicit positive brand responses, and increase brand resonance?

Our focus is on designing marketing activities from a branding perspective. We'll consider how the brand itself can be effectively integrated into the marketing program to create brand equity. Of necessity, we leave a broader perspective on marketing activities to basic marketing management texts.1 We begin by considering some key developments in designing marketing programs. After reviewing product, pricing, and channel strategies, we conclude by considering private labels in Brand Focus 5.0.

NEW PERSPECTIVES ON MARKETING

The strategy and tactics behind marketing programs have changed dramatically in recent years as firms have dealt with enormous shifts in their external marketing environments. As outlined in Chapter 1, changes in the economic, technological, political–legal, sociocultural, and competitive environments have forced marketers to embrace new approaches and philosophies. Some of these changes include:2

• Rapid technological developments
• Greater customer empowerment
• Fragmentation of traditional media

• Growth of interactive and mobile marketing options
• Channel transformation and disintermediation
• Increased competition and industry convergence
• Globalization and growth of developing markets
• Heightened environmental, community, and social concerns
• Severe economic recession

These changes, and others such as privatization and regulation, have combined to give customers and companies new capabilities with a number of implications for the practice of brand management (see Figure 5-1). Marketers are increasingly abandoning the mass-market strategies that built brand powerhouses in the twentieth century to implement new approaches for a new marketing era. Even mar- keters in staid, traditional categories and industries are rethinking their practices and not doing business as usual.

Consumers

Can wield substantially more customer power.
Can purchase a greater variety of available goods and services.
Can obtain a great amount of information about practically anything.
Can more easily interact with marketers in placing and receiving orders.
Can interact with other consumers and compare notes on products and services.

Companies

Can operate a powerful new information and sales channel with augmented geographic reach to inform and promote their company and its products.
Can collect fuller and richer information about their markets, customers, prospects, and competitors.
Can facilitate two-way communication with their customers and prospects, and facilitate transaction efficiency.
Can send ads, coupons, promotion, and information by e-mail to customers and prospects who give them permission.
Can customize their offerings and services to individual customers.
Can improve their purchasing, recruiting, training, and internal and external communication.

FIGURE 5-1 The New Capabilities of the New Economy

CLIF BAR

Started in 1990 by avid cyclist Gary Erickson and named to honor his father, CLIF® Bar set out to offer a better- tasting energy bar with wholesome ingredients. With very little advertising support, it grew in popularity through the years via word-of-mouth and PR. The CLIF Bar product line also grew to include dozens of flavors and varieties, some formulated especially for kids and women, and for energy, healthy snacking, and sports nutrition. Behind CLIF Bar products is a strong socially and environmentally responsible corporate message. The company is active in its local community and known for its passionate employees, who are allowed to do volunteer work on company time. It uses extensive organic ingredients, relies on biodiesel-powered vehicles, and supports the constructions of farmer- and Native American–owned wind farm through carbon offsets. Its nontraditional marketing activities focus

on athletic sponsorships and public events. To broaden its appeal, it launched its “Meet the MomentTM”campaign in the summer of 2011, in which participants provided stories and photos of inspirational athletic adventures. The integrated marketing campaign featured a fully interactive Web site and mobile applications for iPhone and An- droid systems. All these marketing efforts have paid off: CLIF Bar was the number one breakaway brand in a survey by Forbes magazine and Landor Associates measuring brand momentum from 2006 to 2009. CLIF Bar has adopted modern marketing practices to build a highly successful twenty-first-century brand.
Source: Clif Bar & Company
The new marketing environment of the twenty-first century has forced marketers to fundamentally change the way they develop their marketing programs. Integration and personalization, in particular, have become increasingly crucial factors in building and maintaining strong brands, as companies strive to use a broad set of tightly focused, personally meaningful marketing activities to win customers.

 INTEGRATING MARKETING
In today’s marketplace, there are many different means by which products and services and their cor- responding marketing programs can build brand equity. Channel strategies, communication strategies, pricing strategies, and other marketing activities can all enhance or detract from brand equity. The customer-based brand equity model provides some useful guidance to interpret these effects. One im- plication of the conceptualization of customer-based brand equity is that the manner in which brand associations are formed does not matter—only the resulting awareness and strength, favorability, and uniqueness of brand associations.
In other words, if a consumer has an equally strong and favorable brand association from Rolaids antacids to the concept “relief,” whether it’s based on past product experiences, a Consumer Reports article, exposure to a “problem-solution” television ad that concludes with the tag line “R-O-L-A-I-D-S spells relief,” or knowledge that Rolaids has sponsored the “Rolaids Relief Man of the Year” award to the best relief pitchers in major league baseball since 1976, the impact in terms of customer-based brand equity should be identical unless additional associations such as “advertised on television” are created, or existing associations such as “speed or potency of effects” are affected in some way.3
Thus, marketers should evaluate all possible means to create knowledge, considering not just effi- ciency and cost but also effectiveness. At the center of all brand-building efforts is the actual product or service. Marketing activities surrounding that product, however, can be critical, as is the way marketers integrate the brand into them.
Consistent with this view, Schultz, Tannenbaum, and Lauterborn conceptualize one aspect of inte- grated marketing, integrated marketing communications, in terms of contacts.4 They define a contact as any information-bearing experience that a customer or prospect has with the brand, the product cate- gory, or the market that relates to the marketer’s product or service. According to these authors, a person can come in contact with a brand in numerous ways:
For example, a contact can include friends’ and neighbors’ comments, packaging, newspaper, magazine, and television information, ways the customer or prospect is treated in the retail store, where the product is shelved in the store, and the type of signage that appears in retail

establish- ments. And the contacts do not stop with the purchase. Contacts also consist of what friends, relatives, and bosses say about a person who is using the product. Contacts include the type of customer service given with returns or inquiries, or even the types of letters the company writes to resolve problems or to solicit additional business. All of these are customer contacts with the brand. These bits and pieces of information, experiences, and relationships, created over time, influence the potential relationship among the customer, the brand, and the marketer. In a similar vein, Chattopadhyay and Laborie develop a methodology for managing brand experience contact points.5

The bottom line is that there are many different ways to build brand equity. Unfortunately, there are also many different firms attempting to build their brand equity in the marketplace. Creative and original thinking is necessary to create fresh new marketing programs that break through the noise in the mar- ketplace to connect with customers. Marketers are increasingly trying a host of unconventional means of building brand equity.

CAFÉ COFFEE DAY: CONNECTING WITH THE YOUNG

Starting from its first café in Bangalore's Brigade Road in 1996, Café Coffee Day (CCD as it is known among the youth) is a pan Indian brand. CCD has approximately 1,497 outlets, out of which three are in square format, 47 in lounge, and rest in café formats. It has institutionalized coffee drinking in a country which was hitherto the home of tea drinkers. CCD's menu ranges from its signature hot and cold coffees to several exotic international coffees, desserts, sandwiches, and pastries. Great value-for-money items have made the price-conscious Indian youth to upgrade from roadside dhabas to CCDs in large numbers.

Market research had revealed that 25 percent of CCD customers are teenagers, 38 percent are between the age of 20–24, and 23 percent are between 25 and 29. In sum, more than 80 percent of CCD customers are below the age of 29, with a large majority below 25. CCD has tried to ensure that this core customer group stays en- gaged with the brand, even as new competition is expected to enter in the Indian market.

The brand has tried to offer a perfect café experience to its target group by offering value-added services such as Wi-Fi facilities, youthful music, and a highly trained and friendly staff.

CCD has also managed to expand its format to cater to changing customer preferences. It has launched its most premium offering—"The Square"—in Mumbai, serving the best Single Origin coffee from across the world and offering an unique ambience for the food blogger fraternity and twitteratis of the city.

Café Coffee Day outlet in Pune.

Sources: K. R. Balasubramanyam, "Café Coffee Day—Coffee Raj", Business Today, 2 October 2011; "Café Coffee Day to add 500 outlets by 2015," The Times of India, 27 June 2014; http://www.cafecoffeeday.com/news/single-origin-coffee-food-and-indulgence-launch-of-the-square-by-cafe-coffee-day-at-nariman-point-mumbai, accessed on 19 September 2014.

Creativity must not sacrifice a brand-building goal, however, and marketers must orchestrate pro- grams to provide seamlessly integrated solutions and personalized experiences for customers that create awareness, spur demand, and cultivate loyalty.

Personalizing Marketing
The rapid expansion of the Internet and continued fragmentation of mass media have brought the need for personalized marketing into sharp focus. Many maintain that the modern economy cel- ebrates the power of the individual consumer. To adapt to the increased consumer desire for per- sonalization, marketers have embraced concepts such as experiential marketing and relationship marketing.
Experiential Marketing. Experiential marketing promotes a product by not only communicat- ing a product's features and benefits but also connecting it with unique and interesting consumer experiences.
Image source: Café Coffee Day

Pine and Gilmore, pioneers on the topic, argued over a decade ago that we are on the threshold of the "Experience Economy," a new economic era in which all businesses must orchestrate memorable events for their customers.6 They made the following assertions:
• If you charge for stuff, then you are in the commodity business.
• If you charge for tangible things, then you are in the goods business.
• If you charge for the activities you perform, then you are in the service business.
• If you charge for the time customers spend with you, then and only then are you in the experience business.
Citing a range of examples from Disney to AOL, they maintain that saleable experiences come in four varieties: entertainment, education, aesthetic, and escapist.
Columbia University's Bernd Schmitt, another pioneering expert on the subject, notes that "ex- periential marketing is usually broadly defined as any form of customer-focused marketing activity, at various touchpoints, that creates a sensory-emotional connection to customers."7
Schmitt details five different types of marketing experiences that are becoming increasingly vital to consumers' perceptions of brands:
• Sense marketing appeals to consumers' senses (sight, sound, touch, taste, and smell).
• Feel marketing appeals to customers' inner feelings and emotions, ranging from mildly positive moods linked to a brand (e.g., for a noninvolving, nondurable grocery brand or service or industrial product) to strong emotions of joy and pride (e.g., for a consumer durable, technology, or social marketing campaign).
• Think marketing appeals to the intellect in order to deliver cognitive, problem-solving experiences that engage customers creatively.
• Act marketing targets physical behaviors, lifestyles, and interactions.
• Relate marketing creates experiences by taking into account individuals' desires to be part of a so- cial context (e.g., to their self-esteem, being part of a subculture, or a brand community).
He also describes how various "experience providers" (such as communications, vi- sual/verbal identity and signage, product presence, co-branding, spatial environments, electronic media,

and salespeople) can become part of a marketing campaign to create these experiences. In describing the increasingly more demanding consumer, Schmitt writes that customers want to be entertained and be affected emotionally.

Figure 5-2 displays a scale developed by Schmitt and his colleagues to measure experi- ences and its dimensions. Their study respondents rated LEGO, Victoria's Secret, iPod, and Starbucks as the most experiential brands.8

Meyer and Schwager describe a customer experience management (CEM) process that involves monitoring three different patterns: past patterns (evaluating completed transac- tions), present patterns (tracking current relationships), and potential patterns (conducting inquiries in the hope of unveiling future opportunities).9 The Science of Branding 5-1 de- scribes how some marketers are thinking more carefully about one particularly interesting aspect of brand experiences—brand scents!

Relationship Marketing. Marketing strategies must transcend the actual product or ser- vice to create stronger bonds with consumers and maximize brand resonance. This broader set of activities is sometimes called relationship marketing and is based on the premise that current customers are the key to long-term brand success.10 Relationship marketing attempts to provide a more holistic, personalized brand experience to create stronger consumer ties. It expands both the depth and the breadth of brand-building marketing programs.

Victoria's Secret has been praised for its success in creating an experiential brand.

Source: Louis Johnny/SIPA/Newscom

SENSORY

This brand makes a strong impression on my visual sense or other senses. I find this brand interesting in a sensory way.

This brand does not appeal to my senses.

AFFECTIVE

This brand induces feelings and sentiments.

I do not have strong emotions for this brand. This brand is an emotional brand.

BEHAVIORAL

I engage in physical actions and behaviors when I use this brand. This brand results in bodily experiences.

This brand is not action oriented.

INTELLECTUAL

I engage in a lot of thinking when I encounter this brand. This brand does not make me think. This brand stimulates my curiosity and problem solving.

FIGURE 5-2 Brand Experience Scale

Source: Based on J. Joško Brakus, Bernd H. Schmitt, and Lia Zarantonello, "Brand Experience: What Is It? How Is It Measured? Does It Affect Loyalty?," Journal of Marketing 73 (May 2009): 52–68.

Here are just a few of the basic benefits relationship marketing provides:11

• Acquiring new customers can cost five times as much as satisfying and retaining current customers.

• The average company loses 10 percent of its customers each year.
• A 5 percent reduction in the customer defection rate can increase profits by 25–85 percent, depending
on the industry.
• The customer profit rate tends to increase over the life of the retained customer.

We next review three concepts that can be helpful with relationship marketing: mass customization, one-to-one marketing, and permission marketing.

Mass Customization. The concept behind mass customization, namely making products to fit the customer's exact specifications, is an old one, but the advent of digital-age technology enables companies to offer customized products on a previously unheard-of scale. Going online, customers can communicate their preferences directly to the manufacturer, which, by using advanced production methods, can assemble the product for a price comparable to that of a noncustomized item.

In an age defined by the pervasiveness of mass-market goods, mass customization enables consum- ers to distinguish themselves with even basic purchases. The online jeweler Blue Nile lets customers design their own rings. Custom messenger-bag maker Rickshaw Bagworks lets customers design their own bags before they are made to order. Sportswear vendor Shortomatic lets customers upload their own images and overlay them on a pair of custom-designed shorts. Land's End also allows customiza- tion of certain styles of pants and shirts on its Web site to allow for a better fit.12

Mass customization is not restricted to products. Many service organizations such as banks are de- veloping customer-specific services and trying to improve the personal nature of their service experience with more service options, more customer-contact personnel, and longer service hours.13

Mass customization can offer supply-side benefits too. Retailers can reduce inventory, saving ware- house space and the expense of keeping track of everything and discounting leftover merchandise.14 Mass customization has its limitations, however, because not every product is easily customized and not every product demands customization. Returns are also more problematic for a customized product that may not have broader appeal.

 THE SCIENCE OF BRANDING 5-1

Making Sense Out of Brand Scents

The smell of a new car is distinctive. When Rolls-Royce cus- tomers complained in the 1990s that the new cars weren't as good as the old models, researchers tracked the problem to a surprising source: the car's smell. The company then recreated the aroma of a 1965 Rolls and now sprays it in all the new models. So can scent be used to entice customers or to make a place a little more memorable?

Las Vegas casinos have long infused scents into gaming areas to encourage gamblers to stay a little longer. Now the connection between scent and shopping experience is being explored in more venues than ever. More and more companies looking for an edge are tinkering with scent as a way to dis- tinguish their brand or store. The ever-growing barrage of ad- vertising consumers take in is heavily weighted toward visuals. Although distinctive ring tones and other sounds are used to build brand awareness, most communication appeals to only one of the five human senses: sight.

Retailers are looking to capitalize on scent as a way to lure customers into their stores and into lingering longer than they otherwise might. Victoria's Secret has long used vanilla scents in its stores, but now retailers like the Samsung Experience con- cept store are starting to get in on the action as a way to dis- tinguish themselves from competitors. But experts caution that scents aren't guaranteed to boost sales. The best scents are unobtrusive. Anything overwhelming can be a negative. And smells should appeal to the same gender the product is trying to appeal to. Scents that are appropriate or consistent with a product can influence brand evaluations and judgments. Westin Hotels carefully developed a new fragrance, White Tea, to infuse into the hotels' public spaces. The scent is designed to have inter- national appeal and contribute to a subtle, relaxing vibe in the lobbies. Travelers also encounter a unique scent on Singapore Airlines through the scented towels handed out during all flights. The theory is that passengers will associate the subtle scent with a positive, relaxing experience.

Some brands have a built-in sensory marketing advantage. Crayola Crayons were not originally designed to have a signa- ture scent, but the manufacturing process left them with a rec- ognizable odor. Many adults connect the smell of Crayons with childhood, leaving Crayola with an incidental brand element that can be very valuable. When Crayola's parent company was recently considering ways to stand out among the generic competition in new markets, it decided to trademark the smell. Scents have actually been shown to improve product memory across a range of product attributes.

Of course, some products are all about scent. Procter & Gamble built a $1 billion brand with Febreze air freshener. From its origins as a fabric treatment to freshen up coats, drapes, and mattresses, the brand's product line grew to in- clude specific sprays for cars, sportswear, pets, carpets, and al- lergen reduction, as well as decorative candles, scented reed diffusers, and flameless scented luminaries. Scents are available for those looking to solve a problem (such as pet odor) or to create an ambiance around the house.

Sources: Linda Tischler, "Smells Like Brand Spirit," Fast Company, August 2005; Martin Lindstrom, "Smelling a Branding Opportunity," Brandweek, 14 March 2005; Lucas Conley, "Brand Sense," Fast Com- pany, March 2005; Maureen Morrin and S. Ratneshwar, "Does It Make Sense to Use Scents to Enhance Brand Memory?," Journal of Market- ing Research 40 (February 2003): 10–25; Anick Bosmans, "Scents and Sensibility: When Do (In)congruent Ambient Scents Influence Product Evaluations?," Journal of Marketing 70 (July 2006): 32–43; Aradhna Krishna, A., Ryan S. Elder, and Cindy Caldara, "Feminine to Smell but Masculine to Touch? Multisensory Congruence and Its Effects on the Aesthetic Experience," Journal of Consumer Psychology 20, no. 4 (2010): 410–418; Aradhna Krishna, May Lwin, and Maureen Morrin, "Product Scent and Memory," Journal of Consumer Research 37 (June 2010): 57–67; Ellen Byron, "Febreze Joins P&G's $1 Billion Club," Wall Street Journal, 9 March 2011; Joann Peck and Terry L. Childers, "Effect of Sensory Factors on Consumer Behavior," in Handbook of Consumer Psychology, eds. Curtis T. Haugtvedt, Paul M. Herr, and Frank R. Kardes (New York: Taylor & Francis, 2008), 193–220.

With the advent of social media, customers can now share with others what they have co-created with firms. For example, Nike enables customers to put their own personalized message on a pair of shoes with the NIKEiD program. At the NIKEiD Web site, visitors can make a customized shoe by selecting the size, width, and color scheme and affixing an eight-character personal ID to their creation. Then they can share it with others for them to admire.15

One-to-One Marketing. Don Peppers and Martha Rogers popularized the concept of one-to-one mar- keting, an influential perspective on relationship marketing.16 The basic rationale is that consumers help add value by providing information to marketers; marketers add value, in turn, by taking that information

With NIKEiD, custom- ers can customize their shoes and share their cre- ations with others online.

Source: Getty Images/Getty Images for Nike

and generating rewarding experiences for consumers. The firm is then able to create switching costs, reduce transaction costs, and maximize utility for consumers, all of which help build strong, profitable relationships.

One-to-one marketing is thus based on several fundamental strategies:

• Focus on individual consumers through consumer databases—"We single out consumers."
• Respond to consumer dialogue via interactivity—"The consumer talks to us."
• Customize products and services—"We make something unique for him or her."

Another tenet of one-to-one marketing is treating different consumers differently because of their dif- ferent needs, and their different current and future value to the firm. In particular, Peppers and Rogers stress the importance of devoting more marketing effort to the most valuable consumers.

Peppers and Rogers identified several examples of brands that have practiced one-to-one market- ing through the years, such as Avon, Owens-Corning, and Nike.17 They note how Ritz-Carlton hotels use databases to store consumer preferences, so that if a customer makes a special request in one of its hotels, it is already known when he or she stays in another.

Peppers and Rogers also provide an example of a localized version of one-to-one marketing. For example, Kate might receive a postcard from the local florist reminding her that she had send flowers to her mother on her birthday last year. A phone call would make the florist put a beautiful bouquet on her doorstep on her birthday this year. Although such online or offline reminders can be helpful, marketers must not assume that customers always want to repeat their behaviors. For example, what if the flowers were a doomed, last-chance attempt to salvage a failing relationship? Then a reminder under such cir- cumstances may not be exactly welcome!

An example of a highly successful relationship marketing program comes from Shoppers Stop, in India.

SHOPPERS STOP

Shoppers Stop is one of the pioneers in setting up large format departmental stores in India. With 68 stores across 31 cities, Shoppers Stop is now one of India's largest retail chains.

It is a one-stop shop for products across multiple categories, including apparel, cosmetics, fragrances, artificial and fine jewellery, footwear, and personal accessories such as watches, sunglasses, handbags, wallets and belts, kids wear, toys, home decor, and much more.

Shoppers Stop offers more than 400 of the finest national and international brands across such categories.

The brand's virtue of always "Putting the customer first" has enabled it to pioneer a reward-based loyalty pro- gram called The Shoppers Stop First Citizen Loyalty Program. With a growing base of over 3.2 million members who annually contribute to over 72 percent of sales, this program is one of the biggest and most successful initiative in this category.

The First Citizen Loyalty Program is a 3-tiered program—Classic Moments, Silver Edge, and Golden Glow. Cus- tomers can enter the program by paying a subscription fee of ` 300. Subsequently, First Citizen members earn reward points on all their purchases. Apart from this, members also enjoy special benefits and privileges such as ex- clusive preview of the end-of-season sale, free parking, tailor-made offers, access to the state-of-the-art First Citizen lounge , and more.

The loyalty program is not only beneficial to customers, but it is advantageous to the store as well. The loyalty program enables Shoppers Stop to record and store First Citizens' purchase data. This data is analyzed routinely to get rich insights into customer behavior. These insights, in turn, help Shoppers Stop craft targeted offers and pro- motions that lead to incremental sales. In FY 14, Shoppers Stop was able to generate ` 100 crore from monetizing such insights.

It is clear that the Shoppers Stop First Citizen Loyalty Program is a huge success. It represents a serious, en- gaged, and committed base of customers who are resolutely loyal to the retailer.

Shoppers Stop

Source: Shoppers Stop

Permission Marketing. Permission marketing, the practice of marketing to consumers only after gain- ing their express permission, was another influential perspective on how companies can break through the clutter and build customer loyalty. A pioneer on the topic, Seth Godin, has noted that marketers can no longer employ "interruption marketing" or mass media campaigns featuring magazines, direct mail, billboards, radio and television commercials, and the like, because consumers have come to expect—but not necessar- ily appreciate—these interruptions.18 By contrast, Godin asserts, consumers appreciate receiving marketing messages they gave permission for: "The worse the clutter gets, the more profitable your permission market- ing efforts become."

Image source: Shoppers Stop

Given the large number of marketing communications that bombard consumers every day, Godin argues that if marketers want to attract a consumer's attention, they first need to get his or her permis- sion with some kind of inducement—a free sample, a sales promotion or discount, a contest, and so on. By eliciting consumer cooperation in this manner, marketers might develop stronger relationships with consumers so that they desire to receive further communications in the future. Those relationships will only develop, however, if marketers respect consumers' wishes, and if consumers express a willingness to become more involved with the brand.19

With the help of large databases and advanced software, companies can store gigabytes of cus- tomer data and process this information in order to send targeted, personalized marketing e-mail mes- sages to customers. Godin identifies five steps to effective permission marketing:

1. Offer the prospect an incentive to volunteer.
2. Offer the interested prospect a curriculum over time, teaching the consumer about the product or
service being marketed.
3. Reinforce the incentive to guarantee that the prospect maintains his or her permission.
4. Offer additional incentives to get more permission from the consumer.
5. Over time, leverage the permission to change consumer behavior toward profits.

In Godin's view, effective permission marketing works because it is expected and relevant. A recent
consumer research study provides some support: 87 percent of respondents agreed that e-mail is a great way to hear about new products available from retail companies; 88 percent of respondents said a retail- er's e-mail has prompted them to download/print out a coupon; 75 percent said it has led them to buy a product online; 67 percent said it has prompted an offline purchase; and 60 percent have been persuaded to experiment with a product for the first time.20 Amazon.com has successfully applied permission mar- keting on the Web for years.21

AMAZON

With customer permission, online retailer Amazon uses database software to track its customers' purchase habits and send them personalized marketing messages. Each time a customer purchases something from Amazon.com, he or she can receive a follow-up e-mail containing information about other products that might interest him or her based on that purchase. For example, if a customer buys a book, Amazon might send an e-mail containing a list of titles by the same author, or of titles also purchased by customers who bought the original title. With just one click, the customer can get more detailed information. Amazon also sends periodic e-mails to customers in- forming them of new products, special offers, and sales. Each message is tailored to the individual customer based on past purchases and specified preferences, according to customer wishes. Amazon keeps an exhaustive list of past purchases for each customer and makes extensive recommendations.

Permission marketing is a way of developing the "consumer dialogue" component of one-to-one marketing in more detail. One drawback to permission marketing, however, is that it presumes that con- sumers have some sense of what they want. In many cases, consumers have undefined, ambiguous, or conflicting preferences that might be difficult for them to express. Thus, marketers must recognize that consumers may need to be given guidance and assistance in forming and conveying their preferences. In that regard, participation marketing may be a more appropriate term and concept to employ, because mar- keters and consumers need to work together to find out how the firm can best satisfy consumer goals.22

Reconciling the Different Marketing Approaches

These and other different approaches to personalization help reinforce a number of important marketing concepts and techniques. From a branding point of view, they are particularly useful means of both elic- iting positive brand responses and creating brand resonance to build customer-based brand equity. Mass customization and one-to-one and permission marketing are all potentially effective means of getting consumers more actively engaged with a brand.

According to the customer-based brand equity (CBBE) model, however, these different approaches emphasize different aspects of brand equity. For example, mass customization and one-to-one and per- mission marketing might be particularly effective at creating greater relevance, stronger behavioral loyalty, and attitudinal attachment. Experiential marketing, on the other hand, would seem to be par- ticularly effective at establishing brand imagery and tapping into a variety of different feelings as well as helping build brand communities. Despite potentially different areas of emphasis, all four approaches can build stronger consumer–brand bonds.

One implication of these new approaches is that the traditional "marketing mix" concept and the notion of the "4 Ps" of marketing—product, price, place (or distribution), and promotion (or marketing communications)—may not fully describe modern marketing programs, or the many activities, such as loyalty programs or pop-up stores, that may not necessarily fit neatly into one of those designations. Nev- ertheless, firms still have to make decisions about what exactly they are going to sell, how (and where) they are going to sell it, and at what price. In other words, firms must still devise product, pricing, and distribution strategies as part of their marketing programs.

The specifics of how they set those strategies, however, have changed considerably. We turn next to these topics and highlight a key development in each area, recognizing that there are many other important areas beyond the scope of this text. With product strategy, we emphasize the role of extrinsic factors; with pricing strategy, we focus on value pricing; and with channel strategy, we concentrate on channel integration.

PRODUCT STRATEGY

The product itself is the primary influence on what consumers experience with a brand, what they hear about a brand from others, and what the firm can tell customers about the brand. At the heart of a great brand is invariably a great product.

Designing and delivering a product or service that fully satisfies consumer needs and wants is a prerequisite for successful marketing, regardless of whether the product is a tangible good, service, or organization. For brand loyalty to exist, consumers' experiences with the product must at least meet, if not actually surpass, their expectations.

After considering how consumers form their opinions of the quality and value of a product, we consider how marketers can go beyond the actual product to enhance product experiences and add ad- ditional value before, during, and after product use.

Perceived Quality

Perceived quality is customers' perception of the overall quality or superiority of a product or service compared to alternatives and with respect to its intended purpose. Achieving a satisfactory level of per- ceived quality has become more difficult as continual product improvements over the years have led to heightened consumer expectations.[23]

Much research has tried to understand how consumers form their opinions about quality. The spe- cific attributes of product quality can vary from category to category. Nevertheless, consistent with the brand resonance model from Chapter 3, research has identified the following

general dimensions: pri- mary ingredients and supplementary features; product reliability, durability and serviceability; and style and design.24 Consumer beliefs about these characteristics often define quality and, in turn, influence attitudes and behavior toward a brand.
Product quality depends not only on functional product performance but on broader performance considerations as well, like speed, accuracy, and care of product delivery and installation; the prompt- ness, courtesy, and helpfulness of customer service and training; and the quality of repair service.
Brand attitudes may also depend on more abstract product imagery, such as the symbolism or per- sonality reflected in the brand. These "augmented" aspects of a product are often crucial to its equity. Finally, consumer evaluations may not correspond to the perceived quality of the product and may be formed by less thoughtful decision making, such as simple heuristics and decision rules based on brand reputation or product characteristics such as color or scent.

Aftermarketing

To achieve the desired brand image, product strategies should focus on both purchase and consumption. Much marketing activity is devoted to finding ways to encourage trial and repeat purchases by con- sumers. Perhaps the strongest and potentially most favorable associations, however, result from actual product experience—what Procter & Gamble calls the "second moment of truth" (the "first moment of truth" occurs at purchase).
Unfortunately, too little marketing attention is devoted to finding new ways for consumers to truly appreciate the advantages and capabilities of products. Perhaps in response to this oversight, one no- table trend in marketing is the growing role of aftermarketing, that is, those marketing activities that occur after customer purchase. Innovative design, thorough testing, quality production, and effective communication—through mass customization or any other means—are without question the most im- portant considerations in enhancing product consumption experiences that build brand equity.
In many cases, however, they may only be necessary and not sufficient conditions for brand suc- cess, and marketers may need to use other means to enhance consumption experiences. Here we con- sider the role of user manuals, customer service programs, and loyalty programs.
User Manuals. Instruction or user manuals for many products are too often an afterthought, put to- gether by engineers who use overly technical terms and convoluted language. Online help forums put the consumer at the mercy of other equally ignorant users or so-called experts who may not understand or appreciate the obstacles the average consumer faces.
As a result, consumers' initial product experiences may be frustrating or, even worse, unsuccessful. Even if consumers are able to figure out how to make the product perform its basic functions, they may not learn to appreciate some of its more advanced features, which are usually highly desirable and pos- sibly unique to the brand.
To enhance consumers' consumption experiences, marketers must develop user manuals or help fea- tures that clearly and comprehensively describe both what the product or service can do for consumers and how they can realize these benefits. With increasing globalization, writing easy-to-use instructions has be- come even more important because they often require

translation into multiple languages.25 Manufacturers are spending more time designing and testing instructions to make them as user friendly as possible.

User manuals increasingly may need to appear in online and multimedia formats to most effec- tively demonstrate product functions and benefits. Intuit, makers of the Quicken personal finance man- agement software package, routinely sends researchers home with first-time buyers to check that its software is easy to install and to identify any sources of problems that might arise. Corel software adopts a similar “Follow Me Home” strategy and also has “pizza parties” at the company where mar- keting, engineering, and quality assurance teams analyze the market research together, so that market- ing does not just hand down conclusions to other departments.26

Customer Service Programs. Aftermarketing, however, is more than the design and communication of product instructions. As one expert in the area notes, “The term ‘aftermarketing’ describes a neces- sary new mind-set that reminds businesses of the importance of building a lasting relationship with customers, to extend their lifetimes. It also points to the crucial need to better balance the allocation of marketing funds between conquest activities (like advertising) and retention activities (like customer communication programs).”27

Creating stronger ties with consumers can be as simple as creating a well-designed customer ser- vice department. Research by Accenture in 2010 found that two in three customers switched companies in the past year due to poor customer service.28 In the auto industry, after-sales service from the dealer is a critical determinant of loyalty and repeat buying of a brand. Routine maintenance and unplanned repairs are an opportunity for dealers to strengthen their ties with customers.29

Aftermarketing can include the sale of complementary products that help make up a system or in any other way enhance the value of the core product. Printer manufacturers such as Hewlett-Pack- ard derive much of their revenue from high-margin postpurchase items such as ink-jet cartridges, laser

HP makes much more money selling printer cartridges than from selling the printer itself.
Source: Brown Adrian/SIPA/ Newscom

toner cartridges, and paper specially designed for PC printers. The average owner of a home PC printer spends much more on consumables over the lifetime of the machine than on the machine itself.30

Aftermarketing can be an important determinant of profitability. For example, roughly three-quarters of revenue for aerospace and defense providers comes from aftermarket support and related sales. After- market sales are strongest when customers are locked in to buying from the company that sold them the primary product due to service contracts, proprietary technology or patents, or unique service expertise.31

Loyalty Programs. Loyalty or frequency programs have become one popular means by which market- ers can create stronger ties to customers.32 Their purpose is “identifying, maintaining, and increasing the yield from a firm’s ‘best’ customers through long-term, interactive, value-added relationships.”33 Firms in all kinds of industries—most notably the airlines—have established loyalty programs through different mixtures of specialized services, newsletters, premiums, and incentives. Often they include extensive co- branding arrangements or brand alliances.

AMERICAN AIRLINES

In 1981, American Airlines founded the first airline loyalty program, called AAdvantage. This frequent-flier program rewarded the airline's top customers with free trips and upgrades based on mileage flown. By recognizing customers for their patronage and giving them incentives to bring their business to American Airlines, the airline hoped to increase loyalty among its passengers. The program was an instant success, and other airlines quickly followed suit. These days, members can earn miles at more than 1,000 participating companies, which include over 35 hotel chains representing more than 75 brands, more than 20 airlines, eight car rental companies, and approximately 25 major retail/financial companies. In addition, members can earn miles when making purchases with one of more than 60 affinity card prod- ucts in 30 countries. Today, scores of frequent-traveler programs exist, but American Airlines is still one of the largest, with membership of over 67 million in 2011.34

Many businesses besides airlines introduced loyalty programs in the intervening years because they of- ten yield results.35 As one marketing executive said, "Loyalty programs reduce defection rates and increase retention. You can win more of a customer's purchasing share." The value created by the loyalty program cre- ates switching costs for consumers, reducing price competition among brands.

To get discounts, however, consumers must typically hand over personal data, raising privacy concerns. When the loyalty program is tied into a credit card, as is sometimes the case, privacy concerns are even

more acute. Nevertheless, the lure of special deals can be compelling to consumers, and in 2011, there were more than 2 billion memberships in loyalty programs, with an average value of $622 points issues per household. A third of these rewards, however, remain unredeemed.36

The appeal to marketers is clear too. Fifteen percent of a retailer's most loyal customers can ac- count for as much as half its sales, and it can take between 12 and 20 new customers to replace a lost loyal customer.37 Some tips for building effective loyalty programs follow:38

• Know your audience: Most loyalty marketers employ sophisticated databases and software to deter- mine which customer segment to target with a given program. Target customers whose purchasing behavior can be changed by the program.

• Change is good: Marketers must constantly update the program to attract new customers and pre- vent other companies in their category from developing "me-too" programs. "Any loyalty program that stays static will die," said one executive.

• Listen to your best customers: Suggestions and complaints from top customers deserve careful con- sideration, because they can lead to improvements in the program. Because they typically represent a large percentage of business, top customers must also receive better service and more attention.

• Engage people: Make customers want to join the program. Make the program easy to use and offer immediate rewards when customers sign up. Once they become members, make customers “feel special,” for example, by sending them birthday greetings, special offers, or invitations to special events.

Summary

The product is at the heart of brand equity. Marketers must design, manufacture, market, sell, deliver, and service products in a way that creates a positive brand image with strong, favorable, and unique brand associations; elicits favorable judgments and feelings about the brand; and fosters greater degrees of brand resonance.

Product strategy entails choosing both tangible and intangible benefits the product will embody and marketing activities that consumers desire and the marketing program can deliver. A range of possible associations can become linked to the brand—some functional and performance-related, and some abstract and imagery-related. Perceived quality and perceived value are particularly important brand associations that often drive consumer decisions.

Because of the importance of loyal customers, relationship marketing has become a branding prior- ity. Consequently, consumers’ actual product experiences and aftermarketing activities have taken on increased importance in building customer-based brand equity. Those marketers who will be most suc- cessful at building CBBE will take the necessary steps to make sure they fully understand their custom- ers and how they can deliver superior value before, during, and after purchase.

CROSSWORD BOOK REWARD PROGRAMME

Crossword Bookstores—a point of cultural and social interaction where authors and poets hold court, where chil- dren are regaled, where people gravitate to be informed, to be entertained, and even enlightened. Crossword is a national phenomenon and a book lovers’ delight, now spanning across the country with almost 90 stores.

In addition to offering book lovers a lovely ambience to shop, the brand also introduced its loyalty programme, Crossword Book Reward Program (BRP), in the year 1999. It has rewarded more than 4.5 lakh loyal customers with reward points, exclusive offers, “eWords”, a monthly e-newsletter with reviews of new books, news about in store events, bestseller lists, and more. Crossword customers can now enroll as a Book Rewards Member on payment of ` 200. Every ` 40 and its multiple spent at Crossword on any merchandise earns one point. The points can be redeemed at all Crossword bookstores.

Customers also receive several allied benefits like extended exchange period, additional discounts on annual sale, discounts on birthdays, and free home delivery, which makes the customers feel special. This program has significantly increased average spending of loyal customers per visit and also the sales derived from such purchases.

Crossword

Source: www.crossword.in/default/default/p-gifts-b-r.html, accessed on 18 September 2014; www.desidime.com/forums/hot-deals-online/topics/crossword-book-rewards-member-rs75, accessed on 18 September 2014; corporate.shoppersstop.com/Brand/Crossword.aspx, accessed on 18 September 2014.

PRICING STRATEGY

Price is the one revenue-generating element of the traditional marketing mix, and price premiums are among the most important benefits of building a strong brand. This section considers the different kinds of price perceptions that consumers might form, and different pricing strategies that the firm might adopt to build brand equity.

Consumer Price Perceptions

The pricing strategy can dictate how consumers categorize the price of the brand (as low, medium, or high), and how firm or how flexible they think the price is, based on how deeply or how frequently it is discounted. Consumers often rank brands according to price tiers in a category.39 For example, Figure 5-3 shows the price tiers that resulted from a study of the ice cream market.40 In that market, as the figure shows, there is also a relationship between price and quality. Within any price tier, there is a range of accept- able prices, called price bands, that indicate the flexibility and breadth marketers can adopt in pricing their brands within a tier. Some companies sell multiple brands to better compete in multiple categories. Figure 5-4 displays clothing offerings from Phillips Van Huesen that at one time covered a wide range of prices and corresponding retail outlets.41

Besides these descriptive “mean and variance” price perceptions, consumers may have price per-
ceptions that have more inherent product meaning. In particular, in many categories, they may infer the quality of a product on the basis of its price and use perceived quality and price to arrive at an assessment of perceived value. Costs here are not restricted to the actual monetary price but may reflect opportunity costs of time, energy, and any psychological involvement in the decision that consumers might have.42

Image source: Crosswords

Quality

Consumer Reports rating

Excellent

Very good

Good

Fair

Lady Lee

Sealtest

Foremost Borden

Howard Johnson's

Breyer’s

Lucerne Deluxe

20

Schrafft’s Häagen- Dazs

Baskin-Robbins

30 40 50¢

Distribution Channels

$10 Brand Pricing Strategy Price Range

FIGURE 5-4 Phillips Van- Heusen Brand Price Tiers

0

10
Generic
FIGURE 5-3
Price Tiers in the Ice Cream Market

Consumer price, cents per 4-ounce serving
Calvin Klein Collection ck Calvin Klein
BCBG Max Azria Sean John
Kenneth Cole New York Calvin Klein
MICHAEL Michael Kors
BCBG Attitude Kenneth Cole Reaction
Geoffrey Beene IZOD
Bass Chaps
$10,000
Van Heusen Arrow

Consumer associations of perceived value are often an important factor in purchase decisions. Thus many marketers have adopted value-based pricing strategies—attempting to sell the right product at the right price—to better meet consumer wishes, as described in the next section.

In short, price has complex meaning and can play multiple roles to consumers. The Science of Branding 5-2 provides insight into how consumers perceive and process prices as part of their shop- ping behavior. Marketers need to understand all price perceptions that consumers have for a brand, to uncover quality and value inferences, and to discover any price premiums that exist.

Setting Prices to Build Brand Equity

Choosing a pricing strategy to build brand equity means determining the following:

- A method for setting current prices
- A policy for choosing the depth and duration of promotions and discounts

Commodity Specialty
Collection stores
Specialty stores
Premier department stores
Department stores
Mid-tier department stores
Company stores
Discount stores

THE SCIENCE OF BRANDING 5-2

Understanding Consumer Price Perceptions

Economists traditionally assumed that consumers were “price takers” who accepted prices as given. However, as Ofir and Winer note, consumers and customers often actively process price information, interpreting prices in terms of their knowledge from prior purchasing experience, formal commu- nications such as advertising, informal communications from friends or family members, and point-of-purchase or online information. Consumer purchase decisions are based on con- sumers' perceived prices, however, not the marketer's stated value. Understanding how consumers arrive at their percep- tions of prices is thus an important marketing priority.

Much research has shown that surprisingly few consum- ers can recall specific prices of products accurately, although they may have fairly good knowledge of the relevant range of prices. When examining or considering an observed price, however, consumers often compare it with internal frames of reference (prices they remember) or external frames of refer- ence (a posted "regular retail price"). Internal reference prices occur in many forms, such as the following:

as a stated price higher than the perceived price, have a greater impact on purchase likelihood than pleasant surprises.

Consumer perceptions of prices are also affected by alterna- tive pricing strategies. For example, research has shown that a rela- tively expensive item can seem less expensive if the price is broken down into smaller units (a $500 annual membership seems pricier than "less than $50 a month"). One reason prices often end with the number nine (as in, say, $49.99) is that consumers process prices in a left-to-right manner rather than holistically or by round- ing. This effect is more pronounced when competing products' prices are numerically and psychologically closer together.

Even the competitive environment has been shown to af- fect consumer price judgments: deep discounts (like everyday low pricing or EDLP) can lead to lower perceived prices over time than frequent, shallow discounts (high-low pricing or HILO), even if the average prices are the same in both cases. Clearly, consumer perceptions of price are complex and de- pend on the pricing context involved.

Sources: Chezy Ofir and Russell S. Winer, "Pricing: Economic and Behavioral Models," in Handbook of Marketing, eds. Bart Weitz and Robin Wensley (New York: Sage Publications, 2002): 5–86; John T. Gourville, "Pennies-a-Day: The Effect of Temporal Reframing on Transaction Evaluation," Journal of Consumer Research (March 1998): 395–408; Manoj Thomas and Vicki Morwitz, "Penny Wise and Pound Foolish: The Left-Digit Effect in Price Cognition," Journal of Con- sumer Research 26 (June 2005): 54–64; Eric Anderson and Duncan Simester, "Mind Your Pricing Cues," Harvard Business Review 81, no. 9 (September 2003): 96–103; Tridib Mazumdar, S. P. Raj, and Indrajit Sinha, "Reference Price Research: Review and Propositions," Journal of Marketing 69 (October 2005): 84–102.

• "Fair price" (what product should cost)
• Typical price
• Last price paid
• Upper-bound price (the most consumer would pay)
• Lower-bound price (the least consumer would pay)
• Competitive prices
• Expected future price • Usual discounted price

When consumers evoke one or more of these frames of reference, their perceived price can vary from the stated price. Most research on reference prices has found that "unpleasant surprises," such

There are many different approaches to setting prices, and the choice depends on a number of consider- ations. This section highlights a few of the most important issues as they relate to brand equity.43

Factors related to the costs of making and selling products and the relative prices of competitive products are important determinants in pricing strategy. Increasingly, however, firms are placing greater importance on consumer perceptions and preferences. Many firms now are employing a value- pricing approach to setting prices and an everyday-low-pricing (EDLP) approach to determining their discount pricing policy over time. Let's look at both.

Value Pricing. The objective of value pricing is to uncover the right blend of product quality, product costs, and product prices that fully satisfies the needs and wants of consumers and the profit targets of the firm. Marketers have employed value pricing in various ways for years, sometimes learning the hard way that consumers will not pay price premiums that exceed their perceptions of the value of a brand. Perhaps the most vivid illustration was the legendary price cut for Philip Morris's leading cigarette brand, Marlboro, described in Branding Brief 5-1.44

BRANDING BRIEF 5-1

Marlboro's Price Drop

On April 2, 1993, or "Marlboro Friday," Philip Morris dropped a bombshell in the form of an advertorial announcing that Philip Morris USA has dramatically shifted its corporate strategy and is now aligning it to building long-term profit- ability in a highly valuable and price sensitive market. Tobacco unit president and CEO William I. Campbell reiterated that the company was concerned about the prolonged economic con- ditions and depressed consumer confidence, and thus required the price decrease strategy to grow market share in order to maintain Philip Morris's leadership position in the market.

Philip Morris announced four major steps, the fourth of which caught the eye of marketers and Wall Street alike: a major promotional cut in the price of Marlboro (roughly 40 to 50 cents a pack), which was expected to decrease earnings in Philip Morris's most profitable unit by 40 percent. The action was justified by the results of a month-long test in Portland, Oregon, the previous December in which a 40-cent decrease in pack price had increased market share by 4 points.

The stock market reaction to the announcement was swift. By day's end, Philip Morris's stock price had declined from $64.12 to $49.37, a 23 percent drop that represented a one-day loss of $13 billion in shareholder equity! There was a ripple effect in the stock market, with significant stock price de- clines for other consumer goods companies with major brands like Sara Lee, Kellogg's, General Mills, and Procter & Gamble. A company that took one of the biggest hits was Coca-Cola, whose shareholders lost $5 billion in paper earnings in the days following "Black Friday."

A number of factors probably led Marlboro to cut prices so dramatically. The economy certainly was still sluggish, coming out of a recession. Private-label or store-brand cigarettes had been increasing in quality and were receiving more attention
from customers and retailers. A prime consideration suggested by many was related to Philip Morris's hefty price increases. These had often occurred two to three times a year, so that the retail price of a pack of Marlboros more than tripled between 1980 and 1992. The 80 cents to $1 difference between pre- mium brands and discount brands that prevailed at that time was thought to have resulted in steady sales increases for the discount brands at the expense of

Marlboro's market share, which had dropped to 22 percent and was projected to decline further to 18 percent if Philip Morris made no changes.

Although much of the popular press attempted to exploit Marlboro's actions to proclaim that "brands were dead," noth- ing could have been further from the truth. In fact, a more ac- curate interpretation of the whole episode is that it showed that new brands were entering the scene, as evidenced by the ability of discount brands to create their own brand equity on the basis of strong consumer associations to "value."

At the same time, existing brands, if properly managed, can command loyalty, enjoy price premiums, and still be ex- tremely profitable. By cutting the difference between discount cigarettes and Marlboro to roughly 40 cents, Philip Morris was able to woo back many customers. Within nine months after the price drop, its market share increased to almost 27 percent. Years later, Marlboro currently owns 42 percent of the market. Priced at $5.70 a pack, the brand commands a significant pre- mium over the average $4.21 price for the cheapest brands on the market.

Sources: Laura Zinn, "The Smoke Clears at Marlboro," BusinessWeek, 31 January 1994, 76–77; Al Silk and Bruce Isaacson, "Philip Morris: Marlboro Friday (A)," Harvard Business School Case 9–596–001; Michael Felberbaum, "Altria 1Q Net Rises, but Marlboro Loses Ground," Bloomberg BusinessWeek, 20 April 2011.

Two important and enduring branding lessons emerged from the Marlboro episode. First, strong brands can command price premiums. Once Marlboro's price entered a more acceptable range, consumers were willing to pay the still-higher price, and sales of the brand started to in- crease. Second, strong brands cannot command an excessive price premium. The clear signal sent to marketers everywhere is that price hikes without corresponding investments in the value of the brand may increase the vulnerability of the brand to lower-priced competition. In these cases, con- sumers may be willing to "trade down" because they no longer can justify to themselves that the higher-priced brand is worth it. Although the Marlboro price discounts led to short-term profitabil- ity declines, they also led to regained market share that put the brand on a stronger footing over the longer haul.

In today's challenging new climate, several firms have been successful by adopting a value-pricing strategy. For example, Walmart's slogan, "Save Money. Live Better," describes the pricing

Walmart's "Save Money. Live Better" slogan succinctly summarizes its strong value positioning. Source: Beth Hall/Bloomberg via Getty Images

strategy that has allowed it to become the world's largest retailer. Southwest Airlines combined low fares with no-frills—but friendly—service to become a powerful force in the airline industry. The success of these and other firms has dramatized the potential benefits of implementing a value- pricing strategy.

As you might expect, there are a number of opinions regarding the keys for success in adopting a value-based pricing approach. In general, however, an effective value-pricing strategy should strike the proper balance among three key components:

• Product design and delivery

• Product costs
• Product prices

In other words, as we've seen before, the right kind of product has to be made the right way and sold at the right price. We look at each of these three elements below. Meanwhile, a brand that has experienced much success in recent years balancing this formula is Hyundai.

HYUNDAI

Taking a page from the Samsung playbook, Korean upstart automaker Hyundai is trying to do to Toyota and Honda what Samsung successfully did to Sony—provide an affordable alternative to a popular market leader. Like Samsung, Hyundai has adopted a well-executed value pricing strategy that combines advanced technol- ogy, reliable performance, and attractive design with lower prices. While discussing the 2011 Sonata Sedan and revamped Tuscon crossover, the head of US design said, that the idea is to make a car that looks like a premium car which does not have a premium price attached to it. He also said that Hyundai wanted people to be pulled out of Camrys and Accords and give them something different with better value. Hyundai's 10-year or 100,000 mile power train warranty programs and positive reviews from car analysts such as J. D. Power provided additional reassurance to potential buyers of the quality of the products and the company's stability. To maintain momentum during the recession, Hyundai's "Assurance" program, featuring a highly publicized Super Bowl TV spot, allowed new buyers to return their Hyundai vehicles if they lost their job. All these efforts were met with greater customer acceptance: the number of potential U.S. buyers who say they would "defi- nitely" consider a Hyundai tripled from 2000 to 2009. Hyundai's current Assurance program is centered on a new Trade-in Value Guarantee that preserves the market value of a new Hyundai by guaranteeing to customers at the time of purchase exactly how much it would be worth, two, three, or four years from now.45

Hyundai has a strong value proposition, anchored by its 10-year or 100,000-mile warranty.
Source: Hyundai Motor America

Product Design and Delivery. The first key is the proper design and delivery of the product. Product value can be enhanced through many types of well-conceived and well-executed marketing programs, such as those covered in this and other chapters of the book. Proponents of value pricing point out that the concept does not mean selling stripped-down versions of products at lower prices. Consumers are willing to pay premiums when they perceive added value in products and services.

Some companies actually have been able to increase prices by skillfully introducing new or im- proved "value-added" products. Some marketers have coupled well-marketed product innovations and improvements with higher prices to strike an acceptable balance to at least some market segments. Here are two examples of Procter & Gamble brands that used that formula to find marketplace success in the midst of the deep recession of 2008–2010.

• P&G introduced its most expensive Gillette razor ever, the Fusion ProGlide, by combining an inno- vative product with strong marketing support. Its "Turning Shaving into Gliding and Skeptics into Believers" campaign for Fusion ProGlide gave sample razors to bloggers and ran ads online and on TV showing men outside their homes given impromptu shaves with the new razor.46

• P&G's Pepto-Bismol stomach remedy liquid was able to command a 60 percent price premium over private labels through a blend of product innovation (new cherry flavors) and an engaging advertising campaign that broke copy-testing research records for the brand ("Coverage" featuring a headset-wearing, pink-vested "Pepto Guy" fielding calls and offering humorous advice to gastro- intestinally challenged callers).47

With the advent of the Internet, many critics predicted that customers' ability to perform extensive, assisted online searches would result in only low-cost providers surviving. In reality, the advantages of creating strong brand differentiation have led to price premiums when brands are sold online just as much as when sold offline. For example, although undersold by numerous book and music sellers online, Amazon.com was able to maintain market leadership, eventually forcing low-priced competitors such as Books.com and others out of business.48

Product Costs. The second key to a successful value-pricing strategy is to lower costs as much as pos- sible. Meeting cost targets invariably requires finding additional cost savings through productivity gains, outsourcing, material substitution (less expensive or less wasteful materials), product reformulations, and process changes like automation or other factory improvements.49

As one marketing executive once put it:

The customer is only going to pay you for what he perceives as real value-added. When you look at your overhead, you've got to ask yourself if the customer is really willing to pay for that. If the answer is no, you've got to figure out how to get rid of it or you're not going to make money.50

Famous athletes and celebrities— such as NBA player Tony Parker, WWE wrestler John Cena, and TV sportscaster Erin Andrews—have promoted Gillette's latest Fusion ProGlide razor and its innovative performance features.

Source: mZUMA Press/Newscom

To reduce its costs to achieve value pricing, Procter & Gamble cut overhead according to four simple guidelines: change the work, do more with less, eliminate work, and reduce costs that cannot be passed on to consumers. P&G simplified the distribution chain to make restocking more efficient through continuous product replenishment. The company also scaled back its product portfolio by elim- inating 25 percent of its stock-keeping units.

Firms have to be able to develop business models and cost structures to support their pricing plans. Taco Bell reduced operating costs enough to lower prices for many items on the menu to under $1, spark- ing an industry-wide trend in fast foods. Unfortunately, many other fast food chains found it difficult to lower their overhead costs enough or found that their value menu cannibalized more profitable items.51

Cost reductions certainly cannot sacrifice quality, effectiveness, or efficiency. Toyota and Johnson & Johnson's Tylenol both experienced brand crises due to product problems, which analysts and even some of the management of the two firms attributed to overly zealous cost reductions. When H&R Block cut costs as it moved into new areas outside tax preparation, customer service suffered and cus- tomers began to complain about long wait times and rudeness.52

Product Prices. The final key to a successful value-pricing strategy is to understand exactly how much value consumers perceive in the brand and thus to what extent they will pay a premium over product costs.53 A number of techniques are available to estimate these consumer value perceptions. Perhaps the most straightforward approach is to directly ask consumers their perceptions of price and value in different ways.

The price suggested by estimating perceived value can often be a starting point for marketers in determining actual marketplace prices, adjusting by cost and competitive considerations as necessary. For example, to halt a precipitous slide in market share for its flagship 9-Lives brand, the pet products division of H. J. Heinz took a new tack in its pricing strategy. The company found from research that consumers wanted to be able to buy cat food at the price of “four cans for a dollar,” despite the fact that its cat food cost between 29 and 35 cents per can. As a result, Heinz reshaped its product packag- ing and redesigned its manufacturing processes to be able to hit the necessary cost, price, and margin targets. Despite lower prices, profits for the brand doubled.

Communicating Value. Combining these three components in the right way to create value is crucial. Just delivering good value, however, is necessary but not sufficient for achieving pricing success—con- sumers have to actually understand and appreciate the value of the brand. In many cases, that value may be obvious—the product or service benefits are clear and comparisons with competitors are easy. In other cases, however, value may not be obvious, and consumers may too easily default to purchasing lower- priced competitors. Then marketers may need to engage in marketing communications to help consumers

better recognize the value. In some cases, the solution may simply require straightforward communications that expand on the value equation for the brand, such as stressing quality for price. In other cases, it may involve “framing” and convincing consumers to think about their brand and product decisions differently.

For example, take a premium-priced brand such as Procter & Gamble’s Pantene. It faces pressure from many competing brands, but especially private-label and store and discount brands that may cost much less. In tough times, even small cost savings may matter to penny-pinching consumers. Assume a bottle of Pantene cost a $1 more than its main competitors but could be used for up to 100 shampoos. In that case, the price difference is really only one cent per shampoo. By framing the purchase decision in terms of cost per shampoo, P&G could then advertise, “Isn’t it worth a penny more to get a better- looking head of hair?”

Price Segmentation. At the same time, different consumers may have different value perceptions and therefore could—and most likely should—receive different prices. Price segmentation sets and ad- justs prices for appropriate market segments. Apple has a three-tier pricing scheme for iTunes down- loads—a base price of 99 cents, but $1.29 for popular hits and 69 cents for oldies-but-not-so-goodies.54 Starbucks similarly has raised the prices of some of its specialty beverages while charging less for some basic drinks.55

In part because of wide adoption of the Internet, firms are increasingly employing yield management principles or dynamic pricing, such as those adopted by airlines to vary their prices for different market segments according to their different demand and value perceptions. Here are several examples:

- Allstate Insurance embarked on a yield management pricing program, looking at drivers' credit history, demographic profile, and other factors to better match automobile policy premiums to cus- tomer risk profiles.56
- To better compete with scalpers and online ticket brokers such as StubHub, concert giant Ticketmaster has begun to implement more efficient variable pricing schemes based on demand that charge higher prices for the most sought-after tickets and lower prices for less-desirable seats for sporting events and concerts.57
- The San Francisco Giants now uses a software system that allows the team to look at different vari- ables such as current ticket sales, weather forecasts, and pitching matchups to determine whether it should adjust prices—right up until game day. The software allows the team to take the price-tier strategy baseball has traditionally used and make it more dynamic.58
- New start-up Village Vines offers a demand-management solution to restaurants that allows them to effectively price discriminate by offering deal-prone customers the option of making reservations for 30 percent off the entire bill on select (less desirable) days and times.59

Everyday Low Pricing. Everyday low pricing (EDLP) has received increased attention as a means of determining price discounts and promotions over time. EDLP avoids the sawtooth, whiplash pattern of alternating price increases and decreases or discounts in favor of a more consistent set of "everyday" base prices on products. In many cases, these EDLP prices are based on the value-pricing considerations we've noted above.

The P&G Experience. In the early 1990s, Procter & Gamble made a well-publicized conversion to EDLP.60 By reducing list prices on half its brands and eliminating many temporary discounts, P&G reported that it saved $175 million in 1991, or 10 percent of its previous year's profits. Advocates of EDLP argue that maintaining consistently low prices on major items every day helps build brand loy- alty, fend off private-label inroads, and reduce manufacturing and inventory costs.61

Even strict adherents of EDLP, however, see the need for some types of price discounts over time. When P&G encountered some difficulties in the late 1990s, it altered its value-pricing strategy in some segments and reinstated selected price promotions. More recently, P&G has adopted a more fluid pric- ing strategy in reaction to market conditions.62 Although P&G lowered prices in 2010 to try to gain market share in the depths of a severe recession, the company actually raised some prices to offset

The San Francisco Giants have used yield pricing at their AT&T Park home, basing prices for any seat at any game on a number of different factors.

Source: Aurora Photos/Alamy

rising commodity costs in 2011. Management felt confident about the strength of some of the firm's popular premium-priced brands—such as Fusion ProGlide, Crest 3-D products, and Old Spice body wash—where demand had actually even exceeded supply.

As Chapter 6 will discuss, well-conceived, timely sales promotions can provide important financial incentives to consumers and induce sales. As part of revenue-management systems or yield-manage- ment systems, many firms have been using sophisticated models and software to determine the optimal schedule for markdowns and discounts.63

Reasons for Price Stability. Why then do firms seek greater price stability? Manufacturers can be hurt by an overreliance on trade and consumer promotions and the resulting fluctuations in prices for several reasons.

For example, although trade promotions are supposed to result in discounts on products only for a certain length of time and in a certain geographic region, that is not always the case. With forward buy- ing, retailers order more product than they plan to sell during the promotional period so that they can later obtain a bigger margin by selling the remaining goods at the regular price after the promotional pe- riod has expired. With diverting, retailers pass along or sell the discounted products to retailers outside the designated selling area.

From the manufacturer’s perspective, these retailer practices created production complications: fac- tories had to run overtime because of excess demand during the promotion period but had slack capacity when the promotion period ended, costing manufacturers millions. On the demand side, many market- ers felt that the seesaw of high and low prices on products actually trained consumers to wait until the brand was discounted or on special to buy it, thus eroding its perceived value. Creating a brand associa- tion to “discount” or “don’t pay full price” diminished brand equity.

Summary

To build brand equity, marketers must determine strategies for setting prices and adjusting them, if at all, over the short and long run. Increasingly, these decisions will reflect consumer perceptions of value. Value pricing strikes a balance among product design, product costs, and product prices. From a brand equity perspective, consumers must find the price of the brand appropriate and fair given the benefits they feel they receive by the product and its relative advantages with respect to competitive offerings, among other factors. Everyday low pricing is a complementary pricing approach to determine the nature of price discounts and promotions over time that maintains consistently low, value-based prices on ma- jor items on a day-to-day basis.

There is always tension between lowering prices on the one hand and increasing consumer percep- tions of product quality on the other. Academic researchers Lehmann and Winer believe that although marketers commonly use price reductions to improve perceived value, in reality discounts are often a more expensive way to add value than brand-building marketing activities.64 Their argument is that the lost revenue from a lower margin on each item sold is often much greater than the additional cost of value-added activities, primarily because many of these costs are fixed and spread over all the units sold, as opposed to the per unit reductions that result from lower prices.

CHANNEL STRATEGY

The manner by which a product is sold or distributed can have a profound impact on the equity and ulti- mate sales success of a brand. Marketing channels are defined as “sets of interdependent organizations involved in the process of making a product or service available for use or consumption."65 Channel strategy includes the design and management of intermediaries such as wholesalers, distributors, bro- kers, and retailers. Let's look at how channel strategy can contribute to brand equity.66

Channel Design

A number of possible channel types and arrangements exist, broadly classified into direct and indirect chan- nels. Direct channels mean selling through personal contacts from the company to prospective customers by mail, phone, electronic means, in-person visits, and so forth. Indirect channels sell through third-party intermediaries such as agents or broker representatives, wholesalers or distributors, and retailers or dealers.

Increasingly, winning channel strategies will be those that can develop "integrated shopping ex- periences" that combine physical stores, Internet, phone, and catalogs. For example, consider the wide variety of direct and indirect channels by which Nike sells its shoes, apparel, and equipment products:67

• Branded Niketown stores: Over 500 Niketown stores, located in prime shopping avenues in metro- politan centers around the globe, offer a complete range of Nike products and serve as showcases for the latest styles. Each store consists of a number of individual shops or pavilions that feature shoes, clothes, and equipment for a different sport (tennis, jogging, biking, or water sports) or different lines within a sport (there might be three basketball shops and two tennis shops). Each shop develops its own concepts with lights, music, temperature, and multimedia displays. Nike is also experimenting with newer, smaller stores that target specific customers and sports (a running-only store in Palo Alto, CA; a soccer-only store in Manchester, England).

• NikeStore.com: Nike's e-commerce site allows consumers to place Internet orders for a range of products or to custom-design some products through NIKEiD, which surpassed $100 million in sales in 2010.

• Outlet stores: Nike's outlet stores feature discounted Nike merchandise.

• Retail: Nike products are sold in retail locations such as shoe stores, sporting goods stores, depart-
ment stores, and clothing stores.

• Catalog retailers: Nike's products appear in numerous shoe, sporting goods, and clothing catalogs.

• Specialty stores: Nike equipment from product lines such as Nike Golf is often sold through spe-
cialty stores such as golf pro shops.

Nike uses a variety of different channels
for different purposes. Its Niketown stores have been very useful as a brand-building tool.
Source: AP Photo/Marcio Jose Sanchez

Much research has considered the pros and cons of selling through various channels. Although the deci- sion ultimately depends on the relative profitability of the different options, some more specific guide- lines have been proposed. For example, one study for industrial products suggests that direct channels may be preferable when product information needs are high, product customization is high, product quality assurance is important, purchase lot size is important, and logistics are important. On the other hand, this study also suggests that indirect channels may be preferable when a broad assortment is es- sential, availability is critical, and after-sales service is important. Exceptions to these generalities exist, especially depending on the market segments.68

From the viewpoint of consumer shopping and purchase behaviors, we can see channels as blend- ing three key factors: information, entertainment, and experiences.

• Consumers may learn about a brand and what it does and why it is different or special.

• Consumers may also be entertained by the means by which the channel permits shopping and purchases.

• Consumers may be able to participate in and experience channel activities.

It is rare that a manufacturer will use only a single type of channel. More likely, the firm will choose a hybrid channel design with multiple channel types.69 Marketers must manage these channels carefully, as Tupperware found out.

TUPPERWARE

In the 1950s, Tupperware pioneered the plastic food-storage container business and the means by which the contain- ers were sold. With many mothers staying at home and growth in the suburbs exploding, Tupperware parties with a local neighborhood host became a successful avenue for selling. Unfortunately, with more women entering the workforce and heightened competition from brands such as Rubbermaid, Tupperware sales closed out the twentieth century with a 15-year decline. Sales turned around only with some new approaches to selling, including booths at shopping malls and a move to the Internet. The decision to place products in all 1,148 Target stores, however, was a complete disaster. In-store selling was difficult given the very different retail environment. Moreover, because the prod- uct was made more widely available, interest in traditional in-home parties plummeted. Frustrated, many salespeople dropped out and fewer new ones were recruited. Although the products were yanked from the stores, the damage was done and profit plunged almost 50 percent. One of the key distributors observed that they had just bit off more than they could chew.70

Tupperware made a serious mistake revising its channel strategy to sell through Target.
Source: Justin Sullivan/Getty Images

The risk in designing a hybrid channel system is having too many channels (leading to conflict among channel members or a lack of support), or too few channels (resulting in market opportunities being overlooked). The goal is to maximize channel coverage and effectiveness while minimizing chan- nel cost and conflict.

Because marketers use both direct and indirect channels, let's consider the brand equity implica- tions of the two major channel design types.

Indirect Channels

Indirect channels can consist of a number of different types of intermediaries, but we will concentrate on retailers. Retailers tend to have the most visible and direct contact with customers and therefore have the greatest opportunity to affect brand equity. As we will outline in greater detail in Chapter 7, con- sumers may have associations to any one retailer on the basis of product assortment, pricing and credit policy, and quality of service, among other factors. Through the products and brands they stock and the means by which they sell, retailers strive to create their own brand equity by establishing awareness and strong, favorable, and unique associations.

At the same time, retailers can have a profound influence on the equity of the brands they sell, es- pecially in terms of the brand-related services they can support or help create. Moreover, the interplay between a store's image and the brand images of the products it sells is an important one. Consumers make assumptions such as "this store only sells good-quality, high-value merchandise, so this particular product must also be good quality and high value."

Push and Pull Strategies. Besides the indirect avenue of image transfer, retailers can directly affect the equity of the brands they sell. Their methods of stocking, displaying, and selling products can enhance or detract from brand equity, suggesting that manufacturers must take an active role in helping retailers add value to their brands. A topic of great interest in recent years in that regard is shopper marketing.

Though defined differently by different people, at its core shopper marketing emphasizes collabo- ration between manufacturers and retailers on in-store marketing like brand-building displays, sampling promotions, and other in-store activities designed to capitalize on a retailer's capabilities and its custom- ers. Vlasic is a brand that has ramped up its shopper marketing program.

 VLASIC

Although many homes keep a jar of pickles in their refrigerator, too often it ends up in the back of a shelf, where it is forgotten. When summer barbecue season rolls along, pickle consumption increases, although still not as much as market leader Vlasic would like. Company research revealed that about 80 percent of pickles consumed in U.S. homes accompany a hamburger or other sandwich, but only 3 percent of all sandwiches consumed are served with pickles. Compounding the consumption problem is a shopping obstacle. Pickles typically are stocked in the center aisles of stores, where only about 20 percent of shoppers turn on any given trip, compared with the produce or deli aisles on the perimeter of the store, where about 60 percent shop. Vlasic did have one advantage with which to work. Through the years, its iconic brand character—a stork with a Groucho Marx look and personality—had become widely recognizable from all its advertising appear- ances. For the 2011 summer selling season, Vlasic decided to pull all those factors together to try something different in its marketing. In-store ad cutouts with the stork began to appear in sections of the supermarket away from where pickles were stocked. In the meat section, for example, an ad was placed that included a speech balloon near the stork's beak proclaiming: "Pro tip: Serve your burgers with a Vlasic pickle. Amateur tip: Don't." Similar type ads appeared near the hamburger buns in the bread aisle and all through the cheese aisles. The ads also appeared on shopping carts and on vinyl ads on the supermarket floor. To provide further marketing support outside the store, print ads for the brand stating "Bring On the Bite" appeared in maga- zines and on Web sites.71

Vlasic's concerted shopper marketing program paid off nicely in the marketplace.

Source: Pinnacle Foods Group LLC

Such collaborative efforts can spur greater sales of a brand. Yet, at the same time, much conflict has also emerged in recent years between manufacturers and the retailers making up their channels of distri- bution. Because of greater competition for shelf space among what many retailers feel are increasingly undifferentiated brands, retailers have gained power and are now in a better position to set the terms of trade with manufacturers. Increased power means that retailers can command more frequent and lucra- tive trade promotions.

One way for manufacturers to regain some of their lost leverage is to create strong brands through some of the brand-building tactics described in this book, for example, by selling innovative and unique products—properly priced and advertised—that consumers demand. In this way, consumers may ask or even pressure retailers to stock and promote manufacturers' products.

By devoting marketing efforts to the end consumer, a manufacturer is said to employ a pull strat- egy, since consumers use their buying power and influence on retailers to "pull" the product through the channel. Alternatively, marketers can devote their selling efforts to the channel members themselves, providing direct incentives for them to stock and sell products to the end consumer. This approach is called a push strategy, because the manufacturer is attempting to reach the consumer by "pushing" the product through each step of the distribution chain.

Although certain brands seem to emphasize one strategy more than another (push strategies are usually associated with more selective distribution, and pull strategies with broader, more intensive distribution), the most successful marketers—brands like Apple, Coca-Cola, and Nike—skillfully blend push and pull strategies.

Channel Support. A number of different services provided by channel members can enhance the value to consumers of purchasing and consuming a brand name product (see Figure 5-5). Although firms are increasingly providing some of the services themselves through toll-free numbers and Web sites, establishing a "marketing partnership" with retailers may nevertheless be critical to ensuring proper channel support and the execution of these various services.

Manufacturers can take a number of steps to keep retail partners happy and prevent breaks in the supply chain. Resellers often sink significant amounts of money into maintaining their facilities and paying sales staffs. To compensate them, manufacturers can offer dealers exclusive access to new products, or branded variants, as described below. Experts also advise that manufacturers stick to fixed prices when they offer products directly to consumers. If they do offer big discounts, they should offer them at outlet malls, where they won't confuse customers.

Manufacturers also can back up their distributors by educating them about their products so the retail partners can shape an effective sales force. When makeup giant Mary Kay began selling its cos- metics online in 1997, it also helped the members of its direct sales force set up their own online stores. Sharing product information and also doing good advertising contributes to distributors' success. John Deere effectively partnered with its channel members on customer service.

Marketing research Communications

Contact Matching

Negotiations
Physical distribution Financing Risk-taking
Service
Gathering information necessary for planning and facilitating interactions with customers
Developing and executing communications about the product and service
Seeking out and interacting with prospective customers
Shaping and fitting the product/service to the customer's requirements
Reaching final agreement on price and other terms of trade
Transporting and storing goods (inventory) Providing credit or funds to facilitate the transaction
Assuming risks associated with getting the product or service from firm to customer
Developing and executing ongoing relationships with customers, including maintenance and repair

FIGURE 5-5
Services Provided by Channel Members
Source: Reprinted from Donald Lehmann and Russell Winer, Product Management, 2nd ed (Burr Ridge, IL: Irwin, 1997), Figure 13-8 on p. 379. © The McGraw-Hill Companies.

JOHN DEERE
John Deere was founded in 1837 by a blacksmith who devised a new type of cast-steel plow that revolutionized Midwest farming. The firm is now best known, however, for its tractors and residential and commercial-use products, such as mowers, ATVs, and saws. Over the decades, Deere dealers sprouted throughout the country, growing to more than 10,000 in the 1920s. Consolidation led to a contraction of the dealer network, a trend that Deere has actively encouraged in recent years as it tries to ensure that dealers have the necessary technological and business expertise to deal with increasingly large and sophisticated farm conglomerates. In 2003, John Deere expanded beyond its mainly rural network of more than 2,500 dealers to gain access to an additional 100,000 customers by selling its products through Home Depot. In doing so, Deere avoided conflict by assigning dealers to handle the service for purchases made from the mass channel, ensuring that they gained immediate revenue and an opportunity for future sales.72

Ultimately, companies have to share the power to make decisions with their distributors and recog- nize that dealers' success benefits them too. In many markets, dealers have captured more of the retail sales, so manufacturers must keep them happy and profitable if they want the benefits of a smooth sup- ply chain. Two important components of partnership strategies are retail segmentation activities and cooperative advertising programs.

Retail Segmentation. Retailers are "customers" too. Because of their different marketing capabili- ties and needs, retailers may need to be divided into segments or even treated individually so they will provide the necessary brand support.73 Consider how the following packaged goods companies have customized their marketing efforts to particular retailers:74

• Frito-Lay developed a tailored supply-chain system for its corn chip and potato chip markets, mak- ing fast and broad distribution possible, reducing stock-outs, and creating better-turning store dis- plays for its various retail customers.

• SC Johnson has leveraged customized market research insights to develop unique category man- agement solutions to its strategic retail customers.
• Scotts Miracle-Gro customizes its product lines, marketing events, and supply chain for “big box,” club, and hardware co-op channels.

Different retailers may need different product mixes, special delivery systems, customized promotions, or even their own branded version of the products.

Branded variants have been defined as branded items in a diverse set of durable and semidurable goods categories that are not directly comparable to other items carrying the same brand name.75 Manu- facturers create branded variants in many ways, including making changes in color, design, flavor, op- tions, style, stain, motif, features, and layout. For example, portable stereo “boom boxes” from brands like Sony, Panasonic, and Toshiba come in a broad assortment of variants, varying in speaker size, total weight, number of audio controls, recording features, and SKU number.

Branded variants are a means to reduce retail price competition because they make direct price comparisons by consumers difficult. Thus, different retailers may be given different items or models of the same brand to sell. Shugan and his colleagues show that as the manufacturer of a product offers more branded variants, a greater number of retail stores carry the product, and these stores offer higher levels of retail service for these products.76

Cooperative Advertising. One relatively neglected means of increasing channel support is well-de- signed cooperative advertising programs. Traditionally, with co-op advertising, a manufacturer pays for a portion of the advertising that a retailer runs to promote the manufacturer’s product and its availability in the retailer’s place of business. To be eligible to receive co-op funds, the retailer usually must follow the manufacturer’s stipulations as to the nature of brand exposure in the ad. Manufacturers generally share the cost of the advertising on a percentage basis up to a certain limit but usually 50–50. The total amount of cooperative advertising funds the manufacturer provides to the retailer is usually based on a percentage of dollar purchases made by the retailer from the manufacturer.77

The rationale behind cooperative advertising for manufacturers is that it concentrates some of the com- munication efforts at a local level where they may have more relevance and selling impact with consumers. Unfortunately, the brand image communicated through co-op ads is not as tightly controlled as when the manufacturer runs its own ads, and there is a danger that the emphasis in a co-op ad may be on the store or on a particular sale it is running rather than on the brand. Perhaps even worse, there is also a danger that a co-op ad may communicate a message about the brand that runs counter to its desired image.

An ideal situation is to achieve synergy between the manufacturer’s own ad campaigns for a brand and its corresponding co-op ad campaigns with retailers. The challenge in designing effective co-op ads will continue to be striking a balance between pushing the brand and the store at the same time. In that sense, cooperative advertising will have to live up to its name, and manufacturers will have to get involved in the design and execution of retailers’ campaigns rather than just handing over money or sup- plying generic, uninspired ads.

Summary. In eliciting channel support, manufacturers must be creative in the way they develop marketing and merchandising programs aimed at the trade or any other channel members. They should consider how channel activity can encourage trial purchase and communicate or demonstrate product information, to build brand awareness and image and to elicit positive brand responses.

Direct Channels

For some of the reasons we've already noted, manufacturers may choose to sell directly to consumers. Let's examine some of the brand equity issues of selling through direct channels.

Company-Owned Stores. To gain control over the selling process and build stronger relationships with customers, some manufacturers are introducing their own retail outlets, as well as selling their product di- rectly to customers through various means. These channels can take many forms, the most complex of which, from a manufacturer's perspective, is company-owned stores. Hallmark, Goodyear, and others have sold their own products in their own stores for years. They have eventually been joined by a number of other firms—including some of the biggest marketers around.

For example, in December 1994, after the Federal Trade Commission amended a 16-year ban on the jeans maker selling its own wares, Levi Strauss began to open up Levi's Stores in the United States and abroad, located mostly in downtown areas and upscale suburban malls.78

Only launched in 2001, Apple now derives 20 percent of its revenue from its physical stores, generating revenue at a rate of about $4,000 per square foot a year. Apple's own-store success is attributed to strong customer service, a clear link be- tween the retail space and the product's user-friendly design, and the "community center" environment that add up to create a distinctively Apple retail experience.79

A number of other brands of all kinds have created their own stores, such as Bang & Olufsen audio equipment, OshKosh B'Gosh children's wear, Dr. Martens boots and shoes, and Warner Bros. entertain- ment. But not all company stores are big structures with extensive inventory. One recent trend is the launch- ing of pop-up stores—temporary stores that blend retail and event marketing.80

POP-UP STORES

As a means to complement their existing channels and even own brick-and-mortar stores, some companies are introducing temporary store locations, especially during the holiday season. One popular location is New York City, which at times can have many appealing vacant spaces to choose from. During the 2010 holiday season, Procter & Gamble's 4,000-square-foot pop- up location on Fifty-Seventh Street in Manhattan drew 14,000 visitors in the first 10 days it was open. P&G's store, with tinted windows and neon lights, was designed as a flashy means to distribute samples of its products and experiences—from a full CoverGirl makeover or Head & Shoulders wash-and-blow-dry to free Febreze scented candles. Levi Strauss's 10,000-square-foot "workshop" in a former art gallery in Manhattan's SoHo district was designed to reinforce craftsmanship and col- laboration themes in its "Go Forth" ad campaign. Target's Liberty of London pop-up shop closed a day early when it sold out of all its merchandise. For all these companies, pop-up stores are a way to create buzz, try out some new products and merchandising, and connect with some consumers in a unique way.

Temporary pop-up stores have given marketers a creative way to generate consumer interest and involvement.

Source: Andrew H. Walker/Getty Images for Target

Company stores provide many benefits.81 Primarily, they are a means to showcase the brand and all its different product varieties in a manner not easily achieved through normal retail channels. For example, Nike might find its products spread all through department stores and athletic specialty stores. These products may not be displayed in a logical, coordinated fashion, and certain product lines may not even be stocked. By opening its own stores, Nike was able to effectively put its best foot forward by showing the depth, breadth, and variety of its branded products. Company stores can provide the added benefit of functioning as a test market to gauge consumer response to alternative product designs, pre- sentations, and prices, allowing firms to keep their fingers on the pulse of consumers' shopping habits.

A disadvantage of company stores is that some companies lack the skills, resources, or contacts to operate effectively as a retailer. For example, The Disney Store, started in 1987, sells exclusive Dis- ney-branded merchandise, ranging from toys and videos to collectibles and clothing, priced from $3 to $3,000. Disney views the stores as an extension of the "Disney experience," referring to customers as "guests" and employees as "cast members," just as it did in its theme parks. The company has struggled, however, to find the right retail formula through the years, even selling the chain of stores in Japan and North America to a set of other companies before eventually buying them back.82

Another issue with company stores, of course, is potential conflict with existing retail channels and distributors. In many cases, however, company stores can be a means of bolstering brand image and build- ing brand equity rather than as direct sales devices. For example, Nike views its stores as essentially adver- tisements and tourist attractions. The company reports that research studies have confirmed that Niketown stores enhanced the Nike brand image by presenting the full scope of its sports and fitness lines to custom- ers and "educating them" on the value, quality, and benefits of Nike products. The research also revealed that although only about 25 percent of visitors actually made a purchase at a Niketown store, 40 percent of those who did not buy during their visit eventually purchased Nike products from some other retailer. These manufacturer-owned stores can also be seen as a means of hedging bets with retailers who continue to push their own labels. With one of its main distributors, JCPenney, pushing its own Ari- zona brand of jeans, Levi's can protect its brand franchise to some extent by establishing its own dis- tribution channel. Nevertheless, many retailers and manufacturers are dancing around the turf issue, avoiding head-on clashes in establishing competitive distribution channels. Manufacturers in particu- lar have been careful to stress that their stores are not a competitive threat to their retailers but rather a "showcase" that can help sell merchandise for any retailer carrying their brand. Branding Brief 5-2 describes some of Goodyear's channel conflict experiences.

BRANDING BRIEF 5-2

Goodyear's Partnering Lessons

Goodyear is a good example of some of the challenges in man- aging channel conflict, having had to work hard to recover from missteps it took with the middlemen it uses to distribute its tires. A well-respected brand that once managed the top tire reseller net- work in the United States, Goodyear earned dealer loyalty in the 1970s and 1980s through competitive pricing, on-time deliveries, and very visible marketing in the form of the Goodyear blimp.

Subsequent years produced a number of problems. Good- year managed to damage its own reputation through its apparent indifference to the distributors who sold its products. The com- pany's prices varied from month to month, and when distributors ordered tires, often only 50 percent of their order would be filled. Distributors nationwide said it was just getting hard to do business with Goodyear and many began hawking other brands instead.

Goodyear announced a distribution deal with Sears, even though the company had previously promised dealers that it would not sell tires through discount retailers, and then made similar deals with Walmart and Sam's Club. To increase sales, the company began to offer the big retailers bulk discounts. As a result, smaller individually owned dealers had to pay as much for their tires as customers could pay at other retailers.

Shortly after Firestone was forced to recall 6.5 million tires in 2000, Goodyear management annoyed many of its distribu- tors instead of taking advantage of its competitor's legal and image problems. Goodyear dealership owners complained of pressure to buy more tires than they needed, uneven pricing, and poor quality. At that time, Goodyear had 5,300 authorized dealers, about the same number it had had since 1994. While overall U.S. tire sales grew during that time, Goodyear's replace- ment tire sales slumped 14 percent, representing a loss of about $550 million in sales.

Goodyear has taken a number of steps in trying to win back its dealers since that time, including originally selling its popular Assurance tires exclusively through authorized dealers. Recent Goodyear price hikes, however, have forced dealers to take lower profits in selling its tires.

Sources: Kevin Kelleher, "Giving Dealers a Raw Deal," Business 2.0, December 2004; Nirmalya Kumar, "Living with Channel Conflict," CMO Magazine, October 2004; Louis Uchitelle, "Oil Prices Raise Cost of Making a Range of Goods," New York Times, 8 June 2008.

Store-Within-a-Store. Besides creating their own stores, some marketers—such as Nike, Polo, and Levi Strauss (with Dockers)—are attempting to create their own shops within major department stores. More common in other parts of the world such as Asia, these approaches can offer the dual benefits of appeasing retailers—and perhaps even allowing them to benefit from the retailer's brand image—while at the same time allowing the firm to retain control over the design and implementation of the product presentation at the point of purchase.83

The store-within-a-store concept can take hold through actual leasing arrangements or less formal arrangements where branded mini-stores are used. For retailers, these arrangements help drive foot traf- fic and acquire new capabilities quickly. For smaller brands, like Murray's Cheese Shop, which has an arrangement with Kroger, they allow for quick distribution growth. Retailers are also combining with other retailers to seek similar benefits.84 Sears has partnered with much trendier retailer Forever 21 to upgrade its image as well as established in-store leases with Edwin Watts Golf Shops, uniform apparel seller Work N' Gear, and Whole Foods organic foods grocer. Macy's has partnered with Sunglass Hut, maternity apparel brand Destination Modernity, and UK toiletries brand Lush.

The goal in all these situations is to find “win–win” solutions that benefit channel partners and con- sumers alike. In explaining the rationale of hosting beauty-products retailer Sephora in its stores, one JCPenny’s executive noted that the long-term customers come in and become loyal JCPenny shoppers and vice versa.85

Other Means. Finally, another channel option is to sell directly to consumers via phone, mail, or electronic means. Retailers have sold their goods through catalogs for years. Many mass marketers, es- pecially those that also sell through their own retail stores, are increasingly using direct selling, a long- successful strategy for brands such as Mary Kay and Avon. These vehicles not only help sell products

Beauty-products retailer Sephora has found success with its “store-within-a-store” retail strategy with JCPenney.

Source: J. C. Penney Company Inc.

but also contribute to brand equity by increasing consumer awareness of the range of products associ- ated with a brand and increasing consumer understanding of the key benefits of those products. Market- ers can execute direct marketing efforts in many ways, such as catalogs, videos, or physical sites, all of which are opportunities to engage in a dialogue and establish a relationship with consumers.

Online Strategies

The advantages of having both a physical “brick and mortar” channel and a virtual, online retail channel are becoming clearer to many firms. Integrated channels allow consumers to shop when and how they want. Many consumers value the convenience of ordering from companies online or over the phone and picking up the physical product at their local store rather than having it shipped. They also want to be able to return merchandise at a store even if they originally bought it and had it shipped outside the store.86

Many consumers also like the convenience of being able to access their online account inside the store and use Internet kiosks to research purchase decisions in the store itself.87 The influence of the In- ternet extends outside the store too. In a Forrester research report, it was estimated that 16 percent of all store sales were influenced by consumers initially searching on the Web outside the store.88

Integrating channels does not benefit only consumers. Figure 5-6 shows an analysis of JCPenney’s channel mix, which reveals that its most profitable customers were those who shopped multiple chan- nels. Similarly, a Deloitte study revealed that multichannel shoppers spent 82 percent more in each transaction than those who shopped in only one store.89

157

Internet

195 201

Retail

Catalog

Internet1 retail

Catalog retail

FIGURE 5-6 JCPenney Customer Channel Value Analysis

Source: Customer Values Analysis, Doublecheck (2004). Courtesy of Abacus Direct, LLC.
446
Internet1 catalog
608 485
887
Catalog1 retail+ Internet
Average Yearly Dollars Spent by Customer

 The Boston Consulting Group concluded that multichannel retailers were able to acquire customers
at half the cost of Internet-only retailers, citing a number of advantages for the multichannel retailers:90

- They have market clout with suppliers.
- They have established distribution and fulfillment systems (L.L. Bean and Land's End).
- They can cross-sell between Web sites and stores (The Gap and Barnes & Noble).

Many of these same advantages are realized by multichannel product manufacturers. Recogniz- ing the power of integrated channels, many Internet-based companies are also engaging in "physi- cal world" activities to boost their brand. For example, Yahoo! opened a promotional store in New York's Rockefeller Center, and eTrade.com opened a flagship own-brand financial center on New York's Madison Avenue as well as mini-centers and kiosks in Target stores.

Summary

Channels are the means by which firms distribute their products to consumers. Channel strategy to build brand equity includes designing and managing direct and indirect channels to build brand awareness and improve the brand image. Direct channels can enhance brand equity by allowing consumers to better understand the depth, breadth, and variety of the products associated with the brand as well as any distinguishing characteristics. Indirect channels can influence brand equity through the actions and support of intermediaries such as retailers, and the transfer of any associa- tions that these intermediaries might have to the brand.

Direct and indirect channels offer varying advantages and disadvantages that marketers must thoughtfully combine, both to sell products in the short run, and maintain and enhance brand equity in the long run. As is often the case with branding, the key is to mix and match channel options so that they collectively realize these goals. Thus, it is important to assess each possible channel option in terms of its direct effect on product sales and brand equity, as well as its indirect effect through interactions with other channel options.

REVIEW

Marketing activities and programs are the primary means that firms build brand equity. Brand-building prod- uct, pricing, channel, and communication strategies must be put into place. In terms of product strategies, both tangible and intangible aspects of the brand will matter. Successful brands often create strong, favorable, and unique brand associations to both functional and symbolic benefits. Although perceived quality is often at the heart of brand equity, there is a wide range of associations that consumers may make to the brand.

Marketers are personalizing their consumer interactions through experiential and relationship mar- keting. Experiential marketing promotes a product by not only communicating a product's features and benefits but also connecting it with unique and interesting consumer experiences. Relationship market- ing includes marketing activities that deepen and broaden the way consumers think and act toward the brand. Mass customization, one-to-one, and permission marketing are all means of getting consumers more actively engaged with the product or service. Aftermarketing and loyalty programs are also ways to help create holistic, personalized buying experiences.

In terms of pricing strategies, marketers should fully understand consumer perceptions of value. Increasingly, firms are adopting value-based pricing strategies to set prices and everyday-low-pricing strategies to guide their discount pricing policy over time. Value-based pricing strategies attempt to properly balance product design and delivery, product costs, and product prices. Everyday-low-pric- ing strategies establish a stable set of "everyday" prices and introduce price discounts very selectively.

In terms of channel strategies, marketers need to appropriately match brand and store images to maximize the leverage of secondary associations, integrate push strategies and shopper marketing activities for retailers with pull strategies for consumers, and consider a range of direct and indirect distribution options.

In the next chapter, we consider how to develop integrated marketing communication programs to build brand equity.

DISCUSSION QUESTIONS

1. Have you had any experience with a brand that has done a great job with relationship marketing, permission marketing, experiential marketing, or one-to-one marketing? What did the brand do? Why was it effective? Could others learn from that?
2. Think about the products you own. Assess their product design. Critique their aftermarketing efforts. Are you aware of all of the products' capabilities? Identify a product whose benefits you feel you are not fully capitalizing on. How might you suggest improvements?
3. Choose a product category. Profile all the brands in the category in terms of pricing strategies and perceived value. If possible, review the brands' pricing histories. Have these brands set and ad- justed prices properly? What would you do differently?
4. Visit a department store and evaluate the in-store marketing effort. Which categories or brands seem to be receiving the biggest in-store push? What unique in-store merchandising efforts do you see?
5. Take a trip to a supermarket and observe the extent of private-label brands. In which categories do you think private labels might be successful? Why?

BRAND FOCUS 5.0

Private-Label Strategies and Responses

This appendix considers the issue of private labels or store brands. After portraying private-label branding strategies, it de- scribes how major manufacturers' brands have responded to their threat.

Private Labels

Although different terms and definitions are possible, private labels can be defined as products marketed by retailers and other members of the distribution chain. Private labels can be called store brands when they actually adopt the name of the store itself in some way (such as

Safeway Select). Private labels should not be confused with generics, whose simple black-and-white packaging typically provides no information about who made the product. Private-label brands typically cost less to make and sell than the national or manufacturer brands with which they compete. Thus, the appeal to consumers of buying private labels and store brands often is the cost savings involved; the appeal to retailers of selling private labels and store brands is that their gross margin is often 25 percent to 30 percent—nearly twice that of national brands.

The history of private labels is one of many ups and downs. The first private-label grocery products in the United States were sold by the Great Atlantic and Pacific Tea Company (later known as A&P), which was founded in 1863. During the first half of the twentieth century, a number of store brands were successfully introduced. Under competitive pressure from the sophisticated mass-marketing practices adopted by large packaged-goods com- panies in the 1950s, private labels fell out of favor with consumers.

Because the appeal of private labels to consumers has tra- ditionally been their lower cost, the sales of private labels gen- erally have been highly correlated with personal disposable income. The recession of the 1970s saw the successful introduc- tion of low-cost, basic-quality, and minimally packaged generic products that appealed to bargain-seeking consumers. During the subsequent economic upswing, though, the lack of per- ceived quality eventually hampered sales of generics, and many consumers returned to national or manufacturers' brands.

To better compete in today's marketplace, private-label makers have begun improving quality and expanding the vari- ety of their private-label offerings to include premium products. In recognition of the power of bold graphics, supermarket re- tailers have been careful to design attractive, upscale packages for their own premium branded products. Because of these and other actions, private-label sales have recently made some major inroads in new markets.

Retailers value private labels for their profit margins and their means of differentiation to drive customer loyalty. Retailer Target has introduced a steady stream of exclusives through the years, such as its stylish Mossimo apparel and Michael Graves houseware brands.91

Private-Label Status

The major recession that began in 2008 heightened inter- est once again in private labels. Given retailers' success in improving private-label quality and developing cohesive brand- ing and marketing programs, many critics wondered whether this time things would be different and sales would not drop after the end of the recession.92

In the United States, private-label goods have accounted for roughly 16–17 percent of total supermarket dollar volume. In other countries, these percentages are often quite higher, on average twice as much. For example, Western Europe domi- nates the market for private labels in the supermarket, with the biggest being Switzerland at 45 percent, Germany at 30 percent, Spain at 26 percent, and Belgium at 25 percent.93

Private labels in the United Kingdom make up over a third of sales at grocery stores, in part because the grocery industry is more concentrated. Two of the largest UK grocery chains are Tesco and Sainsbury.94

• Tesco, with the brand slogan "Every Little Helps," has a number of its own private-label brands, ranging from Value to Finest, and has its own lifestyle brands, such as Organic, Free Form, and Healthy Living, positioned as "Making Life Taste Better."

• Sainsbury's originally used its name to introduce a wide variety of fruit, vegetables, grocery, and household prod- ucts, later expanding to clothing, housewares, and other nonsupermarket products. Sainsbury's own brand products are categorized into one of three quality tiers; for example, the lasagna range is comprised of the Basics sub-brand for "good," the core, Sainsbury's label line for "better," and the premium "Taste the Difference" line for "best." Sainsbury's began a major overhaul of these various brand lines in 2010.

Private-label appeal is widespread. In supermarkets, private- label sales have always been strong in product categories such as dairy goods, vegetables, and beverages. More recently, private labels have been successful in previously "untouchable" catego- ries such as cigarettes, disposable diapers, and cold remedies. Consumer Reports conducted a study on private labels published in September 2010. Key findings included the facts that 84 percent of U.S. consumers have purchased a store brand and 93 percent of store-brand shoppers indicated that they would con- tinue to purchase private labels even as the economy recovered.95

Nevertheless, some categories have not seen a strong private-label presence. Many shoppers, for example, still seem unwilling to trust their hair, complexion, or dental care to store brands. Private labels also have been relatively unsuccessful in categories such as candy, cereal, pet foods, baby food, and beer. One implication that can be drawn from this pattern of product purchases is that consumers are being more selective in what they buy, no longer choosing to buy only national brands. For less important products in particular, consumers seem to feel "that the very best is unnecessary and good is good enough." Categories that are particularly vulnerable to private- label advances are those in which there is little perceived quality differences among brands in the eyes of a sizable group of consumers, for example, over-the-counter pain relievers, bot-
tled water, plastic bags, paper towels, and dairy products.

Private-Label Branding Strategy

Although the growth of private labels has been interpreted by some as a sign of the decline of brands, the opposite con- clusion may in fact be more valid: private-label growth could be seen in some ways as a consequence of cleverly designed branding strategies. In terms of building brand equity, the key point-of-difference for private labels in consumers' eyes has al- ways been "good value," a desirable and transferable association across many product categories. As a result, private labels can be extremely broad, and their name can be applied across many di- verse products.

As with national brands, implementing a value-pricing strategy for private labels requires determining the right price and product offering. For example, one reported rule of thumb is that the typical "no-name" product has to sell for at least 15 percent less than a national brand, on average, to be success- ful. The challenge for private labels has been to determine the appropriate product offering.

Specifically, to achieve the necessary points-of-parity, or even to create their own points-of-difference, private labels have been improving quality, and as a result are now aggressively position- ing against even national brands. In its September 2010 study, Consumer Reports conducted taste tests in 21 categories com- paring the two and found that national brands won seven times, private labels won three times, with the rest resulting in a tie. Consumer Reports concluded that con- sumers could cut their costs by as much as half by switching to a store brand.96

Many supermarket chains have intro- duced their own premium store brands, such as Safeway Select, Von's Royal Re- quest, and Ralph's Private Selection. For example, A&P positioned its premium Mas- ter Choice brand to fill the void between the mass-market national brands and the upscale specialty brands it sells. It has used the brand across a wide range of products, such as teas, pastas, sauces, and salad dressings. Trader Joe's offers 2,000 private- label products—only 10 percent of what would be found in a typical supermarket— but creates a fun, roomy atmosphere for

Decrease costs.
Cut prices.
Increase R&D expenditures to improve products and identify new product innovations.
Increase advertising and promotion budgets.
Eliminate stagnant brands and extensions and concentrate efforts on smaller number of brands.
Introduce discount "fighter" brands.
Supply private label makers.
Track store brands' growth and compete market-by-market.

FIGURE 5-7
Major Brand Response to Private Labels

bargain seekers wanting the best in gourmet-style foods, health food supplements, and wines.97

Sellers of private labels are also adopting more extensive marketing communication programs to spread the word about their brands. For example, Walgreens launched its first national advertising campaign for Walgreens-branded health and well- ness products in February 2011. The campaign emphasized the durability and quality of the Walgreens-brand products, using the store's 26,000 pharmacists as endorsers.98 Loblaws has been a pioneer in marketing its private-label brands.

One problem faced by marketers of major brands is that it can be difficult to actually lower prices even if they so de- sire. Supermarkets may not pass along the wholesale price cuts they are given. Moreover, marketers of major brands may not want to alienate retailers by attacking their store brands too forcefully, especially in zero-sum categories in which their brands could be easily replaced.

Besides these various pricing moves to achieve points-of-par- ity, marketers of major brands have used other tactics to achieve additional points-of-difference to combat the threat of private labels. They have increased R&D expenditures to improve prod- ucts and identify new product innovations, as was the case with Kimberly-Clark and its Kleenex brand.100

LOBLAWS

Loblaws is Canada's largest food distributor. In 1978, Loblaws was the first store in Canada to introduce generics, reflecting a carefully crafted strategy to build an image of quality and high value in six areas. By 1983, Loblaws carried over 500 generic products that accounted for 10 percent of store sales. This suc- cess was due to innovative marketing, low costs, and a large network of suppliers. In 1984, Loblaws chose to introduce a private-label brand, President's

Choice, which was designed to offer unique value through exceptional quality and moderate prices. These categories ranged from basic supermarket catego- ries such as chocolate chip cookies, colas, and cereals to more exotic categories such as Devonshire custard from England and gourmet Russian mustard. These products also used distinctive and attractive packaging with modern lettering and colorful la- bels and names ("decadent" cookies, "ultimate" frozen pizza, "and "too good to be true" peanut butter). In terms of market- ing communications, Loblaws put into place a strong promo- tional program with much in-store merchandising. Loblaws also introduced its Insider's Report, a quarterly publication featuring its own store brands and offering consumers shopping tips.99

KLEENEX

Kleenex has dominated the facial tissue category for years, currently holding 46 percent market share. In recent years, with the economic downturn, more consumers are switch- ing to less-expensive store brands as private labels in the category have increased quality to provide a more viable alternative. Kimberly-Clark—maker of Kleenex—chose to respond through product innovation. The average home purchases facial tissues about eight times a year and contains four boxes at any point in time. Increasingly, those boxes are not placed inside a decorative cover. Much of that is due to Kimberly-Clark's innovative efforts to improve the design aesthetics of the Kleenex box. Oval-shaped packages and embossed wallpaper-like patterns have been introduced as well as seasonal offerings. An oval package with a pattern of Christmas lights was introduced that actually flickered when a tissue was taken out. To boost summer sales—when revenue typically drops by as much as 60 percent from the winter months—new packages were launched that resem- bled wedges of fruit such as watermelon, orange, and lime. Through all these packaging innovations, Kimberly-Clark hopes to keep Kleenex differentiated as the market leader.

By emphasizing packaging innovation and design, Kimberly-Clark has been able to fend off private label competition for its Kleenex brand.

Source: David Paul Morris/Bloomberg via Getty Images

Major Brand Response to Private Labels

Procter & Gamble's value-pricing program was one strategy to combat competitive inroads from private labels and other brands. To compete with private labels, a number of different other tactics also have been adopted by marketers of major national or manufacturer brands (see Figure 5-7).

First, marketers of major brands have attempted to decrease costs and reduce price to negate the primary point-of-difference of private labels and achieve a critical point-of-parity. In many categories, prices of major brands had crept up to a point at which price premiums over private labels were 30–50 percent, or even 100 percent. In those categories in which consumers make frequent purchases, the cost savings of "trading down" to a private label brand were therefore quite substantial.

In instances in which major brands and private labels are on a more equal footing with regard to price, major brands often compete well because of other favorable brand percep- tions that consumers might have. Procter & Gamble, Colgate, and Unilever cut prices on a number of old standbys during the recent recession to help fend off private-label competition.

Marketers of major brands have also increased advertising and promotion budgets. They have also tracked store-brand growth more closely than in the past and are competing on a market-by-market basis. Marketers of major brands have also adjusted their brand portfolios. They have eliminated stag- nant brands and extensions and concentrated their efforts on smaller numbers of brands. They have introduced discount “fighter” brands that are specially designed and promoted to compete with private labels.

Marketers of major brands have also been more aggres- sive about legally protecting their brands. For example, Unilever filed suit against global supermarket giant Ahold alleging trademark and trade dress (the design and visual appearance of the product and package) infringement across four of its Eu- ropean margarine brands. Unilever also filed suit against Lipton iced tea and Bertolli olive oil, maintaining that their packaging looked too similar to its own brands.101

One controversial move by some marketers of major brands is to actually supply private-label makers. For example, Sara Lee, Del Monte, and Birds Eye have all supplied products—some- times lower in quality—to be used for private labels in the past. Other marketers, however, criticize this “if you can’t beat ‘em, join ‘em” strategy, maintaining that these actions, if revealed, may create confusion or even reinforce a perception by consum- ers that all brands in a category are essentially the same.