COMPETING FOR CHOICE

Developing winning brand strategies

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Introduction

At a time when businesses are finding it hard to generate strong growth and profits, it is surprising that many otherwise well-managed companies are either sitting on vast under-utilized resources or are massively misallocating money on initiatives that aren't accomplishing their strategic and brand objectives. Why are these businesses getting it wrong?

In this book, we argue that the reason is twofold. First, managers are failing to recognize that their business and their brand are in fact two interdependent parts of a single dynamic system. Second, they are too ready to accept poor and fragmented data as the basis for their decisions. What they should do, we believe, is to analyze the systems of resources that make up their business and establish a holistic fact base that they can use to formulate robust and dynamically informed strategy.

This, however, is likely to require a change in mindset. Let's begin by considering the fact that living creatures, institutions, and businesses share a fundamental attribute: they all compete for choice.

With bright colors, symmetrical patterns, agility, intelligence, and a multitude of other features, animals compete to be chosen by a suitable mate. This is essential for reproduction and for the survival of the species. Similarly, we are all in our own way competing to be chosen at various instances in our daily lives. At the same time, we are also constantly making choices. As Aristotle said, "The origin of action is choice, and that of choice is desire and reasoning."

In business, the number of people choosing any one brand is not abundant. Businesses compete for the choice of customers or consumers – ideally many and valuable ones. Not only that, they also compete for the choice of other key stakeholders, including the best employees, partners, and investors, and they do so by providing value to these stakeholders, thus contributing to society at large.

In this sense, brands are the vehicles that businesses use to compete for choice. The value proposition, image, and values that companies provide and embed in their brands is the basis for earning the choice of customers and stakeholders.

But competing for choice isn't easy. Today's rapidly changing world of geopolitical shifts, industry deregulation, intensifying competition, and empowered consumers means that management must earn and continue to earn the choice of multiple stakeholders under conditions that are highly complex and dynamic.

Despite this, companies frequently make decisions about how to compete for choice on the basis of intuition rather than solid fact. We believe that a deep understanding of the dynamics of business and stakeholder choice can complement intuition and yield unexpected new insights. As such, it will help a company to make better-informed strategic decisions.

The approach described in this book recognizes that every company is unique and faces its own particular set of challenges. It draws on ideas from a number of scientific fields and has been developed through many years of research and practice. It has been tried, tested, and refined through work on a wide range of problems with a variety of brands in a host of different industries.

The insights presented here have helped many companies to rethink their approach to strategy, allocate their investments more effectively, and transform their business performance. I hope this book will encourage many more senior managers, and especially chief executives, to follow in their footsteps and harness the power of competing for choice.

1

Competing for choice

Main themes

- When asked "What are you competing for?" most managers will answer "Competitive advantage" or "Market share." But neither of these things translates into concrete, actionable measures – things a company can do to improve its performance. The right answer to the question is "Customer choice."

- The opportunities for consumers to make choices between different brands are multiplying rapidly. Yet there is only a finite number of consumers who choose any one brand. These customers thus represent a scarce resource.

- In such an environment, formulating strategy is complex. To get it right, managers must set strategy in the context of competing for consumer and stakeholder choice. Brands play a vital role as the focal point for all these choices.

- When evaluating their business performance, managers must choose their market metrics with great care. Brand awareness is *not* a reliable guide to business performance. Instead, *brand choice* is what drives market share. Conviction – a customer's certain future choice of a brand – is the key brand parameter.

The essence of strategy is choice, so choice must be at the core of strategy development. Business strategy is about making the right choices on how and where to compete for which choice with the aim of achieving profitability and long-term value creation.

In a report on the future of the company, *The Economist* pondered on the environment in which companies operate today:[1]

> That environment is dominated by one thing: choice. Technology and globalization open up ever more opportunities for individuals and firms to collect information and conduct activity outside traditional structures.
>
> As Robert Reich, a secretary of labor under Bill Clinton, points out, "We are entering the age of the Terrific Deal where choices are almost limitless and it is easy to switch to something better." While the age of mass production lowered the costs of products at the expense of limiting choices – Henry Ford famously said that you could have a car in any color as long as it was black – modern "flexible" production systems usually both lower costs and increase choice.
>
> Consumers have more choice over where they spend their money. Producers have more choice over which suppliers to use. Potential shareholders have more choice over where to put their money.

What does this imply for strategy in business?

It has long been recognized that robust strategy plays a crucial role in any successful enterprise. Business leaders and academics have produced a vast literature on the subject, with Michael Porter's *Competitive Strategy*[2] widely considered to be the seminal treatment.

Yet despite this, there are two key observations about strategy that hold true:

- It is complex.
- Many still get it wrong.

The reasons for this are manifold. Among the culprits are a failure to articulate business and market structures; a lack of clarity on the interdependences within and between systems and management initiatives over time; a high degree of subjectivity in terms of the implicit assumptions that are made; "fact-free" decision making; and differing objectives among the people involved at various steps in the strategy process.

Often, companies regard strategy as a matter of beating the competition by focusing on becoming good at one or more established processes such as cost reduction, process reengineering, total quality management, or customer relationship management. Although the initiatives may be worth

1 Notes appear at the end of each chapter.

while and the objective of differentiating a company from its competitors is sound enough, what lies behind them is rarely articulated. *What is it that the company is competing for?*

Arguably, this is the most fundamental question for a business to ask. Answer it properly, and you will have a basis for setting out clear strategic priorities and principles. But the answers that most managers give – "Competitive advantage" or "Market share" – don't provide this kind of robust foundation for strategy. After all, competitive advantage has no meaning in itself if a company doesn't fully appreciate what it is competing *for*. As for market share, it is an aggregate metric – a function of several factors.

So what is the right answer? Quite simply: choice. Companies have to compete for customers to choose their brand day in, day out.

Choice is key

> "Choice: The act of choosing…preferential determination between things proposed" *Shorter Oxford English Dictionary*

We believe that business strategy is about how a company makes choices to compete for stakeholders' choices with the aim of achieving profitability. In this process of competing for choice, the brand is the focal point. The aim of this book is to give managers a clear understanding of how stakeholder choice structures work and so enable them to choose the right initiatives to apply in the right places to achieve long-term value creation at their own companies.

Let's start with a basic question: What is it that *any* company is trying to do?[3] In most cases, the answer boils down to convincing your target customers to buy, on a repeated basis, the value proposition (product, services, and intangibles) that your company is offering.

There is no business without choice. Hotels must get guests to walk through the door. Airlines need passengers. Without customers, consumers, or clients, a business can't justify its existence.[4] So, yes, business is about competition, but more precisely, it is about competing for customers' choice in an increasingly competitive world.

However, it is not only customers that choose a company. Choice is also exercised by other stakeholders, including employees, partners, and investors. Ideally, a company will want to be the preferential choice of *all* its valuable stakeholders.

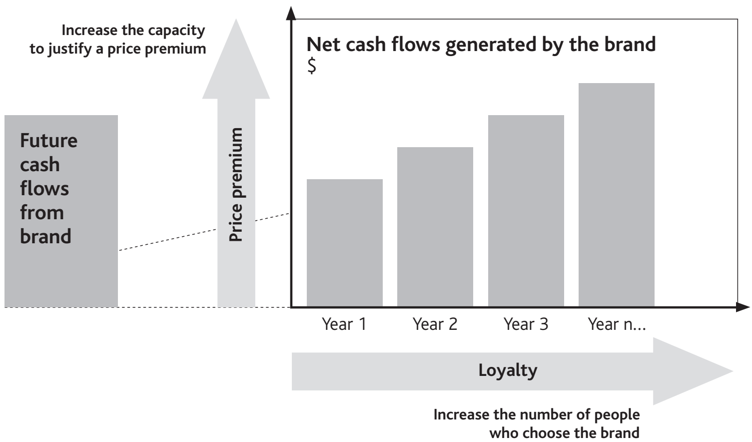
This puts a different spin on the nature of competition between firms. The traditional view of companies competing for market share is inadequate because it doesn't explain what a company actually needs to *do* in order to increase market share.

Phil Knight, CEO of Nike, put it like this: "Basically, when you go to buy a pair of shoes you're not buying one from each company. You're going to buy one pair and we are going to try as hard as we can to make that shoe Nike."[5]

That makes a lot of sense, because when consumers go to buy anything from toothpaste to trainers, few will buy several different brands at the same time. So from a brand perspective there are only a finite number of choices to be made in favor of either your brand or your competitor's. Just as there are a limited number of specialists in a given field, customers loyal to your brand are not abundant. Indeed, for most companies they are a scarce but critical resource. They are scarce because they are difficult to accumulate.

Take a big consumer goods brand. Out of 1,000 people, as many as 950 may be aware of it, but typically only a small fraction of that group will emerge as convinced "choosers" of the brand.

Exhibit 1.1
The two axes of brand value management
The ability to justify a price premium and the number of customers choosing a brand

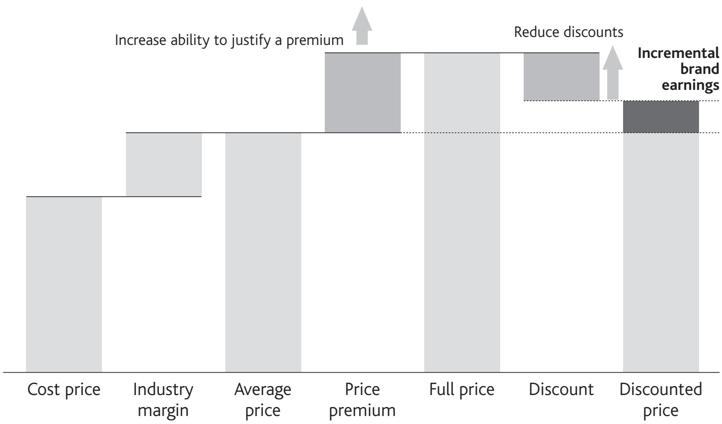


Put simply, tomorrow's cash flows stem from the number of convinced choosers (next-time customers) of a company's brand and the financial contribution that each chooser (customer) brings (number of customers x their purchase frequency x the price they will pay = revenue). The two factors that drive brand cash flow – justifying the price premium and increasing the number of people who choose the brand (and the number of times they choose it) – are illustrated in Exhibit 1.1. A company must find a sustainable balance between the number of choosers of the brand and the price premium charged in order to generate sufficient funds not only to stay in business, but also to provide a return for investors.

Justifying the price premium

The whole area of pricing is complex to say the least, and rare is the company that appreciates the finer aspects of this important management tool. But achieving such an understanding is well worth the effort because any pure price increase (or decrease) goes straight to the bottom line.

Exhibit 1.2
Price premiums and discounts



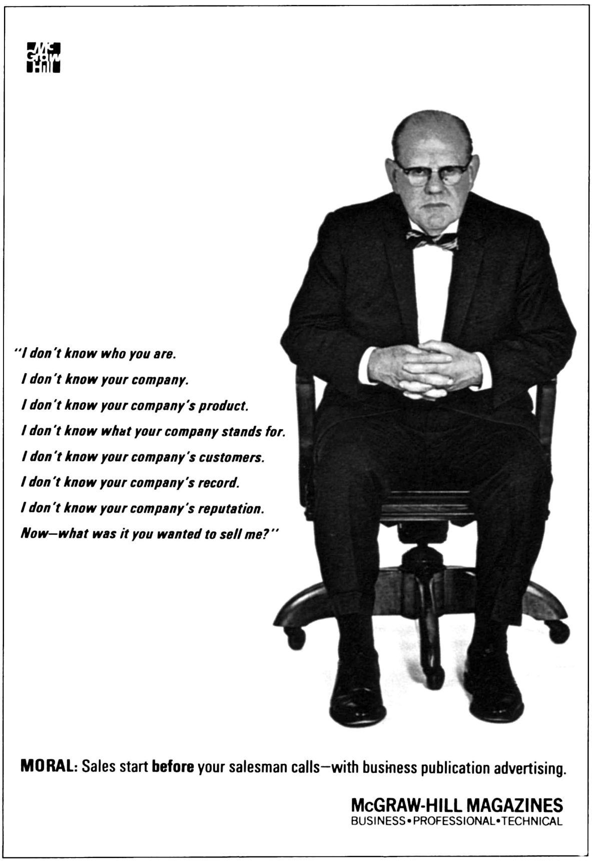
For any brand there are two key levers that affect pricing, as shown in Exhibit 1.2. One is discounting. There is a general tendency on the part of management to rely on discounting and price reduction as the main way to win more choosers and so gain volume. To be sure, price is a potent volume lever in most cases. But managers often squander profit by offering unnecessary discounts – for instance, to already loyal customers who are willing to pay the full price – because they make the mistake of assuming discounting is the *only* driver of volume.

The other lever is justifying the price premium. The mechanics of this aren't always well understood. Few managers pay enough attention to providing a brand proposition with a high degree of "values fit," or match between consumer values and brand values. Yet values fit is one of the main factors determining people's willingness to pay a price premium, and it transcends economic categories. Teenagers don't usually fall into the category of wealthy consumers, but they are often willing to pay a substantial price premium for the brand of trainers that embodies the values to which they aspire. Getting the right values fit will in virtually all cases reduce price elasticity and transform the shape of the volume/price curve. We will return to values fit in chapter 4.

Increasing the number of choosers of the brand

While both axes in Exhibit 1.1 are equally critical to generating top-line revenue, the remainder of this section will focus on the horizontal axis: increasing the number of future "certain choosers." As we have seen, a company's current cash flow derives from those customers who chose (and paid for) its brand yesterday and today. This cash flow may come from a small number of people paying a high premium, or a large number of people paying a low premium.

Exhibit 1.3
Issues in earning customer choice



The 1958 "Man in the chair" advertisement from McGraw-Hill demonstrates that the challenges a company needs to overcome in order to earn choice have been recognized for decades (Exhibit 1.3). Unfortunately, that doesn't mean they are always tackled effectively. Below we outline some key insights that will help managers begin to approach these challenges in a more structured way and apply the right management initiatives at the right stages.

The secrets of customer choice

The starting point is to establish a clear view of consumer choice structures based on solid fact. Our extensive brand and market research has generated a number of insights, three of which are particularly important to strategic brand management:

1 There is a quantifiable customer choice chain for every brand.

The chances that a consumer will choose a particular brand range from zero for a brand of which the consumer is totally unaware to near-certainty for a brand that the consumer "swears by" and purchases again and again without fail. If we take a representative sample of 1,000 individuals, it's likely that only a small fraction will be regular and loyal customers of a given brand; the rest will be unaware of it, or aware but uninterested, or inclined to purchase it only occasionally.

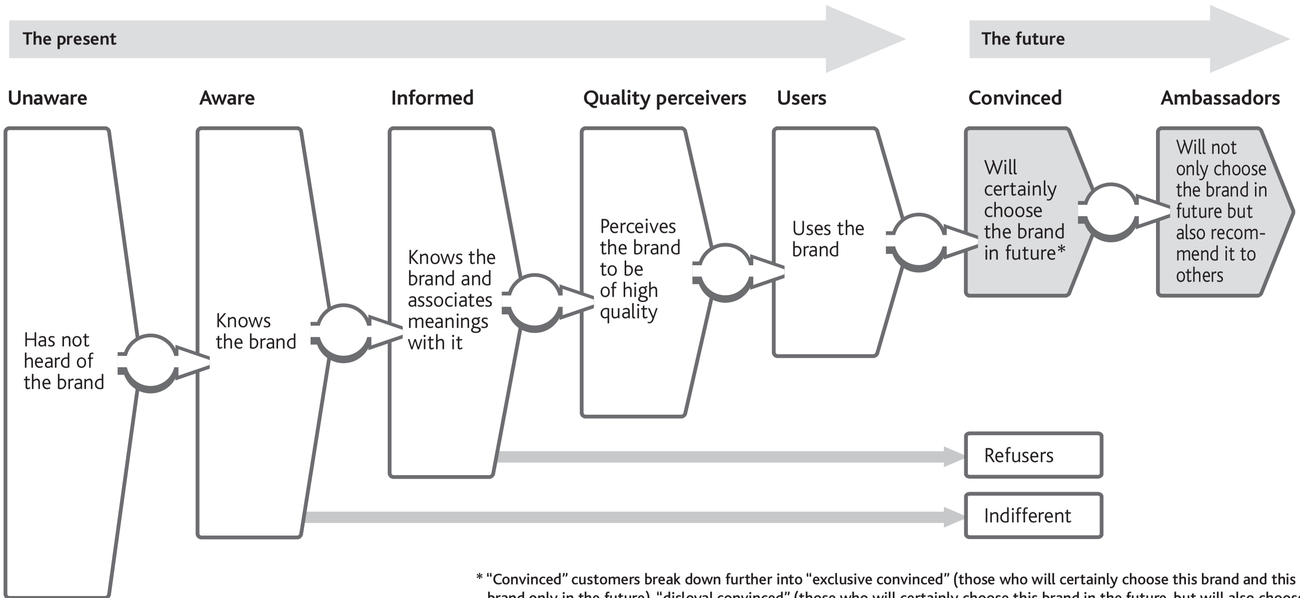
This idea of grouping people according to their attitude toward a brand can be represented visually in the form of a "customer choice chain" like the one illustrated in Exhibit 1.4.[6] The size of the boxes reflects the number of people who are at each stage, so the boxes are large at one end (with many people aware of the brand), and small at the other (with relatively few loyal consumers who repeatedly choose the brand). Between these two extremes are a number of intermediate stages through which consumers will pass on their way towards making a purchasing decision in favor of one brand or another. Each stage in the customer choice chain is described in detail in the next chapter.

The customer choice chain structure has been validated through research conducted with hundreds of brands and thousands of consumers, in several countries, across sectors, and over a number of years. It holds true for more than 90 percent of major brands; the exceptions tend to be in the luxury goods and pharmaceutical sectors.

We were intrigued to discover that more than half of all the brands we researched generated more "refusers" – people who will certainly not choose these brands – than convinced choosers. Quite a few of these brands are

Exhibit 1.4
The customer choice chain

The chain is made up of people grouped according to their relationship with the brand



* "Convinced" customers break down further into "exclusive convinced" (those who will certainly choose this brand and this brand only in the future), "disloyal convinced" (those who will certainly choose this brand in the future, but will also choose competing brands), and "virtual convinced" (those who haven't yet used the brand but will certainly do so in the future).

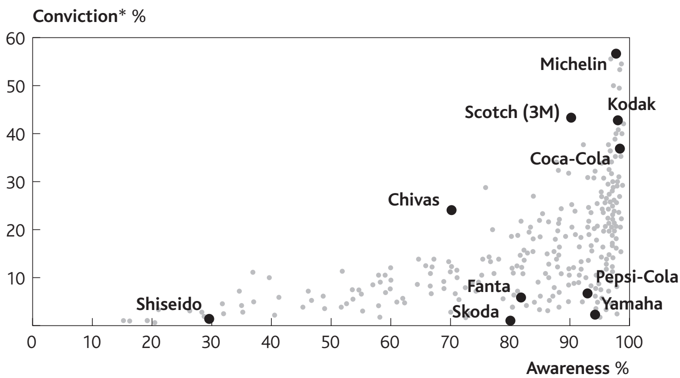
likely to have suboptimal returns on their brand-building investments. Although generating refusers may not be entirely avoidable, managers should take steps to keep the numbers as low as possible to minimize negative word of mouth and to enable investments to be focused on segments with low refusal propensity.

2 Awareness does not correlate with market share.

Though awareness is naturally a prerequisite for conscious choice, research shows that there is no correlation between the number of "aware" consumers and market share. Managers often judge a brand's success by the level of awareness (whether prompted or spontaneous) that it enjoys, but awareness is not a valid measure of either brand or business performance. Far from being an end in itself, awareness is only the first stage in the choice chain.

As Exhibit 1.5 shows, many brands that register high levels of awareness (shown on the horizontal axis on the graph), such as Pepsi-Cola, Fanta, and Skoda, nevertheless score low on the scale of certain future choice, or conviction (vertical axis).

Exhibit 1.5
Awareness versus conviction

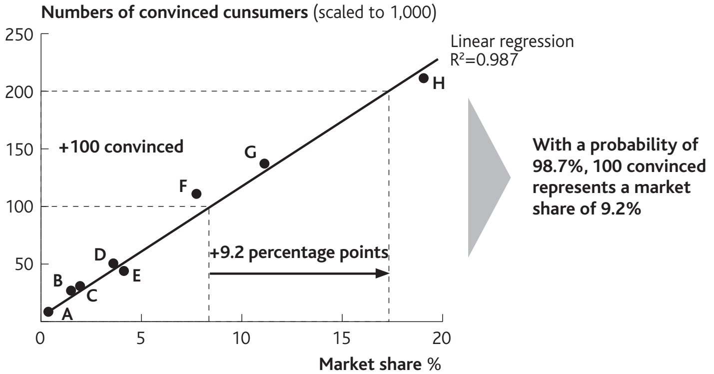


* Certain future choice of the brand ("If I should purchase this type of product I would *definitely choose* this brand")
Source: Megabrand, France, 1994

For another example of high awareness coinciding with low market share, consider the dot-com companies that lavished millions of dollars on advertising campaigns. In most cases, the campaigns generated temporary awareness but failed to produce actual customers because little attention was devoted to understanding how to earn customers' choices. Nor did the companies appreciate the time it takes not only to build awareness but to move people through successive stages from awareness to becoming users and regular choosers of a brand.

Exhibit 1.6
Conviction correlates with market share

A–H: Individual consumer brands within same category



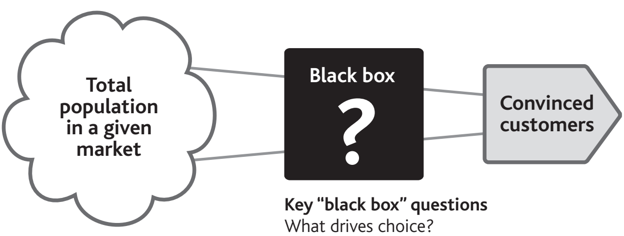
Source: NRA, 1999; Vanguard analysis

3 Conviction is the key brand metric.

Future cash flows are driven by the number of customers who will choose and pay for the company's brand proposition tomorrow and into the future on a continuous basis. These are the "convinced" consumers.[7] Not surprisingly, our research shows that a strong correlation exists between convinced users of a brand and its market share (Exhibit 1.6).

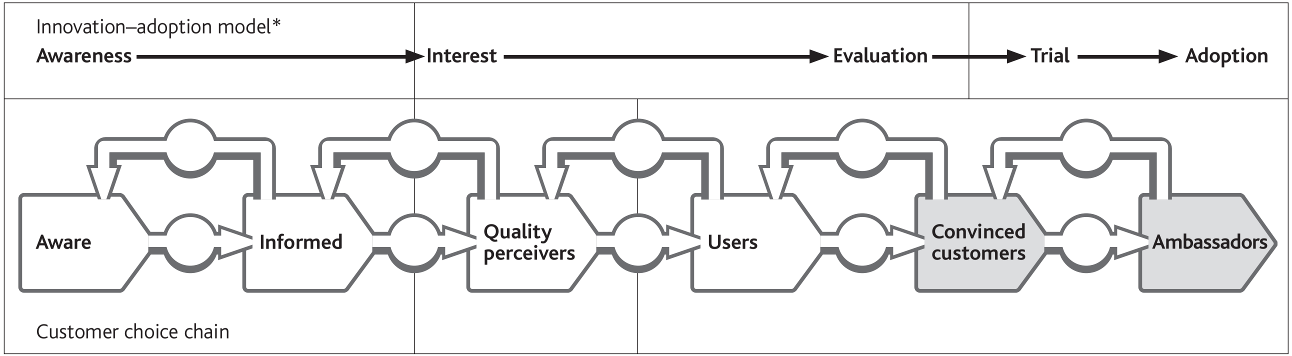
Unfortunately, the fact that market share is nothing more nor less than the manifestation of consumer choice is not yet widely recognized. As a result, managers talk about market share and competitive advantage without any clear idea of how to secure consumers' choices in practice. Until they make an explicit causal link between market share and consumer choice, the performance of their business will continue to be a black box to them, and critical questions like those featured in Exhibit 1.7 will go unanswered.

Exhibit 1.7
Opening the black box



Key "black box" questions
What drives choice?
How many choosers are there?
How do we sustain our convinced customers?
What levels are we looking to build?
How long will it take to build them?
What levers can we apply?
What are the financial implications?

Exhibit 1.8
A model comparison



* From Everett M. Rogers, *Diffusion of Innovations*, Free Press, 1962,
as cited in Philip Kotler, *Marketing Management*, Prentice Hall, 2003.

Put simply, most managers don't fully understand how to turn potential purchasers of their brand into loyal customers. They lack clarity on how the choice process works and the external factors and management initiatives that influence it.

Why is this so? The main reason, we believe, is the prevailing management focus on tangible assets and resources. Policies and decisions tend to be geared to influencing the numbers that appear in a company's profit and loss account. Few companies have conducted a rigorous analysis of customer choices across segments and markets and over time.

Part of the problem has been the lack of appropriate management tools. Existing customer purchase frameworks don't really fit the bill. Take the "innovation–adoption" model, with its sequence of awareness, interest, evaluation, trial, and adoption (Exhibit 1.8). Though intuitively appealing, it is flawed. For one thing, it fails to distinguish between the stages consumers are at in the choice chain and the levers that can be applied. A simple example of this is "trial," which is a marketing lever (as applied in a sales promotion), and not a state in which people reside.

Although such frameworks have been developed through deductive means and make intuitive sense, they don't provide a sound basis for understanding performance through time. The customer choice chain marks an important step forward in this respect. It allows managers to monitor post-purchase behavior and measure levels of conviction and loyalty among users of a brand. It provides a means of tracking customer flow rates between different stages in the chain, including back-flows. Best of all, it gives managers the means to obtain the solid, up-to-date information and analysis they need to put strategic thinking and decision making on a much firmer footing.

❖ ❖ ❖

To understand and manage their brand's performance, executives need a robust framework that takes into account the dynamics of customer choice in a changing environment. They also need to establish meaningful and appropriate performance metrics, and monitor them rigorously.

A good starting point is to articulate the customer choice chain and address a few key issues: How many people reside at each point in the choice chain? How do people move along it? And what motivates them to move in either direction?

Notes

1 "The future of the company: A matter of choice," *The Economist*, 22 December 2001, pp. 82–4.

2 Michael E. Porter, *Competitive Strategy: Techniques for analyzing industries and competitors* (Free Press, New York, 1980).

3 Except companies in monopoly situations.

4 We use the terms "customers" and "consumers" interchangeably throughout the book to refer to end users.

5 In *Branded*, BBC2, 15 February 1997.

6 This framework was first identified in 1994 following extensive research in France involving 300 brands, 3,000 consumers, and 78 key brand and population parameters. *See* Patrick Duquesne and Lars Finskud, "Légitimer la prime de marques," *La Revue des Marques*, 1995, Number 9, pp. 31–3.

7 We define "convinced" consumers as people who state that they will certainly choose a given brand next time they make a choice within its category.

2

Uncovering hidden potential for growth

Main themes

- There is a customer choice chain for every brand. In most businesses focused on consumers, "convinced" customers represent the main source of future cash flows.
- Few companies have articulated and quantified the customer choice chain for their business. As a result, the investments they make in marketing and brand building are not earning good returns.
- Without understanding how potential and actual customers are distributed along the choice chain, managers can't make informed decisions about which levers to apply to improve what aspects of brand performance.
- Effective strategy development and performance measurement both hinge on understanding how many people reside at each stage in the choice chain, and how much they are worth to the company.
- Branding and marketing are two very different things. Branding is about competing for choice. Marketing is one among many levers that can be applied in the process of competing for choice.
- Though any company will want its brand to be chosen by many consumers, usually only a small sub-segment will be genuinely attractive – that is, of high value. Good customer segmentation is indispensable to allow managers to focus on earning the choice of these customers and to avoid generating "refusers."

3

Balancing stakeholder choices

Main themes

- The brand is not a single asset. The brand and the business are two sides of the same system.
- There is a choice chain for each of a brand's stakeholders. Stakeholders are free agents acting under their own volition. Their choice of your brand doesn't materialize automatically and can't be taken for granted. Even so, stakeholders represent important resources in the business system.
- As with customer choice, a company has to compete continuously for stakeholders' choices of its brand. Just as it manages customers, so it must manage each stakeholder choice chain to earn continuing choice.
- Stakeholders contribute to a company's business in exchange for the value that it delivers to them. So when it thinks about creating value with brands, a company must in fact think about delivering value to stakeholders. For this value delivery to be feasible, the company needs to secure *symmetrical* stakeholder choice
- Competing for choice is fundamental. It is relevant for all industries, all sectors, and all markets (except monopolies). However, different industries compete for choice in different ways according to the degree of dependency between their stakeholders.

4

Managing the dynamics of brand architecture

Main themes

- Most of the metrics managers currently employ to track and manage brand performance are inadequate.
- The brand and business system is dynamic, with leverage for each choice segment constantly shifting. Moreover, there is a natural tendency for resources in the system to decay. As a result, investments must be made merely to sustain the status quo; you have to run just to stand still.
- To leverage under-utilized resources and allocate brand-building investments effectively, managers must apply accurate and detailed performance intelligence. This will allow them to make informed decisions and target initiatives at key leverage points in the system.
- Understanding the performance of a business is not just about grasping the factual metrics of the brand architecture, but also about establishing the prerequisites for successful branding and responding to consumer values as they evolve over time
- The brand management debate must be refocused. Classic marketing discussions based on past brand performance and consumer awareness levels get companies nowhere. Instead, they need to adopt a holistic view of the integrated brand and business system. This should allow them to answer a number of tough management questions. It will also reveal that there are far more opportunities for management to take initiatives to optimize performance than most businesses recognize.

5

Building brand competencies for competitive advantage

Main themes

- The brand is probably the only entity in a business that can't be outsourced. Strategic branding is a core competency that must be cultivated to world-class standards *within* a company. It calls for leading-edge brand intelligence, systems, and structures and a team with cross-functional expertise and a focus on long-term value delivery.

- The CEO must be a passionate and proactive brand steward. With overall responsibility for business performance, overarching clarity on brand vision and values, and the ability to make cross-functional decisions, it is in fact the CEO who manages the brand.

- The CEO will also seek to establish the right mindset so that everyone in the organization, regardless of function, contributes to competing for choice every minute of every day and thus shares responsibility for brand management.

- In the future, companies will use strategy simulation tools to explore scenarios through modeling. Instead of conducting brand reviews, they will conduct brand previews. The implications in terms of decision-making skills, analytics, intelligence, and performance will be far-reaching.