Challenger brands versus market leaders

By Rudi Kruger

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How do challenger brands compete against brand leaders? This, of course, is the million dollar question! To start with, if your offering is not the chosen market-leader product or service, it's simply because the market has already chosen a competitor's brand, product or service. What's important to understand is why, when, and where.

Over the past five years, Espial has conducted over a hundred strategic product marketing interventions to help clients with exactly these questions.

However, let's start with a simple assumption. If the market does not choose your product, then the only way to compete is the cheaper, faster, better alternative. Right? Wrong!

This is the weakest possible position to approach. Cheaper (same value, cheaper price), faster (same price, quicker delivery), and better (same price, better quality) only results in one thing - lower margins for you, as you cannot even chase (like the market leader can) economies of scale, better trading discounts, lower cost of capital, and preferential supplier contracts etc. These are all benefits that accrue to the market leader.

So better, faster, cheaper is not the route to market leadership.

If you are a Michael Porter fan, you will no doubt, disagree with me. Porter clearly segments between differentiators, low-cost producers, and focused differentiators or focused low-cost producers.

Which is fine, but we are not talking about co-existence, we are talking about market leadership.

Cheaper, faster, better works well in commodity markets where consumers clearly understand the product, and are aware of all the available product options and their relative prices. For example, cheque processing in retail banking.

Prey to predator

Small fish must constantly be on the move to prevent the larger fish from picking them off.

To be the small fish in a big pond is undesirable, to say the least. You never get to culminate, you never get to multiply, and you never get to leverage your core competence. The small fish can dramatically change its position simply by applying sacrifice.

What I mean by sacrifice is, give up the right to play in all markets so that you gain the option to become market dominant.

Sacrifice all but one market and then over-commit to that specific market.

To dislodge the incumbent leader in your chosen market, you have to become category dissimilar.

Just suppose you are a new bank, and you choose to operate in the retail banking space. For starters, most people will tell you that you're in need of help, because nobody would willingly choose to enter the arena of retail banking. Are you nuts or what? No, I think you're smart. Richard Branson of Virgin does just that. He zooms in on ossified industries that are taking their customers for granted, that are using punitive pricing models and are perpetuating old systems that do not integrate customer information across multiple legacy systems.

Recognise any of these? How about airlines, trains, financial services and telecommunications?

Retail banking is a prime target for re-invention.

Firstly, they take their customers for granted. Secondly, they leverage old or rigid technologies. Thirdly, they use income (LSM 1- 8) to segment their markets (keep the rich and chase the poor away).

In South Africa, certain markets have moved beyond maturity, resulting in overcapacity.

South Africa is over-banked, over-retailed, and over-published.

In a study conducted among 3500 companies during 1998, it was found that in the service industry, the dominating brand earned a return double that of the challenger, and four times that of the third-ranked competitor. So being number two or three in a market is an extremely undesirable and unprofitable position to be in.

Becoming category dissimilar

Challenger brands must deal with the issue of competitiveness in an altogether different way.

A challenger brand, product or service must start by becoming category dissimilar. It must compete on a completely new platform. Traditional methods of competition will not suffice.

Challenger brands must not compete on the basis of comparison but rather on the basis of re-evaluation. As consumers have already selected the leading brand as the category winner, pursuing a customer-centric model would simply be too costly and time-consuming.

Shift to a new economic model

Let's face facts, the market leader is enjoying the benefits of market leadership. The more you've got, the more you get.

Leaders can outperform the market challenger in just about every aspect, better margin, better distribution, bigger advertising budget, etc.

The bottom line is to break through the noise level created by the market leader. To persuade loyal followers to sample a new product is a very costly exercise.

Back in the land of reality where a new challenger brand cannot boast of any of the above, it's necessary to continue on the path of thinking differently.

Challenger brands must move their advertising expenditure out of the expenses side of the income statement, into the asset side of the balance sheet. All financial expenditure must be in the form of investments in the building of assets.

Let's take Nando's Chicken as an example. Every rand spent on Nando's advertising yields yet another five rands work of exposure. Why? Because we as the viewers enjoy the ads so much that we actively re-tell them to our friends.

The old Castrol and Vodacom ads leverage the same economic model, and evoke the same positive emotional response and recall.

In comparison, with every one rand spent by Kentucky Fried Chicken, half is probably wasted. We never re-tell KFC ads to our friends. Neither do we form emotional bonds with KFC ads.

So what is the new economic model? The traditional economic model, also known as the arithmetic economic model, is based on the theory that value is created through scarcity. The new economic model, in comparison, is known as the exponential economic model and is based on the theory that value is created through abundance.

For every additional rand spent on advertising using the arithmetic model, all you get is an extra rand worth of exposure. By contrast, for every additional rand you spend on advertising using the exponential model, you get exponential returns.

Applying the model

Getting back to our retail banking example.

Let's see what would happen if we only apply the two things we have learnt so far about turning challenger brand into market leaders i.e. becoming category dissimilar, and leveraging the exponential model.

What does it mean to be category dissimilar in retail banking? Well, we have to question a few fundamental beliefs we hold about retail banking.

Firstly, retail banking by definition implies the providing of bank services, which suggests the existence of our four customer pre-requisites:

- relevant product offering - competitiveness (pre-care)
- affordable product - efficiency (pre-care)
- available product - distribution (in-care)
- after-sales service - retention (after-care)

Secondly, we assume that banks understand what business they are in. Banks must disintermediate risk for an acceptable fee.

Victor Caserely of City Bank wrote: "All businesses must avoid risk that is except financial service organisations. They must get to risk first, understand it, and price it right." Most of the time I get the feeling that banks get to the risk last. Do not understand it, and therefore do not know how to price it. The result is that we have to deal with "credit", a sinister faceless entity that makes the rules our banker simply relays.

Risk avoidance is the order of the day. What happened to risk disintermediation for an acceptable fee?

Liabilities, not assets

Thirdly, physical retail branch banking must be the joke of the day. I haven't been in a physical bank branch in years. I bet all these physical bank branches are still recorded in bank balance sheets as assets, metaphorically speaking, when they are in fact liabilities.

Lastly, at my bank I am seven different people. I am a retail customer, a home-loan customer, a car loan customer, and a savings customer, and investment customer, a life insurance customer and a credit card customer. Integrated customer file? Is that a new swearword?

Why on earth would any potential retail banking challenger want to attempt to compete with the status quo? Everything that a conventional retail bank has to offer can be bought from a best-of-breed provider or intermediary (assuming he has a banking licence) without bearing the high cost of ownership of staff, systems, property, etc at a much lower price.

The Internet has single-handedly decimated the arithmetic economic model that says value is created through scarcity, and that you first have to make something before you can sell it. In the new age of abundance, where more is more and where we first sell, collect the money and then make the product or provide the service, the fast will always beat the big.

We do not need branches to serve our customers. Okay, if you really want to come to a branch, fine. I'll see you in Pick 'n Pay.

Mind and emotion share

So, if we do get back to the question of why banks exist? Is it to disintermediate risk for an acceptable fee?

According to Marc Grobe, the author of the book *Emotional Branding*, "the biggest misconception in branding strategies is the belief that branding is about market share. When what it is always really about is mind and emotions share."

I could not agree more. The market is full of 'out there' and 'orphan brands' all struggling for survival. However, if you have to ask me about my favourite car brand or clothing brand, I can immediately list them. Why? Because they have become my personal 'Go-to-brands', these brands enjoy my attention, as well as my financial and emotional support.

So what's the moral of the story? Get to know who your customers and clients really are. Find out what really matters to them. Show them that you feel the same way.

Do not try and make the familiar desirable - it's better to make the novel familiar.

ABOUT THE AUTHOR

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