



BOW,
PUNY INSECTS,
BEFORE THE
MIGHT OF ...

KOMPETITOR!

**FIGHTER
BRANDS
ASSEMBLE!**

... OR PERISH!!

THE ART OF WAR

YOUR CUSTOMERS DEMAND VALUE AND CHEAPER RIVALS ARE NIPPING AT YOUR HEELS. BATTLE THEM WITH A FIGHTER BRAND, IF YOU DARE

STORY MARK RITSON ❖
ILLUSTRATION GLENN LUMSDEN

Before retailer Aldi's successful entry into Australia, Woolworths knew they were coming. Australia's leading supermarket retailer was not content to simply sit back and watch the German company enter its market unhindered. In early 2001, it went on the front foot and announced a range of "pseudo brands" that would imitate Aldi's private-label approach. The new line would be "eyeballed" up against Aldi products in stores nearby and would match that chain's prices. Woolworths might not have realised it then but it had just embarked on one of marketing's riskiest strategies. It was about to launch a fighter brand.

A fighter brand is a lower-priced offering that a company launches to take on (and ideally take out) competitors that are attempting to underprice them. It's one of the oldest strategies in branding and one that is making a reappearance during these tough economic times. As the global recession forces many customers to trade down to lower-priced offers, many managers at mid-tier and premium brands are faced with a classic strategic conundrum. Should they tackle the threat head-on and reduce existing prices, knowing it will reduce profits and potentially commodify the brand? Or should they maintain

prices, hope for better times to return, and in the meantime lose customers who may never come back? As both alternatives are often equally unpalatable, many companies, including several major Australian ones, have decided on a third option: launching a fighter brand.

Unlike traditional brands that are designed with target consumers in mind, fighter brands are created specifically to combat a competitor that is threatening to steal market share from a company's main brand. When the strategy works, a fighter brand not only defeats a low-priced competitor, but also opens up a new market.

Intel Celeron is a notable case study of successful fighter brand application. Despite the success of its Pentium microprocessor chips, Intel faced a major threat from competitors such as AMD's K6 chips, which were cheaper and better placed to serve the emerging low-cost PC market. Intel wanted to protect the brand equity and price premium of its Pentium chips. And it also wanted to avoid AMD gaining a foothold in the lower end of the market, so it created Celeron as a cheaper, less powerful version of its Pentium chip to serve this market.

Intel's 80 per cent share of the global PC market is testament to a fighter brand's potential to restrict competitors and open up additional segments of the market.

Unfortunately, for every success such as Intel Celeron's, there are many more cases of fighter-brand failure. Severe strategic hazards exist that many managers encounter only once their fighter brand has been launched.

In the case of Woolworths, its campaign had little if any impact on Aldi's initial entry. Instead, Woolworths, which at the time had very little expertise with retailing private labels, managed to confuse shoppers, distract senior management and ultimately lose money on much of the new line. Less than two years later, Woolworths conceded that the products had not sold well and then-marketing director Bernie Brookes was forced to admit the exercise had revealed that Woolworths was "not particularly good at marketing brands and that's not our core proposition".

Like many before him, he had learned the hard way that the glittering strategic outcomes promised when a fighter brand is conceived rarely come to fruition. Indeed, most fighter brands inflict very little damage on targeted competitors and result, instead, in significant collateral losses for the company that initiates them.

CONT.

One of the prime reasons for fighter-brand failure is cannibalisation. Most fighter brands are created explicitly to win back customers that have switched to a low-priced rival. Unfortunately, once deployed, many fighter brands also have an annoying tendency to lure customers from a company's own premium offering.

This was British Airways' experience when it launched its discount airline Go in 1998 as a response to EasyJet and Ryanair. The eventual result was a brand that was up to 70 per cent cheaper than BA, operating on many of BA's most profitable European routes and cannibalising much of its profits. Despite Go's growing profits, BA opted to offload its airline in 2001 and return its focus exclusively to its premium operations.

Another hidden danger of a fighter brand is that valuable resources are taken from the existing portfolio in order to develop and launch the new brand. Significant managerial and financial resources that could have been invested in a premium brand are instead wasted on what is often a loss-making venture that only distracts the organisation from its core business and delays crucial decisions about existing brands in the portfolio.

There is no better example of fighter-brand failure than Saturn from General Motors. The small-car brand was launched to fight Japanese imports flooding the US market. By the time GM sold it in 2009 as part of its restructuring strategy to emerge from bankruptcy, Saturn had lost the company as much as \$US20 billion, wasted thousands of hours of management attention and distracted and delayed GM from the urgent mission of reducing and improving its existing portfolio of brands. Crucially, Saturn also failed its original *raison d'être*, and spectacularly so – to stall the growth of Toyota and Honda in the US.

FAULTY DNA

Another common problem for many fighter brands is a lack of consumer orientation. Normally, a successful brand has its genesis in the recognition of an unmet consumer need. The subsequent development and marketing of the product stays focused on that target consumer segment. But the provenance of a company's fighter brand is very different. It originates with a competitor and the strategic success it has achieved, or threatens to achieve, against the company. The DNA of a fighter brand is therefore potentially flawed from the very outset because it is derived from company deficiencies and competitor strengths, not a focus on consumers.

When United Airlines launched its fighter brand Ted to combat discount airlines Southwest, JetBlue and Frontier, the skewed orientation of the new brand was evident from the outset.

WHY FIGHTER BRANDS FAIL

Here are the five strategic hazards for fighter brands that predispose most to fail before they launch:

- 1 Cannibalisation:** You launch a fighter brand aimed at a low-priced rival but then watch in horror as your new brand eats up the more profitable sales from the premium brand you were trying to protect. Kodak Funtime film was meant to combat Fuji's cheaper product but ended up doing more damage to Kodak's premium Gold Plus line.
- 2 Failure to attack:** You are so worried about protecting your premium brand from cannibalisation you end up launching a fighter brand that is too weak to do any damage to the competition. When Merck launched a fighter brand drug to treat high cholesterol in Germany, its price was so high that it had no impact on the generic drugs it was meant to attack.
- 3 Internal orientation:** You spend so long designing your fighter brand to attack the competition you forget about consumers. When United Airlines launched Ted to take on low-priced carriers, it benchmarked only against its premium airline. Compared with United, Ted was indeed a low-priced carrier. But compared with competitors such as Southwest, it was still 15 per cent more expensive.
- 4 Missing profitability:** You create a brand designed to take on low-priced rivals but discover that you have no core competencies for playing in this space. Your fighter brand may be successful in the short term, but if it loses money, it's only a matter of time before you have to pull it from the market or make major changes. Delta's Song airline was estimated to be losing \$US15 million a month when it closed down in 2006.
- 5 Resource drain:** You go to war with a fighter brand at the very time you should stay back and defend the homeland. GM invested time, money and management time during the 1990s on Saturn as an answer to Japanese imports. In retrospect GM should have been making the essential changes to its existing portfolio and strategy.

United executive vice-president John Tague set the tone during the 2004 launch: "We think Ted can do things that United can't." He and his team made the mistake of benchmarking Ted only against their own premium brand. While they celebrated Ted's points of difference, such as using only a single crew member for check-in, easygoing service, and guerrilla marketing, those features differentiated Ted only from its parent brand. A market-oriented strategist would have recognised that these were long-established features of Ted's low-priced rivals and therefore nothing more than points of parity. Nowhere was this internal orientation more obvious than in pricing. Compared with United, Ted was a discount airline. But external analysis confirmed at the time of its launch that Ted's fares were about 15 per cent higher than those of its budget competition. In the face of rising fuel costs and increasing losses, Ted ceased operations in 2009.

When teaching or writing about brands, it's traditional to bemoan the general state of Australian brand management. For once, however, an Australian brand offers probably the most expertly planned and strategically successful fighter-brand strategy of recent years. The launch of Jetstar, Qantas Airways' low-price response to Virgin Blue's emergence, provides a best-practice example of fighter-brand success.

The planning process for the new airline began not with internal benchmarking or an assessment of Virgin Blue's operating model, but rather with a series of focus groups. Run in secret all over Australia, these groups were attended by Qantas

senior managers, including newly hired Jetstar chief executive Alan Joyce. "What we found were a few characteristics they wanted from an airline," Joyce told *The Sydney Morning Herald*. "They wanted an airline to project an Australian image. And they wanted an open, accessible and egalitarian airline." Those insights helped guide Qantas fighter brand Jetstar to unprecedented success. Rather than orient its development around matching the strengths of the competitor it was designed to attack, Jetstar was created around the needs of the consumers it would one day serve.

Jetstar was also expert in controlling cannibalisation. Jetstar took over those tourist routes on which Qantas had generally lost money. Because Jetstar often proved profitable on these routes, the cannibalisation that did occur was of revenues rather than profits. The fighter brand also opted for a shadow endorsement from Qantas, in which it was indirectly associated with the premium brand, but not explicitly.

This approach aided Jetstar's initial launch while distancing it from the premium brand. Thanks to Jetstar, Qantas was able to refocus on its more profitable business routes and increase the frequency of flights it offered on these legs. The subsequent increased profits, combined with its growing contribution, were reinvested in overhauls of Qantas business lounges and business-class cabins, strengthening both the Qantas brand and the distinction between it and Jetstar. **B**

Mark Ritson is an associate professor at Melbourne Business School and visiting associate professor at MIT Sloan School of Management.