

## WINNING THE BRAND RELEVANCE BATTLE

First they ignore you. Then they ridicule you. Then they fight you. Then you win.

—*Mahatma Gandhi*

Don't manage, lead.

—*Jack Welch, former GE CEO  
and management guru*

Brand relevance has the potential to both drive and explain market dynamics, the emergence and fading of categories and subcategories and the associated fortunes of brands connected to them. Brands that can create and manage new categories or subcategories making competitors irrelevant will prosper while others will be mired in debilitating marketplace battles or will be losing relevance and market position. The story of the Japanese beer industry and the U.S. computer industry illustrate.

### **The Japanese Beer Industry**

For three and a half decades the Japanese beer market was hypercompetitive, with endless entries of new products (on the order of four to ten per year) and aggressive advertising, packaging innovations, and promotions. Yet the market share trajectory of the two major competitors during these thirty-five years changed only four times—three instigated by the introduction of new subcategories and the fourth by the repositioning of a subcategory. Brands driving the emergence or repositioning of the subcategories gained relevance and market position,

whereas the other brands not relevant to the new subcategories lost position—a remarkable commentary on what drives market dynamics.

Kirin and Asahi were the main players during this time. Kirin, the dominant brand from 1970 to 1986 with an unshakable 60 percent share, was the “beer of beer lovers” and closely associated with the rich, somewhat bitter taste of pasteurized lager beer. A remarkable run. There were no offerings that spawned new subcategories to disturb.

### **Asahi Super Dry Appears**

Asahi, which in 1986 had a declining share that had sunk below 10 percent, introduced in early 1987 Asahi Super Dry, a sharper, more refreshing beer with less aftertaste. The new product, which contained more alcohol and less sugar than lager beers and had special yeast, appealed to a new, younger generation of beer drinkers. Its appeal was due in part to a carefully crafted Western image supported by its label (see Figure 1.1), endorsers, and advertising. Both the product and the image were in sharp contrast to Kirin.

In just a few years, dry beer captured over 25 percent of the market. In contrast, it took light beer eighteen years to gain 25 percent of the U.S. market. It was a phenomenon of which Asahi Super Dry, perceived to be the authentic dry beer, was the beneficiary. In 1988 Asahi’s share doubled to over 20 percent and Kirin’s fell to 50 percent. During the ensuing twelve years Asahi continued to build on its position in the dry beer category, and in 2001 it passed Kirin and became the number-one brand in Japan with a 37 percent share, a remarkable result. Think of Coors passing Anheuser-Busch, a firm with a long-term market dominance similar to the one Kirin enjoyed.

It is no accident that Asahi was the firm that upset the market. In 1985 Asahi had an aggressive CEO who above all wanted to change the status quo, both internally and externally. Toward that end he changed the organizational structure and

culture to encourage innovation. Of course, he was “blessed” with financial and market crises. Kirin, however, had an organization entirely focused on maintaining the current momentum and on doing exactly what they had always done.

Kirin responded in 1988 with Kirin Draft Dry beer but, after having touted Kirin lager beer for decades, lacked credibility in the new space. Further, the ensuing “dry wars,” in which Asahi forced Kirin to make changes to its packaging to reduce the similarity of Kirin Draft Dry to the Asahi product, reinforced the fact that Asahi was the authentic dry beer. Kirin, whose heart was never in making a beer that would compete with its golden goose with its rich tradition and many loyal buyers, was perceived by many as the bully trying to squash the feisty upstart. Over the ensuing years, a bewildering number of efforts by Kirin and the other beer firms to put a dent in the Asahi advance were unsuccessful.

### **Kirin Ichiban Arrives**

The one exception to efforts to create new subcategories with new beer variants was Kirin Ichiban, introduced in 1990, made from a new and expensive process involving more malt; filtering at low temperature; and, most important, using only the “first press” product. Its taste was milder and smoother than Kirin Lager’s, with no bitter aftertaste. Competitors were stymied by the cost of the process, the power of the Kirin Ichiban brand, and the distribution clout of Kirin. Kirin Ichiban caused a pause in the decline of the Kirin market share that lasted from 1990 to 1995. Its role in the Kirin portfolio steadily grew until, in 2005, it actually sold more than Kirin Lager—although the combination of the two was then far behind Asahi Super Dry.

### **Dry Subcategory is Reenergized**

In 1994 Asahi, by this time the only dry beer brand, developed a powerful subcategory positioning strategy around both freshness

and being the number-one draft beer with a global presence. While Asahi was enhancing the dry subcategory, Kirin was simultaneously damaging the lager subcategory. Perhaps irritated by Asahi's number-one-draft-beer claim, Kirin converted to a draft beer making process and changed Kirin Lager to Kirin Lager Draft (the original still was on the market as Kirin Lager Classic but was relegated to a small niche). Kirin tried to make Kirin Lager Draft more appealing to a younger audience, but instead its image became confused, and its core customer base was disaffected. As a result, from 1995 to 1998 the subcategory battle between dry and lager resulted in Asahi Super Dry extending its market share eight points to just over 35 percent, while Kirin was falling nine points to around 39 percent.

### **Happoshu Enters**

In 1998 a new subcategory labeled *happoshu*, a “beer” that contained a low level of malt and thus qualified for a significantly lower tax rate, got traction when Kirin entered with its Kirin Tanrei brand (Suntory introduced the first happoshu beer in 1996 but lost its position to Tanrei). By early 2001, after this new subcategory had garnered around 18 percent of the beer market, Asahi finally entered, but could not dislodge Kirin. The Asahi entry had a decided taste disadvantage, in large part because Kirin Tanrei had a sharper taste that was reminiscent of Asahi Super Dry. Asahi wanted no such similarity for its happoshu entry because of the resulting potential damage to Asahi Super Dry.

By 2005 Kirin had taken leadership in both the happoshu subcategory and in another subcategory, a no-malt beverage termed “the third beer,” which had an even greater tax advantage. From 2005 on, these two new subcategories captured over 40 percent of the Japanese beer market. In 2009 the two Kirin entries did well, with over three times the sales of the Asahi entries, and actually outsold the sum of Kirin Lager and Kirin Ichiban sales

by 50 percent. As a result, Kirin recaptured market share leadership in the total beer category including happoshu and the third beer, albeit by a small amount, despite the fact that Asahi had nearly a two-to-one lead in the conventional beer category.

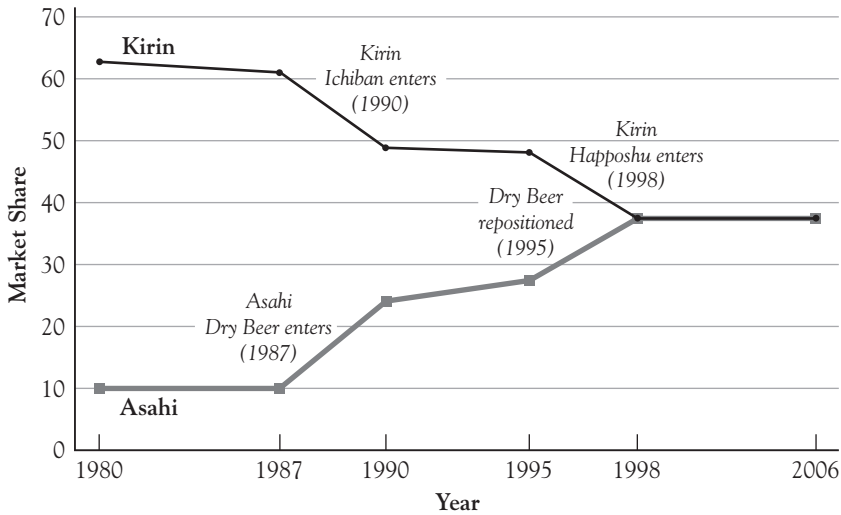
The changes in what people buy and in category and subcategory dynamics are often what drive markets. Figure 1.2 clearly shows the four times the market share trajectory in the Japanese beer market changed—all driven by subcategory dynamics. Brands that are relevant to the new or redefined category or subcategory, such as Asahi Super Dry in 1986 or Kirin Ichiban in 1990 or Kirin Tanrei in 1998, will be the winners. And brands that lose relevance because they lack some value proposition or are simply focused on the wrong subcategory will lose. That can happen insidiously to the dominant, successful brands, as with Kirin Lager in the mid-1980s and Asahi in the late 1990s.

**Figure 1.1 Asahi Super Dry Can**



Note the English terms.

**Figure 1.2 The Asahi-Kirin Beer War**



Note the importance of brands in the ability of firms to affect category and subcategory position. Kirin Lager captured the essence of lager and the Kirin heritage. Asahi Super Dry defined and represented the new dry subcategory, even when Kirin Draft Dry was introduced. Kirin Tanrei was the prime representative of the happoshu category. And the repositioning of Asahi Super Dry really repositioned the dry subcategory, because at that point Asahi was the only viable entry.

### The U.S. Computer Industry

Consider also the dynamics of the U.S. computer industry during the last half century and how these dynamics affected the winners and losers in the marketplace. The story starts in the 1960s when seven manufacturers, all backed by big firms, competed for a place in the mainframe space. However, as “computers as hardware” suppliers they became irrelevant in the face of IBM, who defined its offering as a problem-relevant

systems solution supplier and thus created a subcategory. Then came the minicomputer subcategory in the early 1970s, led by Digital Equipment Corporation (DEC), Data General, and HP, in which a computer served a set of terminals and in which the mainframe brands were not relevant.

The minicomputer business itself became irrelevant with the advent of servers and personal computers as hardware, and Data General and DEC faded while HP adapted by moving into other subcategories. Ken Olsen, the DEC founder and CEO, has famously been quoted as saying in 1977, "There is no reason why any individual would want a computer in his home." Although the quote was taken out of context, the point that emerging subcategories, in this case the personal computer (PC) subcategory, are often underestimated is a good one.<sup>1</sup>

The PC subcategory itself fragmented into several new subcategories driven by very different firms. IBM was the early dominant brand in the PC subcategory, bringing trust and reliability. Dell defined and led a subcategory based on building to order with up-to-date technology and direct-to-customer sales and service. A portable or luggable niche was carved out of the personal computer segment, initially by Osborne in 1981 with a twenty-four-pound monster and ultimately in 1983 by Compaq, who became the early market leader. Then came the laptop, which was truly portable. Toshiba led this subcategory at first, until the IBM ThinkPad took over the leadership position with an attractive design and clever features.

Sun Microsystems led in the network workstation market, and SGI (Silicon Graphics) led in the graphic workstation market, both involving heavy-duty, single-user computers. The workstation market evolved into the server subcategory. Sun was a dominant server brand in the late 1990s for Internet applications, but fell back as the Internet bubble burst.

In 1984 Apple launched the Macintosh (Mac), creating a new subcategory of computers. It was revolutionary because it changed the interaction of a user with a computer by introducing

new tools, a new vocabulary, and a graphical user interface. There was a “desktop” with intuitive icons, a mouse that changed communication with a computer, a toolbox, windows to keep track of applications, a drawing program, a font manager, and on and on. And it was in a distinctively designed cabinet under the Apple brand. In the words of the Mac’s father, Steve Jobs, it was “insanely great.”<sup>2</sup> The 1984 ad in which a young woman in bright red shorts flings a sledgehammer into a screen where “big brother” (representing of course IBM) spouts out an ideology of sameness was one of the most notable ads of modern times. For the next decade and more there were core Mac users, especially among the creative community, who were passionately loyal to the Mac and enjoyed visible, self-expressive benefits from buying and using the brand. It took six years for Microsoft to come up with anything comparable.

In 1997 Steve Jobs, returning from a forced twelve-year exile from Apple, was the driving force behind the iMac (“i” initially represented “Internet enabled” but came to mean simply “Apple”). The iMac provided a new chapter to the Mac saga and became a new—or at least a revised—subcategory. The best-selling computer ever, its design and coloring were eye-catching. Incorporating the then-novel use of the USB port, Apple made the remarkable decision to omit a floppy disk. Instead of dooming the product as many predicted, this made the product appear advanced—made for an age in which people would share files over the Internet instead of via disks.

Another computer revolution is under way. Products such as smart phones and tablets like iPad are replacing laptop and even desktop computers for many applications. The new winners are firms such as Apple, Google with its Android software, the communication firms AT&T and Verizon, server farms, and application entrepreneurs. The losers will be the conventional computer hardware and software businesses.

As in the case of Japanese beer, it was the emergence of new subcategories such as solutions-focused mainframes, minicomputers, workstations, servers, PCs, Macintosh, portables,



laptops, notebooks, and tablets that create the market dynamics that changed the fortunes of the participants. Again and again competitors fell back or disappeared, and new ones emerged as new subcategories were formed. The ongoing marketing efforts involving advertising, trade shows, and promotions had little impact on the market dynamics. A similar analysis could be made concerning most industries.



Brand relevance is a powerful concept. Understanding and managing relevance can be the difference between winning by becoming isolated from competitors or being mired in a difficult market environment where differentiation is hard to achieve and often short-lived. It is not easy, however, but requires a new mind-set that is sensitive to market signals, is forward looking, and values innovation.

This chapter starts by defining and comparing the two perspectives of the marketplace, the brand preference model and the brand relevance model. It then describes the central concept of creating a new category or subcategory and the role of substantial and transformational innovation in that process. The next section describes the new management task, to influence and manage the perceptions and position of the new category and subcategory. The chapter then turns to the potential power of the first mover advantage and the value of being a trend driver. The payoff of creating new categories and subcategories is then detailed and followed by a description of the four tasks that are necessary to create a new category or subcategory. Finally, the brand relevance concept is contrasted with approaches put forth by other authors toward a similar objective and the rest of the book is outlined.

## **Gaining Brand Preference**

There are two ways to compete in existing markets—gaining brand preference and making competitors irrelevant.

The first and most commonly used route to winning customers and sales focuses on generating brand preference among the brand choices considered by customers, on beating the competition. Most marketing strategists perceive themselves to be engaged in a brand preference battle. A consumer decides to buy an established product category or subcategory, such as SUVs. Several brands have the visibility and credibility to be considered—perhaps Lexus, BMW, and Cadillac. A brand, perhaps Cadillac, is then selected. Winning involves making sure the customer prefers Cadillac to Lexus and BMW. This means that Cadillac has to be more visible, credible, and attractive in the SUV space than are Lexus and BMW.

The brand preference model dictates the objectives and strategy of the firm. Create offerings and marketing programs that will earn the approval and loyalty of customers who are buying the established category or subcategory, such as SUVs. Be preferred over the competitors' brands that are in that category or subcategory, which in turn means being superior in at least one of the dimensions defining the category or subcategory and being at least as good as competitors in the rest. The relevant market consists of those who will buy the established category or subcategory, and market share with respect to that target market is a primary measure of success.

The strategy is to engage in incremental innovation to make the brand ever more attractive or reliable, the offering less costly, or the marketing program more effective or efficient. It is all about continuous improvement—faster, cheaper, better—which has its roots in Fredrick Taylor's scientific management with his time and motion studies a century ago and continues with such approaches as *Kaisan* (the Japanese continuous improvement programs), Six Sigma, reengineering, and downsizing.

This classic brand preference model is an increasingly difficult path to success in today's dynamic market because customers are not inclined or motivated to change brand loyalties. Brands are perceived to be similar at least with respect to the

delivery of functional benefits, and often these perceptions are accurate. Why rethink a product and brand decision that has worked when alternatives are similar? Why go to the trouble to even locate alternatives? Seeking alternatives is a mental and behavioral effort with little perceived payoff. Further, people prefer the familiar, whether in regard to a route to work, music, people, nonsense words, or brands.

It is inordinately difficult to create an innovation that will significantly alter market momentum. When there is an enhanced offering that should stimulate switching behavior, competitors usually respond with such speed and vigor that any advantage is often short-lived. Further, marketing programs that upset the market are rare because brilliance is hard to come by and resources for implementation are scarce.

As a result of the difficulty of changing customer momentum and the fact that there are diminishing returns to cost-reduction programs, preserving margins in the face of capable and well-funded competitors is challenging. A market with competitors engaging in brand preference strategies is usually a recipe for unsatisfactory profitability.

Such Japanese beer companies as Asahi and also Suntory and Sapporo pursued brand preference strategies from 1960 to 1986 without making a dent in the Kirin position. The heritage and appeal of Kirin's lager beer, its loyal buyer base, and the associated distribution clout made Kirin able to resist all types of product and marketing initiatives of competitors, aggressive and clever though they were.

Brand preference strategies, the focus of most firms, are particularly risky in dynamic markets because incremental innovation will often be made inconsequential by marketplace dynamics. Bob McDonald, the CEO of P&G, introduced the acronym VUCA to describe today's world—volatile, uncertain, complex, and ambiguous.<sup>3</sup> Product categories and subcategories are no longer stable but rather emerging, fading, and evolving. Products are proliferating at a faster and faster rate.

There are a host of forceful trends that provide impetus for new categories and subcategories. For a flavor of the trends out there, consider the following:

- The emergence of Web sites as knowledge centers has allowed brands to become go-to authorities. Pampers, for example, redefined its business from selling diapers to providing innovation on baby care and a hub for social interaction around babies.
- The green movement and sustainability objectives have affected brand choice. Firms from autos to stores to packaged goods, and on and on have adjusted their operations and offerings to be responsive.
- The growing popularity of Asian cuisine has created subcategories in restaurants and in packaged goods.
- The projected growth of the over-sixty-five population from just under forty million in 2010 to over seventy million in 2030 creates opportunities to develop subcategories from gift stores to cruises to cars.
- People taking control of their personal health suggests opportunities for a host of medical support categories to emerge, ranging from weight control to physical therapy to mental stimulation.

Change is in the air everywhere, and change affects what people buy and what brands are relevant. Marketing strategies need to keep up. A winning strategy today may not prevail tomorrow. It might not even be relevant tomorrow. Success becomes a moving target, and the same management styles that worked in the past may be losing their ability to generate ongoing wins. Blindly following a strategy that advocates a firm to “stick to your knitting,” “keep your focus,” “avoid diluting your energies,” and so on may still be optimal but is more risky than ever.

## The Brand Relevance Model

The second route to competitive success is to change what people buy by creating new categories or subcategories that alter the ways they look at the purchase decision and user experience. The goal is thus not to simply beat competitors; it is rather to make them irrelevant by enticing customers to buy a category or subcategory for which most or all alternative brands are not considered relevant because they lack context visibility or credibility. The result can be a market in which there is no competition at all for an extended time or one in which the competition is reduced or weakened, the ticket to ongoing financial success.

### Defining Relevance

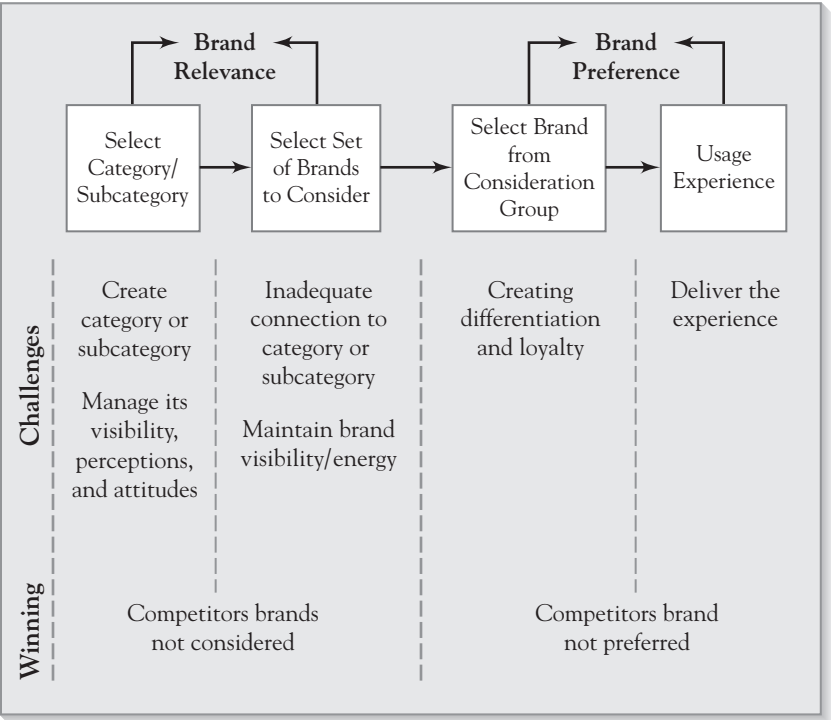
To better understand relevance, consider a simple model of brand-customer interaction in which brand choice involves four steps organized into two distinct phases, brand relevance and brand preference, as shown in Figure 1.3.

**Step One:** The person (customer or potential customer) needs to decide which category or subcategory to buy and use. Too often a brand is not selected or even considered because the person fails to select the right category or subcategory rather than because he or she preferred one brand over another. If a person decides to buy a minivan rather than a sedan or an SUV, for example, he or she will exclude a large set of brands that are not credible in the minivan space.

One challenge is to create the category or subcategory by conceiving and executing an innovative offering. Another challenge is to manage the resulting category or subcategory and to influence its visibility, perceptions, and people's loyalty to it. The goal is to encourage people to think of and select the category or subcategory.

The fact that the person selects the category or subcategory, perhaps a compact hybrid, makes the starting place very

Figure 1.3 Brand Preference Versus Brand Relevance



different than under the brand preference context in which the category or subcategory is assumed to be given. Instead of encompassing only those buying an established category or subcategory, the target market is much broader, consisting of anyone who might benefit from the new category or subcategory. The selection of the category or subcategory is now a crucial step that will influence what brands get considered and thus are relevant.

**Step Two:** The person needs to determine which brands to consider. This is a screening step to exclude brands that are unacceptable for some reason. A brand is not relevant unless it appears in the person's consideration set. There are two principle relevance challenges: category or subcategory relevance

and visibility and energy relevance (these will be elaborated in Chapter Ten).

*Category or Subcategory Relevance:* The firm as represented by a brand needs to be perceived as making what the people are buying and have credibility with respect to its offering. There can't be a perception within the selected category or subcategory that the brand lacks the capability or interest to be a player, or that the brand lacks a key characteristic of the category or subcategory.

*Visibility and Energy Relevance:* The brand, particularly when establishing or entering a new category or subcategory, needs to have visibility—it needs to come to mind when the product category or subcategory is selected. In addition, the brand needs to create and maintain enough energy so that it does not fade into the background. Brands that are tired, lack personalities, are not associated with innovation, and are simply uninteresting may not make the consideration set even though they are known and credible.

**Step Three:** Perhaps after some evaluation, the person picks one brand. That brand is preferred over others, perhaps because of a logical reason, due to some emotional or self-expressive benefit, or perhaps simply because of convenience or habit. The challenge is to create differentiation and bases of loyalty so that the brand is preferred.

**Step Four:** The person uses the product or service, and a user experience results. The use evaluation will depend not only on his or her expectations of the brand but also according to expectations of the product category or subcategory as conceptualized in the first step. The user experience can influence the next cycle of brand-person interaction.

Brand relevance involves the first two steps. A brand will be relevant if it is included in the consideration set for a target category or subcategory and if that category or subcategory precipitates the decision. Both conditions are needed. If either is missing, the brand lacks relevance and no amount of

differentiation, positive attitudes, or brand-customer relationships will help.

More formally we define brand relevance as occurring when two conditions are met:

- *The target category or subcategory is selected.* There is a perceived need or desire on the part of a customer for the targeted category or subcategory, which is defined by some combination of attributes, applications, user groups, or other distinguishing characteristics.
- *The brand is in the consideration set.* The customer considers the brand when he or she is making a decision to buy or use that target category or subcategory. In other words, the brand passes the screening test.

Steps three and four define brand preference. One brand is preferred within a set of brands being considered. In static markets, brand preference is the primary goal of competition and marketing but, as already noted, this type of competition is difficult and frustrating and markets are increasingly dynamic, which makes brand preference strategies futile.

Winning under the brand relevance model is now qualitatively different than under brand preference competition. Under the brand preference model, the winning brand is preferred to others in the established category or subcategory. Under brand relevance, in contrast, winning occurs when other brands are not considered given the selection of the category or subcategory. Some or all competitor brands are not visible and credible with respect to the new category or subcategory, even though in other established categories they might not only be visible and credible but even have the highest reputation and customer loyalty. When competitors' brands are not considered, the only relevant brand wins by default.

Relevance and preference are interrelated. In particular, relevance affects both components of brand preference. Defining and



framing the category or subcategory will affect brand perceptions and thus brand preference. For example, if the category or subcategory is redefined to elevate the importance of a benefit, such as safety in automobiles, that benefit will play a larger role in the brand preference decision. Further, because relevance can affect the consideration set such that brands are excluded, the preference challenge may be reduced. At the extreme, if the consideration set is reduced to one, the preference decision is dictated by relevance.

Brand preference can also affect brand relevance. If a brand is preferred because of a compelling brand proposition, a strong personality, a satisfying user experience, and a positive customer relationship, then it will affect the consideration set and may well influence or drive attitudes toward the category or subcategory. Further, if the brand's user experience exceeds expectations, the brand should become more prominent in a person's mind. So if a Prius succeeds in generating interest, energy, and admiration, it will be firmly in the consideration set and should also reinforce the category or subcategory selection decision. Similarly, if the in-store experience at Nordstrom is positive, then this will reinforce the attitude toward a high-touch retail experience and the inclusions of Nordstrom in the consideration set.

### **Creating New Categories or Subcategories**

The brand relevance strategy is to create offerings so innovative that new categories and subcategories will be formed. The idea is to create a competitive arena in which your competitors are at a decided disadvantage and avoid others in which that condition is missing. Sun Tzu, the military strategist, said over two thousand years ago that "the way is to avoid what is strong and to strike at what is weak."<sup>4</sup>

The opportunity is to redefine the market in such a way that the competitor is irrelevant or less relevant, possibly by making

the competitor's strengths actually become weaknesses. For example, when Asahi introduced dry beer, the strength of Kirin, namely its heritage and reputation as a superior lager beer that our fathers drank, became a significant weakness in an emerging market that connected with young, cool, and Western.

A new category or subcategory will be characterized by having a new:

- *Competitor set* that will be empty or be occupied with brands that are few in number and weak
- *Definition of the category or subcategory*, with a clear point of differentiation from other categories or subcategories
- *Value proposition* changing or augmenting the basis for a relationship with a brand or creating a new one
- *Loyal customer base* that is economically worthwhile
- *Set of barriers to competitors* based on strategic assets or competencies

Gaining brand preference, of course, will also attempt to achieve clear points of differentiation, a strong value proposition, and a loyal customer base. So what is the difference between seeking brand preference and creating a new category or subcategory? The difference can be difficult to discern. It depends in part on the degree of differentiation, the strength of the new value proposition, and the size and intensity of the loyalty engendered. It also depends on the length of time these brand advantages will be projected to last. If the advantage is short-lived, such as a blockbuster promotion, then it will largely be a brand preference action, even if its impact is large.

The difference from brand preference is clear when the change in the offering is qualitatively different as opposed to having enhanced features or performance. A hybrid is a different kind of car and a laptop computer is a different computer concept. Of course, each of these has associated benefits, but the

category or subcategory is not thought of at that level. You are now in the market for a hybrid and not a car that gets superior gas mileage, or you are seeking a laptop rather than one with a small footprint.

The difference is more subtle when the change in the offering represents a substantial enhancement of the offering's ability to deliver value, differentiation, and loyalty rather than a different type of offering. For example, the brand might perform noticeably better, like a Lexus 460, or it could have an added, meaningful feature in the packaging, such as the one that allows ketchup to be stored so that it is ready to serve. If that change is minor, it will be an aid to the brand preference battle. However, if the change is significant and meaningful to customers, there is a higher potential to form a new category or subcategory. Customers will have a reason to exclude other brands rather than to simply not prefer them.

Another difference is that in the brand relevance model the differentiation will be sustainable. Differentiation in the brand preference model is often marginal and temporary as competitors quickly copy. The key to forming a new category or subcategory is for the differentiation to be sustainable enough to provide a significant window to leverage the new category or subcategory before competitors become relevant. That means there are barriers to the new category or subcategory in the form of strategic assets or competencies that are substantial and inhibit competitors. A *strategic asset* is a resource, such as a brand's equity or installed customer base. A *strategic competency* is what a business unit does exceptionally well—such as managing a customer relationship program.

There are a host of sources of barriers that can turn a short-term point of differentiation into one that sustains (to be described in Chapter Nine). Among these barrier sources are protected technology, such as the Kirin Ichiban happoshu beer-making capability; a size or scale effect, such as that which Amazon and eBay have enjoyed; an operations advantage like

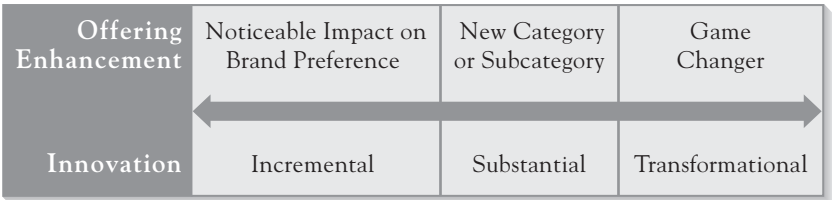
the one UPS has developed; a design breakthrough like Chrysler had in its minivan innovation in the early 1980s; brand equity; or the loyalty of a customer base. Customer loyalty (with its associated brand strength) is often the most important barrier or at least plays a key supporting role. Whether the loyalty is based on habit and convenience or intense emotional or self-expressive benefits, it can be costly for competitor to overcome.

**The Innovation Continuum**

There is an innovation continuum, summarized in Figure 1.4, that spans incremental to substantial to transformational that reflects the extent to which the offering enhancement affects the marketplace. In a healthy business context a firm will make an effort to improve their product or service. The question is, What is the impact of that offering improvement and how long will that impact last? When does it create a new category or subcategory?

Incremental innovation will provide modest improvement that will affect brand preference. The level of differentiation will therefore be minor. In some cases the improvement will be so modest or so under the radar or so unappreciated by customers that its impact will not be noticeable, although an accumulation of such enhancements might have an effect. In others, the incremental innovation will provide a measurable increase

**Figure 1.4 Innovation Continuum**



in brand health and loyalty. But in either case it is a brand preference play.

When the innovation is substantial, there is an offering enhancement that is so noteworthy that a group of customers will not consider a brand that is not comparable. The offering might be a new feature like the Heavenly Bed at Westin. Or there might be a performance improvement that is significant, such as superior safety, economy, or design. With a substantial innovation the basic offering and competitive go-to-market strategies may be the same or have only minor differences, but the improvement in the offering will be so substantial that it defines a new category or subcategory. The resulting differentiation will be major, noticeable, and even “newsworthy” in the buying context. The iMac, with its novel design, was one such substantial innovation, as was Asahi Super Dry beer. The offering in each case was very similar to other subcategories, but a new set of dimensions was created that provided the basis for a new subcategory definition. The result was a change so substantial that customers were motivated to rethink their loyalties and perceptions of the category or subcategory. If the new dimension was missing from a competitive brand, that brand would not be considered.

The distinction between incremental and substantial is at the heart of the matter. A judgment by the involved managers that is needed is made difficult by the bias that exists. Most managers are inclined to view many incremental innovations as substantial because they are substantial in their minds. So the decision as to whether an innovation is incremental or substantial needs to be made based on more objective thinking and data. Chapter Eight will address such evaluation more fully.

When the innovation is transformational, the basic offering has changed qualitatively to the extent that existing offerings and ways of doing business are obsolete for a target segment or application, and existing competitors are simply not relevant. It will involve a new technology, a reconfiguration of the product, a different approach to operations or distribution, or a radical change

to some other strategic lever that will qualitatively change the value proposition, the bases for loyalty, the way the offering is perceived, and the assets and competencies needed to deliver it. The resulting difference is dramatic, creating a marketplace game changer. The new category or subcategory will be easy to identify.

Transformational innovation is also termed *disruptive innovation*—it disrupts the competitive landscape. Tide (Ariel outside the United States) introduced a synthetic detergent technology that made soap powders obsolete. Southwest Airlines introduced a fun, up-beat personality and point-to-point journeys that changed air travel. Dell Computers, mini steel mills, and Gillette razors represent innovations that changed their respective industries. In the grocery store, Odwalla's new way of delivering fresh fruit drinks made frozen orange juice obsolete for some.

The distinction between a substantial and a transformational innovation is not always clear-cut. However, in either case, a new category or subcategory is formed. For example, a technology that enabled the introduction of baby carrots created a new subcategory, resulting in a sharp reduction in the sales of carrots presented in a conventional manner. Whether that is a substantial or a transformational innovation could be debated. Similarly, Cisco introduced a new-generation videoconference technology called Telepresence that uses massive amounts of bandwidth to provide a high-fidelity experience, making it a viable alternative for in-person meetings for firms with far-flung operations. It too could be classified either way.

The distinction between transformational, substantial, and incremental need not be based on the magnitude of a technological breakthrough. It is rather based on how much the market is affected and on whether a new category or subcategory is formed. Enterprise Rent-A-Car, who provided rental cars to people whose cars were in repair, was a transformational innovation because it represented such a different value proposition, target segment, set of assets and competencies, and business

model. But the innovation that supported the company was minor, mainly in process. When Westin introduced a better bed in 1999, called the Heavenly Bed, it was not an R&D breakthrough that was involved. The bed simply used existing technology and featured upgraded quality, but it could be considered transformational because it changed the way hotels are perceived and evaluated.

Sometimes a group of incremental innovations can combine to create a substantial or even transformational innovation. Some breakout retailers, such as Whole Foods Market, have a host of incremental innovations. By themselves each of these incremental enhancements would not be noteworthy, but together they can be category or subcategory creators and even game changers.

A substantial or transformational innovation may not even involve a change in the offering. It can be driven by a reframing of the category or subcategory. DeBeers reframed their target category from jewelry to expressions of love. Thus the “Diamonds are forever” line, plus the associations with marriage and weddings, recast the category without any changes in its offering. DeBeers was no longer competing with other firms selling gems or jewelry.

Identifying whether an innovation is incremental is crucial because this affects the management and investment behind that innovation. If it is incremental then there is no opportunity to create a new subcategory, and the management challenges and investment that go along with forming a new subcategory can be avoided. However, if the innovation is substantial and offers an opportunity to create a new category or subcategory, it is vital that the innovation be so labeled so that the necessary programs are developed and investments made. Of course, making the distinction between incremental and substantial is not always easy. As already noted, what brand champions think is substantial is often regarded by consumers, who live in a cluttered and dynamic media environment, to be incremental.

A major risk is that an opportunity will be lost because an innovation that had the potential to create a new category or subcategory was underestimated, because the organization was not set up to consider or pursue such options or because resources were absorbed elsewhere. This risk is particularly insidious because it has no visible impact on the financials, and yet a major missed opportunity can materially affect the strategies and fortunes of a organization going forward. Where would the Virgin brand and firm be today had it turned its back on the airline opportunity?

The other risk, more visible, is that incremental change will be misconstrued as a major one and an effort to create a new category or subcategory failed and absorbed precious resources and risk capital. Certainly there were a host of new products in the Japanese beer market that flamed out despite substantial investments and high expectations.

When evaluating the position of an innovation on the continuum, the extent to which the five characteristics of a new category or subcategory are achieved should form the basis of the analysis. Will the potential cast of characters among competitors change? Will what is being bought be different and new making the existing offerings irrelevant? Is there a qualitatively new value proposition? Is there a new base of loyal customers that will emerge? In addition, will competitor barriers be formed so that the innovation will have legs, will not be a short-term success?

Ultimately, it is the marketplace that will decide where the changed offering is on the continuum. Often an innovation or offering enhancement will be perceived by the firm as capable of changing the marketplace. In reality, however, it may be viewed by the market as another enhancement in a blur of competing claims. A package with the words "new and improved" on it is unlikely to change fundamental choice processes.

Most organizations lack a healthy mix of transformational, substantial, and incremental innovations. One study concluded



that the percentage of major innovations in development portfolios dropped from 20.2 to 11.5 from 1990 to 2004. And from the mid-1990s to 2004 the percentage of total sales attributed to transformational innovation fell from 32.6 to 28.0 in 2004. There is a bias toward incremental, “little i” innovations. It is caused in part by the fact that incremental innovations for the existing core businesses tend to have the support of executives who are generating the bulk of the firm sales and profits, and in part because the payoff seems more certain and quantifiable. More on this bias and how it can be neutralized in Chapter Eleven.

### **Levels of Relevance**

A brand is not necessarily relevant or irrelevant. In some cases, there will be a spectrum of relevance. The fuzziness or uncertainty can occur because the new category or subcategory is not yet the clear best choice for a customer. There may be a probability that it will be selected but one that is not near either certainty or zero probability.

Relevance fuzziness can also occur because of uncertainty as to whether a brand has visibility and credibility in the new space. Some brands will be coded by customers as being in the consideration set of a category or subcategory with confidence all the time. Others will never make the cut, and they are irrelevant. However, there will be others that may be relevant some of the time. In any case a fuzzy boundary can exist that separates the relevant brands from the irrelevant.

The uncertainty as to which brands are relevant will depend on the clarity of the definition of the category or subcategory. If the definition has some uncertainty, ambiguity, or fuzziness, the composition of the set of relevant brands may change depending on circumstances, the application, the brand’s availability and price, the competitor price, and so on. Nothing is simple.

## **The New Brand Challenge**

Creating a new product category or subcategory requires a new brand and marketing perspective. It is not enough to manage the brand; it is necessary also to manage the perception of the category or subcategory and to influence what category or subcategory people will buy as opposed to what brand they prefer. Asahi was able to fight off a much bigger and more resourced competitor precisely because they managed the dry beer subcategory brand from the outset while simultaneously growing its sales. And in the mid-1990s they repositioned the subcategory to regain a healthy market share growth rate.

Defining and managing the category or subcategory are new and foreign to brand and marketing strategists. The familiar challenge, in addition to differentiating the brand from competitors, is to position a brand as being relevant to an existing category or subcategory. IBM is in the service business, for example, or HP makes routers. However, when the challenge is to define and manage the category or subcategory and differentiate it from other categories or subcategories, the task is much different. The focus is not on alternative brands but alternative categories or subcategories, which is qualitatively different. The task is to build the category or subcategory even though a competitor could become relevant and benefit.

A category or subcategory is not a brand. A brand has a name reflecting an organization that stands behind the offering. Although a category or subcategory sometimes has a name, such as dry beer or happoshu, it often does not and has to rely on a description instead. More important, a brand has an organization behind it, whereas a category or subcategory in general does not. The exception is when the category or subcategory is represented by a single brand and its organization.

Nevertheless, a category or subcategory shares some similarities with a brand. It is defined by a set of rich associations that need to be prioritized and managed. It is the object of choice decisions. People can have varying degrees of loyalty to it.

It is defined by its associations. The management of a category or subcategory is also similar to managing any brand. In particular, the firm needs a plan to make the category or subcategory become visible, to identify its aspirational associations, and to design programs to realize them. These challenges will be discussed in detail in Chapter Eight.

A basic task is to identify the priority aspirational associations, usually one to five in number, which will define the new category or subcategory. These associations, which can be selected from a larger set of aspirational associations, can include features, benefits, personality traits, values, user imagery, applications, or any other descriptor that is capable of defining a category or subcategory and attracting people to it. The association set should differentiate the category or subcategory from alternatives, appeal to customers, deliver functional and, if possible, provide self-expressive and emotional benefits, and drive choice decisions. It should also be designed to include the brand as a relevant option and provide barriers to other brands to gain relevance. The definition should be clear as to what brands qualify as relevant to the category and subcategory and which do not because they are deficient on one of these associations.

The dry beer subcategory might be defined as crisp with less after taste, Western, and cool. After the reposition, it could add global presence and fresh product to the defining set. The lager category might be defined as the beer drinkers favorite, lager taste, and the beer my father drinks.

A second task is positioning. One or more of the defining associations should be identified to guide the short-term communication task. With a new category, the challenge is to identify one or two associations that will tell a compelling story and frame the category in such a way that the brand will have an ongoing relevance advantage. A brand such as TiVo, which had a host of advantages surrounding the complex DVR (digital video recorder) had trouble finding the right position and thus struggled at exploiting its first-mover advantage.

In the case of a subcategory, the positioning will usually be based on those associations that are driving the definition of the subcategory. For example, Bud Light Golden Wheat has all the associations of Bud Light including the fact that it is a light beer, but the driver of the subcategory is the fact that it is a wheat beer with a hint of a citric taste.

The positioning might differ by segment. One subset of the defining associations might be used for one segment and another for a second segment. Thus Asahi could have emphasized the young, Western, cool personality for those in their twenties and the crisp clean taste for older beer drinkers.

The third task, to build the “brand,” is to communicate the category and subcategory and make it appealing. That means it needs to break through the clutter and perceptual barriers by leveraging the substantial or transformational innovation to create a buzz, a feeling that this new category or subcategory is interesting and worth talking about. It also means an understanding of perceptual cues that will stimulate people to think about and perhaps talk about the category or subcategory. If possible, metaphors, stories, and symbols should be employed.

How can a category or subcategory be built? In general, the best way is to use the brand and its brand-building programs to create the category and subcategory visibility, image, and loyalty. The ultimate is to have the brand represent the category or subcategory as its exemplar, a concept described in more detail in Chapter Two. In that case the category or subcategory will be referred to by the exemplar brand such as iPod, Jell-O, or A.1. steak sauce. A customer will describe the category or subcategory in terms of the exemplar: I want Jell-O, A.1., an iPod, or a comparable product.

The brand in assuming the exemplar role will need to focus on defining and building the category or subcategory. The brand attributes will tend to be implied rather than explicit taking on the characteristics of the category or subcategory. The idea is to sell the category or subcategory rather than the brand.

Such a tack, of course, runs the risk of being suboptimal when the brand encounters a brand preference context. There are advantages, however, in promoting the new category or subcategory rather than the offering brand.

First, a new category or subcategory is inherently more interesting and newsworthy than another offering, even a new one, and can be in a better position to deliver self-expressive benefits. A customer may have a relationship with a category or subcategory that is stronger than that with a brand. A person might believe that attending a high-end spa says a lot about him or her and that the spa brand is less important. A mountain climber will get respect from engaging in the activity, and the equipment brand will be of lesser importance.

Second, information about a category or subcategory can be more credible than a communications campaign promoting a brand, which can appear self-serving. The brand message is then implied rather than stated. Any brand that is so knowledgeable and excited about a new category or subcategory will likely be perceived as an innovative and capable exemplar, a brand that represents the category or subcategory. The exemplar role will be described in more detail in Chapter Two). If Fiber One cereal communicates that high fiber is a good characteristic of food rather than that Fiber One has more fiber than other cereal brands, the message will be more credible.

Third, using the brand as a vehicle to promote the category or subcategory will create a link between the two. For a brand to be relevant to the new category or subcategory, there needs to be a link established. For a firm to establish a new category or subcategory and fail to link its brand to it would be tragic; the brand would not then be relevant. The Asahi Super Dry brand by promoting the new subcategory became closely linked to it and reinforced its role as subcategory exemplar.

The exemplar role may not emerge because the brand is not successful at gaining an early market leadership or because the category or subcategory is fuzzy or ill-defined. In that case

the brand role might be a bit less ambitious—to shape rather than define the definition of the category or subcategory emphasizing those elements to which the brand has an advantage and linking the brand to the category or subcategory. There still should be a clear concept of what the aspirational associations of the category or subcategory are and how they should be prioritized so that the brand can have an active if not dominant relevance leadership position.

Whether an exemplar role is assumed or not, it is helpful to attach a label to the category or subcategory such as dry beer, happoshu, or *cloud computing*, described in Chapter Nine. A label can be a powerful device if it is descriptive and gets traction. It can aid the challenge of creating visibility, the right image, and loyalty. However the ascendance of an accepted label is relatively rare. When it is missing, the defining associations need to be clear so that the brands or offerings that are excluded are clear.

The psychology concept of framing provides insights into both the sensitivity of customers' response to apparently minor changes in the way the category or subcategory is presented and the importance of cuing the right associations. Framing is described in Chapter Two. In Chapters Three, Four, and Five several case studies describing the creation of new categories or subcategories will illustrate how they have been defined.

### **The First-Mover Advantage**

Creating a new category or subcategory is strategically attractive in part because of the potential first-mover advantages that can result. One of the most appealing is the possibility of earning significant returns on investment because, with little or no competition, margins can be attractive. The tenure of this marketing position will depend on the barriers the firm creates, which are detailed in Chapter Nine. Many of these barriers are directly related to the first-mover advantage and include customer loyalty,

an image of authenticity, scale economies, preemptive strategies, and competitor inhibitions.

The first mover has an opportunity to create customer loyalty to the new offering and brand. If the exposure to and experience with the new offering are appealing or even satisfactory, there may be no incentive for a customer to risk trying something that is different. Loyalty can also be based on real customer-switching costs, perhaps involving long-term commitments. Or there could be network externalities. If a large community begins to use a service, such as eBay, it may be difficult for another firm to create a competing community.

The innovator can also earn the valuable “authentic” label described more in Chapter Nine. This was a factor facing competitors such as Kirin when they tried to duplicate Asahi Super Dry’s success in Japan. Being authentic is not only appealing, it provides credibility to the innovator and interjects uncertainty into the offering of any follower.

There are also scale economies available to the first mover. The early market leader potentially could have scale advantages with respect to logistics, warehousing, production, back office support, management, advertising, and brand recognition and perceptions. It is simple math. Spreading fixed costs like warehousing over a large sales base will result in a lower per-unit cost.

Early market leaders can also preempt the best strategies. For retailers that could mean securing the prime locations, for others it could mean attaining the prime brand position. For chocolate, for example, a prime position “a glass of milk in every bar” and could be unavailable to the second brand into a market. Preemption is particularly important if it results in a natural monopoly (an area might be able to support only one multiplex cinema, for example).

A competitor may be unable or unwilling to respond to a first mover’s offering. Technology may be a barrier, as when competitors lacked the technology to respond to Kirin’s Ichiban

innovation. Or there could be organizational limitations. Many retailers attempted to duplicate Nordstrom's customer service but were unsuccessful because, although they could copy what Nordstrom did, they could not duplicate what Nordstrom was as an organization—its people, incentives, culture, and processes.

Competitors may also be unwilling to respond. They may believe that the new business is simply too small to be worthwhile, that it might cannibalize their existing business, or that it could tarnish their brands. All these concerns inhibited Xerox in the 1970s from entering the emerging low-end desktop copiers that were being offered by Canon, even though Xerox had access to one from its Japanese affiliate Fuji-Xerox. The result was an erosion in the Xerox business from the bottom up as Canon and others extended their product lines upward.

Perhaps the most important potential advantage of a first mover is to represent the category or subcategory and thus shape if not define it. The first mover will be able to highlight and frame the key associations. Others will then have to adapt to the first mover's conceptualization. Further, once the first mover has taken control of the category or subcategory, it has the ability to change its definition over time to reflect its innovation thereby creating a moving target.

The term *first mover* refers to an entry that is able to get traction for the new category or subcategory, an early market leader that is seldom the pioneer of that category. The pioneer, the very first entree, is usually an insignificant player because it lacks financial resources to make an impact, it has an offering flaw, enabling technology is not there yet, or the market is not ready for the new offering. Research on category after category demonstrates that the pioneer is rarely the early market leader but rather is swamped by a player that has resources and has created a superior offering. Such pioneers as Dreft in laundry detergent, Gablinger's in light beer, Royal Crown Cola in diet colas, Star in safety razors, Ampex in video recorders, Chux in disposable diapers, and Harvard Graphics in presentation software did not



or could not capitalize on their pioneer status.<sup>5</sup> The list is virtually endless.

## **Trend Drivers**

Trend drivers are those organizations that actually spearhead trends and participate in the creation of new category or subcategory definitions, thus gaining first-mover advantages. They anticipate and influence what people are buying instead of what brands they are choosing. Few firms have the opportunity or capacity to be trend drivers, and even those firms have only a few windows of opportunity.

The timing needs to be right. Bad timing is often the cause of an offering's failing to capture an opportunity. A premature effort to create a category or subcategory can fail—perhaps because the underlying technology is not ready, perhaps because the market size has not reached the tipping point. Recall the Apple Newton's premature effort to create the PDA (personal digital assistant) category. And being late can be equally fatal. It is important to have both the capability of being knowledgeable about markets and technology and the instinct to know when the time is ripe for a new offering.

There are two types of trend drivers. One will be willing to test the waters with new ideas but will maintain the flexibility to withdraw. The other will commit. Certainly Asahi was in the latter category, making enormous bets involving investments in plant, process, and brand building. As the brand got early acceptance, Asahi “doubled down,” even in the face of a response from Kirin.

To be a trend driver, the firm needs to either be an extremely strong player or have the potential to become a strong player. In either case a firm must have real ammunition to work with, such as a breakthrough product like the dry beer innovation that allowed Asahi to define a new subcategory. Further, the firm needs to be capable of turning a first-mover advantage

into a sustainable position by actively managing perceptions of the new product category or subcategory and asserting a dominant position of the brand in the new arena. That requires not only resources and recognition of the expanded brand-building task but also organizational will and competence in brand building.

Another option is to be a trend responder, a firm that is a fast follower rather than leader. Such firms track trends and events, evaluate their future impact, and create response strategies to deal with relevance challenges. In some cases they can enter and take over an emerging category or subcategory. However, trend responders are usually playing defense. They are keeping up so that they can take action to avoid irrelevance. Chapter Ten details trend responder strategies.

There is a third organization type that can be labeled as the “trend unaware.” These firms are simply unaware of market trends and risk waking up surprised to find its brands are no longer relevant. The trend unaware often have inadequate external sensing systems, executives who are not market driven, organizational inflexibility, or an excessive focus on strategies that have worked well in the past. There are actually two types of trend-unaware firms. One is a “turn-the-crank” firm that simply does this year what was done last year. The other is the “committed” firm that has a single-minded focus on a business strategy and continually improves its competitive position by enhancing the value proposition, reducing costs, refusing to be diverted by market dynamics.

### **The Payoff**

If you can create or own a new business arena in which your competitors are not relevant, as did iPod, Cirque du Soleil, Prius, Asahi Super Dry, and eBay, then you have the potential to make exceptional returns, sometimes for many years. Richard Rumelt, the UCLA strategy guru, talked about how the most

feasible pathway to substantially higher performance for most firms is to “exploit some change in your environment—in technology, consumer tastes, laws, resource prices, or competitive behavior—and ride that change with quickness and skill. This path is how most successful companies make it.”<sup>6</sup>

The financial success has some elements that are not often so obvious. First, a new category or subcategory can represent a growth platform of its own capable of spawning new businesses. Second, the new category or subcategory can create new customers who may have been sitting on the sidelines because of their perception that existing competitors lack offerings that fit them or their needs. Before the Luna energy bar for women came along, customers were uninterested in the products that were designed and positioned for men, for macho men in fact. Before ESPN sports fanatics were confined to newspapers and magazines.

In fact, there is empirical evidence supporting the proposition that, on average over many decades, an abnormal percentage of profits come to those firms that have dominated a new business area. This evidence comes from a variety of studies that involve different perspectives, databases, and time frames. We will review the evidence from financial performance research, new product research, and perceived innovativeness data.

## **Financial Performance Research**

McKinsey has collected a database of over one-thousand firms (all with sales of over 50 percent in one industry) from fifteen industries over forty years. One finding was that new entrants into the database (84 percent of the firms were new entrants at one point) each achieved a higher shareholder return than their industry average for the first ten years after entry.<sup>7</sup> That return premium was 13 percent the first year, falling to 3 percent in the fifth and never rising above that level for the second five years. Further, there was an extremely high correlation between industry

newness (defined as the number of new firms entering, less the number of firms leaving, during a seven-year period) and industry profitability. It is well documented that new categories and subcategories tend to be created by new entrants. A reasonable conclusion is therefore that those creating new categories or subcategories will earn superior profits.

Firms with established businesses struggle to grow and thrive no matter how excellent their management. An analysis of a database of some 1,850 companies in seven countries followed for ten years revealed that only 13 percent of companies were able to achieve modest growth (5.5 percent real growth) and profitability targets (exceeding the cost of capital) over a ten-year period.<sup>8</sup> If a firm has performed well for several years, the chances are high that it will falter soon. Studies of the dynamics of companies provide supporting evidence. Of the S&P 500 in 1957, only 74 firms remained in 1997, and these firms performed 20 percent under the S&P average during that period—meaning that the newer firms performed at a higher level.<sup>9</sup>

Another study of fifty venture capital firms found that six had abnormally high profitability. The common characteristic of these six was that they had identified prospective areas of promise, such as Internet supporting technologies and seeded companies around the area. They were thus investing ahead of others who waited for trends to become more visible and mature. Consequently, these six firms undoubtedly were more likely to be creating new categories or subcategories than the others and the resulting first-mover advantages probably accounted for their financial success.

More direct evidence comes from a study that considered strategic decisions within a firm. Kim and Mauborgne looked at strategic moves by 108 companies; the 14 percent that were categorized as creating new categories had 38 percent of the revenues and 61 percent of the profits of the group.<sup>10</sup>

A series of studies examining the effect of announcements of R&D activities on stock return has shown a significant relationship, announcements had a positive impact on stock

return. One such study of over five-thousand announcements from sixty-nine firms in five high-tech industries, such as printers and desktop memory, found that when the announcements involving selecting a technology, developing it, and bringing it to market were combined, the response of the stock market was prompt and substantial.<sup>11</sup> Because many of these developments involved a new category or subcategory, this study provides evidence that the stock market believes such activities will pay off.

Most of the economic vitality in the United States comes from new businesses. In fact, from 1980 to 2008 the net new jobs were created by firms under five years old.<sup>12</sup> It is reasonable to assume that a large percentage of this set of successful new firms, in order to gain sales growth, had to generate new, differentiated offerings that created or nurtured new categories and subcategories.

Although these studies do not distinguish between new categories and new subcategories, it is certainly true that there are many times more subcategories created than new categories. However, because the same fundamental profit drivers—reduced or nonexistent competition and compelling value propositions—will be in place, abnormal profits should ensue for each.

## **New Product Research**

New product research, whether it takes the form of test markets or product or service introductions, suggests that new offerings creating new subcategories receive abnormally high profits. Dozens of studies have shown that new product success is substantially driven by differentiation—it must be one of the most robust empirical relationships in business. Differentiation affects not only the value proposition but also visibility, the ability of the new product to gain attention in the marketplace. New products tend to fail if they are not sufficiently differentiated from the existing offerings.

A highly differentiated new product offering, which we know from research is, on average, highly profitable, is likely to create a new category or subcategory because differentiation is often a key definer of a new category or subcategory. A failed new product, in contrast, is very likely to be undifferentiated and be part of the brand preference battlefield. A product failure will not only have a direct, adverse effect on profitability because of the cost of developing and introducing the offering, but also it will represent significant opportunity cost. That investment in people and resources could have gone elsewhere.

**Perceived Innovativeness Data**

Being a first-mover and owning an emerging category or subcategory, a brand is perceived to be associated with innovativeness. Gaining perceptions of innovativeness is a priority for nearly all businesses because it provides brand energy and credibility for new products. But few brands break out and reach that goal. Examine the top fifteen brands on an innovativeness scale, according to the 2007 Brand Asset Valuator (BAV) from a Young & Rubicam (Y&R) database covering over three-thousand brands, which is shown in Figure 1.5.<sup>13</sup> Nearly all have created or owned a new submarket using transformational innovation.

**Figure 1.5 Perceived Innovativeness–2007**

1. Bluetooth	6. DreamWorks	11. Disney
2. Pixar	7. TiVo	12. Google
3. iPod	8. iMac	13. Swiffer
4. IMAX	9. Discovery Channel	14. Wikipedia
5. Microsoft	10. BlackBerry	15. Dyson

## **Creating New Categories or Subcategories—Four Challenges**

Marketers are preoccupied, often obsessed, with brand preference competition and give it way too many resources and too much attention. Brand relevance, in contrast, gets way too small a role in strategy and way too little funding. Business, marketing, and brand strategies without a doubt would benefit from elevating brand relevance in their game plans. My objective is to make this happen by presenting evidence, methods, theories, frameworks, and role models that will point the way.

The centerpiece of a brand relevance strategy should be an attempt to create a new category or subcategory in which the competition is reduced, weakened, or even nonexistent. There is little question that success will result in a huge payoff if barriers to competition can be created or if the competition is diverted by other opportunities or threats.

The question is how to do so. How can a firm create and dominate a new category or subcategory? How can you assess the risks that the subcategory will be insufficiently appealing to customers or unable to withstand immediate competitor attacks? Can the firm actually produce and market the offering? How do you create an Asahi Super Dry beer, a Kirin happoshu beer, a Plymouth Caravan, a Toyota Prius, an Enterprise Rent-A-Car, an iPod, a Kindle, or any of the other examples of successful category or subcategory creation?

Creating a new category or subcategory is not at all easy. It involves the emergence of a new, different value proposition that is capable of generating visibility, energy, and a group of loyal customers. The resulting customer benefits need to be new, different, and meaningful, because the charge is to change perceptions and behavior with respect to what is being bought and used.

Benefits need to be relevant to customers, they should resonate. Benefits that seem significant to a firm, particularly to the

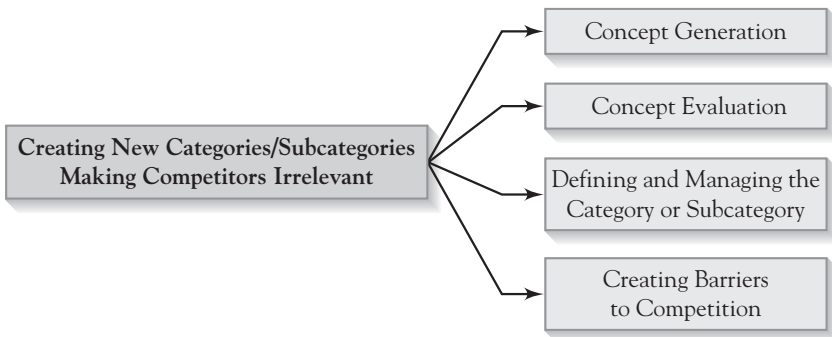
champions of the new offering, may not be meaningful enough to customers to create a new category or subcategory. It is not just logic that is involved, because even with a compelling story around the new offering, customers must be motivated to pay attention and change behavior. What is the problem for which this is a solution? The “problem” may not be obvious.

Even if the benefits are worthwhile, the communication task might be too difficult to overcome. An indicator of success is often whether or not the new category or subcategory gets enough interest and energy that it self-propels, that there is a buzz that drives and supports the emerging loyal customer base and makes them part of the creation force. Without that energy it can be difficult. How, then, does a firm, aspiring to change what customers buy, proceed?

Most successful efforts at creating new categories or subcategories in one way or the other have addressed four interrelated tasks or steps. As summarized in Figure 1.6, they are:

1. *Concept generation.* Good options are needed and are more likely if they are generated from multiple perspectives. It is better to make inferior choices from great options than to make great choices from inferior options. Like a football

**Figure 1.6 Creating Offerings That Will Drive New Categories or Subcategories**





coach who believes that competition at every position makes players better and provides backup if the first stringer falters, the strategist will do better when there are several good alternatives.

2. *Concept evaluation.* Evaluation provides tools to focus efforts on the best concept prospects. A fatal mistake is to get bogged down with too many options, which means that none may get the commitment of resources needed to win, or to cling to a concept whose prospects are fading.
3. *Defining and managing the category or subcategory.* In addition to managing the brand, managers now need to define and manage the category or subcategory. The key is to identify priority aspirational associations, develop a positioning strategy based on those associations, create innovations to advance the category or subcategory, and use the brand and its brand-building programs to create visibility and image for the new category or subcategory.
4. *Creating barriers to entry.* Creating barriers is the ultimate task that will turn a new category or subcategory into a profit stream. If that stream can be extended, the results not only mean more resources recovered but also a better marketing position and momentum.

### **The Brand Relevance Model Versus Others**

What is different about the brand relevance model of competition? After all, there are countless authors with theories that advocate transformational innovation or other strategic avenues to growth. *Blue Ocean Strategy* by Kim and Mauborgne, *The Growth Gamble* by Campbell and Park, Gary Hamel's *Leading the Revolution*, Chris Zook's *Beyond the Core*, *Creative Destruction* by Foster and Kaplan, *Winning Through Innovation* by Tushman and O'Reilly, and *The Innovator's Solution* by Christensen and Raynor make up a partial list.<sup>14</sup>

These works and a dozen others that are not mentioned are, in my view, excellent books that have on the whole made substantial contributions to the strategy literature. I have learned from all of them. They are all different, of course, and each has a point of view. However, it is possible to identify four interrelated aspects of this book and the brand relevance model that are not covered in these other books. This brand relevance book emphasizes the importance of defining and managing the new categories and subcategories. They should not be developed and then just sit there defined by the marketplace. Rather, they need to be actively managed just like any brand is managed. The new category or subcategory needs to be defined, to have its perception actively managed, and to be linked to the brand. In contrast, the other major strategy books either take this task for granted and fail to mention brand at all or fail to consider it as an aggressive part of strategy.

This book also emphasizes the need to create barriers to the category or subcategory formed. It is classic economics. Create a competitive arena and then build a fence around it so that others are kept out. There are a variety of barriers that can be created, but the brand, in addition to being a barrier itself, can serve to organize and leverage other barriers. For example, a distribution advantage can be a key barrier to competitors and also become part of the brand vision and serve to create and communicate a value proposition.

This book explicitly includes substantial innovation as routes to new categories or subcategories. The other books largely focus on transformational innovations like a Cirque du Soleil or incremental innovations as in “just execute better and better” and “leverage success by entering adjacent markets.” There are many more substantial innovations than transformational, and incremental innovation is at the heart of the brand preference model.

This book also explicitly suggests that creating new subcategories in which competitors are less relevant should be a goal

of the brand relevance strategy. It is not necessary to hold out for a home run in the form of new categories. The reality is that for every opportunity of creating new categories, such as a sports TV channels or cruise ships, there are dozens of opportunities for creating subcategories, such as a golf or tennis channel or cruise ship for kids or singles. The inclusion of subcategories gives the strategic thrust of the relevance model a wide scope. Nearly every business can continuously be looking for subcategory opportunities.

## **What is Coming**

The next chapter will elaborate on the relevance concept. Drawing on theories and findings in social and consumer psychology, the discussion will help us understand and use this concept.

Chapters Three, Four, and Five consider the development of new categories and subcategories in three very different industries—retail, automobiles, and packaged goods. In describing twenty or so case studies I will attempt to show where ideas come from, how categories or subcategories are defined, why competitors respond or fail to do so, what barriers are erected, and the underlying causes of success or failure.

Chapters Six through Nine will examine how to create a new category or subcategory. Four mission-critical tasks—finding concepts, evaluating concepts, defining the category or subcategory, and creating barriers to competitors—are discussed. Readers for whom these chapters are of immediate practical interest are welcome to skip directly to them.

Chapter Ten examines the other side of the coin. What is the threat to firms facing emerging categories and subcategories that are making their existing business areas vulnerable? How do they best respond? Chapter Eleven details the characteristics of an organization that will support innovation. Without an organization that encourages and enables, creating substantial

and transformational innovation is difficult indeed. The book concludes with an epilogue that puts all this into perspective by pointing out the risks and challenges that must be addressed to successfully win the brand relevance battle.

### **Key Takeaways**

The brand preference model, in which brands compete in established categories, is a recipe for static markets and unsatisfactory profits. The brand relevance model, in which new categories and subcategories are formed, provides the opportunity for dramatic changes in market position, reduced or even no competition, and superior financial performance. A new category or subcategory will have no or weak competitors, a clear point of difference from other categories or subcategories, a new value proposition, a loyal customer base, and a set of barriers to competitors. It will usually be based on substantial or transformational innovation. The brand challenge is to manage not only the brand but also the category or subcategory and the link between the two.

There is considerable evidence that the successful creation of a new category or subcategory will result in superior financial performance. Studies show, for example, that new entrants to an industry, who usually will be forming new categories or subcategories, do markedly better than their peers. It is well known that new product success is directly proportional to the degree of differentiation from other products and thus to the probability that a new category or subcategory is formed. Much of this success is due to such first-mover advantages as scale effects, preemptive strategies, brand loyalty of early adopters, and brand equity.

### **For Discussion**

1. Identify categories or subcategories for which the brand relevance model has prevailed. What are the characteristics of those markets?

2. Identify examples of substantial innovation that created new categories or subcategories. Was the TV channel ESPN a substantial of transformational innovation? Why? What was its first-mover advantage?
3. What firms have done well at creating and managing new categories or subcategories?

