

# Map *the* Gap

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**T**he real story behind the growth of store brands is less often about price gaps than the shrinking value gap between national and store brands. This narrowing value gap is real, and marketers anticipating an economic recovery to lift their sales in a “rising tide” effect are bound to be disappointed.

Consumers are fundamentally changing their attitudes towards more conscientious consumption on matters of environment, health and value. The heightened importance of value-for-money is leading them to rethink their attitudes and behaviors concerning the value of branded products and the price premiums they are willing to pay for frequently consumed necessities.

## Winning at retail requires innovation across bundles of brand benefits.

The trend is further reinforced by better consumer perception of store brands, backed by improvements in the quality and range of these products (according to a recent study, 70 percent of millennial women perceive the quality of store brands to be “excellent”). This portends the potential continuation of store brand sales and share growth, and a steep challenge to the growth of branded products.

To look for answers, we turn to a key principle of

consumer behavior that holds as true today as ever: National brand manufacturers need to innovate across the entire value bundle that comprises the brand—positioning, product, packaging, pricing, *etc.*—in order to deliver relevant benefits to the right targets in a superior way and align with consumers’ needs and desired benefits.

Mature markets demonstrate these principles of consumer preferences all the time. In the last five years, for example, marketers have successfully tapped into consumers’ health and wellness needs with a variety of innovatively-positioned and precisely-targeted beverage products that promise to deliver specific functional benefits such as quick and lasting energy, meal replacement, or vegetable nutrition—often to selected targets during specific parts of the day.

These consumer preferences lead to consistent behaviors that collectively create markets organized around bundles of relevant benefits. This results in product groupings that deliver primarily against one of those benefit areas and compete closely with other products in the same group.

Regardless of the market, price-value invariably manifests itself somewhere in the structure, although the role of price-value relative to the role of brand varies considerably across different markets. The price-value dynamic depends on the importance and

types of consumer needs, nature of product usage, role of trust and imagery in the category, the presence and strength of dominant brands and levels of marketing and innovation.

Ultimately, however, the price-value relationship depends on how well marketers have managed to define and deliver relevant benefits. In some cases, marketers have created benefit-structured markets based on years of advertising, innovation, and effective positioning against relevant functional and emotional benefits.

In these situations, brands or brand groups play a significant higher-order role in which they effectively stand for and own key benefits to the exclusion of other brands. Store brands may play a smaller role—existing but interacting in an undifferentiated way—or in a limited way that does not preclude the growth of branded players. The example of soy milk demonstrates how branded products used precise positioning, marketing, and innovation to establish and own a value-added position as a tasty, healthy, nutritious, dairy-free alternative to conventional milk, leaving behind the commodity dynamics of the dairy milk category.

At the other extreme, markets that lack meaningful differentiation of relevant benefits to consumers, significant marketing, and effective innovation, predictably degrade into attribute-driven markets in which form, flavor, price-tiers, or easily replicable factors become the primary organizing principle of the market (for example, conventional dairy milk).

In such cases, national brands often play a weakened role in the structure, and store brands do well as consumers reward the brands that deliver the only differentiating benefit of relevance—price-value.

Most markets fall into a continuum between these extremes in which many national brands are fighting a losing battle, struggling to stem losses or eke out small gains. Some are dealing with the added burden of budget cuts and cost reductions that affect product quality. All the while, store brands are racking up growth.

Fortunately, the picture is not all gloom-and-doom for marketers of national brands. If they are committed to understanding and leveraging the principles of consumer preferences and benefit-structured markets, they have good reason for optimism. In a previous issue of *The Hub*, my colleague Eric Greifenberger introduced the concept of a *market map* (see: *Map the Market*, July/August, 2009).

A *market map* provides a precise understanding of how consumers are behaving, for what reasons, and with what trade-offs. It is a proven platform for evaluating and predicting the impact of different marketing strategies. As such, it is an essential foundation for managing a brand to a better outcome.

Unfortunately, many organizations do not fully appreciate or understand the power of a correct, precise, and behaviorally-based understanding of their market. Too often, a brand's competitive frame is based on category definitions, consumers' opinions, or a less-than-rigorous evaluation of consumer behavior.

As a result, the hierarchy of benefits may be out of order, or the spheres of influence through which consumers make choices and trade-offs may be misrepresented. Managing a brand with a flawed understanding of the market is bound to inhibit or even derail growth.

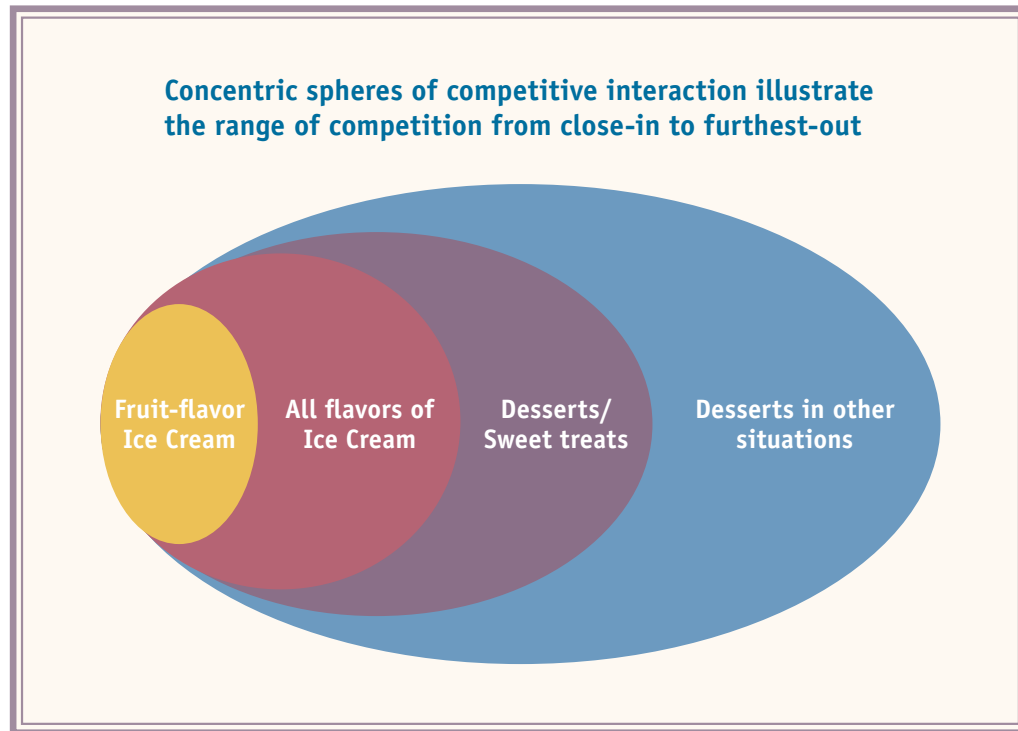
So, the first challenge is to understand how the market is organized, what your brands really compete with, and on what basis. After developing a precise, behavior-based understanding of the market, you are ready to understand how to guide your brands to more advantageous positions of sustainable and profitable growth. You can also identify and prioritize the most viable innovation opportunities among many seemingly reasonable options.

#### FINDING GROWTH OPPORTUNITIES

The logical first place to look for growth is among your established brands in their current, competitive frames-of-reference. In some cases, a brand may have significant upside potential in terms of consumer behavior that can be accessed. Well-differentiated brands often find that their strong loyalty puts them in the enviable position of being able to bring in new buyers or increase usage simply by increasing media spending.

More often than not, however, brands have not fully optimized their potential from a positioning standpoint. Many brands may be competing in an undifferentiated way with other brands, representing the same benefits to the same consumers in more or less similar ways.

Insights based on the *market map* can provide a breakthrough understanding of how to deliver the functional and emotional benefits of a market in a



SOURCE: Henry Rak Consulting Partners

more compelling, effective or different way. Or, it can show how to expand the benefit appeal to more consumers, or across more occasions.

In recent years, some brands have leveraged consumer trends by emphasizing the simplicity and freshness of their ingredients to consumers who are most motivated by health and wellness. One particular brand of lunch and dinner products has done well by elevating its appeal from basic product attributes to a sharper connection with old-world Italian sentiments. In other cases, positioning a brand to bridge multiple benefits has proven effective in improving relative value perceptions versus store brands.

A *market map* represents “concentric spheres of consumer interaction,” in which each sphere represents gradually broader sets of needs being met by a wider array of competitors (*see chart*). In this sense, a brand can look for growth by extending its positioning to stand for something bigger and broader.

Taken to its logical conclusion, such brands can begin to own a “benefit platform” to a sufficiently distinct degree that they command greater loyalty and source volume from brands in other segments of a market. This is known as “partitioning the market.”

A brand that has partitioned the market is characterized not only by strong market-share, but also by strong loyalty and a price premium. Tide has

differentiated itself as a high-quality, more effective laundry care product. Chanel owns a certain mystique in perfumes and luxury accessories. Victoria’s Secret and Starbucks have come to stand for distinct benefits to selected consumers that allow each to transcend the products themselves to own an experience.

An integrated view of the market with consumer needs and usage behaviors can also help identify emerging opportunities to meet unaddressed or unknown needs. The bigger and further out the idea, the more likely it is to require significant product innovation. The process begins by examining the different needs that people experience across occasions and their satisfaction with the current solutions, all of which helps identify problem areas and gaps.

For example, the basic “hydration” benefit of beverages has been redefined and segmented to meet different nuances of the basic need, including portable hydration for everyone/everywhere/anytime (bottled water), hydration with replenishment (isotonics), hydration with nutritional benefits (vitamin and enhanced waters), and so forth.

Exploiting the sufficiently large and viable white-spaces can sometimes provide more significant and sustainable growth opportunities than battling for share within crowded areas of the market. Effective innovation requires brands to extend their positioning

platforms and equities to reach further out (or develop new brands), secure larger marketing budgets, and manage to a longer-term investment horizon.

An effective portfolio plan that balances risks and rewards by optimizing the shorter-term and longer-term opportunities of established brands and innovation simultaneously, can enjoy significant competitive advantages and drive sustainable growth.

#### AVOID QUICK FIXES

Having examined some examples of how to use the *market map* to one's advantage, it is equally important to note some principles of what not to do, or what to avoid as singular quick-fixes.

**Fight Fire with Fire.** The temptation to fight store brand growth by “right-pricing” the brand, or increasing price promotion, may yield short-term relief. However, unless the brand aspires to become just like a store brand, this is unlikely to drive profitable, long-term growth. It may even focus the brand on fighting an unwinnable battle in the wrong part of the competitive frame.

That said, pricing and promotion clearly play critical roles in the overall marketing mix. Our recommendation is to simulate and test pricing and promotion strategies. This should be done as part of a comprehensive growth strategy in which these levers play a precise supporting role to the main storyline of a consumer benefit-centered strategy.

**Undermine Product Effectiveness.** Every promising strategy is ultimately predicated on the assumption that the product must deliver on consumer expectations. Reducing costs to improve margin can be risky. For some brands, years of small, seemingly innocuous cost reductions affecting ingredients, packaging, amount, and quality have compounded themselves into noticeable changes in overall product appeal. It is clear that the growth of store brands in several categories is due to years of gradual cost reductions by the branded products.

Without meaningful product differentiation versus store brands, justifying a price advantage becomes difficult for a branded product. For this reason, we recommend testing for relative product preference in the context of a brand's full competitive frame-of-reference.

For example, if a frozen sandwich brand's true

competitive frame includes Subway and Quiznos, then product testing on that brand should include the sandwich chains' products. Following that, simulating the trade-offs between different levels of product positioning, quality, pricing, and margins can provide management a quantitative range of options to factually determine what size business is most viable from a total perspective of volume, revenue and margin.

**Drive ROI at the Expense of Growth.** Optimizing the marketing mix is a powerful way to understand the drivers of the business, to quantify what works and what doesn't, and to evaluate the mix of tactics and campaigns. However, when used in an isolated fashion to reduce costs or improve ROI without effective growth strategies to guide the decisions, such “optimization” does nothing more than facilitate a more efficient deterioration of the brand (using proven tactics to do it!).

Of course, continuous improvement in execution is important, but effective marketers seldom use the efficiencies only to cut costs, reduce risk, or make minor corrections to the mix. Effective marketers use it primarily to fund their most promising top-line growth strategies—and to do it smarter along the way.

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Marketers need a precise, fact-based understanding of the market to determine the linkage between consumer needs, benefits and behaviors. Knowing the basis of competition is critical, not only against store brands, but against the entire relevant frame of reference.

A *market map* is a dynamic reflection of the ever-changing ways that consumers prioritize needs and organize behavior. With this knowledge, the marketer will understand the benefits a brand should reasonably strive to own through positioning and innovation.

Markets can be changed by the actions or inactions of marketers—to the benefit of some brands and the detriment of others. Only the fittest will survive. ■



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