Note on Defensive Marketing Strategy

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There are many interesting aspects of the case on the Brita Products Company. Two of these issues are highlighted at the end of the case. First, Brita learns that a retailer, Target Stores, has installed a display which compares alternative filtration products on their ability to remove contaminants from water. Brita does poorly on this comparison relative to PUR. Second, Brita learns that Procter & Gamble has just purchased a controlling share of PUR water filters, with the implication that PUR will now be marketed by a firm that is known for its marketing expertise and resources.

Responding to such threats, whether they be new competitive products, suddenly viable competitive products, or repositioned competitive products, is called defensive marketing strategy. Each year, over a thousand new products are launched in the consumer sector alone, and many times that number in the

industrial sector. Many of these new products are perceived to be significant threats to highly profitable businesses.

For example, Johnson & Johnson's Tylenol brand of analgesics once dominated the over-the-counter market for pain relief.[1] Tylenol had gained this position through a long series of marketing actions that established it as effective with low side effects. Tylenol, based on acetaminophen, was clearly perceived as much gentler than other products such as Bayer and Anacin, which were based on aspirin (possibly with caffeine), and Excedrin, which combined aspirin, acetaminophen, and caffeine. However, in May of 1984, the ingredient ibuprofen became available to all manufacturers for over-the-counter use. Tylenol faced threats by new analgesic products such as Advil (American Home Products) and Nuprin (Bristol-Myers). The questions at the time were:

- should Tylenol emphasize its brand DNA of gentleness or should it counter with a renewed claim of effectiveness,
- should Tylenol counter with massive marketing – coupons, price-off deals, advertising, in-store promotions, trade deals, sales calls on doctors?
- should Tylenol lower its price to defend its share or increase its price to cover its marketing costs?
- should Tylenol expand its line to include a new ibuprofen product?
- should Tylenol increase or decrease its intensive distribution?

There is now a wide literature on this topic in both the academic marketing literature and the popular press. Indeed, the Assessor model, mentioned on page 8 of the Brita case, has been used more often for defensive strategy than for the evaluation by a firm of its own, potential, new products. This use is also mentioned in the Ogilvy reading later in the course ("18 Miracles of Research"). Much of this literature began at MIT in the mid-1980s, inspired, in part, by the challenges faced by Tylenol. (Tylenol's marketing manager was a Sloan graduate.)

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[1] The actual marketing entity was McNeil Laboratories, a division of Johnson and Johnson. See http://www.mcneilcampusrecruiting.com/aboutmc.htm.

In this note I attempt to summarize some of the insights from almost twenty years of defensive marketing strategy. Most of these insights are intuitive and can be understood without extensive mathematics, but for those students strongly interested in the math, I provide three early references at the end of this note.

Perceptual Maps and Consumer Behavior

Defensive marketing strategy is based is an analytic model of how consumers respond to marketing strategies. This model is based on the perceptual maps and value maps that were introduced in the opening lecture. (You can review the Dolan reading for more information on perceptual maps.[2]) With some slight modifications, these maps can represent the essence of each tactical move in defensive marketing strategy.

Product Image

Figure 1 is a simplified value-map representation of brand images in the analgesic market prior to the introduction of the ibuprofen products.[3] Tylenol had a unique position, because consumers perceived it to have fewer side effects, such as stomach upset, than the aspirin-based products, Bayer, Anacin, and Excedrin. A number of comments about the map are relevant.

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[2] Perceptual maps can also be created using "primary" customer needs. Another 15.810 reading on the voice of the customer describes how to identify primary customer needs.

[3] This map does not contain all the brands that were available nor all of the competitive dimensions. For example, fever-reduction was another dimension upon which the brands competed. I have simplified the value map to illustrate the basic defensive marketing theory.

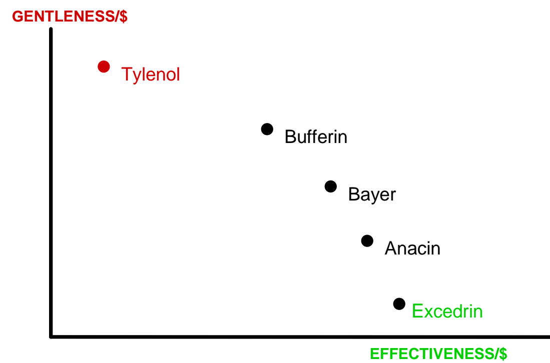

Figure 1. Simplified Value Map for Analgesics

First, the map represents the market from the consumer's perspective, that is, the consumer's subjective reality. The objective reality of the physical ingredients, such as the fact that acetaminophen (Tylenol) does not upset the stomach as much as aspirin, influences subjective reality, along with advertising, package design, social influence, and other variables. Thus, the map summarizes the impact of the actual product and some important marketing strategies. Second, the map is a value map that represents products "per dollar." This allows us to analyze the impact of changes in price. For example, lowering the price of Tylenol would mean more "gentleness" and "effectiveness" per dollar. This would move Tylenol further out on the map as indicated by the "reduced-price position" in Figure 2.

This map enables us to visualize changes in product image. If we were to hold price constant and change Tylenol's advertising to emphasize more gentleness, then we might move the position of Tylenol upwards as indicated in Figure 2 (see "reposition toward gentleness"). Alternatively, if we were to emphasize more effectiveness, we might move Tylenol to the right as indicated in Figure 2 (see "reposition toward effectiveness). Whether or not such movements are feasible depends upon the quality of the advertising copy, the amount we spend, and, perhaps, on changes in the physical product (e.g., capsules) or its packaging.

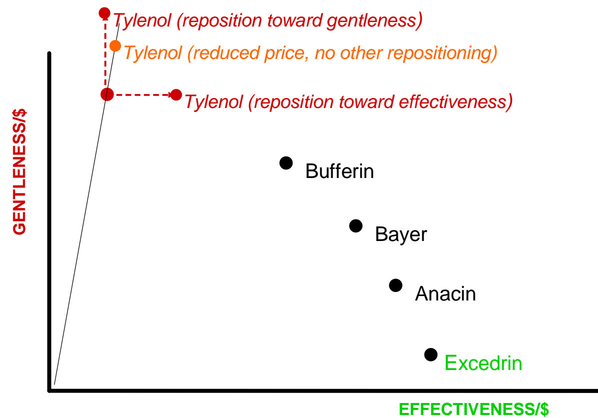

Figure 2. Repositioning and/or Defensive Pricing

Changes in product image do not come free. Increased advertising, product changes, changes in advertising copy all cost money. Thus, there is an underlying cost of any contemplated movement in the value map.

Consumer Choice

Assume for a moment that all consumers are aware of all of the brands pictured in Figure 1 and agree on the perceived positions in Figure 1. Assume further that consumers find these products to be available at their local retailer. Even in this simple case, some consumers will prefer Tylenol for its gentleness, Excedrin for its effectiveness, and Bufferin, Bayer or Anacin because they represent the best compromises between gentleness and effectiveness. In other words, consumers vary in their tastes, that is, their trade-offs between "effectiveness" and "gentleness." We represent these tastes by a "taste diagram" as illustrated in Figure 3. Note that tastes need not be uniformly distributed between effectiveness and gentleness. In Figure 3 more consumers prefer effective products than gentle products. Within this taste distribution we can also represent the tastes of consumers who purchase each product. For example, the consumers who purchase Tylenol are indicated by the shaded region.

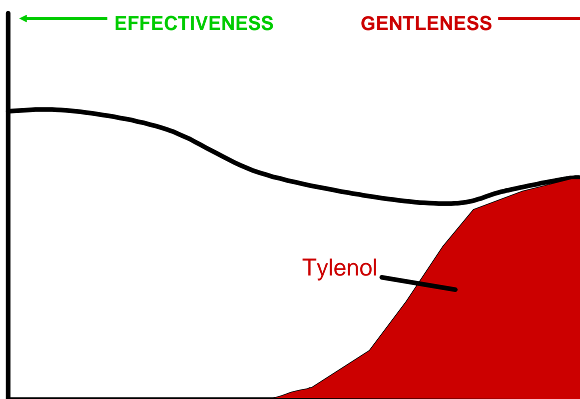

Figure 3. Simplified Taste Diagram for Analgesics

Advertising

Advertising has two main effects, consideration and repositioning. "Share of voice," that is, total advertising spending, has a major impact on influencing consumers to consider a product. For example, in most real consumer-packaged-good product categories the typical number of products on the market is 20-30. However, the average consumer considers only a few of these products. While the relationship is not always perfect, in most cases, the firm that has the larger share of voice is also the firm that has the most consumers who consider its products. The more a firm spends, the greater then number of consumers who consider its products. Because, by definition, consumers only purchase those brands that they first consider, this advertising spending affects market share. (This is a simple example of a phenomenon known as the "hierarchy of effects" that we will address when we study advertising and other communication.)

Advertising also affects a product's position on the value map as describe above. For ease of exposition, this note will distinguish between "consideration-set" advertising and "repositioning" advertising. Any real advertising campaign does both, but it is useful to analyze these components separately to understand the required emphasis in a campaign. We do this much as an engi-

neer might separate a force into its horizontal and vertical components to understand the relative emphasis.

Finally, the study of defensive advertising is strategic. It tells us what to say and how much to spend. The details of how to say it, how to schedule media, and how to time the advertising will be covered elsewhere in the course.

The Product Itself (Physical Ingredients and Production Cost)

Investments in production or improved ingredients affect the physical characteristics of a product and hence its perceived position on the value map. In many ways, suggestions for changes in the physical product parallel suggestions for changes in the product's image. For example, adding caffeine to aspirin (as in Anacin) increases its perceived "effectiveness." Recall the "lens" model from the lecture on product development. Both physical characteristics and "psycho-social cues," e.g., advertising, provide the means to affect consumers' <u>perceptions</u>.

Price

Because a product is represented by its position in a "per dollar" value map, a change in price moves a product in that space. Review Figure 2.

Distribution

One result of investment in the channel of distribution is increased retail availability. Availability acts very similarly to consideration. Consumers can only buy those brands that they find in the store.

A Simplified Historical Case: Tylenol Vs. Datril

While it is hard to image now, Tylenol was once not a widely advertised brand. The market was dominated by aspirin-based products such as Bayer, Anacin, and Excedrin. However, Tylenol had a reasonable share of the market even though it was not nationally advertised. Its awareness (consideration) came from doctors' recommendations, which in turn were strongly influenced

by the “detail” force of McNeil Laboratories. (A detail force is a salesforce that calls on doctors to make them aware of a drug, stress its benefits, and encourage them to recommend it to consumers.)

Recognizing the opportunity for increasing competition along “gentleness,” Bristol-Myers introduced an acetaminophen-based brand called Datril. The introduction included heavy spending on national advertising with the message that Datril was “just as good as Tylenol, only cheaper.’ Such a positioning locates Datril on the map as shown in Figure 4.

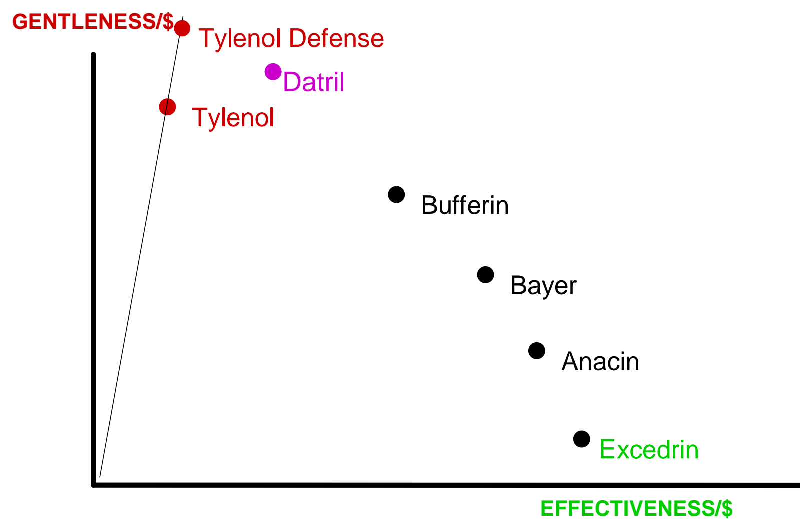

Figure 4. Datril Attack and Tylenol Defense

With such a position, Datril had the potential to change Tylenol’s share dramatically. Although Datril’s advertising would not reach all of Tylenol’s consumers, it would reach many. Datril’s planned advertising campaign would position Datril better than Tylenol. Clearly, Tylenol’s comfortable and profitable niche of the market was in jeopardy.

In top-level strategy meetings, Johnson & Johnson decided to fight back. Over a single weekend, it mobilized the entire Johnson & Johnson salesforce (not just the McNeil division’s salesforce), matched Datril’s price, persuaded the television networks that Datril’s price advantage was now false advertising, and began other defensive measures. The result was that Tylenol, with its strong

image from years of detailing, leap-frogged Datril and successfully trumped Bristol-Myer's challenge.

Awakened to the potential of the Tylenol brand, McNeil Laboratories became a national advertiser, added the Extra Strength Tylenol brand to capture consumers interested in "effectiveness," and undertook a number of effective marketing tactics. By the time of the ibuprofen entries, McNeil's marketing has become so strong that identical physical products — Datril, Panadol, and generic acetaminophen had not been able to draw substantial share from Tylenol. Tylenol was even able to weather a tragic poisoning incident in 1982. (They did so with a "retrieval" strategy that we will discuss in the advertising lecture.)

This example illustrates how we can use value maps to understand defensive marketing strategies. We will now explore how to develop defensive marketing strategies.

Theory – The Best Marketing Defense

We begin by assuming that all other brands in the market, except the defender, do not change their marketing tactics, prices, or positionings. This enables us to illustrate the key ideas. Fortunately, these key ideas also hold true (in almost all cases) when the other brands also fight back.

Defending with Price

Price affects profit both through its impact on a brand's position in the value map and its impact on the profit margin. For example, as noted above, a price decrease causes the brand to move away from the origin (e.g., more "effectiveness per dollar" and more "gentleness per dollar"). This improved position causes market share to increase. The firm must balance this increase in market share with a decrease in its margin.

The mathematics are fairly complicated, but they follow the concepts introduced in the core economics class. The defender adjusts its price so that its new marginal revenue (after the attack) equals its marginal cost. We can solve

this problem in general because the new product, the attacker, makes it harder to get market share.

The theory leads to two results.

> ***Defensive price I***. *If the market is not highly segmented, then the best defensive strategy is to lower price.*

> ***Defensive price II***. *If the market is highly segmented, then the best defensive strategy might be to raise price.*

The second result may, at first, seem counter-intuitive. The intuition is as follows. When, pre-attack, the defender was serving more than one segment of the market, it might have lowered its price to serve the multiple segments. If the attack is well-planned, the defender may not find it profitable to serve all of the same segments that it served prior to the attack. In other words, it might have to keep its price extremely low to recapture the lost segments. This low price may no longer be profitable for those segments and the best strategy is to concentrate on the remaining segments. If this is the case, the defender might seek to retreat to the remaining segments. If it has a "local monopoly" in these remaining segments it can raise its price to the monopoly level. (In this case, "local monopoly" means a virtual monopoly among consumers with a particular set of tastes.)

The pricing results require a few technical conditions, but the basic intuition generalizes. We can also prove the following result.

> ***Defensive price III.*** *Defensive profits will be less after the new entrant than before the new entrant, regardless of defensive price strategy. This is especially true among those consumers who now consider the brand.*

This result is quite intuitive. If we could increase profits after the attack, when the market is more competitive, why did we not do so before the attack? Although this result is intuitive, we state it formally because, very often, defensive managers want to return profit to the same level that they achieved prior to the attack. As a result they spend too much time searching for strategies that just will not achieve that goal. The true goal is not to return profit to the same

level, but to make sure that the defensive pricing (and marketing) strategies return the greatest possible profit under the new conditions.

Repositioning (Advertising Positioning and Product Redesign)

We can influence the brand's perceptual position with positioning advertising or with changes in the physical product or both. Both have costs associated with repositioning, and, not surprisingly, the strategy for changes in advertising message and changes in physical product characteristics follow the same principles. Indeed, for best effect, they need to be coordinated.

The defender will have to balance the change in market share from repositioning with the change in the costs of advertising and producing the product. (Increasing along a dimension, such as gentleness, increases both market share and costs.) The following results summarize the net effects.

> ***Repositioning strategy I***. *At the margin, repositioning "away from the attack" (along the defender's strength relative to the competitive new entrant) will improve defensive profits.*
>
> ***Repositioning strategy II***. *At the margin, repositioning to "counter the attack" (along the attacker's strength relative to the defender) may or may not improve profits.*

The second result depends upon a number of technical conditions that depend upon the attacker's relative strengths. Basically, the stronger the attacker, the less likely you will find it profitable to counterattack.

Defending with Advertising Designed for Consideration of the Brand

Advertising performs many functions. The marketing decisions are what to say, how to say it, where to say it, and how often to say it. For example, the brand manager, in cooperation with the advertising agency, might decide to run advertising during television programs watched by potential users of pain relief. (Data on television viewing is available from many sources including

ACNielsen, e.g., http://www.nielsenmedia.com/.) These micro-decisions influence consumers' perceptions in many ways. Some advertising may attempt to change consumers' perceived positioning of Tylenol by stressing either gentleness or effectiveness. Other advertising might simply try to catch consumer interest and encourage them to consider the brand further. For example, Tylenol has often relied upon testimonials from real patients who used Tylenol because it was recommended by their doctor.

We already know that Tylenol is best off defending to their relative strength and, perhaps, counterattacking on their weakness. We now address whether Tylenol should change its investment in that component of advertising that simply tries to get consumers to consider Tylenol without changing their perceptions of its position on the value map. Such advertising brings more consumers into Tylenol's part of the market, but is not selective about the tastes of the consumers who are attracted. For this type of advertising, we have the following result:

> ***Defensive advertising (for consideration)***. *After the new entrant gains a foothold in the market, the defender earns the most post-attack profit by decreasing its spending on that component of advertising that affects consideration without repositioning the brand.*

This result is intuitive if we consider carefully the conditions that are stated. The new entrant has succeeded in entering the market. In this case, we know from the third defensive pricing result that profits decrease among consumers who now consider the brand. Focus on the situation before the attack and focus on the marginal consumer who considers the brand – by definition this marginal consumer provides little or no incremental profit to the firm. The profit before advertising <u>for this consumer</u> just equals the cost of advertising to this consumer. After the attack, it still costs just as much money to advertise to this marginal consumer in order to get him or her to continue to consider Tylenol (consideration decays without advertising pressure). However, by the third defensive pricing result, the profit before advertising has decreased for this consumer. Profit is less; advertising costs are the same, thus, the profit from this

marginal consumer is negative after the attack and the firm should cut back on its consideration advertising.

If we now put together the three advertising effects we see that the net recommendations are for the brand to change its advertising emphasis: more emphasis of its strengths, less emphasis on pure consideration, and, perhaps, a counterattack on the strength of the attacker. Because some of the recommendations are for an increase and some for a decrease, we cannot say for sure whether the net spending on advertising should increase or decrease. That depends upon the details of the value map and the ability (and costs) of repositioning.

Defending with Distribution Incentives

In marketing theory, the channel of distribution (wholesalers, distributors, jobbers, retailers, etc.) performs valuable and complex roles, including, but not limited to, information, persuasion, service, financing, image maintenance, and delivery, as well as participation in price negotiations. We cover these functions later in the course. In this subsection we focus here on one important aspect of that role, making the product available to the consumer. Availability functions in the same way as consideration advertising. In particular:

> ***Defensive distribution (for availability).*** *After the new entrant gains a foothold in the market, the defender earns the most post-attack profit by decreasing its spending on that component of distribution incentives that affect the availability of the brand.*

If the brand is sold in different markets, this result applies to each and every market.

Summary of the Theory of Defensive Marketing

After the attacker has gained a foothold in the market, the more profitable actions by the defender include:

- lowering price in unsegmented markets,

- in segmented markets, if the attack makes a segment no longer profitable, the brand might raise its price to exploit its local monopoly position in the remaining markets
- even with the best defensive price, the net profits after the attack will be less than they were before the attack
- the brand should attempt to reposition toward its relative strengths if it feasible to do so with advertising and product changes
- depending on the relative strength of the attacker, the brand may seek to counterattack on the competitor's strength
- the brand should reduce spending on advertising that simply affects brand consideration
- the brand should reduce spending on distribution incentives that affect brand availability.

Competitive Equilibrium

All of the above strategies address the response of a defender to a competitive attack. They assumed that only the defender was changing its price and its positioning. However, in real markets we can expect that all extant brands will defend their positions. They will all respond with changes in both price and positioning. How does this effect things?

Fortunately, the basic intuition remains the same. I will illustrate some of this intuition in a market in which we allow three brands the freedom to reposition and change their prices. To simplify the exposition assume that all three brands are already in the market and that there are no feasible actions that can be taken to cause them to leave the market. Also assume that the relative (ordinal) positions of the brands are not changeable. For example, Tylenol can increase its perceived effectiveness, but not beyond that which Bayer would achieve if their prices were equal. Finally, we assume that the taste distribution does not favor either gentleness or effectiveness. That is, there are consumers who prefer gentleness, consumers who prefer effectiveness, and consumers who

prefer various compromises. With these assumptions in mind, we have the following simplified market in Figure 5.

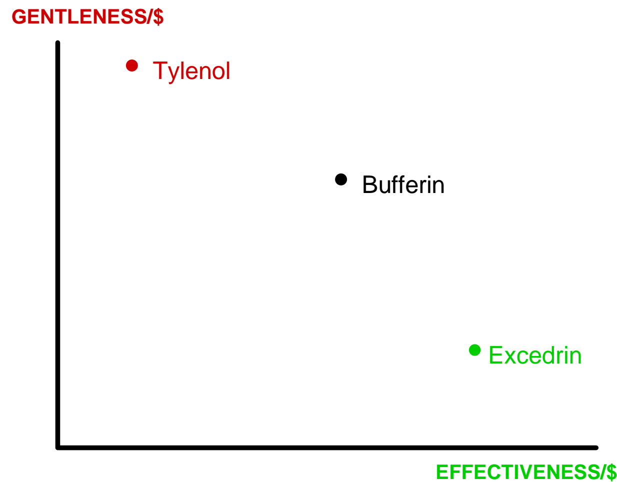

Figure 5. Simplified Three-Brand Market

Let's suppose for a moment that prices are regulated, but that all three brands are free otherwise to reposition. (In this thought experiment we keep positioning costs constant by imaging the brands constrained to move on a circle with its center at the origin.) If Tylenol moves in toward Bufferin, it will be able to keep the gentleness portion of the market but get more of the effectiveness market. We represent these temptations in Figure 6. If prices aren't allowed to change, every brand will try to position toward the center of the market. There will be no differentiation at all. As a result, the market will become an undifferentiated commodity market.

Fortunately, the markets are not regulated. Firms are free to change their prices as well as their positioning. It is beyond the scope of this note to describe the entire equilibrium that will result, but a stable equilibrium does exist for every possible relative positioning of the three products (as long as they cannot leapfrog).[4]

[4] This is a Nash equilibrium. At the equilibrium prices, no brand has any unilateral incentives to change its price (conditioned on the other brand's prices). Intuitively, you can think of this as the brands experimenting with different prices until they stabilize.

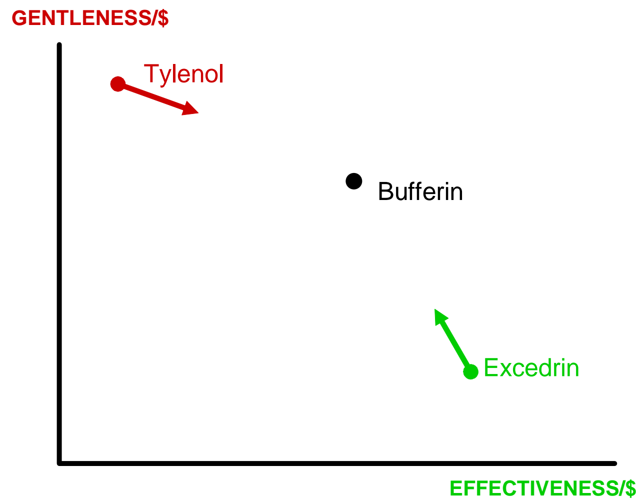

Figure 6. Incentive to Reposition if Prices Do Not Change

This equilibrium has a number of properties. First, as the brands move toward the center of the market, price competition becomes more intensive. This is not surprising. As the brands become more alike, there is little other than price upon which to compete. The resulting fierce competition drives prices downward.

By the same token, as the brands move apart, price competition lessens and the equilibrium price gets higher. In essence, each brand achieves a "local monopoly" which it can exploit. Tylenol "owns" the gentleness segment, Excedrin "owns" the effectiveness segment, and Bufferin "owns" the compromise segment. These positionings become the firms' "brand DNA."

These prices also imply profits. As discussed in core economics, monopoly rents are higher than purely competitive rents. Thus, if Tylenol can maintain a local monopoly, its higher prices imply higher profits. Thus, even when all of the brands have the freedom to first reposition and then change their prices, the "invisible hand" pressure is for the brands to differentiate. This is illustrated in Figure 7.

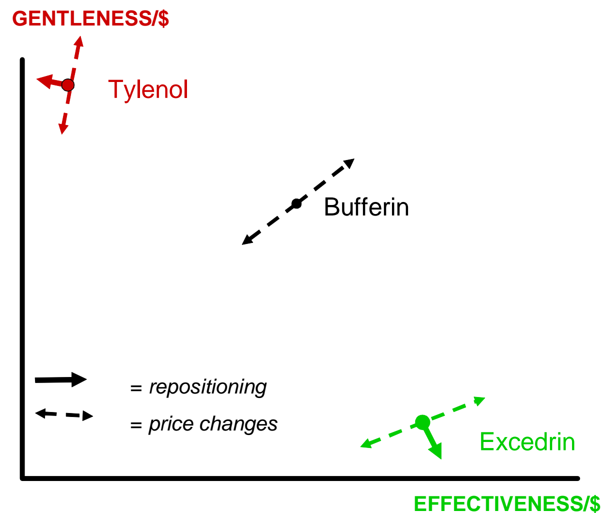

Figure 7. With Full Freedom to Reposition and Change Prices, Brands will Seek Local Monopolies that Allow Higher Prices and Greater Profits

Finally, note that just like the defensive marketing results, the equilibrium results cause the brands to reposition toward their strengths and, as it turns out, the equilibrium price is lower, and profits are lower, with three brands than with two brands. The consideration advertising and the distribution results also turn out to generalize. Whether or not the brand should also counterattacking depends on the many details of the problem.

Applying Ideas to Brita's Response to PUR

Although PUR is already in the market at the time of the case, the actions by Target and by Procter and Gamble behave as if PUR were attacking Brita. To apply the defensive marketing strategy results you will have to construct a qualitative value map, consider the relative costs and benefits, and make some suggestions.

Some References

For those students who would prefer the mathematics and the more detailed theory, this note is based on the following articles.

Hauser, John R. (1986), "Theory and Application of Defensive Strategy," *The Economics of Strategic Planning,*, 113-140.

______ (1988), "Competitive Price and Positioning Strategies," *Marketing Science*, vol. 7, No. 1, (Winter), 76-91.

______ and Steven M. Shugan (1983), "Defensive Marketing Strategy," *Marketing Science*, Vol. 2, No. 4, (Fall), 319-360.

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