UNIT 3

Developing and Implementing Marketing Strategies

Unit Selections

Learning Outcomes

After reading this Unit, you will be able to:

- Most ethical questions seem to arise in regard to the promotional component of the marketing mix. How fair is the general public's criticism of some forms of personal selling and advertising? Give some examples.
- What role, if any, do you think the quality of a product plays in making a business competitive in consumer markets? What ro does price play? Would you rather market a higher-priced, better-quality product or one that was the lowest priced? Why?
- What do you envision will be the major problems or challenges retailers will face in the next decade? Explain.
- Given the rapidly increasing costs of personal selling, what role do you think it will play as a strategy in the marketing mix in future? What other promotion strategies will play increased or decreased roles in the next decade?

Student Website

www.mhhe.com/cls

Internet References

American Marketing Association Homepage
www.marketingpower.com

Consumer Buying Behavior
www.courses.psu.edu/mktg/mktg220_rso3/sls_cons.htm

"Strategy and timing are the Himalayas of marketing. Everything else is the Catskills."

—Al Ries

"Marketing management objectives," the late Wroe Alderson once wrote, "are very simple in essence. The firm wants to expand its volume of sales, or it wants to handle the volume it has more efficiently." Although the essential objectives of marketing might be stated this simply, the development and implementation of strategies to accomplish them is considerably more complex. Many of these complexities are due to changes in the environment within which managers must operate. Strategies that fail to heed the social, political, and economic forces of society have little chance of success over the long run. The lead article in this section examines how the roles, responsibilities and influence of the chief marketing officer have and will continue to evolve in the future. The selections in this unit provide a wide-ranging discussion of how marketing professionals and U.S. companies interpret and employ various marketing strategies today. The readings also include specific examples from industry to illustrate their points. The articles are grouped in four sections, each dealing with one of the main strategy areas: product, pricing, distribution (place), and promotion. Because each selection discusses more than one of these areas, it is important that you read them broadly. For example, many of the articles covered in the distribution section discuss important aspects of personal selling and advertising.

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Product Strategy

The essence of the marketing concept is to begin with what consumers want and need. After determining a need, an enterprise must respond by providing the product or service demanded. Successful marketing managers recognize the need for continuous product improvement and/or new product introduction.

The articles in this subsection focus on various facets of product strategy. The first article stresses the importance of innovation, and examines why many companies are not as innovative as they could be. "Brand Integrity" reflects that excellence is achieved when the brand, the talent, and the customer experience are all in alignment. In "Brand Apathy Calls for New Methods", Schultz argues that building market share requires a new set of tools and brand strategies designed to shift consumer preference away from competitive brands. The next article, "Branding's Big Guns?" chronicles the success of the 10 most trusted U.S. brands that have become household names. The last article under product strategy highlights the various strategic benefits associated with franchise cobranding efforts.

Pricing Strategy

Few elements of the total strategy of the "marketing mix" demand so much managerial and social attention as pricing. There is a good deal of public misunderstanding about the ability of marketing managers to control prices and even greater misunderstanding about how pricing policies are determined. New products present especially difficult problems in terms of both costs and pricing. The costs for developing a new product are usually very high, and if a product is truly new, it cannot be priced competitively, for it has no competitors. In his review piece on pricing and value exchange, Smith describes how managers should deal with the qualitative and quantitative issues in setting prices.

The *HBR* article, "Competing against Free", documents how free offerings are rapidly spreading beyond online markets to the physical, brick and mortar world. The authors give pointers on how incumbents can effectively fight back. Finally, Rafi Mohamad's "Ditch the Discounts", discusses pricing strategies and tactics that are more appropriate for economic recovery than the adaptive pricing companies adopted during the recent recession.

Distribution Strategy

For many enterprises, the largest marketing costs result from closing the gap in space and time between producer and consumer. In no other area of marketing is efficiency so eagerly sought after. Physical distribution seems to be the one area where significant cost savings can be achieved. The costs of physical distribution are tied closely with decisions made about the number, the size, and the diversity of marketing intermediaries between producer and consumer. The articles in this subsection scrutinize ways retailers can create value for their customers and be very competitive in the marketplace. "The Devolution of Marketing" is a thought-provoking article that argues that the current American marketing distribution model is dysfunctional, and small and medium-sized businesses operate under a misconceived ideology of producing and selling. Jayne O'Donnell's USA Today article describes how retailers are in search of tenable survival strategies during recent difficult economic times. "The Rebirth of Retail" discusses the inspiration and vision behind Shopkick, a new shopping application.

Promotion Strategy

The basic objectives of promotion are to inform, persuade, or remind the consumer to buy a firm's product or pay for the firm's service. Advertising is the most obvious promotional activity. However, in total dollars spent and in cost per person reached, advertising takes second place to personal selling. Sales promotion supports either personal selling and advertising, or both. Such media as point-of-purchase displays, catalogs, and direct mail place the sales promotion specialist closer to the advertising agency than to the salesperson. "Selling Green" presents a five-step guide to correctly market a business as environmentally conscious. The remaining articles in this final unit subsection cover such topics as social and digital media. "What's Your Social Media Strategy?" describes four ways companies are using technology to form connections, and "Advertising's New Campaign" discusses the power of blogging and brand-sponsored communities.

Article 28

Brand Integrity

It starts with internal focus.

TOM PETERS AND VALARIE WILLIS

After the layoffs and budget cuts, now what do you do? Are you living up to your brand promises, or are you falling short on customer experiences? How can you sustain your brand and the power of your values? When you focus only on the bottom line and ignore people, your brand suffers—as your customers lose sight of what you stand for, and they no longer trust what you can deliver.

What about Your Brand?

The news is full of stories about downsizing, job evaporations, and budgets being slashed to shreds. So, what happens to your brand? Does it survive? Or is it bruised and battered? As a leader, you are responsible for the integrity of your brand. You need to pull your head out of the financial data long enough to assess the current state of your brand and of your talent.

When you experience a strong economic shift, your brand can easily become diluted, especially if no one is asking, "What about the brand?"

In the hub of your organization is your talent, and your talent is your brand. It is the talent that brings your brand to life. If your people (talent) are no longer happy, if they are concerned about their own welfare, or they are hunkered down to stay out of sight, your brand may be on its last breath as well. And when the brand is struggling, the customer experience is compromised. Talent can become non-caring and cynical, and these attitudes permeate into how customers experience the brand.

Whenever you experience a strong shift, you must recalibrate and set the organization back on course. As a leader, you can best do this by taking these five steps: 1) revisit the ambition or goal of the organization and connect people to it; 2) spend time on the front lines talking to people and getting a handle on the issues; 3) re-state the brand promise and ensure that everyone knows how his or her job affects the promise; 4) look at the changes and assess the impact on the brand and the impact on the customer experience; and 5) design a course of action to put the brand back on track.

If your brand is bruised and battered, your customers may be headed to the competition—the exact opposite of your aims. In tough economic times, focus on keeping your current loyal customers and clients. Now is the time to re-think how to make the brand truly distinctive in the marketplace.

Excellence is achieved when the brand, the talent, and the customer experience are all in alignment.

Excellence Audit

To learn how your organization is doing, and if it needs recalibration, take our *Excellence Audit*. The 50 characteristics in the *Excellence Audit* describe the seven elements that interact in the *Future Shape of the Winner* model. As a mini-audit, answer these five questions:

- How can you keep focused on excellence in these tough economic times?
- Have you modified your ambitions in light of today's operating context?
- Are your team members fully committed to pursuing the agreed direction?
- Are your people totally focused on creating value for their customers?
- Is everyone on the payroll making their optimum contribution?

The *Excellence Audit* demystifies *excellence* for you by generating quantitative data on excellence. It identifies the most promising places to target improvement; reveals whether people agree about the priorities for improvement; exposes barriers to progress; helps you compile optimum improvement agendas that fit your context; generates joint agendas for management and professional teams determined to pursue excellence locally; helps you get your area focused and moving forward; and provides clarity and focus amid baffling complexity and conflicting demands.

Brand Inside's Effect on Brand

A cornerstone of our message about brand is that *your employees are also your customers.* We call this *Brand Inside.* We stirred up controversy over this notion by posting a PPT entitled *The Customer Comes Second.* The message is this: Since the customers in the firm serve the customers in the marketplace, put your employees first.

Matthew Kelly states: "Your employees are your first customers, and your most important customers."

Let me, Tom, get personal about all this. I *love* great customer or "end user" feedback! I am competitive to a fault in that regard and a slave to the market—after all these years.

At a higher level of marketplace engagement, I *love* a hearty business backlog, especially if it's based on repeat business—and I carefully measure it against the year-to-date of previous years. And I *love* a fee-per-event yield that exceeds last year, the year before, and so on. And yet, in an important way, I put the customer or end user second or third to employees.

It's simple and crystal clear to me: To give a high-impact, well-regarded, occasionally life-changing speech "to customers," I first, second, and third have to focus all my restless energy on "satisfying" *myself.* I must be physically, emotionally, and intellectually agitated and excited and desperate beyond measure to communicate, connect, compel, and grab people by the collar and say my piece about a few things, often contentious and not "crowd-pleasers," that, at the moment, are literally a matter of personal *life and death.*

I crave great customer feedback—but in no way, shape, or form am I trying to "satisfy my customer." I am, instead, trying to satisfy *me*—my own deep need to reach out and grab my customer and connect with my customer over ideas that consume me.

Hence, my "Job One" is purely *selfish and internally focused*—to be completely captivated by the subject matter at hand. That is Job One: *self-motivation.*

Warren Bennis, my primo mentor, said, "No leader sets out to be a leader *per se,* but rather to express him- or herself freely and fully. That is, leaders have no interest in proving themselves, but an abiding interest in expressing themselves."

So I'm back to my somewhat disingenuous message: To put the marketplace customer first, I must put the person serving the customer "more first." Excitement and self-stimulation first. Customer service second. That's my cause-and-effect scheme.

My message is that in order to *put the marketplace customer first, I must put the person serving the customer "more first."*

There is no great external focus unless a great internal focus is in place. I contend that finding and keeping and co-creating with great folks is not about clever tools to induce prospective "thems" to "shop with us," but a 99 percent internal effort to create such an exciting, spirited, entrepreneurial, diverse, humane "professional home" that people will line up by the gazillions (physically or electronically) to try and get a chance to come and live in our house and become what they'd never imagined they could become!

If you are serious about developing leaders, I suggest that you construct small leadership opportunities for people within days of their start on the job. *Everybody a leader* is entirely possible. So give you folks leadership responsibility from the outset, if not day #1 then within the first month. Hence, leadership development becomes a theme activity from stem to stern.

Boost Your Brand

Take this quick quiz (only 10 questions) for assessing your organization. Ask team members to rate themselves and the team against each question.

1. I know what my organization does to provide value to our customers.
2. I understand our products and services well enough to explain them.
3. I see how my job contributes to the value our organization creates.
4. I understand what a brand is.
5. I can tell the story of our brand.
6. I believe our brand is valuable.
7. We continually improve how we deliver products/services to customers.
8. I understand how my job brings our brand promise to life.
9. I can develop my talent while contributing to this organization's success.
10. I'm passionate about my work.

These questions investigate how connected you and your team feel to your *Purpose* and *Brand Promise.* The consolidated results can be used in a team discussion to identify the most promising targets for development.

Critical Thinking

1. In your perspective, what do the authors mean by "excellence is achieved when the brand, the talent, and the customer experience are all in alignment"?
2. Do you agree with the following statement: "Your employees are your first customers, and your most important customers"? Justify your answer.

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Article 29

Brand Apathy Calls for New Methods

Turn Customer Preference from "No Brand" to "Some Brand"

DON E. SCHULTZ

Brand managers are accustomed to seeing challenging numbers. Faltering economies around the world guarantee that. Yet management plows ahead—setting double-digit internal sales objectives, increasing market share and expanding retail shelf space—doing all the things that mollify shareholders and prop up stock prices.

There's increasing evidence that organic sales improvement, line extensions and acquisitions just don't do it today.

Some brands have tried more focused sales efforts on specific segments, expanded their online and interactive promotional tools, and adjusted prices through coupons and other promotions. Still, major national brands are challenged as never before.

Unfortunately, the news I have to deliver in this column isn't very encouraging. However, if brand managers understand the new competitive landscape and refocus their efforts on differentiated initiatives while adjusting their competitive mindset, all is not lost. A rainbow and pot of gold may not be just around the corner, but there may be an improved opportunity for national brands.

Brand managers historically have focused on the general marketplace (i.e., sales volume compared with a year ago, incremental distribution increases and the like). While paying attention to competitive brands, they've often been willing to give up short-term share points to generate sales volume. The result has been more market knowledge than competitive knowledge. Share has been important, just not that important, primarily because they've been incented to grow volume.

That game is changing. Following four quarters of profit declines, Procter & Gamble (P&G) has declared "no more market share losses." Moving from valuing sales volume (in the case of P&G, the base was organic sales growth) to market share doesn't sound like a big deal—but it is. Brand managers cut their teeth driving short-term, quarter-to-quarter sales increases.

Building share is a different ball game, requiring a new set of tools and techniques. Finely tuned brand strategies designed to shift ongoing consumer preference and purchase from competitive brands to yours on an ongoing basis are the orders of the day—long-term, not short-term, returns.

Not so difficult, one would think—only it is. Getting consumers to change brands and maintain that change through ongoing preference is much more difficult than simply getting short-term sales volume from in-and-out, deal-prone consumers.

Most fast-moving consumer goods markets consist of (a) a limited number of brand loyal buyers, (b) a large group of brand switchers and (c) a growing bunch of unknowns or in-and-out buyers. That is, they only purchase when the price or promotion or communication is right. Promote to the switchers and sales often go up.

Observing this new emphasis on brand share growth, a Northwestern colleague and I decided to take a fresh look at brands, brand preferences and brand shares. That's where we found the scary numbers.

A rainbow and pot of gold may not be just around the corner, but there may be an improved opportunity for national brands.

While one could argue that preference doesn't really reflect actual purchases, a person must be favorably inclined if a brand purchase is to be made. In addition, brand preference is forward-looking, while actual measured brand shares are historical. Thus, we believe preference is a relevant measure for most brands and their managers.

Using monthly online consumer reported preference information from the BIGresearch Consumer Intentions and Actions (CIA) panel, the consumer reported brand preferences were calculated for two product categories: breakfast products and salty snacks. (The data used was for August 2010 with a base of 8,000-plus U.S. respondents. See www.bigresearch.com for details.) Consumers also reported their retail grocery/mass merchandiser preferences. This dual retailer/brand combination is important. From previous research, we've found consumer retail store loyalty impacts national brand sales. If the preferred retailer doesn't stock the national brand, sales don't occur.

From the CIA data, a modified "Net Promoter" calculation, similar to the one Fredrick Reichheld of Boston-based Bain & Company developed, was calculated. Using a scale of 1 to 10 (1 being detractors or non-recommenders and 10 being promoters or people who favorably recommend), a Net Promoter Score was calculated first for the retail food store.

The store chain with the top Net Promoter Score was Publix, followed by Aldi and then HEB. Far down the list were some of the retailing giants, such as Wal-Mart and Safeway.

While these retail calculations were interesting, the brand results were even more so. For this, the brand preference rating in two product categories (using the same 1-to-10 system) was determined. That was then combined with the retail chain preference.

In the breakfast product category, when the chain and brand were indexed, the top brand was Cheerios, followed by Special K. The only brand with an index greater than 100 was Kashi. This simply means that Kashi brand preference is stronger than the retail store preference.

In the salty snack category, Frito-Lay (no specific product name) was the top indexing brand, followed by Tostitos. None of the national brands indexed more than 100, signifying to us that the retail chain store choice was stronger than the brand choice.

The really scary numbers in both categories, however, were the large numbers of "no preference" consumers. In the breakfast product category, 30 percent reported no preference. In salty snacks, 36.7 percent had no preference. Store brands (private label) registered a 4.1 share in breakfast products and a 6.8 share in salty snacks.

These scary figures seem to indicate that the share battle going forward isn't going to be getting consumers to prefer General Mills products over Kellogg's. The challenge is getting them to prefer "some brand" over "no brand." The national brand battle isn't between the leading national brands—or even the national brands against store brands or private label. It's against brand apathy.

Preference apathy is a tough task for a brand manager. If consumers don't care about the brand or don't perceive that it is even worth their time to learn about the category or the brand, most traditional marketing tools and concepts go right out the window.

When 30 percent or more of your product category consumers say their top choice is no preference, major rethinking needs to be done. Maybe P&G is right in shifting its performance evaluation to share-of-peer brand market, but how relevant is that when there is such a preponderance of customers who just don't care?

Critical Thinking

1. In your perspective, has the competitive landscape changed for businesses operating today? If yes, then discuss these changes.
2. With a small group of peers from your class, develop a list of DOs and DON'Ts to help businesses compete more effectively and enhance their market shares.

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Playing Well Together

CO-BRANDING among franchises appeared to have lost its luster in recent years. But new concepts are emerging to prove that strategic combinations of businesses can cut costs and broaden the customer base.

JASON DALEY

If you flip through annual reports from Yum Brands, you'll notice an increasing frenzy starting in 1992 around "multibranding." A decade later, Yum—the holding company that owns and operates Taco Bell, KFC, Pizza Hut and, until last year, A&W and Long John Silver's—hailed the concept as "potentially the biggest sales and profit driver for the restaurant industry since the advent of the drive-thru window."

Co-branding (also known as piggyback franchising and dual or combination franchising) is, at face value, a brilliant idea: Take two franchise concepts, stick them in the same building and watch the revenue roll in. Not only does co-branding promise to save on operational costs like leasing, staff, kitchen equipment, building maintenance and advertising, it can even out customer flow, especially if one concept appeals to the breakfast and lunch crowd and the other is destined for dinner. But franchise systems have touted co-branding's biggest advantage as providing a one-stop option for groups of people with different cravings. Tommy and Sally want chicken fingers but Mom and Dad want pizza? Come on in to our pizza parlor/chicken shack, and everyone will be happy.

In 2002, co-branded outlets accounted for $2 billion in sales for Yum. But just a decade later, Yum is quietly stripping down many of its co-branded locations, and in its 2010 annual report, hidden in the black-and-white financial section many pages beyond the color photos of smiling kids and well-groomed employees, the company admits it has suspended co-branding as a long-term strategy.

The last few years have been littered with corporate co-branding marriages that bit the dust. Wendy's asked Tim Hortons to the dance, but they broke up in 2006. Dunkin' Donuts tried to make it work with Togo's sandwiches, and Arby's fooled around with everyone on the block for almost a decade before deciding to stay single.

While co-branding does have some benefits, especially in airports and other specialized locations, the "something for everyone" model has not proved its worth. Yum found that adding A&W and Long John Silver's to other concepts did not add to unit revenue—co-branding those concepts just created headaches and increased costs. Co-branding can increase operational complexity, which can lead to substandard products and poor customer service. More important, the concepts need to mesh on the most basic level, drawing from the same customer base and making intuitive sense: Franchises have found that skeptical consumers will pass up a baffling lobster-and-hot-wings merger for a single brand they understand—every time.

Many well-established brands have difficulty bending their strict operations rules to accommodate a partner, and they may run the risk of diluting their image if they sticker over their core concept with less-trusted brands. For example, Yum found that the limited menus at A&W and Long John Silver's were perceived as old-fashioned and boring, especially when paired with those at Taco Bell and KFC. Adding those smaller brands to an existing unit achieved little except to pull the focus from the more popular brand.

While the great co-branding experiment has more or less fizzled, the idea is not completely dead. Co-branding can be successful if it's done strategically between complementary brands, like salads and smoothies or pizza and another savory impulse snack. Many companies that have thought through their co-branding are finding the economies of scale the strategy produces are worth it.

"There are definitely some clear challenges in co-branding," says Steve Beagelman, president of SMB Franchise Advisors, who has worked with co-branded franchises over the last 25 years. "But if you can make it work, there are a lot of synergies and benefits, especially in making sure franchisees can make money. And that's ultimately what small business is about, especially in franchising. Let's say a franchisee has found a great location, but the costs are just too high. Co-branding gives you a real good opportunity to make that location work."

Selective Salons

Vas Maniatis built his Seva salon chain almost exclusively through co-branding, though his model is a bit different than putting two food concepts together. Instead, his small salons, which focus primarily on eyebrow threading, lash extensions and nails, are found exclusively in Walmart stores. While Seva is completely independent from Walmart, the salon chain's convenience, value pricing and speed make it appealing to the mass merchant's shoppers, according to Maniatis.

"Our customer is the Walmart customer, so co-branding to me has been huge," he says. "We're all about enhancing the one-stop shopping experience [that] Sam Walton built." Maniatis has opened 25 units in eight states since 2010 and hopes to double growth in 2012.

Seva didn't start out as a co-branded franchise. In fact, it didn't start out as "Seva" at all. For the first several years, the Chicago-based salon was called Simply Eyebrows and performed only eyebrow threading—a quick, less-painful alternative to waxing. Most threading takes place in malls at open-air kiosks; Maniatis hoped to improve the experience by offering a private session in a spa atmosphere. He was also focused on convenience and value, so a friend suggested he talk to Walmart about opening in a new development in Indianapolis.

A skeptical Walmart initially gave Maniatis the brushoff, but unbeknownst to him, a regional manager had been pushing for the concept, and when another tenant dropped out a year later, the space was offered for the salon. That first store was a hit, and in late 2009, two Walmart executives flew to Chicago to talk to Maniatis about a partnership.

"They basically said, 'Look, we love your concept,'" he recalls. But, he says, the execs thought it needed to be "bigger" and suggested adding other salon services and positioning the company as a Walmart exclusive.

Maniatis agreed, found a more appealing name and hasn't looked back. Co-branding with Walmart has not only given Seva huge traffic flow, it has freed up resources to develop other aspects of the business. "Our franchisees start with built-in traffic of 30,000 to 50,000 customers per week, with no marketing costs. That's given us an opportunity to do things that are state of the art in customer engagement," Maniatis says. "We've built an iPad-based paperless system . . . We have remote monitoring capabilities and can see our stores in real time and see what type of customer transactions work."

The only drawback to the co-branding relationship is that Seva can grow only as quickly as Walmart does, and the salon doesn't have a guaranteed spot in every development; it has to be chosen from a shortlist of approved tenants that include McDonald's, Subway and other elite franchises.

"It's been hard for us to open in as many spaces as we'd like," Maniatis admits. But, he adds, partnering with Walmart , takes the guesswork out of site selection. "The marketing's done by Walmart. The due diligence on where to locate is done by Walmart. We just need to focus on our core, which is our service, and engaging both the active and potential customer."

Sweet Spot

Sevas partnership is a dream scenario for co-branding. Other companies have more complex relationships, though they can be just as rewarding. Ted Milburn, vice president of franchise development for Nestle Tollhouse Cafe, which sells baked goods, coffee and frozen yogurt, has worked at other concepts that have co-branded—some successfully and others not. When he was approached with an opportunity to team Tollhouse with Haagen-Dazs, he thought the synergy would be perfect, evening out year-round customer flow and complementing both products. In 2011, the companies began opening co-branded locations across the country.

Not only do the co-branded stores smooth out the annual sales calendar, they appeal to the public with their synergistic offerings. "We eliminate the deal-breaker," Milburn says. "We cover the gamut, from cookies to frozen coffee beverages to smoothies to ice cream creations. Whatever people want, we can cover it. It would be different if we were co-branded with a pizza concept. People come in to a pizza place for pizza; we would be just an afterthought."

Dan Ogiba, director of development for Haagen-Dazs, agrees. "We're a complete dessert cafe," he says. "We looked at this as an opportunity to grow and for our franchisees to increase their revenues. We think serving larger groups outweighs any competition between our sweet products."

Focus Brands, which owns Schlotzsky's deli, Cinnabon and Carvel Ice Cream, thinks putting sweet treats together with sandwiches is a winning concept. Schlotzsky's and Cinnabon both bake their products daily; this appeals to franchisees, whose employees already have experience running ovens, according to Schlotzsky's president Kelly Roddy. Adding a Carvel element for a tri-branded store is a little more expensive, but Roddy thinks it complements the other offerings nicely.

"One of our concerns was that selling Cinnabon products would cannibalize purchases from our core Schlotzsky's menu," he says. "We found it didn't, and that it actually brought additional customers into stores and grew revenues with no additional labor costs, no rent, no managers or any of the things that come up with a separate unit."

Already, 165 Schlotzsky's have retrofitted Cinnabon ovens into their stores; Roddy projects that by year's end, more than 200 of the brand's 350 units will be selling cinnamon rolls. In 2011, 90 percent of new-store sales were tri-branded locations; in 2012, plans are to include Cinnabon and Carvel elements in all new Schlotzsky's units. So far, the co-branded stores are drawing in more customers in the 18 to 25 demographic, and more women.

"It has really worked out to be a home run for franchisees," Roddy says. He insists the co-branding isn't about shoe-horning Focus Brands concepts together willy-nilly, pointing out that significant testing and research indicated that the concepts would make a good partnership. "I haven't seen many co-branded concepts recently that work well and make sense as these do," he says.

Co-branding is not nearly as prevalent or hyped as it was a decade ago, but impressive numbers of franchises are giving it another shot. Hot dog chain Nathan's Famous is committed to growing almost exclusively through co-branding. Cold Stone Creamery has partnerships with Tim Hortons and the Rocky Mountain Chocolate Factory; Tasti D-Lite, which purchased Planet Smoothie, plans to give co-branding a test-drive.

While it's doubtful that co-branding will prove as revolutionary as the drivethru window, it may turn out to be a profitable strategy after all. "There is definitely a part of co-branding that really makes a lot of sense," SMB's Beagelman says. "It can help a franchisor grow quicker. It can help make sure franchisees make money. And for smaller franchisors, you can learn how more successful chains do things. It's not for every brand, but if you're flexible and are willing to listen, it can work."

Critical Thinking

1. In your opinion, what are the potential advantages of co-branding for organizations and their customers?
2. With a small group of peers in your class, develop your own list of successful franchise co-branding. Justify your choices.

Ditch the Discounts

Smart companies used adaptive pricing to ride out the recession. Now it's time to reprice for recovery.

RAFI MOHAMMED

The first shot in what historians may someday commemorate as the Great Pizza War was fired by Domino's in late 2009. The chain had been charging about $9 for a medium two-topping pizza, but to boost sales it began offering recession-weary consumers two of its two-topping pies for $5.99 each. Several weeks later Papa John's and Pizza Hut fired back, offering large three-topping pizzas for just $10—at least a third less than the usual price. Soon they improved the deal, so that customers could buy a large pizza with unlimited toppings for $10. Sure enough, sales at all three chains rose—and even now many chains are offering discounted pizzas.

On the surface, this type of price-cutting makes sense: How else to bolster sales in a time of weak demand? But even though the recession has been officially over for 18 months, its effects are likely to linger; GDP has been growing at a sluggish pace. In this environment, few companies have much pricing power—and in many industries, discounts will remain the norm.

That's unfortunate, because across-the-board price cuts unnecessarily reduce profits. Consider a company that held the line on prices during the recession and saw a 20 percent drop in sales. That means it made 80 percent of its usual sales, even at full price—so why give discounts to all those customers? More important, deep discounts devalue a product or service, limiting companies' ability to raise prices as the economy improves. If people get used to paying $10 for a large pizza with lots of toppings, it's hard to restore a price of, say, $16.99 when demand picks back up.

Some companies have avoided this trap by using adaptive pricing, which capitalizes on the fact that different customers have different needs and therefore place different values on a given product or service. As we wait for the economy to return to full speed, managers have a good opportunity to learn from companies that weathered the recession by employing adaptive-pricing strategies—and to develop plans that could help their own businesses regain lost ground in the recovery.

The key to adaptive pricing is realizing that price, like color or style, is simply one of a product's attributes. And companies routinely vary colors and styles to appeal to different kinds of customers. They sell through different channels (online, direct sales, brick-and-mortar stores) and sometimes charge vastly different prices based on the channel. (A box of cereal typically costs much more in a convenience store than it does in a big-box store.) By using adaptive pricing, companies can adjust a product's attributes to better appeal to customers' sense of value without necessarily dropping the price.

The simplest adaptive-pricing method is called "versioning"—offering "good," "better," and "best" varieties of the same product. A lower-priced version (poorer quality, smaller quantity, fewer features) can be a powerful magnet for price-sensitive customers. The method worked well for consumer product companies during the recession and should be considered by all companies, especially those in markets with weak demand. P&G has had great success with it. In 2005 the company created "Basic" lines of Charmin toilet tissue and Bounty paper towels, aimed at low- and middle-income consumers who wanted quality but didn't want to pay premium prices. The Basic products utilized one-ply sheets and cost 15 percent to 25 percent less than the regular ones. A.G. Lafley, P&G's former CEO, noted that brands that had used versioning outperformed the company's other products during the recession. (The strategy has its downsides, though; see "Should You Launch a Fighter Brand?" HBR October 2009.)

Hyundai let buyers who lost their jobs return their vehicles. It thus avoided further price cuts—and in nine months, fewer than 50 vehicles were returned.

Let's look at two very different approaches to recession pricing in the fast food industry. Subway won acclaim and saw sales jump by 17 percent in 2008, when it dropped the price of its foot-long sandwiches to $5—thus taking a traditional tack. But customers have become conditioned to paying that amount, and the chain is continuing to offer some foot-long sandwiches at that low-margin price. In contrast, Quiznos created entirely

How to Price

IN A RECESSION

Introduce Lower-Priced Versions

To defend the price of existing offerings while attracting budget shoppers, create bargain versions. For its 2011 lineup, Harley-Davidson is introducing the SuperLow. The aim: to allow "even the most budget conscious rider to own a Harley-Davidson."

Use Promotions to Avoid Price Drops

Instead of reducing nightly rates, Disney resorts offered promotions such as "Buy 4 Nights, Get 3 Free." This type of deal lowers the effective cost without changing the advertised nightly rate—a form of discounting that avoids devaluing the brand in consumers' minds.

Adapt Products to Maintain Affordability

Companies in many categories, including peanut butter, juice, cereal, and soap, faced higher costs and so decreased product size or volume. This strategy increases the price per unit but maintains the overall sticker price—the one consumers are more apt to notice.

Unbundle Services and Add Extra Fees

As travel demand dropped, airlines added fees for telephone reservations, luggage, meals, and preferred seats. This allowed them to advertise low prices and attract price-sensitive customers while earning higher profits from travelers willing to pay a premium.

IN A RECOVERY

Withdraw Recession-Pricing Tactics

Tide Basic, launched in 2009, cost 20 percent less than regular Tide. P&G withdrew it in 2010 as regular Tide began regaining market share in the United States. Similarly, restaurants like Ruby Tuesday have begun cutting back on price promotions and are maintaining growth.

Introduce New Premium Products

As the economy picks up, take advantage of consumers' willingness to splurge. Panera recently sold a lobster roll for $16.99. Concert promoters are offering VIP packages with more features; for example, last year one Bon Jovi package sold for $1,875.

Increase the Price of Regular Products

When you raise prices, it's important to tell customers why. Some common reasons: "Our costs are rising" and "During the recession, we lowered margins to help customers." Last fall Kraft, General Mills, and McDonald's all announced price increases.

Offer New Ways to Experience Luxury

JetSuite customers can now take a four-person private plane from Van Nuys, California, to Las Vegas for $999. Ritz-Carlton has a "Resort Reconnect" promotion targeted at couples who are feeing flush enough to resume vacationing at upscale resorts.

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ew inexpensive sandwiches: $2 Sammies, $3 Bullets, and 4 Torpedoes. This adaptive-pricing technique allowed it to ontinue charging full price for its signature items and avoid ubway's dilemma when the economy started to improve.

Some of the most successful adaptive-pricing innovations nay not even seem, on the surface, like pricing innovations. One of the boldest was Hyundai's Assurance program, which e company introduced in January 2009. Despite steep price uts, automobile sales had dropped sharply the previous fall s customers reacted to the continuing economic crisis. "What e heard consistently was, 'I know the deals are good, but I'm vorried that if I lose my job, then I'll lose the car,'" Hyundai's op United States executive, John Krafcik, has said. So the company came up with a way of assuaging this fear. The Assurance rogram let buyers who lost their jobs stop making payments nd return their vehicles. By providing this safety net, Hyundai as able to prosper without making further price cuts. While e United States market for auto sales dropped by more than 0 percent in 2009, Hyundai's United States sales increased by percent. And the cost to the company was minimal: During e first nine months of the Assurance program, fewer than 50 ars were returned.

Sometimes creative financing is the best way to hold the ne on prices. This is far from a new technique; carmakers and consumer appliance companies have used credit policies to boost sales since the 1920s, and General Motors came out with a highly touted 0 percent financing offer after the September 11 attacks. But some marketers deployed especially creative financing strategies during the latest recession. For instance, in 2008 Best Buy offered two-year, no-interest financing for purchases totaling at least $999—far more than the average person spends at one time in a consumer electronics store. "Some customers [were] literally adding items to their shopping cart so they would hit the $999 minimum," Best Buy executive vice president Mike Vitelli later said. The same year Best Buy's main rival, Circuit City, filed for bankruptcy and shut down.

Adaptive pricing is such an effective tool, in fact, that sometimes it works *too* well. In 2009 Tony Maws, the owner of a high-end restaurant in Cambridge, Massachusetts, called Craigie on Main, wanted to boost evening business during the week without cutting into profits on the weekend, when the restaurant was typically full. So he instituted a midweek special—a drink and two appetizers for $29.99—available to customers seated at the bar from 5:30 to 6:00. Soon the bar was not just full but overflowing with standing-room-only customers who also wanted, and were given, the special deal. After a month Maws decided to end the promotion—it had created too much demand.

A Better Way to Make Deals On Meals

When it comes to adaptive pricing, it's tough to beat the airline and hotel industries, which have used "yield management" systems for many years. But another industry is becoming smarter about pricing: restaurants.

As the economy recovers, some high-end restaurants are trying more-innovative pricing models. Star chef Grant Achatz plans to open a restaurant called Next in Chicago. It will sell tickets online for meals at specific dates and times, basing the price on the popularity of the slot reserved. A five-course meal might cost $75 at 8 on Saturday; the identical meal might cost only $45 at 6 on Tuesday.

This strategy has risks. Customers might simply go elsewhere on Saturdays. They might devalue Next's food, thinking, "I can get the same meal for half the price on Tuesday."

Here's a better idea: Keep the prices of entrees the same, but set minimum customer spending levels, varying them according to demand. A high-end restaurant might require a diner to spend $150 on a Saturday night but only $75 on a week-night. This arrangement would allow free-spending customers to choose the popular night (and spend more on high-margin items like cocktails and desserts), while letting frugal diners ("Just an entree and tap water, please") find a seat on a slower night. It avoids charging different prices for the same food and also has the advantage of flexibility: If a given Saturday is slow to book, the restaurant could lower the minimum in its reservation system. And the strategy could work for restaurants at all pricing levels, not just upscale places serving five-course meals.

One of the biggest advantages of adaptive pricing is increased flexibility as the economy begins to rebound. For instance, P&G simply withdrew Tide Basic from the market in June 2010; it didn't have to wean customers off any recessionary discount on the regular brand. Other companies are courting newly flush consumers by introducing higher-quality, higher-priced versions of some items. In the summer of 2010 Burger King began selling premium fire-grilled ribs for $7.19 an order. Customers quickly bought up the entire supply—10 million ribs.

Although the anemic recovery may have you wondering whether consumer demand will ever return in full force, rest assured that it will—and when it does, you need to be ready. For companies that view pricing as just an "increase or decrease" strategy, readiness is primarily a matter of deciding when it's time to flip the switch. But such companies will be missing an opportunity. If you implement a creative, constantly evolving array of pricing strategies, you can more effectively reach new customers— and transfer more of their money to your bottom line.

Critical Thinking

1. List and summarize the pricing tactics that are appropriate in a recession and in a recovery.
2. Do you agree that marketers should utilize different pricing strategies and tactics in a recovery and in a recession? Justify your response.

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