

## D Video Case Smashburger

Hamburgers are America's favorite food. Consumers spend more than \$100 billion on the beef sandwiches every year. But despite America's infatuation with burgers, there is often considerable dissatisfaction among consumers based on hamburger quality and value. Many customers just aren't happy with what is served up at market-leading fast-food outlets. They want a better burger, and they won't hesitate to pay a higher price to get one. Enter Smashburger. Started just a few years ago in Denver, Colorado, Smashburger is now a rapidly expanding nationwide chain. And this growth started during a severe economic downturn despite Smashburger's average lunch check of \$8. Many customers pay as much as \$10 or \$12 for a burger, fries, and shake. The

Smashburger video shows how this small startup employed pricing strategy to pull off a seemingly impossible challenge. After viewing the video featuring Smashburger, answer the following questions:

1. Discuss the three major pricing strategies in relation to Smashburger. Which of these three do you think is the company's core strategic strategy?
2. What effect does Smashburger's premium price have on consumer perceptions? How did a restaurant with a premium-priced product and little track record take off during a recession?
3. Is Smashburger's success based on novelty alone or will it continue to succeed?

## I Company Case (Burt's Bees: Willfully Overpriced)

How much are you willing to pay for a standard-size tube of lip balm? The market leader charges just a bit more than \$1. But would you pay \$2 for a comparable product? How about \$3? When it comes to price, your first thought might be, "The lower the better." Many companies follow this reasoning and try to outdo each other by providing the cheapest option. But such a strategy can lead to razor-thin margins and even losses. And although low price might seem to be the most attractive way to lure customers into purchasing goods and services, when it comes to actually creating value for customers, that's not always the case. Burt's Bees is one company that understands that sometimes it's okay to charge more. Just a decade ago, the popular maker of natural personal-care products was a niche brand, distributed in boutiques and natural foods stores. But Burt's Bees sales exploded when major supermarket and discount retail chains started carrying the small company's line. And although Walmart and other national chains are known for pressuring manufacturers to cut costs and lower prices, Burt's Bees achieved its distribution victory through a strategy that has been called "willful overpricing." In Burt's Bees' case, that means charging price premiums of 50 percent or more over comparable non-natural brands. Case in point: Burt's Bees lip balm, the brand's best-selling product, sells for \$2.99 a tube, whereas market-leading ChapStick can be had for about a third of that price. To understand how Burt's Bees has succeeded with this pricing strategy, let's look at what makes the brand so special.

### From Humble Beginnings

Burt's Bees started like many entrepreneurial ventures, with entrepreneurs that had a good idea but not a penny to their names. In the late 1980s, Burt Shavitz was a beekeeper in northern Maine selling honey out of his pickup truck and living in a modified turkey coop. Roxanne Quimby, a wife and mother looking for a way to supplement the family income, had the idea to buy Burt's surplus beeswax to make and sell candles. Her first venture at a craft fair netted \$200 in sales. A few years later, Roxanne happened upon a 19th-century recipe of homemade personal-care recipes and acquired a second-hand industrial mixer from a university cafeteria. That's when the Burt's Bees brand that so many people now know and love began to take shape. The main product line of natural beeswax

candles was slowly replaced by personal-care products, including the brand's famous lip balm made with beeswax, coconut and sunflower oils, and other ingredients that you could just as easily eat as put on your lips.

As Burt's Bees grew, it automated its manufacturing processes one piece of machinery at a time. Yet the products that rolled off those automated lines maintained the quality and feel of natural homemade goods. Burt's Bees developed body lotions featuring natural milk and sugar enzymes, bath products made with sea ingredients, shampoos derived from soy protein and pomegranate extract, and toothpaste infused with spearmint oil and cranberry extract. The company can't claim that all of its products are 100 percent natural. But with more than half its products meeting the 100 percent mark and the rest coming very close, Burt's Bees boasts that its product lines are, on average, 99 percent natural. In fact, the company maintains a commitment to what it calls *The Natural Standard*—a set of guidelines that dictate which ingredients can be considered truly "natural."

With natural ingredients as its main point of differentiation and core values oriented around environmental conservation and social responsibility, Burt's Bees grew very quickly. Once it made the leap to the big regional and national retail chains, company sales grew by an average of 30 percent per year.

### Value versus Price

In certain respects, cross-comparing personal-care products is problematic because there is so much variation in both features and price. But consider some popular Burt's Bees products. Its standard shampoos and conditioners run \$7.99 for a 12-ounce bottle, whereas you can pick up a same-size bottle with a Pantene label on it for only \$3.99. Burt's body lotion runs \$9.99 for a 12-ounce bottle, whereas a slightly larger bottle of Nivea body lotion only costs \$5.99. Like various brands, Burt's Bees offers a line of anti-aging creams. But at \$24.99 for any one of them, the price is almost double that of similar Oil of Olay products at only \$12.99.

When making such comparisons, the choice seems obvious. How has Burt's Bees achieved such success with this pricing strategy? You might think that it does so despite higher prices. However, a closer examination suggests that success might actually be the *result* of that pricing. In some cases, higher prices merely serve as an indicator of quality level. But more important

to Burt's Bees, higher prices can also peak customer curiosity. When people compare brands, a moderately higher priced option causes them to take notice and look a little deeper to understand why it is more expensive. They may learn that the product contains features that justify the higher price—features they may not have even considered before. Customers then ask themselves, "Do I need this benefit or not?" Some studies show that in such situations, customers recall nearly twice as much product information and can cite more arguments in favor of buying the products. If the price premium charged is too high or too low, however, shoppers ignore the option.

Fortunately for Burt's Bees, its strategy of willful overpricing coincided with a trend of growing consumer preference toward natural products and environmentally friendly goods. Thus, Burt's Bees natural ingredients and company values were enough to justify the brand's higher prices for many. But can a pricing strategy that relies on trends in consumer preferences work forever?

### Eco-Brands in Hard Times

Last year on Earth Day, a front page of the *New York Times* featured the headline, "As Consumers Cut Spending, 'Green Products' Lose Allure." The article pointed out that during the Great Recession, the mainstream consumer's love affair with green products faded like a cheap t-shirt. When times are tough, the very features that seem to justify paying a higher price during good times lose their importance as budgets tighten.

But within that economic dynamic, researchers found an interesting exception. "Dark green" consumers—who are more educated, committed, and affluent—don't drop higher-priced green products as quickly as "light green" consumers do. As a result, sales of brands perceived to be less authentic when it comes to eco-friendliness decreased, whereas sales of brands deemed more authentic remained firm. It's a perception of value and values. Brands such as Method and Seventh Generation are top on the list of those benefiting from this "authenticity gap," whereas S.C. Johnson's *Nature's Source* and Clorox's *Green Works* are at the bottom.

This phenomenon creates complicated issues for Burt's Bees. The well-known creator of natural products has been a hardcore eco-brand from its beginnings. But while Burt Shavitz's earthy image still adorns the package of many Burt's Bees products, the beekeeper sold his share of the company to Roxanne Quimby more than a decade ago and returned to beekeeping and his turkey coop. Quimby bowed out in 2007 as part of an even bigger shakeup. Clorox purchased Burt's Bees for a whopping \$925 million as part of its comprehensive strategy to become more environmentally friendly and to free itself of a chemical-polluting image. Clorox followed in the footsteps of Unilever (which purchased Ben & Jerry's in 2000), Colgate-Palmolive (bought Tom's of Maine in 2006), and PepsiCo (acquired Naked Juice in 2006). Major global players have paid big money for the image and the customer base of good green brands.

After buying Burt's Bees, Clorox immediately ran magazine ads comparing natural ingredients in Burt's Bees to chemical ingredients found in other products. At the same time, Burt's Bees's executives claimed that the brand's quality and standards

would only improve. For all intents and purposes, Clorox allowed Burt's Bees to operate as an independent division, remaining true to its original mission and values.

Still, many viewed the Burt's Bees acquisition as a big sell-off. Fans vented their frustrations online as they created new names for the company like "Burt's Bleach" and "Clorox's Bees." Comments such as "I use lots of Burt's Bees products. I won't be buying them anymore," and "I think I'm going to have to stock up now before Clorox ruins it," indicated the potential fallout of the merger. Burt's Bees risked losing some of its authenticity as an eco-brand, thus becoming more susceptible to the effects of consumer frugality.

### Pressing on with Price Premiums

Despite hard economic times and the big changes in Burt's Bees's ownership and management, Burt's Bees seems to be doing very well for Clorox. According to Clorox chief financial officer Dan Heinrich:

The Burt's Bees business remains a very solid contributor to Clorox's results, with sales growth and profit margins above the company average. Burt's Bees remains the fastest growing business unit in the company, with double-digit fiscal-year-to-date sales growth and our revised estimates continue to project low double-digit sales growth for this business over the next several years.

If Burt's Bees's Facebook fan base is any indication, Heinrich can be taken at his word. In little more than two years' time, Burt's Bees grew from about 100,000 fans to more than 1.1 million. The corporate buyout and economic trends appear to have had little impact on the brand. In the end, it just may be that Burt's Bees's pricing strategy proves that by leveraging a brand's strengths, a brand can persuade customers to continue to buy on value, not just on price.

### Questions for Discussion

1. Does Burt's Bees's pricing strategy truly differentiate it from the competition?
2. Has Burt's Bees executed value-based pricing, cost-based pricing, or competition-based pricing? Explain.
3. Discuss how Burt's Bees has implemented product mix pricing strategies.
4. Could Burt's Bees have been successful as a natural product marketer had it employed a low-price strategy? Explain.
5. Is Burt's Bees's pricing strategy sustainable? Explain.

**Sources:** Loren Berlin, "Burt's Bees, Tom's of Maine Owned by Fortune 500 Companies," *Huffington Post*, April 20, 2012, [www.huffingtonpost.com/2012/04/20/burts-bees-toms-of-maine-green-products\\_n\\_1438019.html](http://www.huffingtonpost.com/2012/04/20/burts-bees-toms-of-maine-green-products_n_1438019.html); Marco Bertini and Luc Wathieu, "How to Stop Customers from Fixating on Price," *Harvard Business Review*, May 2010, pp. 85–91; Mitch Maranowski, "The Triple Value Proposition: Why Inauthentic Green Brands Are Doomed to Fail," *Fast Company*, March 18, 2011, [www.fastcompany.com/1754132/the-triple-value-proposition-why-inauthentic-green-brands-are-doomed-to-fail](http://www.fastcompany.com/1754132/the-triple-value-proposition-why-inauthentic-green-brands-are-doomed-to-fail); and quotes and other information from [www.burtsbees.com](http://www.burtsbees.com), accessed July 2012.

illustrates the challenges a company faces in balancing the role of the customer and the role of the company in determining the meaning of a brand.

After viewing the video featuring Life Is Good, answer the following questions:

1. What are people buying when they purchase a Life Is Good product?
2. What factors have contributed to the Life Is Good brand image?
3. What recommendations would you make to Life Is Good regarding brand development strategies?

## D Company Case **Zipcar: "It's Not about Cars — It's about Urban Life"**

Imagine a world in which no one owns a car. Cars would still exist, but rather than owning cars, people would just share them. Sounds crazy, right? But Scott Griffith, CEO of Zipcar, the world's largest car-share company, paints a picture of just such an imaginary world. And he has 700,000 passionate customers—or Zipsters, as they are called—who will back him up.

Zipcar specializes in renting out cars by the hour or day. Although this may sound like a minor variation on the established rental car agency business, car sharing—a concept pioneered by Zipcar—is an entirely different concept. As Griffith took the driver's seat of the young start-up company, he knew that if the company was going to achieve cruising speed, it needed to be far more than just another car service. Zipcar needed to be a well-positioned brand that appealed to a customer base with unfulfilled needs.

### **A Car Rental Company That Isn't about Cars**

As Griffith considered what Zipcar had to offer, it was apparent that it couldn't be all things to all people. But the concept seemed particularly well suited to people who live or work in densely populated neighborhoods in cities such as New York City, Boston, Atlanta, San Francisco, and London. For these customers, owning a car (or a second or third car) is difficult, costly, and environmentally irresponsible. Interestingly, Zipcar doesn't see itself as a car-rental company. Instead, it's selling a lifestyle. "It's not about cars," says CEO Griffith, "it's about urban life. We're creating a lifestyle brand that happens to have a lot of cars."

Initially, the Zipcar brand was positioned exclusively around a value system. As an urban lifestyle brand, Zipcar focused on traits that city dwellers have in common. For starters, the lifestyle is rooted in environmental consciousness. At first, Zipcar focused on green-minded customers with promotional pitches such as "We ♥ Earth" and "Imagine a world with a million fewer cars on the road." Zipcar's vibrant green logo reflects this save-the-Earth philosophy. And Zipcar really does deliver on its environmental promises. Studies show that every shared Zipcar takes up to 20 cars off the road and cuts carbon emissions by up to 50 percent per user. On average, Zipsters travel 44 percent fewer miles than when they owned a car.

But it wasn't long before Griffith realized that if Zipcar was going to grow, it needed to move beyond just being green. So the brand has broadened its positioning to include other urban lifestyle benefits—benefits that Zipcar appeals to on its site in response to the question, "Who exactly is the car-sharing type?" Zipcar provides the most common reasons for car-sharing:

- I don't want the hassle of owning a car.
- I want to save money.
- I take public transit, but need a car sometimes.
- Once in a while I need a second car.
- I need a big car for a big job.
- I want a cute car to match my new shoes.
- I want to impress my boss.

One of most important benefits Zipcar provides is convenience. Owning a car in a densely populated urban area can be a real hassle. Zipcar lets customers focus on driving, not on the complexities of car ownership. It gives them "Wheels when you want them," in four easy steps: "Join. Reserve. Unlock. Drive."

### **Fulfilling Consumer Needs**

To join, you pay around \$60 for an annual membership and receive your personal Zipcard, which unlocks any of the thousands of cars located in urban areas around the world. Then, when you need a car, reserve one—minutes or months in advance—online by phone, or using a smartphone app. You can choose the car you want, when and where you want it, and drive it for as little as \$7.50 an hour, including gas, insurance, and free miles. When you're ready, walk to the car, hold your Zipcard to the windshield to unlock the doors, and you're good to go. When you're done, you drop the car off at the same parking spot—Zipcar worries about the maintenance and cleaning.

Zipcar not only eliminates the hassle of urban car ownership, it also saves money. By living with less, the average Zipster saves \$600 a month on car payments, insurance, gas, maintenance, and other car ownership expenses.

Zipcar's operating system is carefully aligned with its urban lifestyle positioning. For starters, Zipcar "pods" (a dozen or so vehicles located in a given neighborhood) are stocked from a portfolio of over 50 different models that trendy urbanites love. The vehicles are both hip and fuel efficient: Toyota Priuses, Honda CRVs, MINIs, Volvo S60s, BMW 328s, Toyota Tacomas, Toyota Siennas, Subaru Outbacks, and others. And Zipcar is now testing plug-in hybrids and full electric vehicles, as well as full-size vans for big jobs. Each car has its own personality—a name and profile created by a Zipster. For example, Prius Ping "jogs in the morning, doesn't say much," whereas Civic Carlos "teaches yoga, loves to kayak." Such personal touches make it feel like you're borrowing the car from a friend, rather than being assigned whatever piece of metal happens to be available.

To further eliminate hassles and make Zipcar as convenient as possible, company promotional tactics are designed to appeal to city dwellers. The company's goal is for Zipsters to not have to walk more than 10 minutes to get to one of its car pods—no easy task. "Even with today's highly targeted Web, it's hard to target at that hyper-local level," says Griffith. "So our street teams do it block by block, zip code by zip code." Thus, in addition to local ads and transit advertising, Zipcar reps are beating the streets in true guerilla fashion.

For example, in San Francisco, passersby got to swing a sledgehammer at an SUV, while on Harvard's campus, students tried to guess how many frozen IKEA meatballs were stuffed inside a MINI. In Washington, D.C., Zipcar street teams planted a couch on a busy sidewalk with the sign "You need a Zipcar to move this." And the company has launched several local "Low-Car Diet" events, in which it asks urban residents to give up their cars and blog about it. Zipcar gave a free bike to a lucky dieter

in each of the cities where it operates. Surveyed dieters reported saving 67 percent on vehicle costs compared to operating their own cars. Nearly half of them also said that they lost weight.

### Fostering Brand Community

Zipcar's orientation around the urban, environmentally conscious lifestyle fosters a tight-knit sense of customer community. Zipsters are as fanatically loyal as the hardcore fans of Harley-Davidson or Apple, brands that have been nurturing customer relationships for decades. Loyal Zipsters serve as neighborhood brand ambassadors; 30 percent of new members join up at the recommendation of existing customers. "When I meet another Zipcar member at a party or something, I feel like we have something in common," says one Brooklyn Zipster. "It's like we're both making intelligent choices about our lives." And just like Harley owners get together on weekends to ride, the Internet is littered with announcements for Zipster parties at bars, restaurants, and comedy clubs, among other places.

As Zipcar has taken off, it has broadened the appeal of its brand to include a different type of urban dweller—businesses and other organizations. Companies such as Google now encourage employees to be environmentally conscious by commuting via a company shuttle and then using Zipcars for both business and personal use during the day. Other companies are using Zipcar as an alternative to black sedans, long taxi rides, and congested parking lots. Government agencies are getting into the game as well. The city of Chicago recently partnered with Zipcar to provide a more efficient and sustainable transportation alternative for city agencies. And Washington, D.C., now saves more than \$1 million a year using Zipcar. Fleet manager Ralph Burns says that he has departments lining up. "Agencies putting their budgets together for next year are calling me up and saying, 'Ralph, I've got 25 cars I want to get rid of!'"

How is Zipcar's strategy of positioning itself as an urban lifestyle brand working? By all accounts, the young car-sharing nicher has the pedal to the metal and its tires are smoking. In just the past eight years, Zipcar's annual revenues have rocketed 68-fold, from

\$2 million to more than \$136 million, and it's looking double that number in one year's time. Zipcar has also reached the milestone of being profitable. With 10 million people now within a 10-minute walk of a Zipcar, there's plenty of room to grow. And as more cars are added, Zipcar's reach will only increase.

Zipcar's rapid growth has sounded alarms at the traditional car-rental giants. Enterprise, Hertz, Avis, Thrifty, and even U-Haul now have their own car-sharing operations. But Zipcar has a 10-year head start, cozy relationships in targeted neighborhoods, and an urban hipster cred that corporate giants like Hertz will have trouble matching. To Zipsters, Hertz rents cars, but Zipcar is a part of their hectic urban lives.

### Questions for Discussion

1. Evaluate Zipcar based on benefit-oriented positioning.
2. Describe the beliefs and values associated with Zipcar's brand image.
3. Compare positioning based on benefits to positioning based on beliefs and values. Which is stronger?
4. Based on what you know about the Zipcar brand, how will the company perform in the future relative to bigger, more experienced competitors?

**Sources:** Jerry Hirsch, "Zipcar CEO Talks about Car Sharing as Lifestyle Choice," *Seattle Times*, May 13, 2012, [http://seattletimes.nwsource.com/html/business/technology/2018197748\\_inpersonzipcar14.html](http://seattletimes.nwsource.com/html/business/technology/2018197748_inpersonzipcar14.html); "Zipcar Rolling into Profits, Stock Headed to \$22," *Forbes*, February 23, 2012, [www.forbes.com/sites/greatspeculations/2012/02/23/zipcar-rolling-into-profitability-stock-headed-to-22/](http://www.forbes.com/sites/greatspeculations/2012/02/23/zipcar-rolling-into-profitability-stock-headed-to-22/); Kunur Patel, "Zipcar: An America's Hot-test Brands Case Study," *Advertising Age*, November 16, 2009, p. 16; Paul Keegan, "Zipcar: The Best New Idea in Business," *Fortune*, August 27, 2009, accessed at [www.fortune.com](http://www.fortune.com); Stephanie Clifford, "How Fast Can This Thing Go, Anyway?" *Inc.*, March 1, 2008, [www.inc.com/magazine/20080301/how-fast-can-this-thing-go-anyway.html](http://www.inc.com/magazine/20080301/how-fast-can-this-thing-go-anyway.html); and [www.zipcar.com](http://www.zipcar.com), accessed October 2012.

## MyMarketingLab

Go to [mymktlab.com](http://mymktlab.com) for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 8-1. List the names of the store brands found in the following stores: Walmart, Best Buy, and Whole Foods. Identify the private label brands of another retailer of your choice and compare the price and quality of one of the products to a comparable national brand. (AACSB: Communication; Reflective Thinking)
- 8-2. A product's package is often referred to as a "silent salesperson" and is the last marketing effort consumers see before they make a selection in the store. One model used to evaluate a product's package is the VIEW model: visibility, information, emotion, and workability. *Visibility* refers to the package's ability to stand out among competing products on the store shelf. *Information* is the type and amount of information included on the package. Some packages try to simulate *emotion* to influence buyers. Finally, all product packages perform the basic function of *workability*—protecting and dispensing the product. Select two competing brands in a product category and evaluate each brand's packaging on these dimensions. Which brand has superior packaging? Suggest ways to improve the other brand's packaging. (AACSB: Communication; Reflective Thinking)