



WHO WINS IN TURBULENT TIMES?

Pulling ahead of the competition

By Adrian Ryans - March 2009

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Credit crunch, downturn, recession, layoffs – open a newspaper today and these are the words that leap off the page. When cash is tight, people and companies are only too happy to turn to cheaper alternatives. Firms with a strong brand are undoubtedly in a better position, but it is becoming clear that in many sectors, people and companies are willing to give up brand and premium quality for "good enough" quality and lower prices. In many industries, low cost competitors are winning, while their traditional rivals are sailing on turbulent seas.

Discounters like Aldi and Lidl are rapidly gaining market share in many markets, while their more upmarket counterparts, such as Tesco and Waitrose in the UK, are lagging far behind. The same trend can be seen in the airline industry where Ryanair grew some 14% in the final quarter of 2008 when almost every other airline in Europe was cutting capacity.

A whole new meaning to packing your bags

Some "wealthier" customers shopping at Aldi for the first time in their lives are probably a little embarrassed at being in a discount store. However, their discomfort is probably mitigated when they read in the newspaper that "Which?", an independent consumer research organization, reported that Aldi's and Netto's mince pies were better than the more expensive ones of upmarket rivals. Now they are "smart" shoppers, not cheapskates. "Geiz ist geil" (stingy is cool), as the Germans would say.

In addition, shopping at an Aldi-type store speeds up and simplifies the whole shopping process – convenient location, relatively small store, less choice, no encouragement to hang around, and a much lower tab at the end of it. In an Aldi there is no space at the checkout to pack your bags – you have to quickly dump your shopping back in the cart and pack it elsewhere, speeding up the checkout process for the other shoppers.

These are smart, innovative competitors, who should not be underestimated. When good times return, as they will, many customers will continue to buy from their newfound value-for-money suppliers.

Beware of mindlessly slashing prices

Economic downturns can provoke knee-jerk responses in some companies. As demand softens and some customers start defecting to lower cost rivals, they reduce prices. In an attempt to maintain margins, both service and support may be reduced. If this cycle is repeated two or three times, a company can find itself stuck in the middle – between the premium players who did not indulge in mindless price and service reductions and the truly low cost rivals. Here it finds that it is not meeting the needs of any significant segment of customers. J

Judicious cost cutting can work if a company really knows which elements of its product and service package are creating customer value and which are not. By intelligently cutting back, it can reduce costs while retaining customers.

Fight or flight

Traditional companies have three fundamental options for responding to low cost competition. The first is entering into battle with their low cost rivals; the second is trying to escape from them by having better-performing products or services; and the third is trying to build deep, enduring and value-creating relationships with customers so that they are less focused on price.

In the last recession, Dow Corning launched Xiameter, an internet-based business unit that offered product-only solutions to customers who were willing to buy in large quantities with relatively long lead times and who did not need technical support. Xiameter was well positioned to deal with the company's low cost rivals. The other Dow Corning business units continued to offer a more extensive range of silicone products bundled with extensive technical support at premium prices. The Xiameter and Dow Corning business units shared a common manufacturing and IT infrastructure to maximize the synergies. In many cases, however, the best solution is for the low cost business to be totally separate from the premium part of the business.

Apple, with iPod and iTunes, is a good example of a company that has managed to distance itself from commodity MP3 player competitors by building a highly integrated and easy-to-use solution for customers. Most consumers see Apple's products as being demonstrably better than competing offers.

Explosives manufacturer Orica chose a different strategy. When it found that its core business was becoming increasingly commoditized, it decided to differentiate itself from its low cost competitors by offering complete blasting solutions for mines and quarries. For customers who were willing, it took over their blasting crews and equipment and provided a blasting service. In this way, it developed deep, intimate relationships with its customers and charged them not for the amount of explosives used but for the amount of rock or ore on the ground that met a customer's size specifications.

Tough times can be a good time to introduce new products and services

Every cloud, even the current recession, can have a silver lining. Both the iPod and Xiameter were launched during the last downturn. At such times, it is often cheaper and easier to get the attention of customers because less advertising is required and costs are lower. Many competitors are focused internally on reducing headcount and costs. Customers are under a

lot of pressure and may be more open than usual to trying a new product, particularly one that promises to cut costs. In business-to-business markets, customers may have more time to test and try new equipment or new materials. When times are good, production lines are running at capacity and nobody wants to lose sales while integrating new material or equipment that may take time to reach its potential. In tough times, the lines are idle and the opportunity cost is zero. So, ironically, the worst of times can be the best of times to pull ahead of the competition.

Professor Adrian Ryans teaches on the following programs: Strategic Marketing in Action, Mastering Technology Enterprise and Orchestrating Winning Performance. His book *Beating Low Cost Competition: How Premium Brands Can Respond to Cut-Price Rivals* has just been published by John Wiley & Sons.

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