



HOW TO MAKE THE BREAKTHROUGH SWEET SPOT EVEN SWEETER

NO-FRILLS COMPANIES ARE BECOMING MORE LIKEABLE. THAT'S BAD
NEWS FOR THEIR MID-RANGE COMPETITORS

By IMD Professor Seán Meehan – March 2015

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Rationality has its limits. Behavioral economists have shown us that we don't think as much as we think we do. Instead, we are instinctive beings who rely on emotions and biases to navigate the daily decision-making jungle. Smart companies, therefore, know that being liked can be valuable.

Leading low-cost and no-frills firms such as Ryanair, Aldi and Toyota understand this as well as anyone. First, they established their competitive superiority by hitting the elusive breakthrough sweet spot of sharp customer insight, impeccable delivery and awesomely clear leadership. Now they have gone a step further—becoming more likeable and broadening their appeal without diluting their highly valuable positioning. This is bad news for mid-market rivals who offer a “good enough” price and supposedly better customer service.

Enjoy your flight

Ryanair disrupted the flag-carrying airline industry because it “eats, drinks and sleeps low cost,” in the words of combative CEO Michael O’Leary. “We guarantee the lowest airfare... a safe flight....on-time,” O’Leary once said. “That’s the package, we don’t and won’t give you anything more on top of that.” The austere approach worked. Ryanair now carries the most passengers internationally of any airline, has one of the lowest lost luggage rates, is the most “on-time,” and boasts an impeccable safety record and stellar financial performance.

But having hit the breakthrough sweet spot with his low-cost promise, O’Leary surprised everyone in 2013 with new customer-friendly initiatives including a revamped website, family packages and deals for business travelers. In Ryanair’s new advertising O’Leary acknowledged that, having listened to customers, taking away unnecessary pain made sense. Commentators who called this a U-turn ate humble pie when Ryanair’s passenger numbers, revenues, profits and share price soared even further.

Ryanair’s move should be of great interest to all CEOs. Crucially, it is not a fundamental brand repositioning. Nor is it a page taken from Clayton Christensen’s disruptive innovation playbook. The customer-friendly approach is much braver than either of these, and not at all an exception.

The price is right

Hard discounter Aldi has done something similar with its UK retail business. With Ryanair-like clarity and austerity it successfully delivered on its ultra-low-cost customer offer and credibly claimed to be Britain’s lowest-price grocer. Then in 2010, while still in the breakthrough sweet spot, it embarked on improving its in-store experience and asserting its cost advantage through humorous advertising.

As with Ryanair, the skeptics said Aldi was tinkering with its brand and messing with a potent formula. They were wrong again. In 2014 “Which?” magazine reported that Aldi had the highest customer satisfaction in its category, and leading market researcher YouGov named it the UK’s most liked brand overall. Aldi doubled its UK market share in the four years to the end of 2014.

The Toyota Way

Japanese carmaker Toyota also hit the breakthrough sweet spot earlier and better than its rivals. Rather than a pure low-cost promise, Toyota’s claim to fame was Quality, Reliability and Durability—the product of the famous Toyota Way. This positioning was powerful, persistent and authentic and survived the now infamous technical recalls in 2009-10.

Although Toyota had become one of the world’s most respected brands, and the largest manufacturer and seller of cars and trucks, it wasn’t much loved. Like Ryanair and Aldi, its positioning, while valuable, was utilitarian. So Toyota launched *Always A Better Way*, a campaign designed to assert its DNA, making the company relevant in an accessible and likeable way. Around the world, the company is successfully managing to be both respected and liked.

Three lessons for CEOs

CEOs of companies that have not yet found the breakthrough sweet spot—and that is many, if not most of them—should NOT try to make their brand likeable. Instead, they should draw three important lessons:

1] Pursue respect first. Respect comes only from establishing competitive superiority by hitting the breakthrough sweet spot. You'll know you have gained it when you are consistently associated with one attribute above others. What do you eat, sleep and drink? Is this what customers value you for?

2] Nice comes after respect. When you eat, sleep and drink your breakthrough sweet spot, it's easy to overdo the pursuit of clarity. The sweet spot is intended to inform and offer choice, not penalize. Work on the customer experience and get rid of the pain points which, in O'Leary's words, "unnecessarily piss people off."

3] "Good enough" is over. Mid-range companies have typically responded to the low-cost challenge by offering a "good enough" price and seeking to differentiate themselves on service. But as no-frills competitors become more likeable, this strategy looks increasingly fuzzy and tenuous.

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