'Defender' helps mature brands ward off new foes

BY JOHN R. HAUER
Massachusetts Institute of Technology
Boston

ONE STRATEGIC question consumer-products companies must face is how to defend a mature product against new competitive entries. What are the important moves to make in this chess game as moves and countermoves are made?

Defensive strategy could focus on any or all elements of the marketing mix, but my work within the Defender consumer model over the past several years has shown what typically is most effective. (Editor's note: See "Application of the Defender Consumer Model," by John R. Hauser and Steven P. Gaskin, Marketing Science, Fall 1984.)

Price almost always should be decreased. Only if the market is highly segmented and a chance for a local monopoly exists should price be raised.

Price decreases improve the product in the eyes of the consumer; this improvement causes market share to increase. Of course, total profit suffers because of the reduced margin.

But even the best defensive strategy will not maintain profitability at the same level before the introduction of the new product. Lowering price seems to be a necessary evil to insure that demand increases.

Reallocation of advertising also is important. The budget should focus on repositioning the product, not improving awareness. And the repositioning effort should focus on product strengths instead of attempting to meet the new competitor directly.

The reason behind the advertising reallocation is best explained by using a marginal cost/marginal revenue analogy.

Before a new competitor enters the market, advertising dollars are spent to make marginal consumers aware. When new competition emerges, marginal consumers are less likely to purchase the existing brand; therefore, the marginal revenue gained by continuing awareness advertising is less than the associated marginal cost.

Instead, advertising should enhance the strength of the product as seen through the eyes of the core customers.

This recommendation to focus on repositioning toward strength assumes that the size of the market remains about the same, even after the new competitor enters.

If, on the other hand, the market size increases dramatically, the advertising budget should include money for an awareness campaign targeted at the new prospects.

CONTINUING WITH the focus on mature consumer markets, Defender results suggest a reduction in distribution costs. The reasoning is similar to the arguments proposed for decreased spending on awareness advertising. Marginal distributors should be replaced or abandoned.

To recap, every element of the marketing mix is involved in the defense of an existing product from attack by a new competitor:

- By lowering price, the product is improved.
- Advertising is reallocated to repositioning; and
- Distribution costs are reduced.

Qualitatively, what does all this mean with respect to markets themselves?

Over time, markets evolve. In the future, every company fights for the ground which is most defendable, but only the strong survive.

After the shakeout, the survivors unilaterally decide to move away from one another into specific niches.

All firms want the market to be segmented. Unilaterally they find it more attractive to maintain the situation in which one firm occupies the middle ground and the others take the extremes. Each is more profitable, and the firm in the middle is most profitable.

This is possible because each firm is able to maintain a higher price when brands are perceived as being diverse.

Essentially, as firms cluster around the middle ground, the market resembles pure competition. As some firms move toward the extreme, the market resembles more of an oligopoly.

Thus, all the players in the chess game must recognize the naiveté of unilateral moves. A move by a competitor toward the most attractive market position (the middle) causes a reaction by the firm already there.

If forced to lower price, the first-to-market firm signals the beginning of the price war, and everyone loses.

Dream

CONTINUED FROM FRONT PAGE

I believe the AMA needs to become more heavily involved in the continuing education of marketing professionals—to help marketing generalists stay current and to help marketing specialists pursue their specializations as well as keeping abreast of the broader field.

AMA conferences, workshops and publications are constructed to accomplish the former. And the AMA's Faculty Consortium is expressly designed to help professors learn more about an important content area in marketing.

Unfortunately, large numbers of marketing educators do not read the journals, do not attend the conferences, workshops, and consortia, and do not even belong to the AMA.