# CHAPTER 5

# MARKET-DRIVING STRATEGIES: TOWARD A NEW CONCEPT OF COMPETITIVE ADVANTAGE

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Creating competitive advantage is the central goal of competitive strategy.[1] As the marketing concept has been widely adopted in the last decade, it has become the dominant conceptual foundation for the development of competitive strategies.[2] According to that view, buyers know what they want, and the objective of competitive strategy is to give it to them. Competitive strategy, in other words, is *customer driven*. Competitive advantage arises from satisfying customers better, faster, or more cheaply than rivals. As markets evolve more rapidly, however, buyers face a growing array of novel products—home robots, digital organizers, Internet service providers—about which they know little. In response, individuals draw on their experience and observations to learn about what they want. Their experience and observations, however, are heavily dependent on the strategies brands advance. Thus, rather than *giving* customers what they want, competitive strategies are increasingly designed to help buyers *learn* what they want.

Although consumer learning is most obvious in rapidly advancing markets, careful observation suggests that every consumer learns in every market, no matter how fast technology advances. Consider the evolution of a buyer over his or her life. At some point, he or she will have no knowledge of how to be a buyer—no perceptions of any product, no preferences, and no experience making choices. Product by product, category by category, buyers amass the knowledge to be consumers. Over our lives, we continually encounter new product categories, sometimes as new-to-the-world products, but in other cases we encounter very old products that are simply novel to us. Although espresso is an "old" beverage, for instance, it was once new to everyone who enjoys it today. Thus, in all markets, whether technology advances or remains stable, buyers learn.

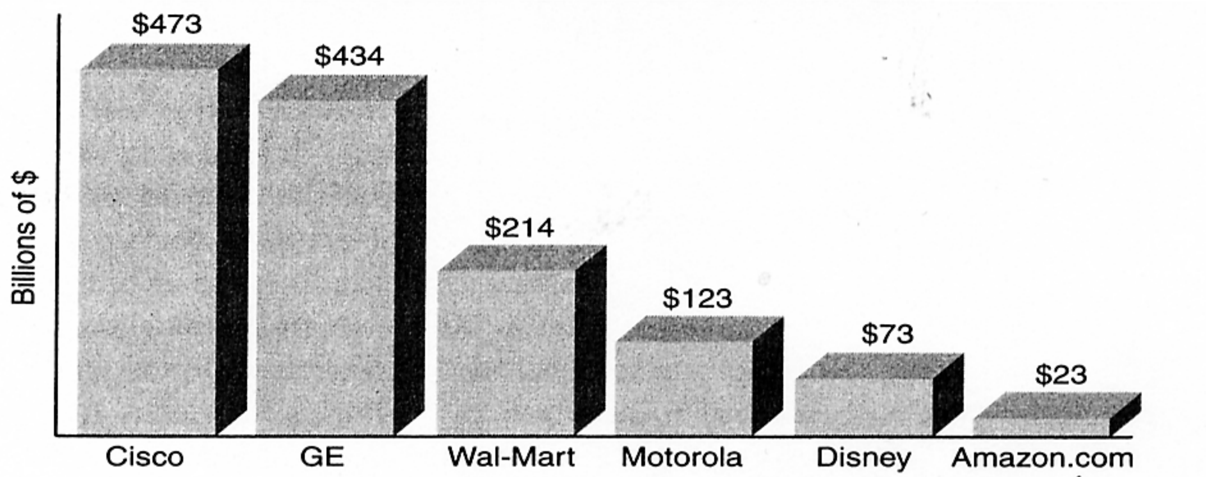
Traditional concepts of competitive strategy are ill-equipped to guide the creation of competitive strategy when buyers learn. When buyers learn, what they want depends on what they experience, and what they experience depends on the strategies brands advance. Thus, what buyers want depends on brand strategies. How, therefore, can you "give customers what they want," as suggested by the marketing concept, if what buyers want depends on what you give them? We propose, in this chapter, a new concept for developing competitive strategy. We argue that when buyers learn, competitive strategy takes on a long-understood but little practiced role: teaching buyers. Brand strategies define buyer experience—through the products offered, the advertising messages conveyed, indeed through every interaction between an organization and a buyer—and through that experience buyers develop an understanding of brand differences (perceptions), form judgments about the value of brand differences (preferences), and create a logic for choosing among brands (brand choice strategies). We refer to strategies that teach buyers as *market-driving strategies*.

The consequences of this concept of competitive strategy and the consumer learning implied by it are profound. Buyer knowledge—more specifically, perceptions, preferences, and logics for choosing among brands—define the essential rules of the competitive game. Every competitor must understand and play by these rules. If buyers learn, the rules of the game evolve, depending on the strategies brands advance. Competitive strategies, therefore, drive the evolution of the rules of the competitive game. Hence, the term market-driving strategies. In contrast, traditional customer-focused strategies assume that buyers know what they want, which implies that the rules of the competitive game are established by buyers and remain unchanged as brands compete. The objective of competitive strategy is to give buyers what they want, and at competitive advantage—faster, more effectively, or for less than rivals. Market-driving strategies, however, create competitive advantage in an entirely different way. Competition is a battle over the rules of competition that result from consumer learning. Competitive advantage is created by shaping the rules of the game to the advantage of one player over another.

Market-driving strategies can yield competitive advantage that is both powerful and enduring. Some of today's most successful organizations drive the market—Cisco, General Electric, and Motorola are all examples of organizations that have created change, carved out successful positions, and created value in novel ways. Figure 5.1, for example, shows the market capitalization of six organizations in mid-2000. Cisco's success is remarkable but more understandable given its role in the Internet. GE and Wal-Mart, on the other hand, are remarkable because they too operate in very mature, less attractive markets. In its aircraft engines business, General Electric has redefined its concept of value by shifting from simply supplying parts and service to working to create closer relationships with airlines to increase their asset utilization and redefine value in the process. In a similarly mature business, Wal-Mart has redefined value to buyers through its every-day-low-price program, offering customers consistently low prices, excellent selection, and good service. Similarly, Motorola has made a tradition of redefining existing markets and inventing new ones, such as cellular phones, paging, and mobile radios. Disney has redefined the theme park, and Amazon is reinventing the bookstore and perhaps retailing more generally. Each of these organizations is driving its markets and being rewarded for it.

In this chapter, we explore how market-driving strategies can create remarkable value. We describe the buyer learning process, the role of competitive strategy in shaping it, and its role in creating competitive advantage. We explore how buyers develop their perceptions and the nature of those perceptions. We discuss how, based on those perceptions, buyers form their concepts of value and how buyers learn to make choices. We explore how competitive strategy plays a role in the buyer learning process. We illustrate the impact market-driving strategies can have with two instances in which buyer learning plays an important role—the creation of new-to-the-world markets and the differentiation of established brands in mature markets.

**Figure 5.1**
**Market Capitalization of Some Market-Driving Firms**



## WHEN DO BUYERS LEARN?

### New-to-the-World Products

The most obvious case of buyer learning is when consumers are introduced to a new-to-the-world product, such as a home robot, a digital organizer, or an Internet service provider. The first brand to successfully launch a new-to-the-world product, often dubbed the *pioneer,* faces a difficult challenge. Buyers have no knowledge of the product, no concept of value, and no experience in choosing one. Key objectives of the pioneer are to teach buyers about important aspects of the product (that is, to establish brand perceptions), create a concept of value (that is, to help buyers form preferences favoring it), and to help buyers create a logic for choosing the pioneer's brand (that is, to develop a brand choice strategy). From the consumers perspective, to become a buyer, learning is required. Successful pioneers engage buyers in the learning process and create an enduring impact on the market as a result. For example, pioneers often become perceptually distinctive. We easily recall them, and we often associate their brand names with the entire product category (Jello, Xerox, Levi's, and Coca-Cola). Moreover, the pioneer often establishes the concept of value that prevails, sometimes for decades. Levi's established, for example, that jeans ought to be long lasting, rugged, and not change year to year. This concept defined the product category of blue jeans for over a century, and brands continue to be judged by it today.

### Product Evolution

After a market becomes established, competitors enter, technology advances, brands reposition, and products evolve. With that evolution, buyer learning continues, if at a modest pace. Automobiles continue to undergo such ongoing, modest evolution. Every year's new models are introduced and brands often seek to reposition, to occupy a somewhat different space in buyers' minds. For years, Volvo sought to be known as the safe car. Volvo crashed their cars to demonstrate their crashworthiness, told of families whose lives had been saved, and emphasized their safety features relentlessly. It worked. Volvos are seen as safe cars. But now, as other maker's cars are increasingly seen as safe (Mercedes-Benz and Lexus are two of note), Volvo hopes to change its image—to be seen as more sporty, more fashionable—but still, of course, safe.

As brands evolve, so do products, and product changes can lead to more dramatic changes in buyer knowledge. Buyers must learn how to value different product features and incorporate that valuation into their brand choice decision. Cadillac is including a satellite-based system, On Call, for instance, that can pinpoint a car's location to send aid or provide directions to its driver. As On Call and its rivals become more commonplace, buyers will reach a judgment about the value; they will form preferences for such systems. As they do, their preferences for cars more generally may be affected. As a result of this shift in value, a buyers' car-choice process can change. Buyers may ignore traditional decision factors such as styling if Cadillac's On Call system comes to be seen as sufficiently valuable.

Thus, whether prompted by a desire to reposition, to differentiate through offering novel products, or simply because of the entry of new competition, brand strategies evolve. With that evolution, buyers learn; their perceptions of brands change, their concepts of value evolve, as do the bases of brand choice.

## Value Innovation

More dramatic, though less frequent than market evolution, is the case where one firm redefines value of the product through either a breakthrough technology or a breakthrough strategy. The mobile phone is an example of a value innovation that has lead to profound changes in competitive strategies and thus consumer learning. Prior to the creation of the cell phone, mobile phones existed, but each mobile phone, essentially a two-way radio, operated over a large geographic area. Radios were powerful, and hence bulky (mostly operating as car phones), and with few radio frequencies available, few people had access to mobile communications. The breakthrough that created today's cell phone business is the idea that one large geographic area can be divided into a number of smaller cells, and that a mobile phone needs only to operate within one cell. As a result, a small number of frequencies can be shared by a large number of users (multiple individuals can use the same frequencies in different cells), and phones can lower power and hence be small and portable. Based on this new technology, consumers are developing perceptions of the phone makers and carriers (Motorola, Nokia, Sprint, AT&T, etc.), and learning how valuable a mobile phone can be in their lives.

Although we often associate value innovation with technological breakthroughs, strategic innovations can also be a vital source of value innovation. Starbucks offers an excellent example. Coffee is one of the world's oldest commodities. The rituals surrounding it are well established in many countries as are buyers' preferences. For instance, more darkly roasted coffee beans are preferred in southern Europe while a somewhat lighter roast is preferred in the north. Americans have strong preferences for coffee, too; lighter roasts are preferred to darker roasts and drip brewing is common, yielding a weak brew by southern European standards. Despite these preferences, Starbucks is redefining coffee in North America, using that typically southern European brew—espresso. The technology to brew espresso is well established, but its appeal in North American has been limited. But through the concept of the coffee bar, Starbucks is reeducating North Americans about coffee and is creating a coffee culture. As a result, many people are abandoning their old concepts of coffee—as a weak, drip-brewed beverage—and replacing it with the Starbucks-crafted concept of the Italian coffee bar.

### New-to-the-Market Buyers

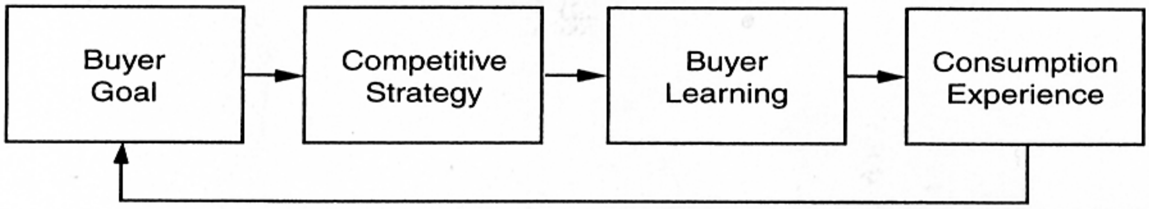
The least obvious case of consumer learning is when products and competitors remain stable, unchanging for years, perhaps decades. A lack of innovation and the absence of new competitors may lead you to believe that there is no buyer learning occurring. In both laundry detergent and ice cream, for instance, product benefits have remain unchanged for years, there have been few innovations, and virtually everyone is familiar with major brands in both categories. Despite that constancy, buyers continue to learn. Every day buyers who have never heard of Tide or Surf, Breyers or Häagen-Dazs enter this world. These buyers do not even know what ice cream or detergents are. They will learn, perhaps quietly, but they will learn. As buyers age, they continually enter new markets as they enter new stages of life. Adolescence brings with it a fresh set of challenges—insecurity, awareness of the opposite sex, the discovery of clothing—that require learning to address. All the years between adolescence and retirement bring with them some of life's most significant experiences—college, marriage, children, middle age, perhaps divorce, new job, expanding family, aging parents, and many others. As we face some of these challenges for the first time we learn, and our perceptions, our concepts of value, and how we make decisions change, based on our experience. In other words, buyer learning is a life-long process.

## WHAT DO BUYERS LEARN?

Whether buyers face a new-to-the-world product or simply face an age-old choice for the first time, the process of buyer learning is similar. Consider the case in which a consumer is entering an established market, graduate business education, for the first time. Suppose a 27-year-old, college-educated advertising executive enjoys work, but recently senses a growing interest in seeking more responsibility, perhaps more money, and more challenging professional opportunities. To satisfy these personal goals, he considers a number of alternatives: a head-hunter, a personal network of colleagues, or an MBA. He may explore all three options, and in the process review brochures from different schools, chat with friends who have MBAs, and those who have made other choices, and read articles in the popular press to learn the advantages of business school and differences among schools. Deciding to pursue the MBA further, he applies for and gains admission to a set of schools. To make a choice, he will develop a clearer sense of the difference between schools, the value of those differences relative to his goals, and ultimately identify some logic for selecting one school. After graduation, and throughout his career, he will assess whether his choice did in fact help him achieve his goals.

That simple process, illustrated in Figure 5.2, is one that buyers engage in many times throughout their lives. The buyer learning process is initiated when we identify goals that we believe we can satisfied, to some degree, by becoming a buyer. With those goals in mind, we seek a set of alternatives that, based on the strategies observed, we perceive can help us achieve our goals. Once buyers engage in a search, reading about business schools or talking to friends for example, the buyer learning process begins. Ultimately, based on what buyers learn, they make a choice and evaluate whether that choice did in fact help them achieve the goals sought. Buyers may, for a particular product category (such as graduate business education), engage in this process only once. In the case of automobiles, they may engage in it every few years, and in the case of wine, buyers may engage in this process more frequently.

**Figure 5.2**
**Buyer Learning Process**



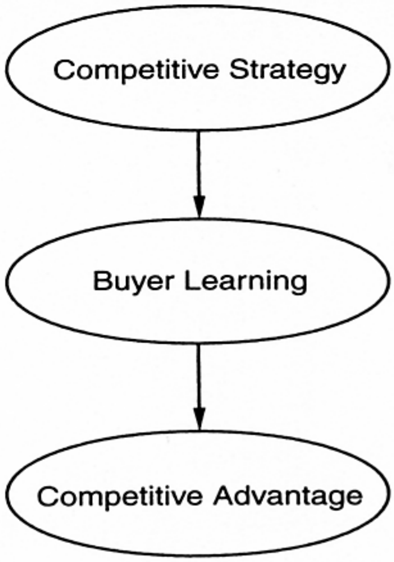
## Buyer Learning and Competitive Advantage

Competitive strategies play a central role in the buyer learning process. The competitive strategies brands pursue create the buyer experience and, based on this experience, buyers learn three key things—how to perceive brands, how to value the differences among brands, and how to make a choice among the alternatives. These perceptions, preferences, and choice strategies become the essential rules of the competitive game. Those rules, however, are continually updated as buyers continue to learn. In contrast, under the conventional view of buyers—that they know what they want—the rules of the game remain fixed, or at least they are beyond the influence of competitors' strategies. In that case, competition between two rivals, Coca-Cola and Pepsi or Toyota and Daimler Chrysler, is like a chess match. The rules are clearly established, beyond the control of the players. Competitive strategies are crafted subject to those rules. Competitive advantage, in that case, arises from playing by the rules that buyers establish and creating unique value in the minds of buyers.

But if buyers learn, competitive strategies plays a fundamentally different role in the competitive process. Buyer knowledge still defines the rules of the competitive game. But those rules are the *outcome* of the competitive process. Rather than a chess match between rivals, a better analogy might be a poker game where the game is dealer's choice and the selection of the dealer is up for grabs. The dealer defines the winning hand, and competition determines who deals. Unlike poker, however, the dealer defines the rules *after* the cards have been dealt, and as long as the dealer can retain the dealer's chair, he or she can continue to control the game. A brand that can similarly drive the market, such as Starbucks, is essentially setting the rules of the game for as long as it can retain the initiative. By defining the rules, the market-driving firm gains an edge over its rivals. That edge produces competitive advantage.

The process by which market-driving strategies create competitive advantage is shown schematically in Figure 5.3. Through competitive strategy—the market segments targeted, the brand positions adopted, the products offered, the advertising messages crafted, and the prices chosen—the firm influences the buyer learning process. Some of the key differences between traditional customer-focused approaches and the proposed market-driving approach are listed in Table 5.1. Essentially, according to the conventional approach, buyers evaluate brands on some common perceptual dimension, they judge their value according to fixed preferences, and they select the brand that offers the highest utility. Considering consumer learning

**Figure 5.3**
**Buyer Learning and Competitive Advantage**




and market-driving strategies reveals that perceptions, preferences, decision making by buyers, and the nature of competitive advantage change as shown in Table 5.1 and are discussed next.

## Brand Perceptions

Brand perceptions are the thoughts, feelings, and ideas we associate with a brand. Initially, buyers have no perceptions of any brands. All brands are at some point novel to us, and all the brand perceptions we have are learned. Buyers base their perceptions on many different factors; we perceive differences in product features, different associations are created through advertising or product design; different uses lead us to draw different conclusions about a brand. For instance, thinking of a Montblanc pen, we might associate *luxury, beautiful design,* and *prestige.* These perceptions

**Table 5.1**
**Customer-Focused versus Market-Driving Strategies**

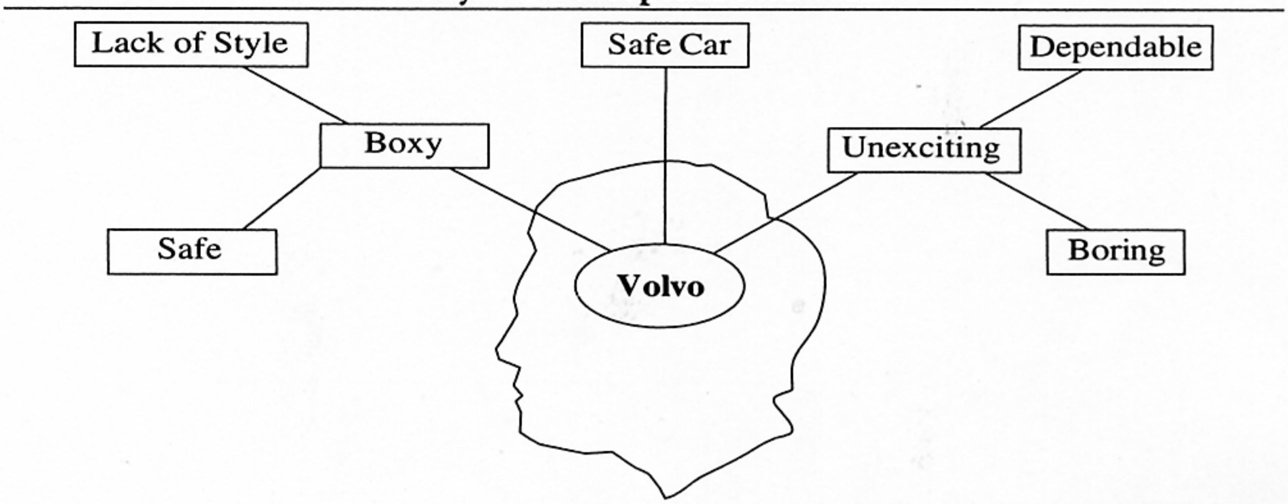
| *Customer-Focused Strategies* | *Buyer Behavior* | *Market-Driving Strategies* |
|---|---|---|
| Common dimensions | Perceptions | Network of associations |
| Fixed preferences | Preferences | Learned value concepts |
| Utility maximization | Decision making | Context dependent |
| Respond to buyers | Competitive advantage | Shape buyer learning |

may be due to the design of the pen, its high price, the people we see using one, or where they are distributed, or some combination of all these factors.

Whatever the source, buyers remember or recall brand perceptions as *networks* of thoughts or associations. These networks are simply the associations that a buyer maintains that are linked, at its core, by the brand. One possible such network is illustrated in Figure 5.4 for Volvo. Buyers have some primary perceptions of Volvo: It is a safe car, but boxy and unexciting. Buyers may also hold secondary perceptions. In the figure, unexciting is a complex perception, with both a positive and negative connotation: On the one hand, unexciting is boring, but on the other hand, unexciting suggests dependability. Any perception can be viewed positively or negatively. Boxy, for instance, suggests a lack of stylishness, but it also suggests safety. As this Volvo example suggests, our perceptions typically are logically consistent. Boxy, safe car, and unexciting form a logically consistent view from a buyer's perspective. Collectively, the perceptions that buyers associate with a brand are its *brand equity*—the unique set of associations that distinguish it from competitors, the meaning of a brand to buyers.

Brand perceptions, like those shown in Figure 5.4, have a number of important properties. Perceptions for brands in the same category are not necessarily of equal dimension or of equal perceptual intensity. We may have a richer, more complex set of associations for Volvo than we do of Saab, for example. This may be due to the fact that we have more experience with Volvo than Saab, due to Volvos greater sales or more intense advertising spending, or we may know more people who drive Volvos than Saabs. Whatever the

**Figure 5.4**
**Buyer's Perceptual Network**



reason, a richer set of associations with a brand can increase the ease with which we recall it, affect our feelings toward the brand (increasing trust or confidence, for example), and affect our price sensitivity. It is hard to justify a price premium for a brand about which we know little.

A different perceptual network is the fundamental basis for brand differentiation. The objective of brand strategy is to create vast differences in perception. Any difference can be valuable, even differences that, at first blush, seem to be negative (as we had noted regarding Volvo's boxiness, implying lack of style, but also safety).

Even if brands have similar associations, differences between brands can still exist in the minds of buyers due to differences in the vividness of brand associations. Levi's and Lee jeans have many of the same associations. Both are American, rugged, associated with the American west, and similarly designed and priced. Despite these similarities, the perceptions of Levi's are more powerful, more vivid. These differences are the result of the experience buyers have with Levi's, the role Levi's have played as a symbol of youth, ruggedness, and independence. Those differences greatly favor Levi's in any competitive situation.

***Perceptual Distinctiveness.*** One of the most powerful sources of competitive advantage is simply being perceptually distinctive—standing out among the alternatives. Perceptual distinctiveness can be achieved in a number of ways. But fundamentally it depends on creating a unique set of brand perceptions or a more vivid set of brand associations. Some brands achieve a perceptual distinctiveness by defining the product category. Jello, Xerox, and Coca-Cola all pioneered their markets and in the process became strongly associated with the product category. Being so perceived has a number of important competitive advantages. When buyers consider buying any brand in the product category, whether it is gelatin or duplicating equipment, the pioneering brand comes to mind. As a result, it is considered more frequently that others and, in many cases, chosen more than others—even if it has no inherent advantage in terms of the product. Its advantage arises from being more memorable, easier to recall, and possibly more trusted. In some special cases, a brand and a product category become inseparable. It is hard, for example, to describe the product that is branded as a Tootsie Roll without using the brand name. The name and the product are inseparable.

Without being synonymous with the category, a brand can still be distinctive. Distinctiveness can be achieved by simply creating a particularly vivid association. BMW is strongly associated with performance. That unique association has been created over 30 years through consistent product development and advertising. The very first advertisements for BMW in North America labeled BMW as "The Ultimate Driving Machine." That description remains true to the products and the entire experience of driving a BMW. It thus provides a powerful basis for being distinctive in a market where important differences between brands are quickly disappearing. Häagen-Dazs is another example of a highly distinctive brand. It too has consistently provided a luxurious, rich dessert. Even so, it is not synonymous with super premium ice cream, nor is BMW synonymous with luxury cars. But within their categories, each has a unique association that distinguishes it from others.

A unique association is competitively valuable. By being linked so strongly with performance, BMW enjoys an advantage by implicitly defining competitors as lacking the very strength BMW enjoys. Similarly, Häagen-Dazs perceptually overshadows other brands that offer equivalently delicious ice cream. With the same perceptual distinctiveness, however, trial of rivals is lower, comparisons less frequent, and thus other brands suffer by comparison, even if in blind taste tests, they might perform on par with Häagen-Dazs.

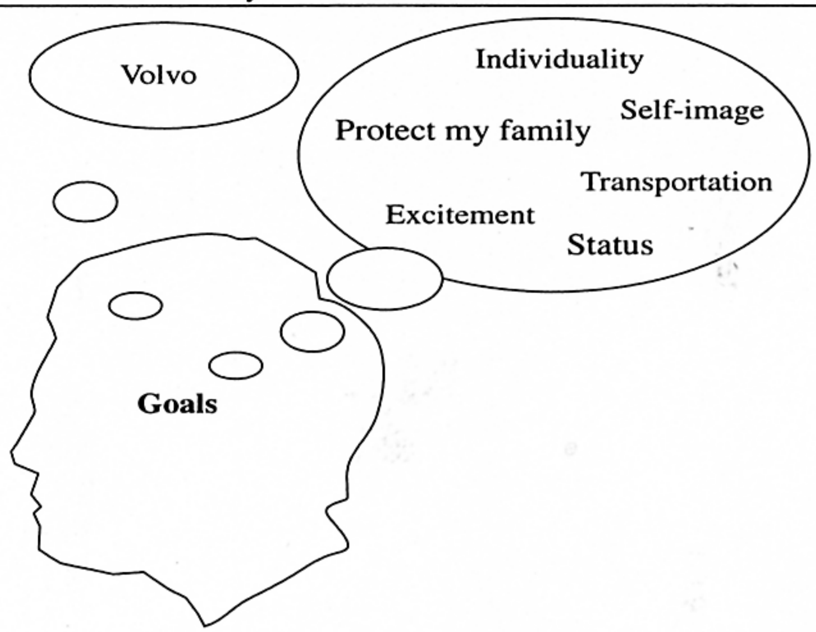
Some brands achieve distinctiveness by creating networks of associations that, collectively, are unique and memorable. *Brand personalities,* as these are called, consist of a set of associations that individually may be shared with other brands but collectively are unique. The term derives from the human personality; we may share traits with parents or siblings, but every personality is in one sense unique. Consider Levi's once again. Levi's personality is defined by a set of five associations—it is *American, rugged, youthful, rebellious,* and *authentic.* Other brands are *American* (Coca-Cola), *rugged* (Wrangler), *youthful* (MTV), and *rebellious* (Harley-Davidson). But none shares that same mix of associations, that unique personality. Many of the most successful brands of all time have perceptually rich, unique personalities—Apple Computer, Coca-Cola, Marlboro, McDonald's to note just a few. Brands with vivid personalities can be distinctive, competitively unique, more easily recalled, and more positively viewed. As a result, brands with distinctive personalities have advantages as long as the personality remains distinctive.

## Preference Formation

In every category, buyers learn their preferences. In some categories, such as wine, this is an "acquired taste." In other categories, such as petroleum jelly, this is less obvious, but nevertheless just as common. In every category, our knowledge of what we like is learned. Individuals enter this world with no preferences for coffee over tea, Coke over Pepsi, BMW over Mercedes-Benz. We learn to prefer one to the other. Initially, buyers have no idea how to value product attributes and thus no way to evaluate alternative brands. Buyers *learn* how to value brands *through experience*. As buyers experience more brands, buyers find some they like, some they do not. This can trigger the process of consumer inference: What are the characteristics of the ones I like and the ones I don't like? Obvious differences in brand or attributes are assumed to be the "cause" of these differences, and one logical inference is that you have a preference for a brand or some combination of attributes. If you prefer Starbucks' coffee to other brands, you might conclude that you do so because of the darker roast and particular blend of beans. Our preferences *are formed*.

To some degree, we form preferences for every product that we buy. Buyers construct their preferences based on their perceptions of each alternative they consider and the goals they seek. For example, suppose the luxury car buyer shown in Figure 5.5 wishes to assess the value of each Volvo to him. He must perceive the key aspects of a Volvo and determine the value of each given his goals. He must, in other words, form preferences for a Volvo.

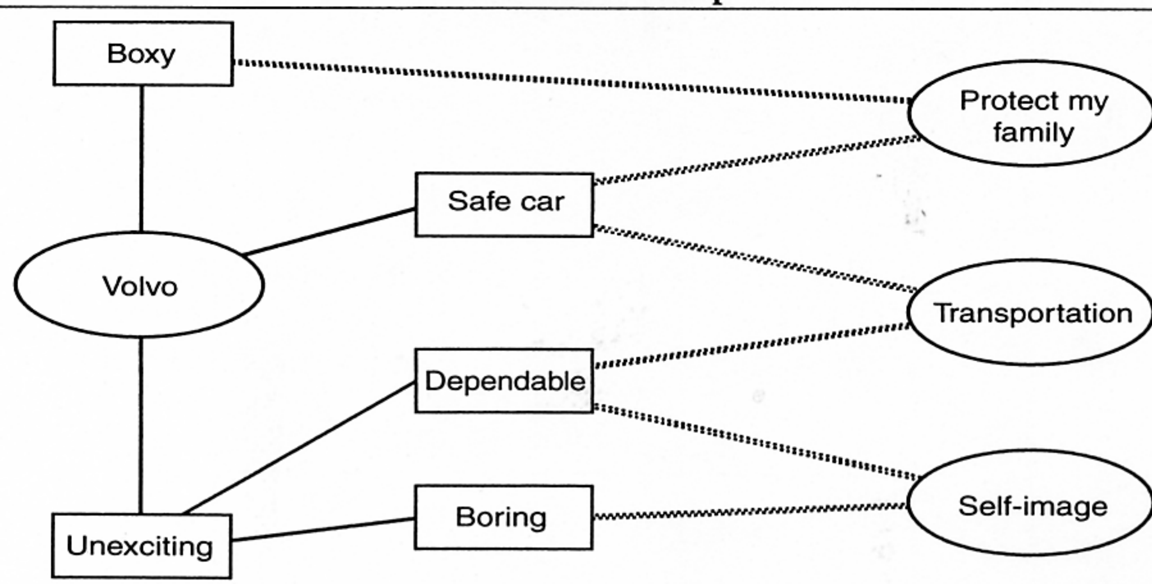
**Figure 5.5**
**Buyer Valuation Problem**



One way to represent the output of that process is with a *brand value network* as shown in Figure 5.6. On the left, are shown the buyer's perceptions of Volvo—safe, boxy, dependable. The buyer in this case seeks a car that will enable him or her to protect his or her family, have a positive self-image, retain a degree of individuality, some status, and enjoy a certain degree of excitement. Of all the goals sought, Volvo is relevant for three (family protection, self-image, and transportation). The dotted lines between associations and buyers goals on the right indicate how buyer perceptions of Volvo contribute to buyer value. For example, the safe perception of Volvo links directly to buyer's desire to protect his or her family, as does the perception of Volvos as boxy. Being perceived as dependable and safe, the Volvo will, buyers believe, provide reliable transportation, and being perceived as dependable, if boring, contributes to a certain self-image. Volvo's perceptions do not contribute to the other goals buyers seek—individuality, status, and excitement.

A brand value network provides a simple yet clear summary of the value buyers derive from the perceptions they observe. It shows importantly that buyers seek multiple goals in making a purchase. It is these multiple goals that often times make being a buyer so difficult. Different brand, being perceived differently, will contribute to a largely dissimilar set of goals beyond basic functionality, making functionally comparable products, in fact, largely incomparable in terms of value. Once established, a buyer's brand

**Figure 5.6**
**Brand Value Map**



value network can evolve as does the buyer's perceptions of the brand (e.g., Volvo being seen as more sporty, less boxy), or as the buyer evolves, adding or changing the goals sought. Differences across buyer segments can also be captured as different goal structures, so that brand value networks can be constructed for different market segments.

***Preference Advantages.*** Powerful and enduring competitive advantages can be created in the preference formation process. This is most obvious in the case of a pioneer that defines a new product category, as in the case of Levi's, Xerox, and Coca-Cola. By defining the category, these brands begin the process of linking brand perceptions with buyer goals. As noted earlier, the pioneer can define its perceptions first, and thus become better known and more vividly recalled. But the pioneer can also begin the process of preference formation first. It can define the type of value associated with the product. Levi's for instance, chose to focus on creating functional rather than fashion value (the pants were, after all, designed for gold miners). But by helping buyers understand the nature of value, they help buyers form their concepts of value. In essence, pioneers have the opportunity—sometimes taken, sometime squandered—to define value. Value can be redefined as well, as GE has successfully done in its aircraft engine business and as Wal-Mart continues to do with retailing. The family car, in fact, has gone through two recent revolutions, pushed largely by Chrysler, changing from the station wagon, to the minivan, to the current sport utility vehicle. Throughout these changes, while the concept of the family car has evolved to include four-wheel drive, the use of the family car has changed little.

Defining value creates enormous competitive advantages. In the poker analogy used earlier, the dealer defines the winning hand. In many cases, one brand establishes a standard for value. Starbucks in coffee, Häagen-Dazs in ice cream, Jeep in sport utility vehicles have all defined value in their markets. Coca-Cola, remarkably, defined value and continues to do so over a century later. In the high-technology markets, the notion of an architectural standard has become commonplace. The VHS-Beta battles are legendary, as are the Window/Intel-Apple wars. A key to winning these battles is to establish the technological standard. In markets with no architectural control points, there are perceptual control points, psychological standards with much the same effect. By creating a market standard, a market-driving firm owns these control points in the minds of buyers. In many cases, this creates problems for rivals. Consider Coca-Cola. To gain advantage, a competitor might reason that it would need to differentiate, be distinctive. But how? By being different, with a sweeter beverage, for instance, the competitor might be seen as inferior. Copying Coca-Cola, on the other hand, a rival may be seen as a weak alternative, a poor substitute. Thus, the advantages of defining the standards of value are enormous. What are the options for competing with a brand that drives the market? Essentially, there are three:

**1.** *Dethrone the leader.* The most obvious, though not always the best, is to displace the established leader, at least among a segment of buyers. The classic example of a successful challenger is Pepsi. For decades Pepsi competed with Coca-Cola using a "me-too" strategy, offering more cola for less money. It failed by most accounts. Finally, Pepsi thought the unthinkable: to challenge Coca-Cola on the core aspect of the product—taste—in Coca-Cola's strongest markets. The purpose of the challenge was to demonstrate the superiority of Pepsi to loyal Coca-Cola drinkers in terms of taste and, through a buyer re-education process, replace Coca-Cola with Pepsi as the standard. Pepsi targeted younger consumers, whose preferences were less well-formed than older buyers who were more loyal to Coca-Cola. Thus, the "choice of a new generation" was born and Pepsi established itself as a standard, at least among younger buyers.

**2.** *Shift the standard.* If the leader cannot be displaced, another common strategy is to shift the standard slightly but significantly to disadvantage the leader. MCI successfully shifted the nature of value in long-distance service in the United States, long dominated by AT&T, a monopoly known for great customer service. In contrast, MCI (founded as Microwave Communications Inc.) used low price to generate customers and call volume. They fought to deregulate the industry and have consistently been innovative in pricing, offering programs like MCI Friends and Family. As a result of their efforts and the efforts of later entrants like Sprint, prices have dropped, and price has become a more important factor in buyers' decisions. Prices have fallen dramatically to nearly the cost of billing and customer acquisition (about two cents per minute). In response, AT&T has dropped prices to meet rivals, while they are launching an effort to once again shift the nature of the game, this time toward bundling services (to lower billing and customer acquisition costs) and thus regain control of the value standard.

**3.** *Establish a new standard.* The most dramatic and perhaps risky strategy is to redefine the standard entirely. One way to create a new standard is through product innovation. Gillette has built a powerful position in the razor market through product innovation, enabling Gillette to overtake the market pioneer, Star, and other later entrants.[3] Innovation plays a central role in low technology markets as well as high technology markets—the laundry detergent market, pioneered by Dreft, is dominated by Tide, and Eveready dominates the battery pioneer, Bright Star. In all these cases, late entrants were able to displace the pioneer as the standard of comparison and create a new standard. Gillette has even challenged the standards it established, choosing to replace them with newly created Gillette products. As the newly established market standard, Gillette, Tide, and others like them enjoy many of the advantages previously associated with pioneers. Strategic innovation, as already noted, is a similarly powerful means to redefine value in a market.

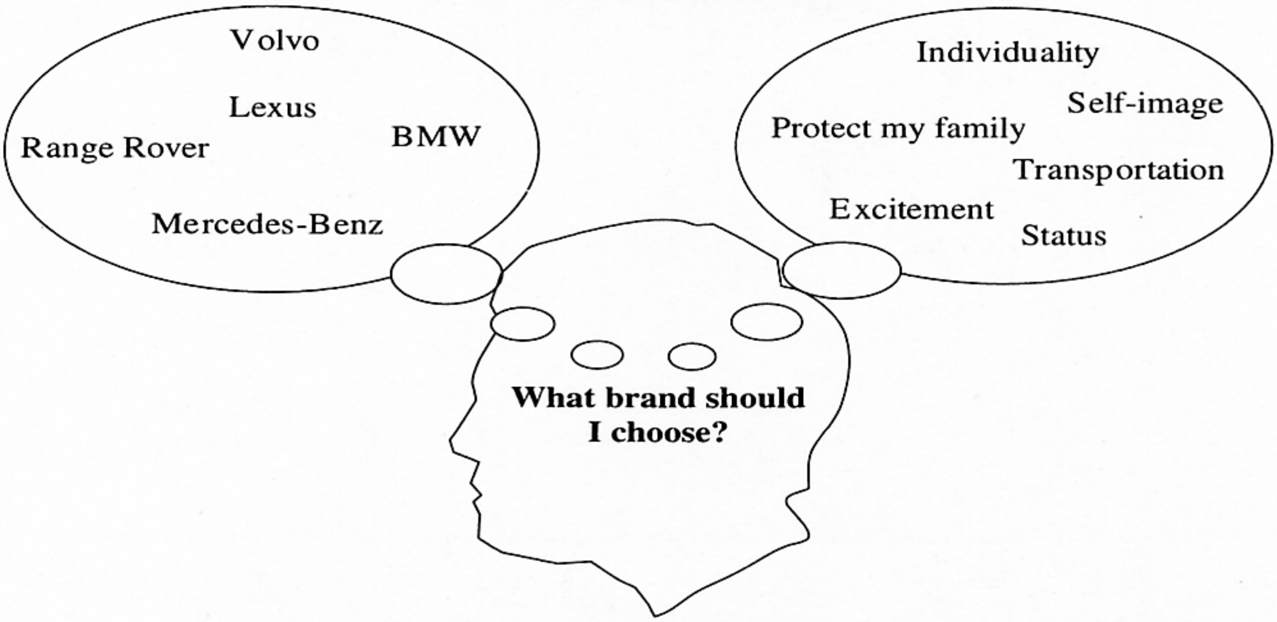
## Brand Choice

Consider our hypothetical luxury car buyer discussed earlier in the context of Volvo. Suppose that in addition to a Volvo, he also considers a BMW, Range Rover, Lexus, and Mercedes-Benz. Each has a unique set of brand perceptions, and each offers unique value through its own value network. As a result, making comparisons across all the choices is difficult; none are directly comparable. But ultimately, some comparison needs to be made so that a decision can be reached. Brand choice, thus, can be a daunting task. Which brands will best enable the buyer to achieve his goals of individuality, self-image, transportation, excitement, and safety for the family?

The conventional view is that buyers consider all the alternatives, value their differences, making the necessary trade-offs, and ultimately choose the brand that maximizes self-interest. For example, in the case of the luxury car buyer shown in Figure 5.7, the buyer would, based on his or her perceptions of each brand, rate the importance of each difference, and for each brand calculate a total value score (or utility). Choice, then, becomes a simple matter of selecting the highest scoring brand. But coming to that choice is a difficult task indeed. As a result, consumers often adopt a simplified version of this strategy, the equally weighted rule, in which all perceptions are given equal weights to reduce the mental cost of comparisons.

In many situations, buyers abandon that systematic process in favor of simpler choice strategies. Consumers are adaptive. People select brands using a whole variety of strategies. The decision rules buyers adopt depend on the strategies brands pursue and have significant impact on the nature of competition. If all brands deliver value based on the same goals (e.g., video cassette recorders), and comparison between brands is easy, buyers may exhaustively compare alternatives to uncover the best value. In a more

**Figure 5.7**
**Buyer's Valuation Problem**




complex situation, buyers may resort to strategies to simplify their choice and use simple choice rules—buy the brand on special, or the one recommended by a friend. Through experience—driven by the strategies brands pursue—we learn how and when to apply these rules.

One common strategy is the *lexicographic choice rule:* Buyers identify the most important goal and then select the alternative that delivers most on that one goal, ignoring all others. In our luxury car example, if excitement is the most important goal, then BMW might be the logical choice. If family protection is the most important goal, then Volvo would be chosen. In selecting a graduate school of business for instance, a prospective student might select the one whose graduates earn the highest starting salaries. By using the lexicographic choice rule, the buyer is ensuring that he gets what is most important and doing so with a minimum of effort. If buyers are using this strategy, it is important not to try to compensate for a weakness on the key dimension with some other rationally valuable but ignored perception of value.

The *elimination-by-aspects heuristic* is a multistage decision rule. In the first stage, the buyer selects the most important goal, determines a cut-off, and eliminates all alternatives that do not meet the cut-off. With a reduced set of alternatives, the buyer then identifies the second most important goal, sets a cut-off level for it, and eliminates those alternatives that do not satisfy the second cut-off. This process continues until only one alternative remains. In the case of luxury cars, for instance, all presumably must provide reliable transportation. Perhaps this leads to the elimination of some brands in the construction of the alternative set. Next, buyers might screen safety, again eliminating some brands. Third, excitement might be most valuable, leading to a choice of BMW.

In some cases, consumers combine different strategies in a phased process. Consumers may use a screening process to create a subset of seriously considered brands and then apply a different decision strategy to select one alternative from the subset. In our luxury car example, for instance, buyers might screen first on safety, eliminating all alternatives that do not meet some minimum level of safety, and then apply a compensatory rule over the remaining choices. Alternatively, a buyer could screen on multiple dimensions, say safety and price, and then choose lexicographically over the remaining alternatives based on excitement or prestige.

## Competitive Advantage

Competitive advantage can be created in the choice process by helping buyers resolve their dilemma: How do I choose among the available alternatives? The answer to that question is learned, category by category, buyer by buyer, depending on the strategies brands pursue. Consider a simple case, one in which all brands deliver value on the same goals, brands are perceived as similar, and comparisons between brands are easy (e.g., videocassette recorders). Introducing differentiation in markets such as these can lead to a change in decision strategies by consumers. By innovating, for instance, consumers may have to re-evaluate their choice strategies that ignore everything but price. Eliminating the equivalence on everything but price can prompt buyers to rethink *how they choose* and, as a result, *what they choose*.

One of the best examples is Intel's effort to brand its microprocessor used in personal computers using the *Intel Inside* brand. Makers of computers have traditionally focused on making faster, less expensive, more powerful computers. For most buyers, a computer is a substantial purchase, involving significant risk. Moreover, many computer manufacturers have invested comparatively little in building their brand names, although that is changing, and few computer retailers offered extensive customer service, believing low price is more important. As a result, many buyers face an expensive purchase of largely unknown brands with little retail support. *Intel Inside* offered customers assurance about the computer they were buying, whatever the brand name of the manufacturer. As a result, buyer decision strategies shifted from evaluating the brand of the *computer maker* and the associated technical characteristics to the brand of the *microprocessor maker,* creating a powerful competitive advantage for Intel, all the while reducing the perceived risk for the buyer.

## Market Pioneering

Market pioneering illustrates how market-driving strategies create enduring competitive advantage. As mentioned earlier, the pioneer is typically followed by others, some similar to the pioneer, others different. As brands enter the market sequentially, buyers learn about them. The pioneer plays a special role in the buyers' learning process. Being the first entrant, the pioneer has the unique opportunity to become perceptually distinctive, defining buyer notions of value for the entire category and influencing the choice process. To see the impact the pioneer has on the learning process, consider the situation before the pioneer enters. At that point, the category does not exist in the minds of buyers. As a result, no rules of competition have yet been established. This creates an opportunity for the pioneer to establish the basic notion of value—the value proposition of the pioneer's brand and indeed the entire category—and in so doing create perceptions of the pioneer's brand and establish a logic for brand choice.

***Perceptions.*** Prompted by the strategy of the pioneer and combined with buyer experience, buyers begin to develop their perceptions. But their experience is limited to the pioneer, so the pioneer becomes more memorable, more vivid, and often the pioneer and the product category become closely related in buyers' minds, sometimes synonymous. Having more vivid perceptions of the pioneer, buyers more easily recall it and, as a result, the pioneer is more often chosen.[4] That is, we simply think of the pioneer more easily, more often, and we recall more positive thoughts about it.

***Preferences.*** As the first brand, the pioneer can define the category and thus the nature of value. Until later brands enter, buyer experience and learning is limited to the pioneer. A buyer could, therefore, very logically come to view the pioneer as the definition of value, the ideal, the standard against which all others are judged. In two studies, we demonstrated this effect.[5] Individuals were exposed to six different brands of software differing in term of characteristics; some individuals saw one brand first, call it A, others saw a different brand, call it B, first. Subsequently, all buyers saw all six brands. Those who saw A first, however, retained a preference for brand A and for its characteristics. Those who saw B first, on the other hand, preferred the characteristics of brand B most. Thus, buyers come to like what they learn about. Advertising and repeat purchase can reinforce the links buyers form.[6] Thus, buyers learn through trial how to value perceptions, but because this trial is limited to the pioneer, the pioneer defines value. Having defined value, the pioneer occupies the ideal position in the category and, being perceptually distinctive, it overshadows others that might try to challenge it.

***Choice.*** Being vivid and seen as ideal, the pioneer is recalled more often and more frequently. Being strongly associated with the category, later entrants are often compared to the pioneer. Thus, the pioneer plays a central role in the valuation of all brands in the category. When we consider a pair of blue jeans, we may implicitly or explicitly compare it to Levi's. Thus our comparison process is heavily influenced by our learning. The impact of the pioneer on our perceptions and preferences has an impact on our choice strategies as well. If the pioneer created a value network, for instance, in which price plays no role, then price sensitivity will be low. By defining preferences, the pioneer can define the choice strategies used by buyers to value later entrants.

The introduction of Vaseline petroleum jelly illustrates these advantages. Vaseline was introduced in 1880 and advertised as a healing agent of unsurpassed purity. It defined in many buyers' eyes the category of petroleum jelly as a translucent, highly pure gel. Sampling Vaseline, buyers learned that a translucent, highly pure gel produced an effective wound preparation and, generalizing from this observation, inferred that the effectiveness of petroleum jelly lies in its translucence and purity. At the time, other wound preparations were based on black coal tar derivatives, lacking both purity and translucence. Subsequent trials and advertising confirmed buyers' conjecture about the superiority of Vaseline. Thus, translucence came to be favored over opacity and gained more importance in brand evaluation. Moreover, because Vaseline pioneered the product, all later brands were compared to it and found wanting even if identical, simply because they were not Vaseline. Brands that attempted to copy Vaseline suffered similarly because they were seen as less distinct.

The advantages created by pioneering can be remarkable. In many cases, market pioneers outsell their rivals for decades. Although some are not strictly the first to enter their markets (e.g., Miller Lite was preceded by Rheingold's Gablinger's by 15 years) and many early entrants fail (e.g., Bowmar in calculators), the first *successful* brand appears to outsell later-entering *successful* entrants systematically. Empirical studies show that this market share difference, dubbed *pioneering advantage,* creates a significant barrier for later entrants to overcome.[7] For example, Figure 5.8 shows the relative market share earned by later entrants compared to the pioneer in a study of consumer goods, adjusted for differences in positioning, pricing, and advertising. After making these adjustments, researchers have shown that the second entrant earns roughly 75 percent of the market share of the pioneer, the third entrant earned about 60 percent of the pioneer's market share, and so on, until the sixth entrant earns less than half the share of the pioneer.[8] In other words, early entry creates an advantage; to overcome that advantage requires pricing below the pioneer, offering a superior positioning, or outspending the pioneer on advertising. While these actions can be taken, all are costly and, more important, they are actions the pioneer need not take to earn its larger share. Other studies report similar ratios.[9]

The advantage created by pioneering can be remarkably enduring. This is well illustrated by Wrigley's chewing gum, which dominated its market in 1923 and continued to dominate its market six decades later, despite low-price attacks, innovation, new entrants, and changing consumer tastes.[10] Looking back at some of the brands that dominated their markets in the 1920s, it is remarkable how many continued to dominate those same markets six decades later (Table 5.2). Not all retained their number one market position, but a surprising number retained leading positions in their market and most did remain market leaders.

**Figure 5.8**
**Impact of Order of Entry on Market Share**

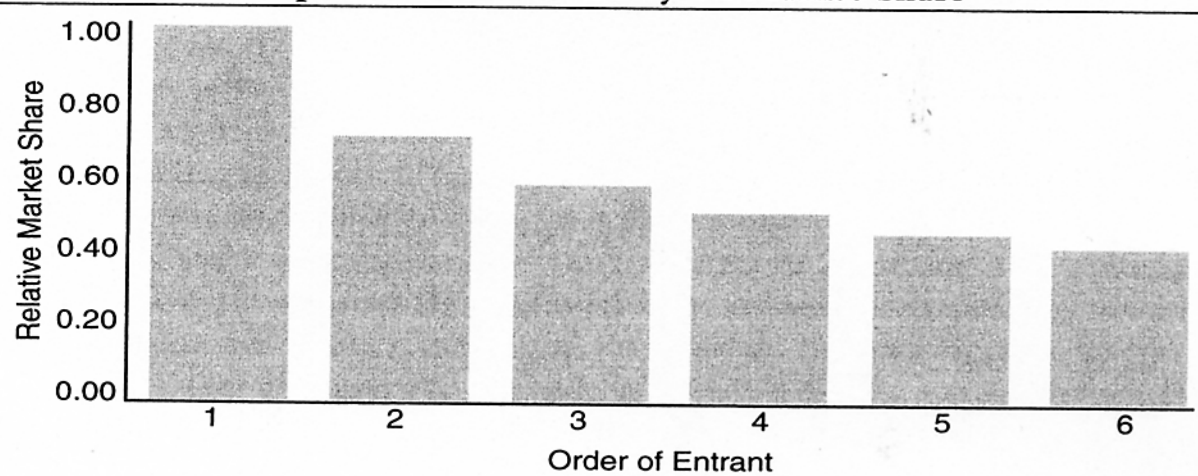


**Table 5.2**
**Market Position of Leading Brands: 1923 and 1983**

| *Brand* | *1923* | *1983* |
|---|---|---|
| Wrigley's chewing gum | 1 | 1 |
| Ivory soap | 1 | 1 |
| Kellogg's Corn Flakes | 1 | 3 |
| Coca-Cola | 1 | 1 |
| Crisco shortening | 1 | 2 |
| Campbell's soup | 1 | 1 |
| Colgate toothpaste | 1 | 2 |

## Brand Differentiation

Brand differentiation provides another illustration of how market-driving strategies create competitive advantage by influencing buyer learning. The conventional view of differentiation is that successful differentiation requires distinguishing a product or brand from competitors on an attribute that is meaningful, relevant, and valuable to buyers. Observation, however, reveals that many brands successfully differentiate by introducing an attribute that *appears* valuable but, on closer examination, is *irrelevant.* For example, Alberto Culver differentiates its Alberto Natural Silk Shampoo by including silk in the shampoo, and advertising it with the slogan "We put silk in a bottle" to suggest a user's hair will be silky. A company spokesman, however, conceded that silk "doesn't really do anything for hair."[11] Consumers apparently value these differentiating attributes even though they are, in one sense, *irrelevant.* We refer to this strategy as an *irrelevant attribute strategy.*

How can an irrelevant attribute be a meaningful basis for differentiation, particularly if buyers become aware that it is in fact irrelevant? The buyer learning process suggests three ways in which an irrelevant attribute can be valued by buyers:

1. *Brand distinctiveness.* If only one brand offers an irrelevant attribute, it will be unique. Buyer perceptions will be different, creating differences in its value network. Being different makes a brand more memorable, and a more memorable brand will be chosen more frequently. The impact of distinctiveness can persist *even if buyers are aware that the irrelevant attribute is irrelevant.* In one study, we found that adding an irrelevant attribute increases preference for a brand—even though buyers know that the

distinguishing characteristic is irrelevant.[12] The value, in this case, arises from the distinctiveness of the differentiated brand. The relevance of the differentiating attribute is, quite simply, irrelevant.

**2.** *Value signal.* Buyers may value an irrelevant attribute because they believe that an irrelevant attribute reveals something about the underlying properties of the product—its quality, its durability, or its effectiveness, for instance—even if the attribute itself is not valuable. During that brief moment when we are looking at the shampoo shelf and the silk catches our eye, we might hypothesize that silk in shampoo is indeed valuable. Why else, one might reason, would they include it? Using the shampoo with a successful outcome would lead us to "confirm" our hypothesis. Buyers may even come to believe that the silk *causes* the shampoo to work well. Even without trial, its existence suggests that it is valuable. A consumer might reason, "If they added silk to the shampoo, spent money advertising it, it must be valuable."

**3.** *Pricing.* The perception of value conveyed by an irrelevant attribute depends on the price of the differentiated brand compared to competitors. In another study of irrelevant attributes, we examined the impact of pricing strategy on preference for the differentiating brand. When individuals were unaware that the irrelevant attribute was irrelevant, *increasing price* led to *increasing impact.* Buyers appear to reason that the attribute could be valuable and a higher price similarly signals higher value. The signal given by the attribute is reinforced by the signal given by the higher price, making the differentiating attribute quite valuable.[13]

***Simplify Brand Choice.*** An irrelevant attribute can simplify choice. Consider a consumer facing a set of three effectively identical brands of shampoo. If one brand offers silk and the consumer knows that it is irrelevant, would that affect or simplify his or her choice? The consumer can ignore the information. By doing so, he or she still has no basis to choose among the alternatives. Instead, the consumer can *use* the irrelevant attribute—knowing that it is irrelevant—to help make a choice. Constructing a positive "reason" for why the attribute is attached to the brands (e.g., "at least I am getting something extra") means that the consumer can ignore the other two and make a choice. Thus, an irrelevant attribute can simplify choice even though a consumer may be aware that it is irrelevant. Buyers construct these reasons, even when they know the irrelevant attribute is irrelevant.[14]

Empirical analyses demonstrate that differentiation can have a substantial impact on competitive advantage and can lead to successful late entry. In one study, researchers examined the entry of innovative late entrants into two pharmaceutical markets.[15] In all, 13 brands entered the two markets; among them were innovative, differentiated later entrants along with brands pursuing other strategies. By differentiating their brands, the innovative late entrants were able to overtake the pioneers in three ways: First, they were able to expand the market, drawing a larger pool of buyers who had little experience with the pioneer. Second, they achieved a higher rate of repurchase than any other brand in the market. Third, they grew faster than the pioneer and, in fact slowed the growth of the pioneer appreciably. Non-innovative later entrants were not able to affect the pioneer's growth rate, in addition to having lower rates of repeat purchase, and facing smaller potential markets.[16]

The timing of entry can be important in achieving a successfully differentiated position. In another study of six pharmaceutical markets, researchers examined the impact of the timing of entry on the success of the late mover.[17] They examined, in particular, the stage of the product life cycle in which the brands enter—pioneer, growth-stage entry, and mature-stage entry. The results showed significant advantages for growth-stage entrants. Compared to pioneers and mature-stage entrants, growth-stage entrants grow faster in terms of sales, they are not hurt by increases in sales of competitors, and their buyers are more responsive to changes in their product quality. Pioneers do enjoy advantages, in addition to those already discussed: Buyers are most responsive to pioneer's marketing activities, Mature-stage entrants, however, are more disadvantaged than previously recognized: they grow more slowly than all other entrants, have lower response to product quality, and have the least responsive buyers in terms of marketing spending.

## CONCLUSIONS

Recognizing buyer learning reveals new dimensions to the process of competition and new concepts for creating competitive advantage. Buyers learn throughout their lives as buyers. Three elements of the buyer learning process are crucial to understand:

1. Buyers learn their perceptions, and they recall these as networks of associations.
2. Buyers learn how to value the differences in these brand perceptions based on experience.
3. Buyers learn how to make decisions based on the context of the decision they face.

This buyer learning creates a largely different process of competition. Rather than a race to give customers what they want, competition is a battle over the rules of competition.

Successful market-driving strategies reshape markets and define powerful images and enduring concepts of value. The growing recognition of the power of buyer learning is reshaping the practice of marketing. Today, good companies listen to customers and satisfy their needs. Great companies are creating markets, ones that buyer cannot imagine, shaping their evolution, and producing competitive advantage unattainable by ignoring the buyer learning process and the role of competitive strategy in it.

## Notes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