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Reaching for the top?

”You don’t win silver, you *lose* gold”

UR INNEHÅLLET

Märkesbyggare
Få vågar bygga eget varumärkeshus 12

Tvister
En lektion i förväxlingsbedömning 18

Officiella symboler
Patentverket ingen skönhetsjury 29

Reklamjuridik
Skumbilar: Färg i fokus 38

Reaching for the top?

”You don’t win silver, you *lose* gold”

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Nike, named after the Greek goddess of victory, now the reigning world #1 athletic wear brand stirred up controversy with that advertising campaign for the 1996 Olympics - You don't win silver, you lose gold…

By Tim Vickery

That all-or-nothing mentality has driven scores of brand managers and marketing executives in take-no-prisoners trench warfare to become Brand No. 1 in markets around the globe. Indeed, when the fighting gets fiercest, nothing seems more attractive than the relative refuge at the top of the heap.

But, as many of the world's top brands have learned, basking in the spotlight as No. 1 (and raking in the proceeds) often also means suffering under the microscope as activists and the media take aim at the No. 1 brands and the business practices that underpin their success.

More importantly, having battled to become No. 1, many market leaders are learning that to stay No. 1 they have to act like they're No. 2.

Just do it... the math

Ego, prestige, the rush that comes from vanquishing the enemy, those are not the prime factors motivating brands to 'go for the gold'. It's about the numbers. A recent study of 3,500 businesses showed that across all sectors – industrial, service, durable goods, and non-durables, the market dominator enjoyed double the return on investment (ROI) of the No. 2 brand. ROI for the number three brand was half that of No. 2.

Not only do smaller players have to compete against deeper pockets, bare-bones production costs, higher penetration, stronger negotiating power at all levels of the supply chain – raw materials, production, transport, distribution, retail space and greater consumer awareness – but, as **Adam Morgan**, author of *Eating the Big Fish: How Challenger Brands Can Compete Against Brand Leaders* notes, "challenger" brands have to work harder and more effectively just to maintain their share, let alone take over. As traditional markets saturate, demand shrinks and top brands have wrung all conceivable cost-efficiencies out of their systems, the "big fish" have started pushing out or sometimes buying out the small fry to grow their own numbers. Top brands also started crossing categories, poaching customers from both sector leaders and lesser players. Joint marketing alliances with 'like-minded' brand leaders in complementary categories gain them access to more potential consumers or keep the ones they've got. At the same time, mega-retailers locking horns among themselves have begun pressing top brands for bigger numbers in order to keep access to their shelves.

In a recent speech, former Unilever Chairman **Niall FitzGerald** noted another reason why it is difficult to be No. 2 – top brands provide "certainty, reliability, replicability of a satisfactory experience in a chaotic, confusing and cluttered world."

Suddenly, there's seemingly nowhere to turn. "Caught in the new food chain between the new hunger of the brand leader, the speculative sharks from other categories and the crocodile smile on the face of (the) retailer," says Morgan, second-tier brands are finding that "the middle ground is an increasingly dangerous place to live."

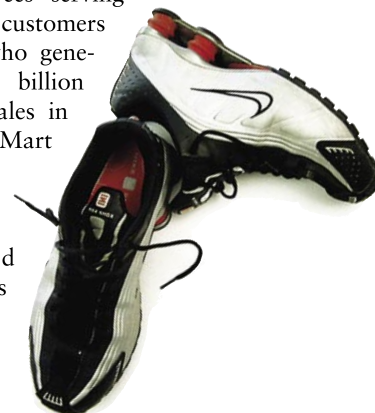
It's no wonder anti-globalization activists smell a fish.

Brand #1 or Public Enemy #1?

As the saying goes, all that glitters is not gold. The drive to become No. 1 can be a collision course. Megabrands that dominate their category risk topping activists' hit lists and being penalized by consumers keen to support underdog brands so as to avoid feeding the profits of ravenous 'big fish'.

Anti-globalization activists have "drawn a bulls eye on transnational companies because they are the most visible and vulnerable symbols of globalization's side effects, such as exploitative wages, pollution and cultural imperialism… because of their pervasiveness, global brands are seen as powerful institutions – capable of doing great good and causing considerable harm," wrote **Doug Holt, John Quelch** and **Earl Taylor** in the *Harvard Business Review*.

Nowhere is that more apt than with Wal-Mart, the world's largest retailer based in Bentonville, Arkansas. With some 1.6 million employees serving 138 million customers per *week* who generated $312 billion dollars in sales in 2005, Wal-Mart (not ranked by Business Week/ Interbrand because it's



Reaching for the top?

privately held) more than doubled the value of *all* exports from Sweden – home to Ikea (No. 42), Ericsson, Hennes & Mauritz (H&M), Absolut and many more brand titans. Indeed, Wal-Mart's sales exceed the GDP of dozens of countries, including EU-member and economic powerhouse, Poland. Wal-Mart built its sprawling empire by being fanatical about squeezing every conceivable savings out of its operations. Relying on more than 10,000 factories in dozens of countries to feed its customers' appetite for bargains, Wal-Mart is also prized source of jobs in some of the world's most destitute countries.

Wal-Mart has been slammed repeatedly in recent years – from Pulitzer Prize winning newspaper features and rabid bloggers to documentary films accusing the retail behemoth of driving its cost-cutting so ruthlessly that scores of U.S. workers are paid less than the minimum wage and left without access to basic healthcare while thousands of overseas suppliers toil long hours for mere pennies. Its rating among Fortune magazine's *Most Admired Companies* plummeted from No. 1 to No. 12 in just a couple years.

Even Stockholm-based Hennes & Mauritz, the world's No. 1 fashion retailer (Brandchannel No. 13) is not immune. Media reports this month accused it of bullying unions in Germany, its largest market, by spying on employees while on sick leave and allegedly threatening to dock staff who criticised the company.

You can run but you can't hide

This may lead some brands to conclude that it's better to be silver medalist in the Brand Olympics. As activists' claims have found more mainstream appeal, their focus on No. 1 brands means runners-up like Burger King or Target stores (Wal-Mart's rival) were not featured in popular films such as "Super Size Me" or "Wal-Mart: the High Cost of Low Price" that exposed their negative product qualities or business practices to millions of movie-goers. Even if the No. 2 or No. 3 brands are caught

#1

Hertz®

Coca-Cola

#2

AVIS®

doing shameful things, which Target reportedly has, they typically are not grilled as relentlessly. They may also try pointing the finger at Brand No. 1, saying they were forced to swallow their values and follow the market leader to survive cutthroat competition.

Most high-profile brands have instinctively tried to fly below the radar. But, developments in mass communications and proliferation of media outlets mean information, including "e-word of mouth" crosses borders with lightning speed for little or no money. Holt and Quelch argue that global brands have "never been more salient in the minds of consumers."

When Nike came to market 40 years ago, it was a media-naïve small fry from the humble American Northwest taking on foreign-owned powerhouse Adidas. Having now been No. 1 for years, Nike (No. 30 on Business Week/Interbrand's Top 100 Global brands list for 2005) is seen by many as a merciless, profit-driven marketing machine bent on world domination by exploiting workers in shadowy Asian sweatshops.

The swoosh became a lightning rod for criticism about Nike's labor practices while the number two and three brands, who often source from the very same factories, reaped the same benefits without being subjected to the same damaging criticisms.

"Adidas benefits from its second-place status. While Nike gets all the criticism for its business practices, the associations of Adidas remain firmly on sports," according to **Matt Haig**, author of *Brand Royalty*. Now that Adidas has bought Reebok making it too a megabrand, that may change.

Defying marketing legend **Al Ries'** rule that a strong No. 2 brand is best built by "becoming the opposite of number one," neither Adidas, Reebok, nor Puma took on Nike by establishing itself as the ethical brand, demonstrating clearly that they treat overseas workers right.

Instead, Nike *itself* assumed the role of a strong No. 2 brand, distinguishing

itself from the competition by assuming 'thought leadership' of the sportswear category and that way kept a tight grip on its gold medal.

Best defense is a good offense

To defuse the charges of activist campaigns, scathing media reports and to meet ever-mounting consumer demands for sweat-free goods, Nike and many top-ranked clothing brands that rely on tens of thousands of workers in thousands of factories worldwide adopted 'voluntary' codes of conduct, fielded internal monitoring teams and spent millions on blue-chip auditors. But when abuses continued surfacing, Nike took a daring, counter-intuitive step in brand-building by being the first to voluntaily make public the results of independent audits and transcripts of factory worker interviews (www.nikebiz.com).

The boost to Nike's brand by such corrective measures and transparency can't be put in dollar-terms and no one has calculated the damage to brand value, share price and sales resulting from protests, boycotts, media exposés and lost consumer confidence, but experts argue that it exceeds monitoring costs.

School of hard knock-on's

Nike has led the way, but other top-ranked brands subjected to activists' scrutiny have also learned the hard way that ethical sourcing not only avoids brand-denigration, but more importantly yields bottom-line benefits.

"If you work with factories to make them better places of employment, quality improves, productivity goes up, there's less waste and you retain workers longer," a Nike compliance manager has said.

Nike provided brand leadership by taking a pro-active approach to fixing its ethical issues. According to Morgan, Nike's success is primarily due to the fact that it "continues to act like the hungriest and most subversive brand in the shoe market."

Once #1 not always #1

Activists' brand 'assassination' attempts may have catalysed defensive thought leadership by some No. 1 brands, but to survive attacks by competitors, market leaders have to stay on the offensive. Experience shows that even the most omnipotent brands often lose in hand-to-hand combat because they don't stay hungry – constantly on the lookout for ways to create products or re-vamp existing ones to meet evolving customer demands.

Al Ries pointed out in a published interview that Coke, arguably the world's all-time most popular brand (No. 1 by Business Week/Interbrand) and, until this year the world's largest soft drinks company, has repeatedly learned the hard way that its iconic status, well-honed bottling and distribution system, world-class marketing skills, colossal advertising budgets and a stockpile of consumer trust was not enough when beat to the market by new products.

One of Ries' "22 Immutable Laws of Branding" claims that being first to market in a new category not only plants the flag, but raises the bar of competition and makes those who come after visionless.

In the 1970's, Coke's perennial rival Pepsi launched the first spicy cola drink, Dr. Pepper. Coca-Cola fired back with Mr. Pibb, but lost out in market share 8 to 1. Mello Yellow, Coca-Cola's answer to PepsiCo's hot-selling Mountain Dew, the first fizzy citrus drink, suffered a similar failure. Coke tried again in 1997 with another "fully loaded citrus drink" called Surge, that flopped as well.

Even brash upstart Red Bull, the first bullet-shaped, high-octane energy drink, prompted Coke to respond with KMX – another bomb that reportedly got outsold 20 to 1. Red Bull now ranks 15 spots higher than Pepsi on Brandchannel's 2005 Reader's Choice Global Rankings. Refusing to concede the market, Coke has now come up with another energy drink dubbed Full Throttle, a marginal player in the hotly contested category.

Coke seems congenitally damaged by its most infamous new product disaster when in the 1980's it lost $35 million on NEW COKE, a response to Pepsi's "FOR A NEW GENERATION" campaign. But, as former Chairman **Roberto Goizueta** reportedly said when asked if he was embarrassed by the number of failed product launches. "No, you only stumble when you're moving."

PepsiCo's strategy of diversification and innovation paid off. Although Coke is still No. 1 and Pepsi No. 23 on the Business Week/Interbrand Top 100 list, PepsiCo overtook Coca-Cola in market capitalization last December after over 100 years of hand-to-hand combat with its arch rival. PepsiCo's growth was fuelled not by its flagship brand, but by many of the health-conscious and lifestyle products that Coke tried to emulate, like sports drink GATORADE. Only about 20% of Pepsi revenue reportedly comes from soft drinks whereas for Coke it's estimated at 80%. Coke has since launched POWERade, but with GATORADE owning a 7-1 share advantage, Coke succumbed to a common Brand No. 2 problem – discounting its price by 20% to compete, thus cutting into its margin.

Jack Trout, author of *Big Brands, Big Trouble: Lessons Learned the Hard Way,* argues that the biggest mistake any challenger brand can make is to think it can compete with No. 1 by me-tooing it. "A number two brand always has to deal with the leader, and you can't be what they are."

If the world's No. 1 brand can't win with a "me-too" strategy, it's unlikely lesser brands will.

The light seems to have switched on at Coke which this month launched COCA-COLA BLAK, a unique cola-coffee blend packaged in a re-sealable version of its classic glass bottle with stylish labelling aimed at creating a unique, adult-version high-energy drink to competing with the likes of RED BULL in the burgeoning market sector.

The most successful brands, regardless of their size are finding

that building an emotional or lifestyle connection – an enduring myth to the brand is all-important.

Coke has also jumped on the bandwagon to build ”communities” of consumers by starting ”Coke Red Lounges” for teenagers in suburban malls.

#2 and proud of it

One of the most famous cases of a brand positioning itself openly as 'silver medalist' is U.S. rental car company Avis. Acknowledging its runner-up status while targeting inferior customer focus at No. 1 Hertz, Avis ran a wildly successful campaign declaring, ”We're No. 2, we try harder.” Rent-a-Wreck – not surprisingly absent from the Business Week/Interbrand list-- took Avis' strategy an ironic step further by adopting a *name* that defined its position – twinned with the slogan, ”Don't Let the Name Fool You.”

Burger King's recipe for challenging McDonald's, who won market supremacy by selling billions of standardised burgers – who can forget the Big Mac song ”Two all beef patties, special sauce...” detailing the ingredients of every burger? – was to tell customers ”Have it your way.” Not only did this distinguish BK from Mickey D, it pioneered experiential marketing.

BIG MAC- No 1
© McDonald's

Raking in the Starbucks

One of the most successful marketers of customer experience is Starbucks (Business Week/Interbrand No. 99), America's No. 1 chain of high-end coffeehouses with over 10,000 stores in 37 countries and multiplying by a handful of new ones literally every day-- often located across the street from one another in big cities. It got there by taking a simple cup of coffee, a woefully neglected staple of American culture for decades, and transforming it into a lifestyle. Starbucks produced a terrific brew that rescued consumers from the pale-brown, over-percolated, under-caffeinated dreck endured by generations and at the same time created a destination for enjoying it—another reason to want it.

For die-hard Starbucks fans it is not only the tasty coffee (and tea) in thousands of variations that allow them to personally craft their own brew, but the tastefully stylized yet laid-back ”urban salon” atmosphere, the loungy home-(or office)-away-from-home that each store offers. Folks linger for hours at their local Starbucks discussing work, doing homework or simply catching up with friends, something often discouraged by other café's as an obstacle to turnover.

A runaway success in just over a decade, STARBUCKS is a brand that raises both loyal admiration and frothing ire. Starbucks has solidified its No. 1 position and become a brand monolith in the eyes of some by staying 'hungry' – selling special compilation CD's, creating and mass marketing bottled, chilled ”Frappuccino,” selling bagged coffee at retail stores and setting up co-branding partnerships with United Airlines and a premier ice cream maker. As a nationwide mass marketer of top-end coffee, one is hard-'pressed' to find a No. 2 to Starbucks.

Indeed, while Starbucks has been criticized for muscling smaller players out of key markets, it has also given birth to scads of mainly local knock-offs. As might be predicted though, Starbucks' ubiquity is threatening its brand. Like McDonald's, the Seattle-based company has seen its stores ransacked by anti-globalisation protesters. It is also harassed by bloggers like www.ihatestarbucks.com.

But, unlike Wal-Mart, Nike and other behemoth brands that have been attacked by media reports and consumer boycotts for treating their employees or suppliers unfairly, Starbucks reportedly pays small-scale coffee growers in impoverished countries up to 20% over market price and provides all employees who work at least half-time with stock options and full health insurance. In America, where millions of low-wage workers can't afford health care and employers seek to avoid the mounting cost of insuring them, that builds enormous goodwill. With some 100,000 people on its payroll, health insurance reportedly costs Starbucks more than coffee.

Creating a buzz

Chairman and chief global strategist **Howard Schultz'** thirst is far from quenched. He recently launched a high-stakes new venture – of integrated, interactive café-music stores that are fundamentally recasting the STARBUCKS brand and could transform the music business too. Convinced its customers come to Starbucks not only for coffee but entertainment, the new Hear Music Coffeehouses allow people to burn their own customized CD's, packed with tunes they already love and one's Starbucks will help turn them on to. And, all this excitement is delivered in the comfort of people's 'own' home-away-from-home.

This visionary effort to look past its original product to reimagine its business and expand its brand by seeing the synergies with other products is a gamble that some say could corrupt Starbucks brand irrevocably.

But, having proved his mettle reading consumers' vital signs relative to coffee, Starbucks leadership is convinced that adding music is a natural, complementary evolution of what it is already doing – delivering an interactive product experience that makes them feel good.

So, while it may take some brand managers to face unruly protesters picketing their headquarters, a surprise visit from investigative reporters or drastic stock price drops to force them to rethink their brands, visionary leaders rely less on pesky activists exposing business process vulnerabilities or super-hungry competitors gnawing at their heels to get them to rethink their brand. They are self-driven – always questing for new ways to intensify their customers' experience with their brand – often ways that the customers themselves hadn't even realised they wanted.

The key, according to Schultz is to strive like a gold medal athlete. ”Whenever you reach a plateau, it's time to rethink. If you are number one or number two in your category, maybe it's time to reconsider the category in which you compete: create a broader definition of the industry and develop a plan to conquer it. That will reinforce the value of your core brand and expand the emotional connection your customers feel to it.” Pepsi did not see only cola, but soft drinks, fast food and now health(ier) food. Disney, not only cartoons, but amusement. Apple, not just personal computers, but personal entertainment. Nike, not only shoes, but sportswear and fashion. The list goes on and on.”

Eat Big Fish's **Adam Morgan** agrees that the ”challenger” men-

Foto: Jenny W © StockXchng.com

”Starbucks leadership is convinced that adding music is a natural, complementary evolution of what it is already doing – delivering an interactive product experience that makes them feel good.”

tality – ”a certain enthusiastic restlessness, an energy and dynamism that infects the attitude and performance of everyone in the company” is vital for all brands, regardless of their rank. ”Successful ’challenger brands’ are not static – they constantly add to themselves to keep ahead of the market; and the fuel for that movement is ideas. The company has to give primacy to ideas and creative thinking above all else.”

Looking ahead, No. 1 brands look likely to retain most of the colossal competitive advantages they’ve earned. And, the jury is out as to whether it actually costs the No. 1 brand in a given category more in advertising, PR, brand defence, R&D/ product innovation and diversification expenses needed to maintain top-of-the class status than it does for brand No. 2 to hunt number one. But, if I were a board member of any brand – icon or otherwise, I’d be asking what are we doing to ’create’ the next STARBUCKS, iPod or BLACKBERRY rather than merely plotting the defense of our brand from activists and competitors alike. ■

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