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And in This Corner, the Price-Fighter

While it's tempting to cut prices during tough economic times, a better approach may be to introduce a "fighter brand."

[Josh Hyatt](#), CFO Magazine

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At first glance this may not seem like the ideal time for you to greenlight a new product launch. After all, consumers have neither cash nor credit, they fear for their jobs (if they still have them), and they're waving the financial equivalent of white flags in record numbers (as of June, personal bankruptcies were up almost 30 percent over 2007). When they shop, they look at price first — and last. That's why stores like Costco and Wal-Mart are still reporting robust results even as higher-end retailers suffer. Purveyors of posh such as Neiman-Marcus "are going underwater, and will stay there until we clean up this mess," says Howard Davidowitz, chairman of Davidowitz & Associates, a retail consulting firm in New York. But at least they're still in business. Mervyn's, Kohl's, Linens 'n Things, Steve & Barry's, Sharper Image, and others have gone into Chapter 11, Chapter 7, or both.

Those still standing have managed to hunker down, hack costs, and hatch new schemes to remain viable. Both Wal-Mart and Target were touting \$10 toys for the holidays while consumers were still anticipating the arrival of the Great Pumpkin. "You have to get your costs down so that your pricing reflects what this new marketplace will pay," says Davidowitz. Odds are good that layoffs, capital-spending cuts, and product-line eliminations have moved to the top of your company's to-do list as well. Unlike other downturns, this one is squeezing companies on both ends: even as consumers suffer from sticker shock, suppliers have jacked up prices as they pass along rising fuel and commodities costs.

That puts companies in a pricing bind. Many may decide that despite their own higher costs, they must cut prices to keep customers. But Rafi Mohammed, author of *The Art of Pricing*, warns that if you "keep lowering the price you'll sell more units, but you'll also devalue the product. For the sake of the short term, you can wreck the long-term value of your brand." And price cuts can be hard to rescind when economic conditions improve.

So how can you keep business up without lowering profits? By introducing a "fighter brand" — a low-priced version of the flagship product, sold under a different name — that will satisfy the appetites of price-conscious consumers. "You bring this brand out just to cater to this recessionary environment," says John Quelch, a marketing professor at Harvard Business School. "Others may have no option but to cut their price or fiddle with packaging on existing brands. But if you are a market leader, you can use your clout with retailers to get the shelf space for it."

Fighter brands have to achieve a delicate balance: being identified with the premium brand without cannibalizing it. Anheuser-Busch, for instance, initially brought out the Busch brand to catch beer drinkers who refused to spill money on Budweiser. Procter & Gamble successfully developed Luvs to keep Pampers protected. Other brand-name companies that have unleashed fighter brands include Sony (Aiwa), Black & Decker (Dewalt), and Mars (Kal Kan cat food). In theory, fighter brands are distinct from "flanker brands," which are intended to stay in the ring even after the economy has finished delivering its punches.

Aside from preserving the pricing purity of the main brand, these pugnacious products have another advantage: they block your competitors from undercutting you. Pricing strategist Reed Holden, founder of Holden Advisors, points to Motorola, which was slow to introduce low-end cell phones. So Nokia "swooped in on the low end and attacked," says Holden, co-author of *Pricing with Confidence*. Nokia now leads in market share, Holden says.

Similarly, Starbucks has seen the unlikely phenomenon of McDonald's becoming its archenemy as the burger chain rolls out its cheaper specialty coffees. "They will definitely take some of Starbucks's market share," predicts coffee industry consultant Andrew Hetzel. "There are coffee drinkers who are looking strictly to economize."

No Sure Thing

Of course, a fighter brand will succeed only if it can be produced at a significantly lower cost than the main brand. In 2003, Delta Air Lines introduced Song, a low-cost airline intended to counter high-flying JetBlue Airways and other discount fliers. Three years later, Song was grounded. Ted, United Airlines's similarly positioned product, also turned out to be no runway success. "The bigger airlines couldn't replicate the cost model of their competitors," says Holden. More recently, Greyhound rolled out a new "BoltBus" service in the Northeast to counter a slew of low-cost competitors. Only time will tell which ones can turn a profit with tickets costing as little as \$1.

When General Motors introduced Saturn in 1990 to race against lower-cost imports like Toyota, the compact inspired a fanatical, if small, following. Originally set up as a separate business with its own manufacturing facility and no-haggle dealers, Saturn's iffy margins ultimately led GM to park it back in the corporate lot. It has steadily lost market share, along with its distinctive identity.

Sometimes companies create a *de facto* fighter brand by coming up with a stripped-down version of their core brand, counting on a bare-bones option to maintain sales. In business-to-business markets, for instance, customers can cut prices by forgoing 24/7 support, choosing the pokiest shipping option, or shrinking warranty coverage. Some Internet companies have floated the idea of charging customers based on their monthly downloading volume. That gives consumers some power over what they pay, unlike those supermarket items that don't increase in price but do decrease in size. The latter approach results in customers feeling cheated — exactly what the manufacturer was hoping to avoid when it decided not to raise prices.

If a fighter-brand strategy isn't viable — retailers that have their own private-label brands often aren't all that welcoming — it may be more productive to offer coupons, rebates, and other incentives, since, as Rafi Mohammed says, such moves "don't prevent you from charging a premium in the future."

Indeed, as soon as pricing pressure eases up fighter brands are free to leave the ring. The main brand then reclaims that shelf space, relying on a migration strategy — offering trial-size promotions, say — to regain customer mind-share. The fighter brand retreats, ready to fight another day.

Josh Hyatt is a contributing editor of CFO.

Acting Defensive

Manufacturers create fighter brands to attract value-conscious consumers in tough times, but sometimes the attraction is so strong that the brand lives on.

Procter & Gamble

Flagship: Pampers

Fighter: Luvs

Outcome: Luvs has grown to become its own midpriced powerhouse.

Delta Air Lines

Flagship: Delta

Fighter: Song

Outcome: Song lost its wings after about three years.

Anheuser-Busch

Flagship: Budweiser

Fighter: Busch Beer

Outcome: Busch is well established as a "subpremium" brand.