Customers are suddenly hyperconscious of value, and new low-price competitors are nipping at your heels.

Should You Launch a Fighter Brand?

by Mark Ritson

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Should You Launch a Fighter Brand?

The Idea in Brief

In eras of belt tightening, marketers are often tempted to launch fighter brands. Properly executed, a fighter brand fends off low-cost rivals while allowing a company’s premium brand to stay above the fray. Busch beer, for example, helped Anheuser-Busch hold on to value-conscious customers that would otherwise have defected to Budweiser’s cheaper competitors. But the long list of failed fighter brands shows how hard they are to pull off. To be sure launching a fighter brand makes sense, ask five tough questions:

• Will it cannibalize our premium offering?
• Will it fail to bury the competition?
• Will it lose money?
• Will it miss the mark with customers?
• Will it consume too much management attention?
Customers are suddenly hyperconscious of value, and new low-price competitors are nipping at your heels.

Should You Launch a Fighter Brand?

by Mark Ritson

Managers contemplating a new product launch during the prosperous early years of the twenty-first century typically looked only in one direction: up. Thanks to consumers’ rising incomes and apparently insatiable desire for superior quality, the era began with a focus on “premiumization,” “trading up,” and “luxury for the masses.”

But times change. Economic strains are now causing consumers to trade down, and many midtier and premium brands are losing share to low-price rivals. Their managers face a classic strategic conundrum: Should they tackle the threat head-on by reducing prices, knowing that will destroy profits in the short term and brand equity in the long term? Or should they hold the line, hope for better times to return, and in the meantime lose customers who might never come back? Given how unpalatable both those alternatives can be, many companies are now considering a third option: launching a fighter brand.

A fighter brand is designed to combat, and ideally eliminate, low-price competitors while protecting an organization’s premium-price offerings. Philip Morris used the strategy in 1998, when a sudden devaluation of the ruble quadrupled the price of its internationally produced Marlboro cigarettes in Russia, rendering them unaffordable to many smokers there. Rather than lose share to local competitors, the company concentrated its efforts on its locally made fighter brand Bond Street. When the ruble’s value returned to normal, consumers came back to Marlboro, which had retained its premium pricing and brand equity.

In its best applications, a fighter brand strategy can have even more impressive results. In such cases—like that of Busch beer (see the sidebar “The One to Beat”)—the fighter brand not only eliminates competitors but also opens up a new, lower-end market for the organization to pursue. Such triumphs, however, usually turn out to be the exception. For the most part, the history of fighter brands is a discouraging roll call of campaigns that inflicted very little damage on the targeted
competitors and resulted instead in significant collateral losses for the companies that initiated them. What tripped them up? Five major strategic hazards that a manager must negotiate carefully in order to enjoy fighter brand success.

**Hazard 1: Cannibalization**

Most fighter brands are created explicitly to win back customers that have switched to a low-price rival. Unfortunately, once deployed, many have an annoying tendency to also acquire customers from a company’s own premium offering. This was Kodak’s experience when it attempted to beat back its Japanese rival, Fuji, in 1994.

Over the previous decade, Kodak’s market share had dropped as many of its customers switched to Fujicolor Super G film, which was priced 20% lower than Kodak’s best-selling Gold Plus film. Faced with continuing losses in share, Kodak launched a fighter brand called Funtime, which sold at the same price as Fuji’s offering. In an attempt to avoid cannibalization, Kodak manufactured Funtime using an older, less effective formula emulsion that made it significantly inferior to Gold Plus. But what appeared, from a corporate standpoint, to represent a genuine product distinction was lost in the subjective world of consumer interpretation. Already a low-involvement purchase, film had increasingly become a commodity, and most consumers were unaware of the differences in product quality. They simply saw Funtime as Kodak film at a lower price, and the fighter brand ate into Gold Plus sales more than it damaged Fuji’s. Kodak withdrew Funtime from the market after only two years and began to experiment with other alternatives.

Positioning a fighter brand presents a manager with a dual challenge: You must ensure that it appeals to the price-conscious segment you want to attract while guaranteeing that it falls short for current consumers of your premium brand. That means you must match your fighter brand’s low price with equally low perceived quality. Kodak got it right in theory but in practice failed to see to it that consumers considered Funtime inferior to the premium brand it was meant to protect. As with the launch of any new brand, it’s crucial to have a keen grasp of consumers’ coordinates of value, but with a fighter brand, you must use those coordinates to deliberately miss one target segment while hitting the other.

Contrast Kodak’s story with that of Procter & Gamble, which used a fighter brand to fend off private-label competitors. In the 1980s, P&G, which sold the leading diaper brand, Pampers, and the number three brand, Luvs, was responsible for half of all diaper sales in the United States. But as the market share of private labels in the category grew to 20% and the profit pool available to marketers like P&G shrank, the idea of operating two premium diaper brands made less and less sense. In 1993 P&G responded by adjusting its brand portfolio: It repositioned Luvs as a fighter brand and slashed its price by 16%. To avoid cannibalizing Pampers’ sales, P&G also ensured that Luvs offered considerably less relative value. R&D and product innovation on Luvs were cut back, as were TV advertising and promotional support. Existing features, like handles on Luvs’ packaging, were even removed to emphasize that the brand offered consumers less than Pampers.

Call it “un–brand management.” To prevent cannibalization, a company must deliberately lessen the value, appeal, and accessibility of its fighter brand to its premium brand’s target segments. It may even need to actively disable existing product features and withhold standard marketing support from the fighter brand. The good news, for those managers who find value destruction a difficult concept to contemplate, is that the other way to ensure that a fighter brand offers a sufficiently differentiated proposition is to innovate around the premium brand and strengthen its brand equity. Indeed, this proved central to P&G’s strategy when, despite all the company’s efforts, the repositioned Luvs still initially stole its sister brand’s sales. It was only when P&G focused greater managerial and financial resources on marketing and improving the features of Pampers that the two brands began to enjoy separate but equally successful roles within the portfolio.

Managers need to weigh the effects of cannibalization before rolling out fighter brands. Because these brands are explicitly oriented toward the rivals that have stolen share from a company, the initial break-even calculations used to justify their launch often are oversimplifiedly derived from an estimate of the

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lost sales that can be recouped. An accurate break-even analysis must account for cannibalization as well. How can you predict whether excessive cannibalization will occur? Test-marketing is the best way to ensure that a fighter brand can compete with low-price offerings without robbing significant sales from its higher-price, more profitable sister brand.

**Hazard 2: Failure to Bury the Competition**

Cannibalization might be the most obvious hazard, but it’s certainly not the only one you need to navigate. Indeed, in many cases organizations actually overprotect their premium brands from cannibalization at the expense of the combative potential of their fighter brand. Merck made exactly this mistake in 2003 when it tried to prepare for the loss of patent protection on its blockbuster drug Zocor in Germany. Zocor—a statin used to treat high cholesterol—had been a major cash cow, but once the patent expired, generic drugs offering identical efficacy would enter the market for as little as 30% of its price.

The obvious strategic response was a price reduction, but for Merck that was not an option, because it would have encouraged parallel exports of Zocor from Germany to EU markets where patent protection still existed. Instead, Merck decided to launch a fighter brand called Zocor MSD. It rolled out the fighter brand four months before the patent expiration to give it some time to cannibalize Zocor’s customers, who would then, Merck hoped, remain loyal when generics invaded the market. Because Merck was competing with only itself during this initial stage of Zocor MSD’s launch, the fighter brand was priced just slightly less than the original premium brand. Once generics entered the market, the new brand’s price dropped to 90% of Zocor’s.

Within three months of its launch, Zocor MSD had missed its modest sales goals by 50%. More than 30 generics would divide the lion’s share of the category among themselves. Merck’s desire to protect its profits for as long as possible had prevented it from launching a brand priced low enough to seriously compete with the generics. Even when Merck realized it had set the wrong initial price, it was incapable of quick course correction. As a blue-chip multinational, it lacked the competencies to win the kind of price war it was entering. Merck was used to maintaining prices for long periods of time and altering them only after much consultation and reflection. Its generic competitors, accustomed to competing on price, could turn on a dime. With losses mounting fast, Merck withdrew all marketing support from Zocor MSD and admitted defeat.

Intel offers another instructive example of the perils of overprotecting a premium brand. In the late 1990s, personal computers had matured to the point that much of the market growth was in “good enough” home PCs that were priced under $1,000. Intel’s chips had been designed for much more expensive machines; a Pentium processor alone could cost as much as $800. Archrival AMD recognized that Intel was not well positioned to serve this growing segment of the market and launched a fighter brand of its own. Priced at around $260, AMD’s new processor chip was dubbed the K6 in honor of kryptonite, the only substance that could defeat Superman—a cryptic reference to its anti-Intel mission.

Not surprisingly, Intel was keen to stop AMD before it got a foothold in the low-end market. At the same time, it hated the thought of eroding Pentium’s profits and brand equity by dropping its price. So Intel decided to create a brand

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**The One to Beat**

When company president August “Gussie” Busch, Jr., addressed the board of Anheuser-Busch in 1954, he admitted he’d made “the biggest mistake in the company’s history.” A year earlier, Anheuser-Busch had followed other national brewers in raising wholesale prices. That move proved disastrous: Regional brewers had recently gained a stronger foothold in the market, thanks to labor strikes that cut into the supplies from national breweries, and they now used their lower operating costs and cheaper prices to expand their share at Anheuser-Busch’s expense.

With his reputation on the line, Busch went on to propose a solution: Busch Bavarian—the company’s first new brand since Prohibition. Promoted as being “yours at popular prices,” the beer was priced at the same level as regional competitors and almost half the wholesale price of its sister brands, Budweiser and Michelob. As well as advertising support, the fighter brand was given a separate sales force and distinct distribution trucks to distance it from the other two brands and reduce potential cannibalization.

The rest is business school legend. Busch successfully won back millions in sales, opened up the lower end of the market, and helped force many regional breweries to close. To this day, it’s still priced at the same discount from its premium sister brands, Budweiser and Michelob.

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called Celeron and price it under $200 a chip. The news that Intel was offering a new chip that significantly undercut AMD generated tremendous buzz in the market when Celeron was launched, in April 1998. But while Celeron’s price was aggressive, the same could not be said for the product itself. The first Celerons were little more than early series Pentium chips with features disabled and a lower cache memory. Initial customer excitement soon turned to disgust as chip buyers took to referring to Celeron as a “decapitated” Pentium.

In contrast with Zocor MSD, however, Celeron was able to go back for a round two. Chastened by the negative reaction, Intel rushed out a new version called Celeron A only a few months later. The new chip retained its low price but now offered much of the memory cache and processing performance of the more expensive, but soon to be replaced, Pentium II chip. It proved a success in the lower-end PC market, and Intel has continued to augment and improve Celeron’s offer, just behind its premium brand, ever since.

Why such different outcomes? Intel, with its history of frequent product launches, upgrades, and deletions, was better equipped than Merck to learn from its first foray into the good-enough segment. For companies that don’t enjoy such rapid turnover of products, the lessons should be underscored: Market-test your fighter brand, and be prepared to recalibrate its price and performance to ensure it finds the sweet spot between cannibalizing overperformance and uncompetitive underperformance. Intel’s 80% share of the processor market is testament to both the power of fighter brands to open up lower-tier market opportunities and their unequalled ability to keep competitors at bay. Intel also achieved something with Celeron that even the Man of Steel has never managed—it found a cure for kryptonite.

**Hazard 3: Financial Losses**

In the pantheon of fighter brands, none offer more salutary lessons than Saturn from General Motors. Its 25-year history provides unparalleled insights into, first, the strategic attractions of a fighter brand and, then, the eviscerating damage that such a brand can inflict on its organization if it fails.

Saturn was conceived by GM in 1982 as a direct response to the growing threat from the fuel-efficient and affordable cars being launched into America from Japan. Concerned that its reputation for making midprice and midsize cars might damage Saturn’s effectiveness against Honda and Toyota, GM went to great lengths to distinguish Saturn from its existing stable of brands and position it as “a different kind of car company.” The new brand was given its own dedicated plant in Tennessee, and its cars were built very differently from those in Detroit. When the first Satums hit the market in 1990, they proved an immediate success and quickly achieved the highest repurchase rates and customer satisfaction scores in the industry. Saturn’s unique dealership network with its transparent, no-haggling approach to pricing further emphasized the products’ differentiation. By 1996 orders actually exceeded Saturn’s production capacity, and the brand’s fighting prowess was resoundingly confirmed when dealer research revealed that 50% of these orders were from individuals who would otherwise have bought a Japanese import.

When Professor David Aaker of the Haas Business School concluded in 1994 that “Saturn has built from scratch one of the strongest brands in the U.S.,” he was correct in every aspect except one.

For all its brand success, Saturn was proving to be a financial disaster. It made an annual operating profit just once, and that’s before even considering GM’s initial setup costs of $5 billion. By 1997 the brand was looking for a major new investment of funds to develop new models, but GM was now balking at Saturn’s huge operating costs. Saturn’s plant had been five times more expensive to build than the usual GM production line and had double the employees of a typical plant. Saturn cars also cost more to produce because they used virtually no shared GM parts. The brand had a separate marketing and branding budget and its own dedicated dealership network as well. Overhead, in short, was huge and had to be covered by a brand exclusively focused on the low-price, low-margin small-car business. In creating a very different kind of car company and a supereffective fighter brand, GM had also burdened Saturn with an overwhelmingly unprofitable business model. By 2000, despite continuing sales success, Saturn was losing $3,000 for every car it sold.
GM began to rethink things. It delayed or canceled expensive new features like passenger air bags and plastic body panels and dissolved the unique operating systems and labor agreements at Saturn's plant. Saturn's "new" generation of cars did eventually arrive, but they consisted of rebadged versions of other GM models. Saturn's original small cars evolved into the midsize cars, SUVs, and minivans more traditional of GM. Saturn's dealers were also reined in and, despite an initial pledge to avoid all price promotions, were now included in GM-wide dealership offers like 0% financing. If the first chapter of Saturn's existence was characterized by fighter brand success hampered by unprofitability, its second chapter centered on lowering costs at the expense of Saturn's brand equity and ultimately its fighter brand effectiveness. Shared platforms, rebadged models, and GM promotions spelled the end of Saturn's differentiation and led to increasing cannibalization of sister brands like Pontiac and Chevy. Meanwhile, the Asian competitors Saturn had been designed to fight steadily gained market share in the United States. GM vice chairman Bob Lutz summarized the Saturn story in 2009, telling Automotive News: "We spent a huge bundle of money in giving Saturn an absolutely no-excuses product lineup, top to bottom. They had a better and fresher lineup than any GM division, and the sales just never materialized." Not quite true. Sales did materialize, but when profits did not follow GM was forced to look for synergies and savings—and then sales dropped off. Because of its financial woes, Saturn will ultimately be remembered as one of the most cautionary case studies of fighter brand failure.

Fighter brand success depends on more than initially matching the price and value of your intended enemy; you must also achieve those goals while attaining a sustainable level of profits. Unfortunately, such profits can prove elusive for organizations accustomed to higher price points and more generous operating models. Suddenly, they find themselves competing in the low-price sector against brands that probably originated there and that have evolved an operating model well suited to it. To meet that challenge a premium organization may have to strip back a fighter brand's cost structure and alter its traditional definition of what constitutes strategic success.

For managers at 3M who set about creating a lower-price version of Post-it Notes called Highland, this meant using a lower-grade adhesive, offering the new product in limited formats, and completely forgoing trade promotions. As one 3M executive put it, the overriding objective for the fighter brand was to ensure that "if consumers did use Highland, none would have a complaint." Highland's basic quality and timid goal of avoiding disappointment may seem surprisingly at odds with 3M's reputation for innovation but achieved two key objectives. First, they ensured that Highland did not cannibalize Post-it Notes' sales. Second, they enabled Highland to be profitable despite its much lower price, which has allowed 3M to keep the product in the company's portfolio long after seeing off its cheaper rivals.

**Hazard 4: Missing the Mark with Customers**

Normally, a successful brand has its genesis in the recognition of an unmet consumer need. The subsequent development and marketing of the product stay focused on its target consumer segment. But the provenance of a fighter brand is very different. It originates with a competitor and the strategic success it has achieved, or threatens to achieve, against your organization. The DNA of a fighter brand is therefore potentially flawed from the very outset because it is derived from company deficiencies and competitor strengths, not a focus on consumers.

When United launched its fighter brand Ted to combat discount airlines Frontier and Southwest, the skewed orientation of the new brand was evident from the start. During the 2004 launch John Tague, United's executive vice president (who was appointed president in 2009), set the tone: "We think Ted can do things that United can't." He and his team made the mistake of benchmarking Ted just against their own premium brand. Although they celebrated Ted's points of difference, such as easygoing service, guerrilla marketing, and using only a single crew member for check-in, those features differentiated Ted only from its parent brand. A market-oriented strategist would have recognized that they were long-established features of Ted's low-
Should You Launch a Fighter Brand?

price rivals and therefore nothing more than points of parity. Nowhere was this internal orientation more obvious than in pricing. Compared with United, Ted was a discount airline. But external analysis confirmed that Ted’s fares were around 15% higher than those of its budget competition. In the face of rising fuel costs and increasing losses, Ted ceased operations in 2009.

While Ted was a victim of internal benchmarking, it’s more common for fighter brands to focus excessively on rivals at the expense of consumers. Consider the situation at British supermarket Tesco. Aside from offering the traditional selection of manufacturer brands, Tesco pioneered a three-tiered private-label strategy all under the Tesco brand. In 2008, however, shoppers were confronted by yet a fourth form of private label. Alarmed by the growing threat of the German retailer Aldi, Tesco launched 350 new Discount Brands priced between its lowest- and mid-tier private-label brands and imitating Aldi’s “house of brands” architecture. Its new fighter brand in ketchup, for example, did not feature the Tesco name; it was called Oak Lane and mimicked Aldi’s private-label ketchup offering, Bramwell. Tesco even went so far as to cite Aldi’s equivalent product price on its shelf labeling to assure customers they could not do better across the street. Unfortunately, the strategy complicated Tesco’s formerly simple pricing structures and confused many of its customers.

Though a fighter brand inevitably originates from the recognition of a competitor and the limitations of an organization’s existing premium brand, management’s focus should immediately switch to the consumer segments that the new brand is targeting. Only then will it achieve the kind of consumer orientation necessary to avoid a potentially fatal focus on competitors.

When Qantas decided to strike back after the successful launch of Virgin Blue into Australia (see the sidebar “How Qantas Launched the Perfect Fighter Brand”), its planning process began not with internal benchmarking or an assessment of Virgin Blue’s operating model but rather with a series of focus groups. The groups, run all over Australia, were attended by the senior managers, including newly hired chief executive Alan Joyce. “What we found were a few characteris-

Hazard 5: Management Distraction
Launching a fighter brand while selling a premium brand is like fighting a war on two fronts. An organization must divide its resources at the very time when it should perhaps concentrate its efforts on the business at hand. Rather than going off to war with a fighter brand, should a manager stay and defend the homeland?

A number of the companies that have recently launched and then retracted fighter brands have also experienced bankruptcy: United (Ted) in 2002, Delta (Song) in 2005, GM (Saturn) in 2009. Granted, their fighter brands were created to respond to serious competitive threats that had already caused sizable business losses. But instead of alleviating the situation, the financial investment wasted on unsuccessful fighter brands further contributed to the dire straits that these organizations found themselves in. According to Fortune, GM lost more than $15 billion on Saturn—an enormous sum even by its standards. Similarly, Song wreaked havoc with Delta’s finances as the costs of the launch, marketing communications, and hiring and training of new staff piled up to an estimated $65 million. Then there were the operating costs. Industry analysts estimated that Song was losing around $16 million a month in 2005. Add to that the expense of decommissioning 48 planes and refitting them back to Delta standards and severance pay for fired staff, and you have a devastating mountain of costs at a time when Delta was already desperately short of cash.

The opportunity costs of launching, managing, and then withdrawing an unsuccessful fighter brand can be even bigger than the financial impact. Significant managerial resources that could have been invested in a company’s premium brand are instead wasted...
How Qantas Launched the Perfect Fighter Brand

After Dominating the Australian airspace for decades, Qantas was threatened in 2000 by low-fare entrant Virgin Blue. In 2003 Qantas’s management discussed launching a fighter brand. The strategy that emerged provides a first-class example of the steps to achieving fighter brand success:

1. **Determine whether another brand is truly necessary.** Like any company, and especially one with just a single brand, Qantas did not want to create a new brand unless it had to. Exhaustive strategic sessions confirmed, however, that the Qantas brand was simply not in a position to combat Virgin Blue’s explosive growth. A fighter brand was the only option.

2. **Run the numbers.** Fortunately for Qantas, Virgin Blue had entered Australia with a low-frills, rather than no-frills, airline. Qantas’s detailed projections showed that by offering no frills, its new airline could achieve a 20% cost advantage over its rival; thus allowing it to undercut Virgin Blue’s prices while sustaining a profit.

3. **Listen to customers, early and often.** Well before any key decisions had been made, the new brand’s executive team attended secret focus groups across Australia—a crucial step to avoiding excessive internal benchmarking or competitor orientation.

4. **Move fast.** In 2004 Jetstar was launched with 14 planes flying to 14 destinations. The speed at which Jetstar attacked took Virgin Blue by surprise and knocked it off balance. It also meant that Jetstar entered a market that was still growing—a major consideration for a fighter brand intent on reducing the cannibalization of its premium brand.

5. **Control for cannibalization.** Jetstar took over the tourist routes that Qantas had lost money on. Because Jetstar proved profitable on those routes, it cannibalized only revenues, not profits. The fighter brand also opted for a shadow endorsement from Qantas. This approach aided Jetstar’s initial launch while distancing it from the premium brand and further reducing cannibalization.

6. **Reinvest in your premium offering and calibrate between the two brands.** Thanks to Jetstar, Qantas was able to refocus on its more profitable business routes and increase the frequency of its flights on those legs. The subsequent boost in profits, along with Jetstar’s growing contribution, were reinvested in overhauls of Qantas’s business lounges and business class cabins—strengthening the Qantas brand and the distinction between it and Jetstar.

Five years on, Jetstar has proved a dramatic success. It enjoys a 22% share of the domestic market and consistently impressive annual profits. Qantas estimates that Jetstar has added more than $300 million to the company’s bottom line since its introduction. Equally important, Jetstar has stopped the growth of Virgin Blue, and Qantas is now using the brand to fight other competitors in Asia and New Zealand.
back to 1983 and review its original portfolio of brands and strategic response to Asian imports all over again?

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A manager will probably never encounter a strategy as tempting or as potentially ruinous as a fighter brand. When it works, as in the case of Busch beer or Intel Celeron, it is the stuff of marketing brilliance. Troubling competitors are destroyed or seriously limited in scope. New market segments, often exhibiting high growth potential, are suddenly opened up. And the combination of a premium and a value brand in the market allows a company to calibrate those two offerings to its own strategic advantage.

Now forget those glittering outcomes and concentrate first on avoiding the hazards that render most fighter brands failures. Think about how thoroughly a fighter brand might cannibalize premium brand sales, and make sure that the value equation between your two brands is suitably distinct in the mind of the customer. Check that you will be able to launch a fighter brand that is competitive enough to damage your enemy and profitable enough to continue to do so over the long haul. Consider carefully the strategic implications of dividing your organization’s resources during a period when focus and investment are critical.

And then make your decision because, as the Greek playwright Euripides pointed out more than 2,000 years ago, the god of war hates those who hesitate.

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