Strategic Brand Positioning to Increase Value

THE PROBLEM

A prominent narrative in contemporary consumer culture tells the story of large category killer brands such as Amazon, Starbucks, Home Depot, and Wal-Mart forcing small, independent bookstores, coffee shops, hardware stores, and retailers out of business. According to the story, the takeover occurs because consumers are merely self-interested utility maximizers, searching for the best price and quality to meet their needs. However, recent anecdotal evidence suggests this narrative misses part of the story. For example, when Coldstone Creamery, a national chain, moved in across the street from independently-owned J.P. Licks ice cream shop in Newton Massachusetts, consumers rallied around J.P. Licks and drove Coldstone out of town. When Starbucks moved in next door to Los Angeles’s Coffee Bean and Tea Leaf, sales at the local café ironically went up.

FINDINGS

Recent work by Neeru Paharia and colleagues indicates these anecdotal observations are indicative of more widespread behavior. They explored the effect of competitive framing, positioning brands in competition with one another, and found that small brands can paradoxically benefit from having a large competitor. Paharia and colleagues first illustrated the effect by varying competitive framings. When consumers read about a large national chain or a small independent ice cream shop in isolation, their evaluations were relatively the same for the small and large shops. However, when they were told the ice cream shops were across the street and in direct competition with each other (imbalanced competition), evaluations of the small ice cream shop grew more favorable while evaluations of the large ice cream shop grew less favorable (inferred from purchase frequency.)

In several follow up studies, Paharia and colleagues further explored competitive framing effects. They found an impact of imbalanced competition in hypothetical choice scenarios and in real-life settings by varying advertisements in a bookstore. In a field study, the researchers told customers at a local book store that the store’s primary competition was either another small local bookstore or a large national bookstore. Those who were told the primary competition was a large national bookstore purchased more books and spent more money than those who were told the primary competition was another small local bookstore (see the figure).

As they further examined competitive framing, Paharia and colleagues found the effect of imbalanced competition is amplified when businesses are located in close proximity (making the competition especially salient) compared to when they are located across town from...
each other. Moreover, there was a greater effect of imbalanced competition when the large business was seen as the aggressor, compared to when the small business was seen as the aggressor.

Field Study: Book Store Purchases

<table>
<thead>
<tr>
<th>Type of Competition</th>
<th>% Making Purchase</th>
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<tbody>
<tr>
<td>Control</td>
<td>70</td>
</tr>
<tr>
<td>Balanced Competition</td>
<td>80</td>
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<tr>
<td>Imbalanced Competition</td>
<td>90</td>
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IMPLICATIONS & CONCLUSIONS

The researchers surmised that when the market is presented as a competition, consumers reframe their purchase. They move away from assessing the market and purchases economically (attempting to maximize the economic utility they receive), and instead view the market and purchases politically (their action is a vote to elect the winner of the contest between local and national). This changes their decision process and the decision criteria used. As a result, consumers increase their preference for small, independent brands and decrease their preference for large, national brands.

Strategists for businesses, large and small, must frame their competitive stance to optimize their market position. For small businesses, making salient their competitive relationship can erode advantages that large competitors may hold over them. Rather than shying away from mentioning a large competitor, small businesses should build an association between themselves and their large competitor, making imbalanced competition salient to the consumer. A savvy small coffee shop can conjure images of a David and Goliath style battle by positioning themselves in the context of a large and dominant Starbucks. Through such framing, a consumer’s purchase may become more than just a cup of coffee, but rather a vote in a fight against a large and dominant force.

Large business must do all they can to prevent the tactics suggested above. They should attempt to maintain a distance from their locally based competitors. This can be done by carefully planning locations for operations and by advertising the different services they offer that a local brand cannot compete with. Many consumers may choose to forgo price and convenience to support the little guy, but others will not, so large businesses must stand by these benefits. Large brands could stress corporate responsibility, environmentally safe practices, and charitable contributions to alleviate some of the effects of imbalanced competition.


This Brief, based on the work of Neeru Paharia et al., was composed by Chris Hydock in collaboration with Neeru Paharia.

Key Points

- National and local brands may be rated similarly in isolation, but when competitively framed, small brands gain significant advantage.
- Consumers may be willing to forgo price, selection, and convenience in order to support local brands.
- Both national and local brands can leverage these findings to better position themselves in the market place.