

## Four Higher-Price Champions

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The best way to win a pricing war is to avoid the fight entirely. These products do battle in tough markets, but they generate profits without competing on the basis of price.



**The Champion:** Apple

**The Market:** MP3 players

**The Competition:** Sony

**The Spread:** \$250 (Apple iPod nano 8GB) versus \$120 (SanDisk Sansa e250)

**Background:** Sony created the personal-music-player category with the Walkman cassette player. When the technology upgraded to CDs, Sony continued as the market leader, although it faced major competition from other Japanese firms. Apple had no presence in consumer electronics, but it wanted to make the Macintosh a "digital hub."

**Strategy:** Apple's hardware engineering chief, Jon Rubinstein, assembled a team of engineers to design a product that would play music directly from a hard drive, rather than a CD. The iPod was launched as a Macintosh peripheral but quickly grew into its own product category. Apple helped the process along by launching iTunes to provide content and continues to lead the product category by releasing new devices that look better and are easier to use than competitive offerings.

**Quote:** "I'm sure Apple employees won't take this as a compliment, but Apple is a great watch that's stopped. This means that twice a day it's on time. When Apple is right, it's very right: as with the iPod. But other times, Apple is very wrong: e.g., Newton, Lisa, Apple III. But most companies that Apple competes with are like a day calendar that's stopped working. They're only right once a year."

— *Guy Kawasaki, former Apple Fellow and Macintosh marketer*



**The Champion:** Bayer

**The Market:** Over-the-counter painkillers

**The Competition:** Generic brands

**The Spread:** \$.07 a tablet (Bayer tablets, \$7 for 100 count) versus \$.01 (Geri-care brand, \$1.09 for 100 count)

**Background:** The painkilling power of willow bark extract had been known since ancient times. In the late 19th century, Bayer created the first packaged version and registered "Aspirin" as a trademark. Bayer lost the trademark in many countries as the result of the seizure of German assets in World War I. The formula for aspirin also became public knowledge, making it possible for virtually any company to make the product, call it "aspirin," and sell it in the United States.

**Strategy:** Bayer began promoting the "Bayer Aspirin" brand in the United States, emphasizing quality and reliability and subtly implying that other brands weren't up to snuff. Massive television and print advertising slowly established this concept in the minds of consumers, so they continue to purchase Bayer at a higher price — even though competing products are absolutely identical.

**Quote:** "Bayer is now in many different businesses and has been able to leverage its brand recognition far beyond its roots. The key to this has been consistency in messaging and an overall spirit of innovation that's the guiding motivation of the entire company."

— *Scott Hunsberger, PR manager, Bayer MaterialScience*



**The Champion:** Plantronics

**The Market:** Executive headsets

**The Competition:** Logitech

**The Spread:** \$320 (Plantronics CS70 Headset) versus \$76 (Logitech Mobile Cordless Headset)

**Background:** Traditionally, telephone headsets were worn only by telephone workers (like call-center personnel). But now a secondary market for telephone headsets has developed for general office workers.

**Strategy:** Plantronics was already well established in the call center market. As demand grew for high-quality headsets for executives, Plantronics began featuring CEO types in marketing materials, along with the message that a misunderstood telephone communication could mean a loss in revenue and profit. They've since depended primarily upon word of mouth to drive sales growth.

**Quote:** "We look at this market as a long-term investment. Surveys indicate that only 7 percent of office workers use headsets. With phone mail becoming universal, and people becoming more accustomed to Bluetooth headsets with their cell phones, we're certain that more people will use headsets. We're making sure people understand the value of reliability and see Plantronics as the upscale choice."

— *Chuck Yort, vice president and general manager of business solutions, Plantronics*



**The Champion:** Intel

**The Market:** Computer CPU Chips

**The Competition:** AMD

**The Spread:** \$340 (Intel Core 2 Duo E6700) versus \$250 (AMD Athlon 64 X2 6000+)

**Background:** Intel's CPU chips are functionally identical to cheaper chips from AMD. Personal computer manufacturers typically operate with single-digit net margins, so the relatively minor cost difference between an Intel CPU and an AMD CPU can mean an increase of 10 to 30 percent in the profit generated from each sale.

**Strategy:** Intel provides matching ad dollars to subsidize the marketing efforts of the PC manufacturers. At the same time, Intel launches its own brand-building campaigns — like the famous "Intel Inside" slogan — to create the impression that Intel CPU chips are more valuable. That perception allows PC vendors to charge slightly more for Intel-powered units and pass some of that additional profit back to Intel.

**Quote:** "It used to be that marketing the PC was all about performance and how many megahertz could you squeeze out of your system. Then it changed to price/performance and how little you should be paying per megahertz. Today marketing PCs is all about usage and what you intended to

do with the device. So we want to focus on unleashing the power of the PC and making that power part of your personality."

— *Anand Chandrasekher, senior vice president and general manager, Ultra Mobility Group, Intel Corporation*

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