

The Wisdom of Price-War Veterans

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published on BNET.com 6/14/2007

What does it take to win against the low-bidders? We asked executives from two highly competitive markets — general interest magazines and consumer electronics — how they get customers to pay more.

People Magazine (Time Inc.)

Rivals: : In Touch, Us Weekly, Star, National Enquirer

Strategy: Focus on the brand and extend the brand

Executive: Martha Nelson, Editor, The People Group

Although it competes shoulder-to-shoulder against almost a dozen publications, the newsstand price of People (\$3.49) is high compared with, say, In Touch (\$1.99). To find out why, we spoke with Martha Nelson, who oversees editorial operations for People, as well as Stylewatch, People.com, In Style, and People en Espanol.

BNET: Why can People charge so much more on the newsstand than its competitors?

Nelson: It's the power of brand. We were lucky to be the first to market for this type of magazine, and we've had almost 30 years to establish a powerful brand and presence in American pop culture. We keep focused on what we do best, which is a combination of celebrity news and news about ordinary people who've done extraordinary things.

BNET: How do you view the competitors in this segment?

Nelson: When the competition did arrive, they came in droves, and it was a little disconcerting at first. But by the time there were eight competitors in the market, my feeling was pretty much "bring it on." When you're in battle mode, it doesn't matter if you've got eight competitors or 80. You simply focus on what you do best and let the competitors try to match what you're doing.

BNET: How do you use the "power of brand" to maintain price leadership?

Nelson: We've consciously used our immense name-brand recognition by extending into additional products, each of which further enhances the value of the brand. For example, after talking to industry analysts and market researchers, we increased the frequency of People Style Watch magazine to 10 times a year. We've found that there's an insatiable hunger for certain kinds of information among our reader base. By offering additional products under the same brand name, we extend the power of the brand, allowing us to keep prices high and still dominate the segment.

BNET: How closely do you watch the competition?

Nelson: We definitely keep tabs on what they're doing. However, there's an essential fact about warfare, which is that the longer two enemies fight, the more similar they become. The challenge here is to compete without becoming like our competition. I don't shy away from competition, but I don't let it define what we're trying to accomplish.

BNET: Doesn't the Internet pose a price threat?

Nelson: Actually, the Internet is a major brand-building opportunity for a magazine. One of the reasons that we're stronger than the competition on the newsstand is that **we're also on the Internet**, where we compete against a completely different set of entities. On the Web, we're up against sites like MSN Entertainment, which doesn't have a presence in print publishing. Competing with different companies in different media makes us stronger.

BNET: What advice do you have for companies that want to command a premium price?

Nelson: Look really hard at yourself and your true value to the market — both your value internally and your value to the consumer. Decide what you're good at and strengthen that. Find out who you are, and then become more of what you are. It's as simple, and as difficult, as that.

Sony VAIO Personal Computers

Rivals: Dell, HP, Lenovo, Acer, Toshiba

Strategy: Product differentiation and exclusivity

Executive: Mike Abary, vice president of VAIO Product Marketing

Despite a quarter-century of relentless price wars, one PC vendor — Sony — can still charge a premium over nearly identical Windows-based machines from other vendors. We asked Mike Abary how Sony's VAIO brand can sustain its higher price point.

BNET: Why can Sony charge more for its consumer PCs?

Abary: We position Sony's VAIO line of PCs as a leadership brand by releasing unusual products that may sell in low volumes but are completely unique. For example, we're currently selling the UX, a full-blown Windows PC that's not much bigger than a handheld game machine. These unusual machines create a halo effect that make our other, more traditional PCs seem more high-tech than the competition.

BNET: What role does advertising play in building brand preference?

Abary: Brand preference translates into the ability to charge more for a product, so the secret is to target your advertising to find consumers who value your brand. We generally shy away from venues where the other PC vendors advertise heavily. Instead, we focus on lifestyle magazines like travel publications or online sites that appeal to style-conscious consumers. As a result, we've been able to establish a buying demographic that includes some big spenders our competitors often miss — like upscale female professionals.

BNET: Being style-conscious forced you to have more than the usual spate of products. How do you keep that from killing your margins?

Abary: The main expenses in the PC business are marketing and manufacturing. To reduce marketing cost, we try to be very clear about the positioning and messaging surrounding each product line. To reduce manufacturing cost, we use the same components throughout the entirety of our PC product line and make changes only to those elements that are unique to the individual product. Essentially we maintain economies of scale while differentiating our product set.

BNET: What's the process when you launch a new product line?

Abary: For each new product, we identify and profile the type of customer that we're trying to attract. We match the product's features and price point against the demographic of this Most Valuable Prospect (MVP). How often does the MVP travel? Does the MVP work at home? Does the MVP have a large or small office? We then craft a product line that's intended to match the work habits and environment of that profile. As a result, we have many more product lines and products than other PC manufacturers.

BNET: What's the hardest part of being successful in the PC business?

Abary: The hardest thing is trying to create the awareness among consumers that PCs are not a commodity product and that there are significant differences between brands in terms of craftsmanship, design, style, innovation, and unique features. Ideally, we want consumers to think of their computer as an extension of their personality, so that they'll be willing to pay more for that aspect of the product.

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