Judo in action

Firm & Markets

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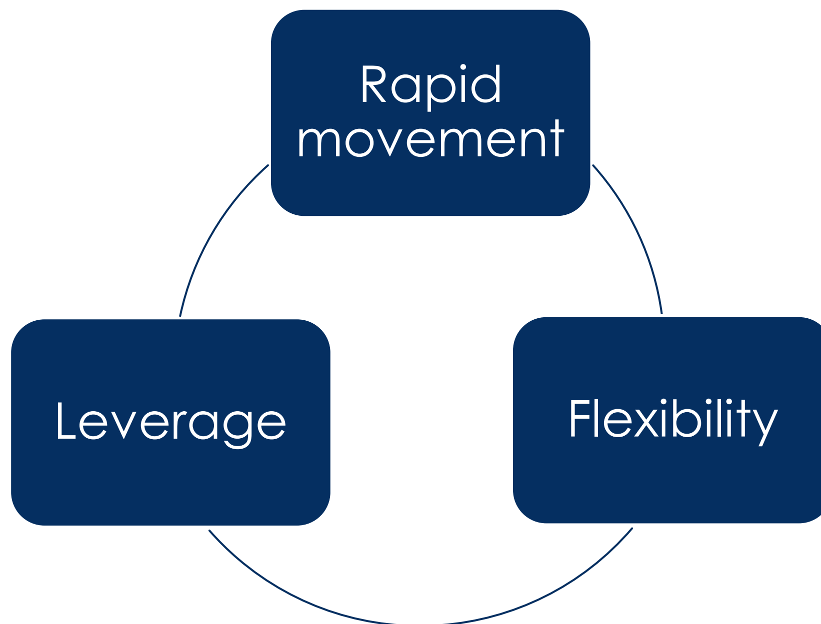
JUDO ECONOMICS

In the martial art of judo, a combatant uses the weight and strength of his opponent to his own advantage rather than opposing blow directly to blow.

Similarly, small companies aim to turn their opponents' resources, strength, and size against them. Judo strategy is based on three elements—rapid movement, flexibility, and leverage—each of which translates into a competitive principle. The first principle requires judo players to move rapidly to new markets and uncontested ground, thus avoiding head-to-head combat. The second principle demands that players give way to superior force when squarely attacked. Finally—the third principle calls for players to use the weight and strength of opponents against them.



SOFTSOAP

Minnetonka Corporation was founded by Robert Taylor in 1964. It sold a variety of soaps and other personal care products. In 1977 it developed a soap machine that could deliver liquid soap into a plastic bottle driven by a pump.

In 1980, Minnetonka launched its liquid soap named Softsoap with a $7 million national advertising campaign, even though Minnetonka's total revenue in the previous year was only $25 million. Liquid soap marketing paid off and Softsoap sales reached $39 million that year.

The soap industry was a highly competitive and cash intensive market, dominated by giants like Armour-Dial, Procter & Gamble and Colgate-Palmolive. This large competitors could quickly copy the liquid soap idea and wipe Softsoap off the shelves.

1979 Minnetonka Revenue

1980 Marketing Campaign

1980 Softsoap Sales

> " Softsoap was not a patentable invention. Pumps have been around since the time of Archimedes"

ECONOMICS PROFESSORS ADAM M. BRANDENBURGER AND BARRY NALEBUFF

To have any chance of long-term success, Softsoap would have needed more time to build brand loyalty.

What made the liquid soap so convenient was the way it was delivered - the pump. Realizing there were only two pump manufacturers that could meet demand, Taylor risked everything and bought the total annual production of both manufacturers - 100 million pumps.

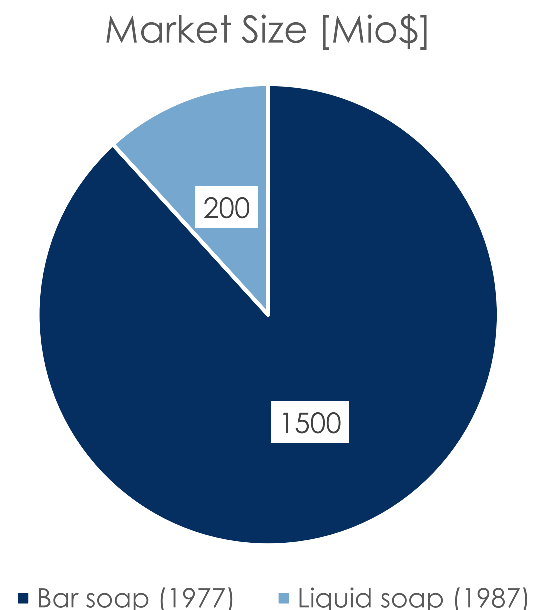
INITIAL REACTION OF THE MAIN COMPETITORS

The big players were unsure about the consumer's enthusiasm for liquid soap from pump-gun dispensers. Large soap manufacturers decided to conduct private trials of liquid soap products rather than go for public launches. In fact, they decided to market the product under different names from their top bar soap products. P&G, for example, was marketing its liquid soap product under the name "Rejoice".

MARKET CHANGE

In 1981 Minnetonka decided to spend $30 million on Soft-soap promotion and advertising in an attempt to increase sales to $70 million.

In 1981 and 1982 Softsoap remained the market leader, even though the liquid soap segment seemed to plateau.



In 1983 P&G launched a liquid soap product under the Ivory brand name. The company used an extremely aggressive policy of pricing, commercial promotion, couponing and advertising. As a result, P&G grew rapidly to a 30% market share.

In 1985, Minnetonka was still the leader in the liquid market, which was estimated to be a $100 million market.

In 1987, just 23 years after Minnetonka was founded, Taylor decided to sell the Soft-soap to Colgate-Palmolive for $61 million.

In the same year, Armour-Dial re-entered the market (after the first attempt in 1983) and quickly outperformed the Soft-soap, increasing sales in the segment to $200 million.

CONCLUSION:

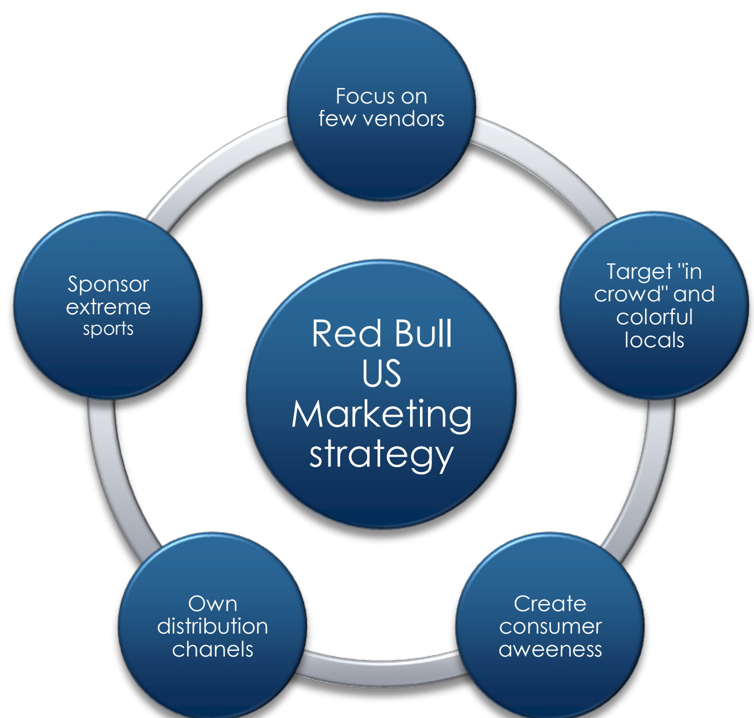
Softsoap entered the niche market as the first mover, gaining competitive advantage that permitted it to pioneer the liquid soap market with little competition, at least, initially, from the incumbent bar soap manufacturers. However, the firm was not able to preserve the market share gained when the big players started to attack and fight aggressively.

> "The best way for an entrepreneur to compete in today's marketplace, is to avoid competition - or at least find ways to circumvent it"
>
> ***TAYLOR TO THE NEW YORK TIMES.***

RED BULL

The energy drink called Red Bull was founded by Dietrich Mateschitz, an Austrian university student, in 1987. Initially, the nightclubs and bars would not take the drink because they perceived it to be a diet product, forcing Mateschitz to focus on traditional retail outlets and discos where alcohol was prohibited.

After being sold in Europe for a decade, Red Bull entered the US market in 1997 when it was test-marketed in California. The company was very patient in implementing its strategy in the US market. It would focus on only five accounts in an area instead of pursuing every potential vendor. (Niche strategy). The company targeted the so-called “in crowd” and colorful locals.



Red Bull has promoted itself as the drink for the Anti-Pepsi Generation. Instead of depicting clean children with cola on a strand in its commercials, Red Bull focused on extreme sports such as scuba diving and street luge.

“Without the old high school teacher telling his students Red Bull is evil - probably even a drug - it wouldn't seem as interesting.”

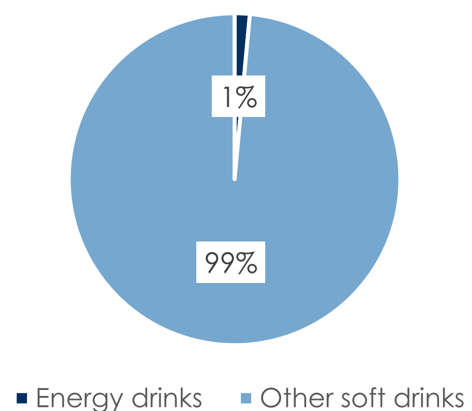
MATESHITZ, RED BULL FOUNDER

INITIAL REACTION OF THE MAIN COMPETITORS:

Coca Cola or Pepsi could have made a strike at the startup but no company had predicted the spectacular growth of the energy-drink category.

In the late 1990s, Americans consumed more carbonated soft drinks than any other beverage. The dominant producer of carbonated soft drinks was Coca-Cola, whose US soft drinks sales were $7.5 billion in 1999 while Red Bull's worldwide sales were only $483 million.

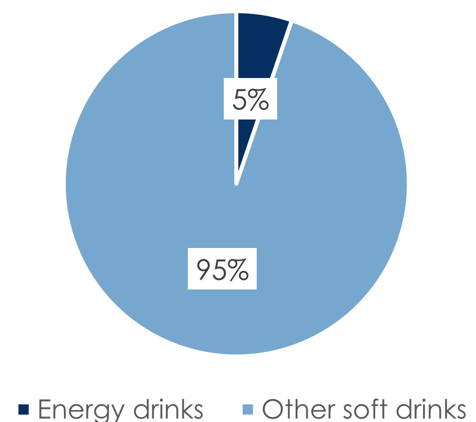
In 1999, the entire U.S. energy drinks segment was $75 million, a relatively small percentage of the over $50 billion soft drink industry in the United States.



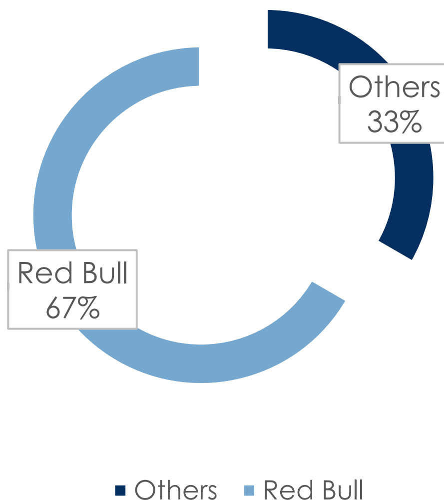
In October 2000, Coca-Cola introduced KMX, a citrus-flavored energy drink in some states. A month later it launched another high energy drink, called Burn, in the UK and Australia. In contrary to Coke's typical marketing strategy, it decided to rely on secrecy for its energy drinks and not discuss the details of the ingredients or where the drinks would be sold.

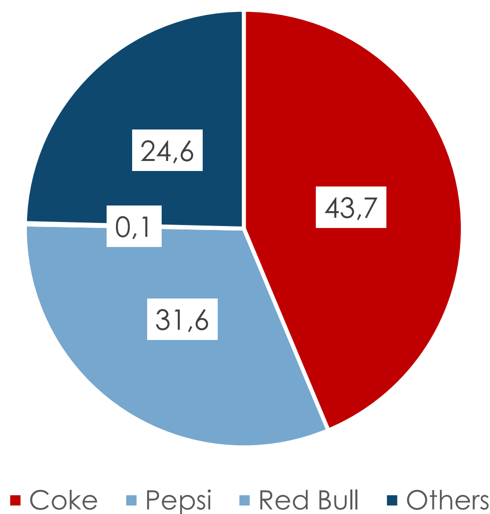
MARKET CHANGE

By 2001, the energy drinks industry in the United States had increased to a $275 million industry.



Red Bull controlled about two thirds of the energy drinks market, but accounted for just 0.1% of the carbonated soft drinks market. Coke and Pepsi continued to dominate this category with respective shares of 43.7% and 31.6%.





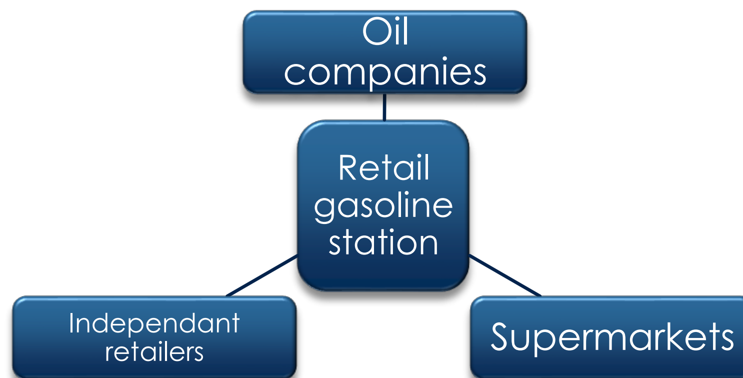
Nevertheless, Red Bull's sales in the USA in 2001 grew by 118% compared to the previous year, while the total volume of soft drinks only grew by a sad 0.6%. Coke and Pepsi suffered a drop in market share of 0.4 and 0.2 points respectively.

CONCLUSION:

Soft Drink market was dominated by carbonated cola giants. Red Bull defined the energy drink segment, which was a small part of huge $50 Billion soft drink market. This market never got sufficient attention from the established soft drinks players. Red Bull entered the US market as a niche product and established its own brand through careful and patient marketing. At the beginning big players did not bother to fight in the energy-drink category, permitting to the Red Bull to develop its competitive advantage by focusing on specific market and distribution strategy.

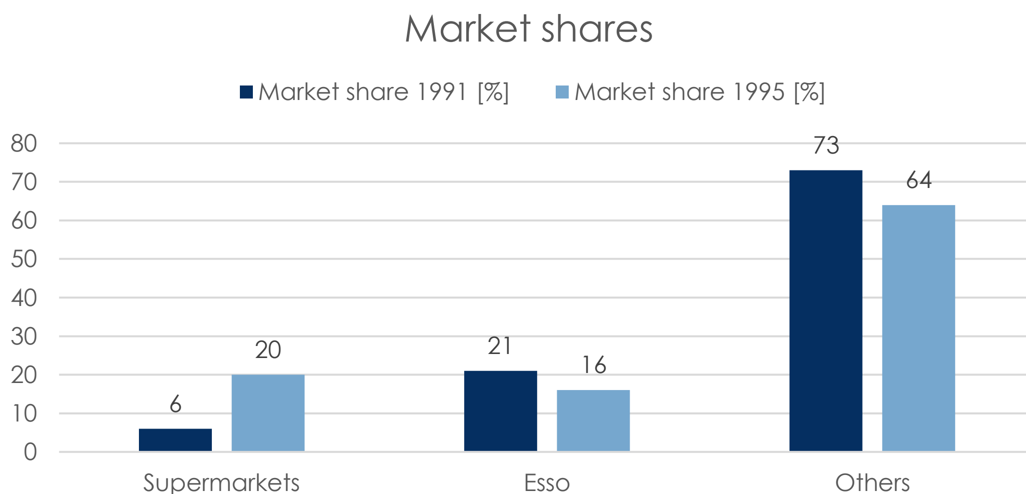
UK PRICE WARS

In the 1980s, the retail gasoline stations were owned by three types of companies: vertically integrated oil companies, supermarkets and independent retailers.



MARKET CHANGE:

In the early 1990s, supermarkets lowered gasoline prices, increasing their market share from 6% in 1991 to 20% in 1995, while Esso's market share fell from 21% to 16%)



REACTION OF THE MAIN COMPETITOR:

In August 1995, Esso responded by launching a program called Pricewatch in the north-east of England and Scotland. The program was a promise that prices at Esso sites would match the lowest price offered by supermarkets within a three-mile radius, and by road sites (integrated companies or independent retailers) within a one-mile radius. In January it was extended to all of its 2100 fuel stations. This started the gasoline price war in the United Kingdom.

In January 1996, Esso took action nationwide with a public commitment to monitor prices every day and to be among the lowest in the country.

It is estimated that the Pricewatch program cost Esso £200 million in profit in 1996 alone. However, Esso said it managed to win back around 1 million customers.

CONCLUSION:

Supermarkets knew that to increase their market share they had to do so by lowering the price of gasoline. They knew that none of the oil companies would consider them as a serious competitor in the early years, because in a business with low profit margins, large operators were expected to maintain stable margins.

Slowly and steadily, supermarkets made consumers believe that gasoline in supermarkets costs less than elsewhere.

Once the image was built, their market share went from 6% to 25%, eating away at the market share of integrated oil companies. When the integrated oil companies responded and entered a price war, supermarkets were stable enough not to let their market share erode.

AOL VS. FREESERVE

AOL was founded by Steve Case in 1985. By the late 1990s it offered its users interactive news, entertainment, information, shopping, buddy lists, e-mail service, electronic chat capabilities, and parental controls—all for under $30 a month.

By the end of 1997, AOL had the world's largest Internet Service Provider (ISP) membership base, at 8.6 million members.

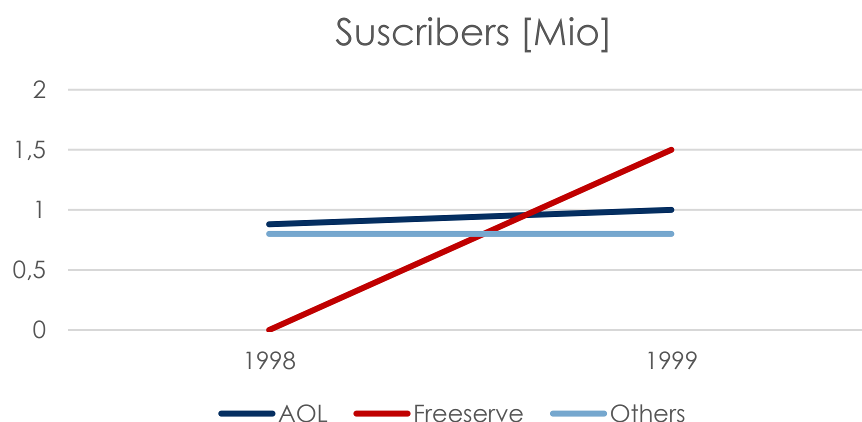
In the mid 1990s, After 10 years of serving the U.S. market, AOL ventured into the international scene. By 1998 it was the leading ISP in the British market.

In September 1998 Dixons, Britain's leading electronics retailer, launched Freeserve, a new "free" ISP that enabled users to go online for just the cost of a local telephone call.

INITIAL REACTION OF THE MAIN COMPETITOR:

AOL publicly tried to shrug off the competition. It attacked Freeserve's definition of "free" saying that it masked the high charges that users used to pay for telephone technical support. It also tried to highlight the fact that AOL provided more value added features.

> "It's like Tiffany's saying it's worried about Wal-Mart."
>
> ***AOL PRESIDENT BOB PITTMAN***



MARKET CHANGE

By the fall of 1998, AOL, had around 8, 00,000 subscribers. Freeserve was launched in September 1998.

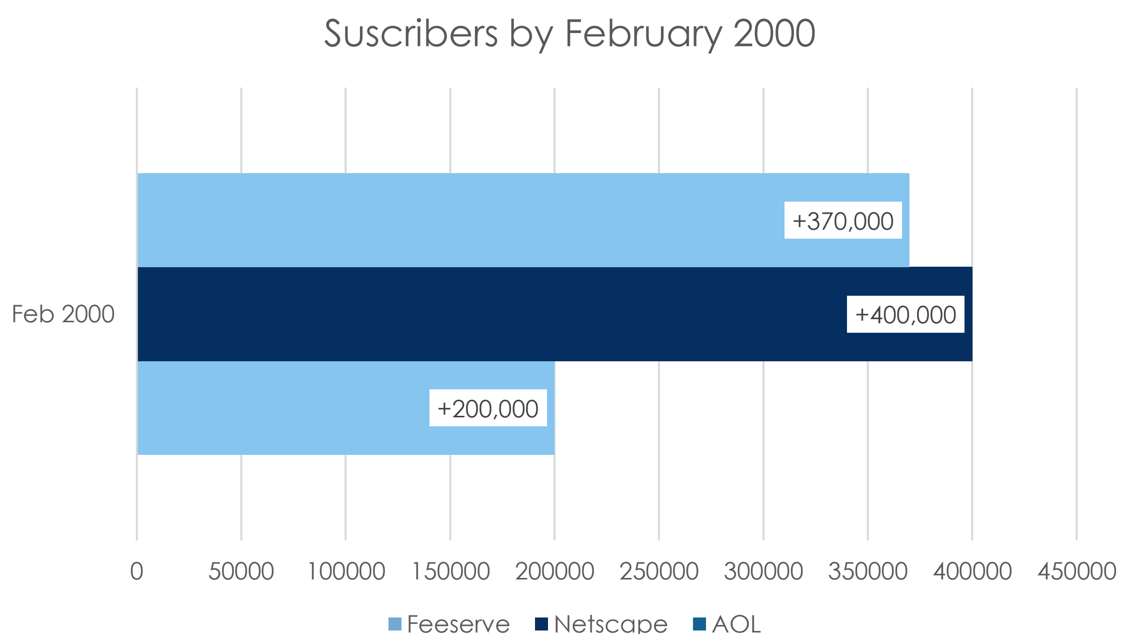
By January 1999, Freeserve had 1 million customers and 8 000 new subscribers were signing up each day. By mid 1999 Freeserve had around 1.3million subscribers.

AOL'S RESPONSE:

In June 1999, AOL responded by cutting its British monthly fee from $ 27 to $16.25 (by more than 40%) .

In September, AOL launched a free ISP service, Netscape Online, to compete head-to-head with Freeserve at the lower end of the market. Netscape Online was targeted at younger Internet users who did not require much support.

> "We don't expect much switching over, this is a very new slice of the pie"
>
> ***AOL EUROPE CHIEF EXECUTIVE ANDREAS SCHMIDT*.**



By February 2000, 400,000 users signed up for Netscape Online. Over the same period, AOL U.K. added 200,000 accounts. While Freeserve grew by around 370,000 subscribers.

In September 2000, AOL began offering unlimited online access via a toll-free number for a fixed monthly fee.

Freeserve tried to match AOL by charging an even a lower monthly fee but unable to withstand the operating losses, it was acquired by Wanadoo in 2000.

CONCLUSION:

Freeserve was the first to overcome the classic subscription fee. The company managed to capture the low end portion of the market, consumers who did not need high quality service and support. Although AOL mocked the Freeserve, when it finally managed to understand the need for low market, it quickly kicked out the competitor.