

AL RIES & JACK TROUT

THE 22 IMMUTABLE
LAWS OF
marketing

Violate Them at Your Own Risk!

Authors of the bestseller *Positioning*

The 22 Immutable Laws of Marketing

Violate Them at Your Own Risk

Al Ries and Jack Trout



**Dedicated to the elimination of
myths and misconceptions
from the marketing process**

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Introduction

Billions of dollars have been wasted on marketing programs that couldn't possibly work, no matter how clever or brilliant. Or how big the budgets.

Many managers assume that a well-designed, well-executed, well-financed marketing program will work. It's not necessarily so. And you don't have to look further than IBM, General Motors, and Sears, Roebuck to find examples.

The tools and techniques used at Sears, Roebuck might have been right, sometimes even spectacular. And the managers who ran the GM programs might have been the best and the brightest. Certainly the best and the brightest people traditionally have been attracted to the biggest and the best companies, like GM and IBM. But the programs themselves were based on assumptions that were flawed.

John Kenneth Galbraith, when asked what he believed was America's perception of the country's giant corporations, said that we feared corporate power. Today, we fear corporate incompetence!

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All companies are in trouble. Especially big companies. General Motors is a good example. Over the past decade the company paid a terrible price for destroying the identity of its brands. (It priced them alike as well as made them look alike.) Ten share points evaporated, which translates into about \$10 billion a year in sales.

GM'S problem wasn't a competitive problem, although competition did increase. It wasn't a quality problem either, although GM obviously wasn't delivering top-notch quality. It was very definitely a marketing problem.

When a company makes a mistake today, footprints quickly show up on its back as competition runs off with its business. To get the business back, the company has to wait for others to make mistakes and then figure out how to exploit the situation.

So how do you avoid making mistakes in the first place? The easy answer is to make sure your programs are in tune with the laws of marketing. (Although we have defined our ideas and concepts under the "marketing" banner, they are useful no matter where you are in a company, and no matter what product or service your company is selling.)

What are these marketing laws? And who brought them down from Mount Sinai on a set of stone tablets?

The fundamental laws of marketing are those described in this book.

But who says so? How come two guys from Connecticut

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have discovered what thousands of others have overlooked? There are, after all, many sophisticated marketing practitioners and academics. Why have they missed what we think is so obvious?

The answer is simple. As far as we can tell, almost no one is willing to admit that there are any laws of marketing—certainly none that are immutable.

There are laws of nature, so why shouldn't there be laws of marketing? You can build a great-looking airplane, but it's not going to get off the ground unless it adheres to the laws of physics, especially the law of gravity. You can build an architectural masterpiece on a sand dune, but the first hurricane will undermine your creation. So it follows that you can build a brilliant marketing program only to have one of the immutable laws knock you flat if you don't know what they are.

Perhaps it's human nature not to admit there are things you can't do. Certainly most marketers believe that anything is achievable if you are energetic enough, or creative enough, or determined enough. Especially if you are willing to spend enough money.

Once you open your mind to the possibility that there are laws of marketing, it's easy to see what they are. In truth, they are obvious.

We have been studying what works in marketing and what doesn't for more than 25 years. What we have found is that programs that work are almost always in tune with some fundamental force in the marketplace.

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In our books, articles, speeches, and videos we have analyzed marketing principles in some detail. We have developed strategic models of the marketing process, including a physical model of the human mind, which we helped popularize under the concept of “positioning.” We also developed a military model of the marketplace, which assigns companies and brands to either defensive, offensive, flanking, or guerrilla modes of marketing warfare.

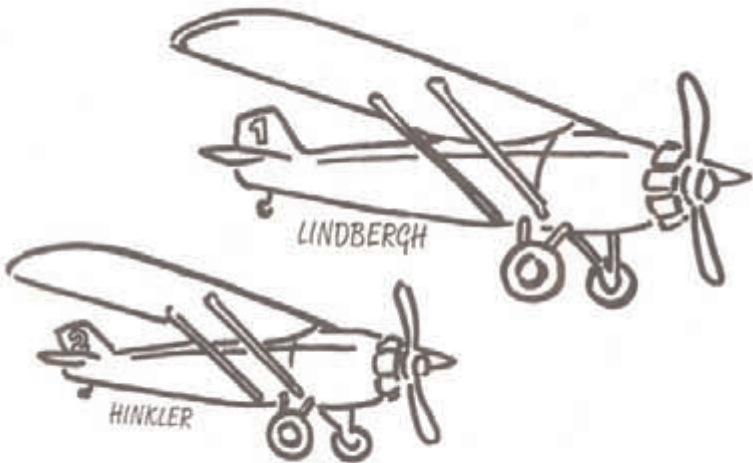
After years of working on marketing principles and problems, we have distilled our findings into the basic laws that govern success and failure in the marketplace.

We call these principles the Immutable Laws of Marketing, and there are 22 of them. Violate them at your own risk.

1

The Law of Leadership

It's better to be first
than it is to be better.



Many people believe that the basic issue in marketing is convincing prospects that you have a better product or service.

Not true. If you have a small market share and you have to do battle with larger, better-financed competitors, then your marketing strategy was probably faulty in the first place. You violated the first law of marketing.

The basic issue in marketing is creating a category you can be first in. It's the law of leadership: It's better to be first than it is to be better. It's much easier to get into the mind first than to try to convince someone you have a better product than the one that did get there first.

You can demonstrate the law of leadership by asking yourself two questions:

1) What's the name of the first person to fly the Atlantic Ocean solo? Charles Lindbergh, right?

2) What's the name of the second person to fly the Atlantic Ocean solo? Not so easy to answer, is it?

The second person to fly the Atlantic Ocean solo was Bert Hinkler. Bert was a better pilot than Charlie—he flew faster, he consumed less fuel. Yet who has ever heard of Bert Hinkler? (He left home and Mrs. Hinkler hasn't heard from him since.)

In spite of the evident superiority of the Lindbergh approach, most companies go the Bert Hinkler route. They wait until a market develops. Then they jump in

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with a better product, often with their corporate name attached. In today's competitive environment, a me-too product with a line extension name has little hope of becoming a big, profitable brand (chapter 12: The Law of Line Extension).

The leading brand in any category is almost always the first brand into the prospect's mind. Hertz in rent-a-cars. IBM in computers. Coca-Cola in cola.

After World War II, Heineken was the first imported beer to make a name for itself in America. So four decades later, what is the No. 1 imported beer? The one that tastes the best? Or Heineken? There are 425 brands of imported beer sold in America. Surely one of these brands must taste better than Heineken, but does it really matter? Today, Heineken is still the No.1 imported beer, with 30 percent of the market.

The first domestic light beer was Miller Lite. So what is the largest-selling light beer in America today? The one that tastes the best? Or the one that got into the mind first?

Not every first is going to become successful, however. Timing is an issue—your first could be too late. For example, *USA Today* is the first national newspaper, but it is unlikely to succeed. It has already lost \$800 million and has never had a profitable year. In a television era, it may be too late for a national newspaper.

Some firsts are just bad ideas that will never go anywhere. Frosty Paws, the first ice cream for dogs, is unlikely to make it. The dogs love it, but the owners

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are the ones who buy the groceries, and they think that dogs don't need an ice cream of their own. They should be happy just to lick the plates.

The law of leadership applies to any product, any brand, any category. Let's say you didn't know the name of the first college founded in America. You can always make a good guess by substituting *leading* for *first*. So what's the name of the leading college in America? Most people would probably say Harvard, which is also the name of the first college founded in America. (What's the name of the second college founded in America? The College of William and Mary, which is only slightly more famous than Bert Hinkler.)

No two products are any similar than twins are. Yet twins often complain that the first of the two whom a person meets always remains their favorite, even though the person also gets to know the other one.

People tend to stick with what they've got. If you meet someone a little better than your wife or husband, it's really not worth making the switch, what with attorneys' fees and dividing up the house and kids.

The law of leadership also applies to magazines. Which is why *Time* leads *Newsweek*, *People* leads *Us*, and *Playboy* leads *Penthouse*. Take *TV Guide*, for example. Back in the early fifties the then-powerful Curtis Publishing Company tried to field a television-listings magazine to compete with the fledgling *TV Guide*. Even though *TV Guide* had only a minuscule head start, and despite the awesome strength of Curtis,

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the Curtis publication never really got off the ground. *TV Guide* had preempted the field.

The law of leadership applies equally as well to hard categories like automobiles and computers as it does to soft categories like colleges and beer. Jeep was first in four-wheel-drive off-the-road vehicles. Acura was first in luxury Japanese cars. IBM was first in mainframe computers. Sun Microsystems was first in workstations. Jeep, Acura, IBM, and Sun are all leading brands.

The first minivan was introduced by Chrysler. Today Chrysler has 10 percent of the car market and 50 percent of the minivan market. Is the essence of car marketing making better cars or getting into the market first?

The first desktop laser printer was introduced by a computer company, Hewlett-Packard. Today the company has 5 percent of the personal computer market and 45 percent of the laser printer market.

Gillette was the first safety razor. Tide was the first laundry detergent. Hayes was the first computer modem. Leaders all.

One reason the first brand tends to maintain its leadership is that the name often becomes generic. Xerox, the first plain-paper copier, became the name for all plain-paper copiers. People will stand in front of a Ricoh or a Sharp or a Kodak machine and say, "How do I make a Xerox copy?" They will ask for the Kleenex when the box clearly says Scott. They will offer you a Coke when all they have is Pepsi-Cola.

How many people ask for cellophane tape instead

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of Scotch tape? Not many. Most people use brand names when they become generic: Band-Aid, Fiberglas, Formica, Gore-Tex, Jello, Crazy Glue, Q-tips, Saran Wrap, Velcro—to name a few. Some people will go to great lengths to turn a brand name into a generic. “FedEx this package to the Coast.” If you’re introducing the first brand in a new category, you should always try to select a name that can work generically. (Lawyers advise the opposite, but what do they know about the laws of marketing?)

Not only does the first brand usually become the leader, but also the sales order of follow-up brands often matches the order of their introductions. The best example is ibuprofen. Advil was first, Nuprin was second, Medipren was third. That’s exactly the sales order they now enjoy: Advil has 51 percent of the ibuprofen market, Nuprin has 10 percent, and Medipren has 1 percent.

The fourth brand that entered the market was Motrin IB. Even though it has the powerful prescription name for ibuprofen, Motrin’s market share is only 15 percent. (Keep in mind that Advil was introduced with a “Same as the prescription drug Motrin” theme.) And note the generic substitution. Consumers use *Advil* as a generic term. Rarely do they use the word *ibuprofen*. Even an M.D. will tell a patient, “Take two Advil and call me in the morning.”

Also consider Tylenol, the first brand of acetaminophen. Tylenol is so far ahead of the No. 2 brand that it’s hard to determine who *is* No. 2.

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If the secret of success is getting into the prospect's mind first, what strategy are most companies committed to? The better-product strategy. The latest and hottest subject in the business management field is benchmarking. Touted as the "ultimate competitive strategy," benchmarking is the process of comparing and evaluating your company's products against the best in the industry. It's an essential element in a process often called "total quality management."

Unfortunately, benchmarking doesn't work. Regardless of reality, people perceive the first product into the mind as superior. Marketing is a battle of perceptions, not products.

So what's the name of the first brand of aspirin? The first brand of acetaminophen? The first brand of ibuprofen? (Hint: Substitute *leading* for *first* and you'll have the answers to these three questions.)

Charles Schwab bills itself as "America's largest discount broker." Are you surprised that the Charles Lindbergh of the discount brokerage business is Charles Schwab?

Neil Armstrong was the first person to walk on the moon. Who was second?

Roger Bannister was the first person to run a four-minute mile. Who was second?

George Washington was the first president of the United States. Who was second?

Thomas' was the first brand of English muffin. What was second?

Gatorade was the first sports drink. What was second?

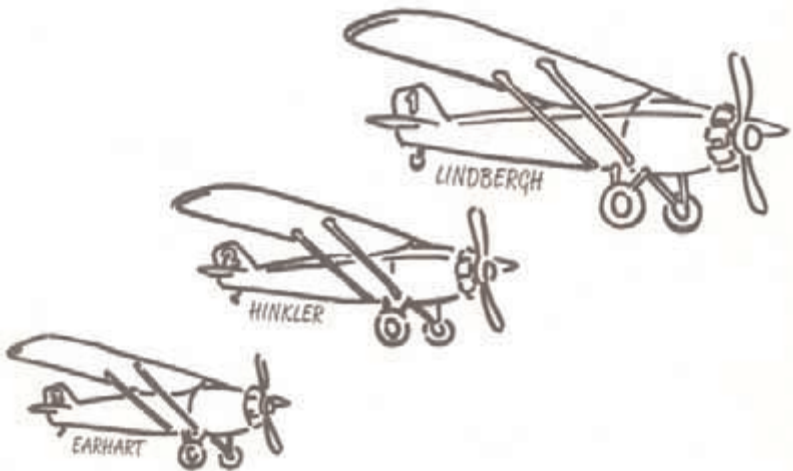
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If you're second into the prospect's mind, are you doomed to languish forever with Buzz Aldrin, John Landy, John Adams, some unknown English muffin, and some unknown sports drink? Not necessarily. Fortunately, there are other laws.

2

The Law of the Category

If you can't be first in a category,
set up a new category you can be first in.



What's the name of the third person to fly the Atlantic Ocean solo?

If you didn't know that Bert Hinkler was the second person to fly the Atlantic, you might figure you had no chance at all to know the name of the third person. But you do. It's Amelia Earhart.

Now, is Amelia known as the third person to fly the Atlantic Ocean solo, or as the first woman to do so?

After Heineken became a big success, the people at Anheuser-Busch could have said, "We should bring in an imported beer, too." But they didn't. Instead they said, "If there's a market for a high-priced imported beer, maybe there's a market for a high-priced domestic beer." And so they started to promote Michelob, the first high-priced domestic beer, which today out-sells Heineken two to one. (Actually, Anheuser-Busch also brought in an imported beer, Carlsberg, which has a very good reputation in Europe. In the United States, however, the me-too Carlsberg never went anywhere.)

Miller Lite was the first domestic light. It took an importer five years to say, "If there's a market for a domestic light beer, maybe there's a market for an imported light beer." The result was Amstel Light, which became the largest-selling imported light beer.

If you didn't get into the prospect's mind first, don't give up hope. Find a new category you can be first in. It's not as difficult as you might think.

After IBM became a big success in computers, everybody and his brother jumped into the field.

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Burroughs, Control Data, General Electric, Honeywell, NCR, RCA, Sperry. Snow White and the seven dwarfs, they were called.

Which dwarf grew up to become a worldwide powerhouse, with 126,000 employees and sales of \$14 billion, a company often dubbed “the second largest computer company in the world”? None of them. The most successful computer company of the seventies and eighties, next to IBM, was Digital Equipment Corporation. IBM was first in computers. DEC was first in minicomputers.

Many other computer companies (and their entrepreneurial owners) became rich and famous by following a simple principle: If you can't be first in a category, set up a new category you can be first in.

Tandem was first in fault-tolerant computers and built a \$1.9 billion business. So Stratus stepped down with the first fault-tolerant minicomputer. Today Stratus is a \$500 million company.

Are the laws of marketing difficult? No, they are quite simple. Working things out in practice is another matter, however.

Cray Research went over the top with the first supercomputer. Today, Cray is an \$800 million company. So Convex put two and two together and launched the first minisupercomputer. Today, Convex is a \$200 million company.

Sometimes you can turn an also-ran into a winner by inventing a new category. Commodore was just another manufacturer of home personal computers that wasn't going anywhere until it positioned the

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Amiga as the first multimedia computer. Today the Commodore Amiga is a big success, with more than \$500 million worth sold annually.

There are many different ways to be first. Dell got into the crowded personal computer field by being the first to sell computers by phone. Today Dell is a \$900 million company.

When you launch a new product, the first question to ask yourself is not “How is this new product better than the competition?” but “First what?” In other words, what category is this new product first in?

Charles Schwab didn't open a better brokerage firm. He opened the first discount broker.

Lear's was not the first woman's magazine. It was the first magazine for the mature woman. (The magazine for the woman who wasn't born yesterday.)

This is counter to classic marketing thinking, which is brand oriented: How do I get people to prefer my brand? Forget the brand. Think categories. Prospects are on the defensive when it comes to brands. Everyone talks about why their brand is better. But prospects have an open mind when it comes to categories. Everyone is interested in what's new. Few people are interested in what's better.

When you're the first in a new category, promote the category. In essence, you have no competition. DEC told its prospects why they ought to buy a mini-computer, not a DEC minicomputer.

In the early days, Hertz sold rent-a-car service. Coca-Cola sold refreshment. Marketing programs of both companies were more effective back then.

3

The Law of the Mind

**It's better to be first in the mind
than to be first in the marketplace.**



INTRODUCED IN 1974



INTRODUCED IN 1976

The world's first personal computer was the MITS Altair 8800.

The law of leadership would suggest that the MITS Altair 8800 (an unfortunate choice of names) ought to be the No. 1 personal computer brand. Unfortunately, the product is no longer with us.

Du Mont invented the first commercial television set. Duryea introduced the first automobile. Hurley introduced the first washing machine. All are gone.

Is something wrong with the law of leadership in chapter 1? No, but the law of the mind modifies it. It's better to be first in the prospect's mind than first in the marketplace. Which, if anything, understates the importance of being first in the mind. Being first in the mind is everything in marketing. Being first in the marketplace is important only to the extent that it allows you to get in the mind first.

For example, IBM wasn't first in the marketplace with the mainframe computer. Remington Rand was first, with UNIVAC. But thanks to a massive marketing effort, IBM got into the mind first and won the computer battle early.

The law of the mind follows from the law of perception. If marketing is a battle of perception, not product, then the mind takes precedence over the marketplace.

Thousands of would-be entrepreneurs are tripped up every year by this law. Someone has an idea or concept he or she believes will revolutionize an industry, as well it may. The problem is getting the idea or concept into the prospect's mind.

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The conventional solution to the problem is money. That is, the resources to design and build product or service organizations plus the resources to hold press conferences, attend trade shows, run advertisements, and conduct direct mail programs (chapter 22: The Law of Resources).

Unfortunately, this gives rise to the perception that the answer to all marketing questions is the same: money. Not true. More money is wasted in marketing than in any other human activity (outside of government activities, of course).

You can't change a mind once a mind is made up. It's like going head-to-head against an entrenched enemy, the charge of the Light Brigade at Balaclava being history's most famous example, closely followed by Pickett's fiasco at Gettysburg.

Wang was first in word processors. But the world passed such machines by and went on to computers. Wang, however, wasn't able to make the transition. In spite of spending millions of dollars promoting its personal computers and minicomputers, Wang is still perceived as a word processor company.

Xerox was first in copiers and then tried to get into the computer business. Twenty-five years and \$2 billion later, Xerox is nowhere in computers.

You want to change something in a computer? Just type over or delete the existing material. You want to change something in a mind? Forget it. Once a mind is made up, it rarely, if ever, changes. The single most wasteful thing you can do in marketing is try to change a mind.

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That accounts for the mystery of the well-formed opinion that can almost instantly appear in a person's mind. One day you've never heard of a person. The next day that person is famous. The "overnight sensation" is not an unusual phenomenon.

If you want to make a big impression on another person, you cannot worm your way into their mind and then slowly build up a favorable opinion over a period of time. The mind doesn't work that way. You have to blast your way into the mind.

The reason you blast instead of worm is that people don't like to change their minds. Once they perceive you one way, that's it. They kind of file you away in their minds as a certain kind of person. You cannot become a different person in their minds.

One of the mysteries of marketing is the role of money. One day a few dollars can work a major miracle. The next day millions of dollars can't save a company from going under. When you have an open mind to work with, even a small amount of money can go a long way. Apple got off the computer ground with \$91,000 contributed by Mike Markkula.

Apple's problem in getting into its prospects' minds was helped by its simple, easy-to-remember name. On the other hand, Apple's competitors had complicated names that were difficult to remember. In the early days, five personal computers were in position on the launching pad: Apple II, Commodore Pet, IMSAI 8080, MITS Altair 8800, and Radio Shack TRS-80. Ask yourself, which name is the simplest and easiest to remember?

4

The Law of Perception

**Marketing is not a battle of products,
it's a battle of perceptions.**



Many people think marketing is a battle of products. In the long run, they figure, the best product will win.

Marketing people are preoccupied with doing research and “getting the facts.” They analyze the situation to make sure that truth is on their side. Then they sail confidently into the marketing arena, secure in the knowledge that they have the best product and that ultimately the best product will win.

It’s an illusion. There is no objective reality. There are no facts. There are no best products. All that exists in the world of marketing are perceptions in the minds of the customer or prospect. The perception is the reality. Everything else is an illusion.

All truth is relative. Relative to your mind or the mind of another human being. When you say, “I’m right and the next person is wrong,” all you’re really saying is that you’re a better perceiver than someone else.

Most people think they are better perceivers than others. They have a sense of personal infallibility. Their perceptions are always more accurate than those of their neighbors or friends. Truth and perception become fused in the mind, leaving no difference between the two.

It’s not easy to see that this is so. To cope with the terrifying reality of being alone in the universe, people project themselves on the outside world. They “live” in the arena of books, movies, television, newspapers, magazines. They “belong” to clubs, organizations,

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institutions. These outside representations of the world seem more real than the reality inside their own minds.

People cling firmly to the belief that reality is the world outside of the mind and that the individual is one small speck on a global spaceship. Actually it's the opposite. The only reality you can be sure about is in your own perceptions. If the universe exists, it exists inside your own mind and the minds of others. That's the reality that marketing programs must deal with.

There may well be oceans, rivers, cities, towns, trees, and houses out there, but there just isn't any way for us to know these things except through our own perceptions. Marketing is a manipulation of those perceptions.

Most marketing mistakes stem from the assumption that you're fighting a product battle rooted in reality. All the laws in this book are derived from the exact opposite point of view.

What some marketing people see as the natural laws of marketing are based on a flawed premise that the product is the hero of the marketing program and that you'll win or lose based on the merits of the product. Which is why the natural, logical way to market a product is invariably wrong.

Only by studying how perceptions are formed in the mind and focusing your marketing programs on those perceptions can you overcome your basically incorrect marketing instincts.

Each of us (manufacturer, distributor, dealer,

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prospect, customer) looks at the world through a pair of eyes. If there is objective truth out there, how would we know it? Who would measure it? Who would tell us? It could only be another person looking at the same scene through a different pair of eye-windows.

Truth is nothing more or less than one expert's perception. And who is the expert? It's someone who is perceived to be an expert in the mind of somebody else.

If truth is so illusive, why is there so much discussion in marketing about the so-called facts? Why are so many marketing decisions based on factual comparisons? Why do so many marketing people assume that truth is on their side, that their job is to use truth as a weapon to correct the misperceptions that exist in the mind of the prospect?

Marketing people focus on facts because they believe in objective reality. It's also easy for marketing people to assume that truth is on their side. If you think you need the best product to win a marketing battle, then it's easy to believe you have the best product. All that's required is a minor modification of your own perceptions.

Changing a prospect's mind is another matter. Minds of customers or prospects are very difficult to change. With a modicum of experience in a product category, a consumer assumes that he or she is right. A perception that exists in the mind is often interpreted as a universal truth. People are seldom, if ever, wrong. At least in their own minds.

It's easier to see the power of perception over prod-

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uct when the products are separated by some distance. For example, the three largest-selling Japanese imported cars in America are Honda, Toyota, and Nissan. Most marketing people think the battle between the three brands is based on quality, styling, horsepower, and price. Not true. It's what people think about a Honda, a Toyota, or a Nissan that determines which brand will win. Marketing is a battle of perceptions.

Japanese automobile manufacturers sell the same cars in the United States as they do in Japan. If marketing were a battle of products, you would think the same sales order would hold true for both countries. After all, the same quality, the same styling, the same horsepower, and roughly the same prices hold true for Japan as they do for the United States. But in Japan, Honda is nowhere near the leader. There, Honda is in third place, behind Toyota and Nissan. Toyota sells more than four times as many automobiles in Japan as Honda does.

So what's the difference between Honda in Japan and Honda in the United States? The products are the same, but the perceptions in customers' minds are different.

If you told friends in New York you bought a Honda, they might ask you, "What kind of car did you get? a Civic? an Accord? a Prelude?" If you told friends in Tokyo you bought a Honda, they might ask you, "What kind of motorcycle did you buy?" In Japan, Honda got into customers' minds as a manufacturer of motorcycles, and apparently most people

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don't want to buy a car from a motorcycle company.

How about an opposite situation? Would Harley-Davidson be successful if it launched a Harley-Davidson automobile? You might think it would depend on the car. Quality, styling, horsepower, pricing. You might even believe the Harley-Davidson reputation for quality would be a plus. We think not. Its perception as a motorcycle company would undermine a Harley-Davidson car—no matter how good the product (chapter 12: The Law of Line Extension).

Why is Campbell's soup No. 1 in the United States and nowhere in the United Kingdom? Why is Heinz soup No. 1 in the United Kingdom and a failure in the United States? Marketing is a battle of perceptions, not products. Marketing is the process of dealing with those perceptions.

Some soft-drink executives believe that marketing is a battle of taste. Well, New Coke is No. 1 in taste. (The Coca-Cola Company conducted 200,000 taste tests that "proved" that New Coke tastes better than Pepsi-Cola and Pepsi tastes better than their original formula, now called Coca-Cola Classic.) But who is winning the marketing battle? The drink that research has proven to taste the best, New Coke, is in third place. The one that research shows tastes the worst, Coca-Cola Classic, is in first place.

You believe what you want to believe. You taste what you want to taste. Soft-drink marketing is a battle of perceptions, not a battle of taste.

What makes the battle even more difficult is that

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customers frequently make buying decisions based on second-hand perceptions. Instead of using their own perceptions, they base their buying decisions on someone else's perception of reality. This is the "everybody knows" principle.

Everybody knows that the Japanese make higher-quality cars than the Americans do. So people make buying decisions based on the fact that everybody knows the Japanese make higher-quality cars. When you ask shoppers whether they have had any personal experience with a product, most often they say they haven't. And, more often than not, their own experience is often twisted to conform to their perceptions.

If you have had a bad experience with a Japanese car, you've just been unlucky, because everybody knows the Japanese make high-quality cars. Conversely, if you have had a good experience with an American car, you've just been lucky, because everybody knows that American cars are poorly made.

Everybody knows there's a problem with Audi cars. On November 23, 1986, CBS broadcast a "60 Minutes" segment called "Out of Control." It called attention to a number of complaints about Audi's "unintended acceleration." American sales of Audis fell through the floorboards—from 60,000 in 1986 to 12,000 in 1991. But have you ever personally had any problems with "unintended acceleration" while test-driving an Audi? It is unlikely. Every single automobile expert who has tested the car has failed to duplicate the complaint. Yet the perception lingers on.

Recently Audi has been running advertisements

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comparing its cars to comparable cars made by Mercedes-Benz and BMW. According to the ads, German automotive experts rated Audi cars ahead of both Mercedes and BMW.

Do you believe that? Probably not. Is it true? Does it matter?

Marketing is not a battle of products. It's a battle of perceptions.

5

The Law of Focus

The most powerful concept in marketing is owning a word in the prospect's mind.



A company can become incredibly successful if it can find a way to own a word in the mind of the prospect. Not a complicated word. Not an invented one. The simple words are best, words taken right out of the dictionary.

This is the law of focus. You “burn” your way into the mind by narrowing the focus to a single word or concept. It’s the ultimate marketing sacrifice.

Federal Express was able to put the word *overnight* into the minds of its prospects because it sacrificed its product line and focused on overnight package delivery only.

In a way, the law of leadership—it’s better to be first than to be better—enables the first brand or company to own a word in the mind of the prospect. But the word the leader owns is so simple that it’s invisible.

The leader owns the word that stands for the category. For example, IBM owns *computer*. This is another way of saying that the brand becomes a generic name for the category. “We need an IBM machine.” Is there any doubt that a computer is being requested?

You can also test the validity of a leadership claim by a word association test. If the given words are *computer*, *copier*, *chocolate bar*, and *cola*, the four most associated words are *IBM*, *Xerox*, *Hershey’s*, and *Coke*.

An astute leader will go one step further to solidify

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its position. Heinz owns the word *ketchup*. But Heinz went on to isolate the most important ketchup attribute. “Slowest ketchup in the West” is how the company is preempting the thickness attribute. Owning the word *slow* helps Heinz maintain a 50 percent market share.

If you’re not a leader, then your word has to have a narrow focus. Even more important, however, your word has to be “available” in your category. No one else can have a lock on it.

You don’t have to be a linguistic genius to find a winner. Prego went against leader Ragu in the spaghetti sauce market and captured a 27 percent share with an idea borrowed from Heinz. Prego’s word is *thicker*.

The most effective words are simple and benefit oriented. No matter how complicated the product, no matter how complicated the needs of the market, it’s always better to focus on one word or benefit rather than two or three or four.

Also, there’s the halo effect. If you strongly establish one benefit, the prospect is likely to give you a lot of other benefits, too. A “thicker” spaghetti sauce implies quality, nourishing ingredients, value, and so on. A “safer” car implies better design and engineering.

Whether the result of a deliberate program or not, most successful companies (or brands) are the ones that “own a word” in the mind of the prospect. (Some words, like Volkswagen’s *fahrvergnugen*, are not worth owning.) Here are a few examples:

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Crest. . . cavities
Mercedes. . . engineering
BMW. . . driving
Volvo. . . safety
Domino's. . . home delivery
Pepsi-Cola. . . youth
Nordstrom. . . service

Words come in different varieties. They can be benefit related (cavity prevention), service related (home delivery), audience related (younger people), or sales related (preferred brand).

Although we've been touting that words stick in the mind, nothing lasts forever. There comes a time when a company must change words. It's not an easy task. The recent history of Lotus Development Corporation demonstrates the nature of the problem.

For a number of years, Lotus has owned the word *spreadsheet*. *Lotus* was synonymous with *1-2-3* and *spreadsheet*. But the world of spreadsheets is getting competitive, and the potential for growth is limited. Like other companies, Lotus wants to grow. How is the company to get beyond its single-product business?

The conventional answer is to expand in all directions, as IBM and Microsoft did. As a matter of fact, Lotus did some conventional line extension with the purchase of Ami Pro word processing software and the introduction of a number of new software products. Then Lotus regrouped to focus on a new concept called "groupware," software products for networked PCs.

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Lotus was the first software company to develop a successful groupware product. If things work out, the company will eventually own a second word in the minds of its prospects.

Unlike Microsoft, Lotus now has a corporate focus. It won't happen overnight, but Lotus could develop a powerful long-term position in the software field. What *overnight* did for Federal Express and *safety* did for Volvo, *groupware* could do for Lotus Development Corporation.

You can't take somebody else's word. What makes the Lotus strategy plausible is that the *groupware* word is not owned by any other company. Furthermore, there is an enormous industry trend toward networked computers. (More than half of all business computers are connected to a network. There's even a new magazine called *Network Computing*.) Many companies see the advantage of owning a single word or concept (often called "the corporate vision"), but they neglect to be the first to preempt the word.

What won't work in marketing is leaving your own word in search of a word owned by others. This was the case with Atari, which owned the words *video game*. But the business turned out to be faddish, so in 1982 it sailed off in a new direction. It wanted *Atari* to mean *computers*. CEO James Morgan laid it all out: "Atari's strength as a name also tends to be its weakness. It is synonymous with video games. Atari must redefine its image and broaden its business definition to electronic consumer products."

Unfortunately for Mr. Morgan's strategy a host of

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other companies, including Apple and IBM, owned the word he was after. Atari's diversification was a disaster. But the real irony was in that another company arrived in 1986 and took over the concept Atari walked away from. The company was Nintendo, which today has 75 percent of a multibillion-dollar market. Who knows where Atari is these days?

The essence of marketing is narrowing the focus. You become stronger when you reduce the scope of your operations. You can't stand for something if you chase after everything.

Some companies accept the need to narrow the focus and try to accomplish this strategy in ways that are self-defeating. "We'll focus on the quality end of the market. We won't get into the low end where the emphasis is on price." The problem is that customers don't believe you unless you restrict your business to high-priced products only, like Mercedes-Benz or BMW.

General Motors tries to sell quality at all price levels. "Putting quality on the road" is their latest corporate slogan. Every GM product includes the "Mark of Excellence." Guess what they're doing at Ford? The same thing. "Quality is Job 1," say the Ford ads. Over at Chrysler, Lee Iacocca proclaimed, "We don't want to be the biggest, we just want to be the best." (Does anyone really believe that Iacocca doesn't want to be the biggest?)

This is great stuff inside the corporation. Total quality, the path to greatness. It makes a terrific theme at dealer meetings, especially with the trumpet flourish-

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es and the dancers. But outside the corporation, the message falls apart. Does any company proclaim itself as the “unquality” corporation? No, everybody stands for quality. As a result, nobody does.

You can’t narrow the focus with quality or any other idea that doesn’t have proponents for the opposite point of view. You can’t position yourself as an honest politician, because nobody is willing to take the opposite position (although there are plenty of potential candidates). You can, however, position yourself as the pro-business candidate or the pro-labor candidate and be instantly accepted as such because there is support for the other side.

When you develop your word to focus on, be prepared to fend off the lawyers. They want to trademark everything you publish. The trick is to get others to use your word. (To be a leader you have to have followers.) It would be helpful for Lotus to have other companies get into the groupware business. It would make the category more important and people would be even more impressed with Lotus’s leadership.

Once you have your word, you have to go out of your way to protect it in the marketplace. The case of BMW illustrates this very well. For years, BMW was the ultimate “driving” machine. Then the company decided to broaden its product line and chase Mercedes-Benz with large, 700-series sedans. The problem is, how can a living room on wheels be the ultimate driving machine? Not only can you not feel the road, but you’ll also crush all the pylons in your driving commercials.

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As a result, things started downhill for BMW. Luckily, it has recently introduced a new small BMW and is emphasizing “driving” once again. The company has regained its focus.

The law of focus applies to whatever you’re selling, or even whatever you’re unselling. Like drugs, for example. The antidrug crusade on television and in magazines suffers from a lack of focus. There is no one word driven into the minds of drug users that could begin to unsell the drug concept. Antidrug advertising is all over the map.

You’d think the antidrug forces (who, after all, are professionals) would have taken a leaf from the amateurs fighting the abortion issue. Both sides of the abortion issue have focused on single, powerful words—*pro-life* and *pro-choice*.

The antidrug forces should do the same—focus on a single powerful word. What the campaign ought to do is make drugs what cigarettes are today, socially unacceptable. One word that could do this is the ultimate down word, *loser*. Since drug usage causes all kinds of losses (of job, family, self-esteem, freedom, life), a program that said “Drugs are for losers” could have a very powerful impact, especially on the recreational user, who is more concerned with social status than with getting high.

The law of focus, a marketing law, could help solve one of society’s biggest problems.

6

The Law of Exclusivity

Two companies cannot own
the same word in the prospect's mind.



When a competitor owns a word or position in the prospect's mind, it is futile to attempt to own the same word.

As we mentioned earlier, Volvo owns *safety*. Many other automobile companies, including Mercedes-Benz and General Motors, have tried to run marketing campaigns based on safety. Yet no one except Volvo has succeeded in getting into the prospect's mind with a safety message.

The Atari story shows the futility of attempting to move in on the home computer position against well-entrenched competitors. A variation called *game computer* might have been possible because it would have taken advantage of the perception of Atari as a creator of computer games. But that's about it. The home computer position belonged to Apple, Commodore, and others.

Despite the disaster stories, many companies continue to violate the law of exclusivity. You can't change people's minds once they are made up. In fact, what you often do is reinforce your competitor's position by making its concept more important.

Federal Express has walked away from *overnight* and is in the middle of trying to take *worldwide* away from DHL. "Overnight Letter" used to be emblazoned on Federal Express envelopes. Today you'll find "FedEx Letter" instead. And its advertising no longer says, "When it absolutely, positively has to be there overnight." Lately the word that has been appearing in Federal Express advertising is *worldwide*.

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This raises the all-important question: Can Federal Express ever own the *worldwide* word? Probably not. Someone else already owns it: DHL Worldwide Express. Its concept: Faster to more of the world. To succeed, Federal Express must find a way to narrow the focus against DHL. The company can't do it by trying to own the same word in the prospect's mind.

Another massive marketing effort aimed at someone else's word can be found in bunny land—to be specific, the pink Energizer bunny that is trying to take the “long-lasting” concept away from Duracell. No matter how many bunnies Eveready throws into the fray, Duracell will still be able to hang onto the long-lasting word. Duracell got into the mind first and pre-empted the concept. Even the Dura part of the name communicates it.

What often leads marketers down this booby-trapped lane is that wonderful stuff called research. Armies of researchers are employed, focus groups conducted, questionnaires tabulated—and what comes back in a three-pound report is a wish list of attributes that users want from a product or service. So if that's what people want, that's what we should give them.

What's the biggest problem people have with batteries? They go dead at the most inconvenient times. So what's the No. 1 battery attribute? Long-lasting, of course. If long-lasting is what people want, that's what we should advertise. Right? Wrong.

What researchers never tell you is that some other company already owns the idea. They would rather

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encourage clients to mount massive marketing programs. The theory is that if you spend enough money, you can own the idea. Right? Wrong.

Some years ago Burger King started down this slippery slope from which it has never quite recovered. A market study showed that the most popular attribute for fast food was “fast” (no big surprise there). So Burger King did what most red-blooded marketers do. It turned to its advertising agency and said, “If the world wants fast, our advertising should tell them we’re fast.”

What was overlooked in the research was that McDonald’s was already perceived as being the fastest hamburger chain in the country. *Fast* belonged to McDonald’s. Undaunted by this, Burger King launched its campaign with the slogan “Best food for fast times.” The program quickly became a disaster very nearly on a par with the one that involved “Herb.” The advertising agency was fired, management was fired, the company was sold, and downward momentum was maintained.

Many people have paid the price for violating the law of exclusivity.

7

The Law of the Ladder

The strategy to use depends on which rung you occupy on the ladder.



While being first into the prospect's mind ought to be your primary marketing objective, the battle isn't lost if you fail in this endeavor. There are strategies to use for No. 2 and No. 3 brands.

All products are not created equal. There's a hierarchy in the mind that prospects use in making decisions.

For each category, there is a product ladder in the mind. On each rung is a brand name. Take the car rental category. Hertz got into the mind first and wound up on the top rung. Avis got in second and National got in third.

Your marketing strategy should depend on how soon you got into the mind and consequently which rung of the ladder you occupy. The higher the better, of course.

Take Avis, for example. For years the company advertised the high quality of its rent-a-car service. "Finest in rent-a-cars" was one of its campaigns. The reader looked at the ad and wondered, How could they have the finest rent-a-car service when they're not on the top rung of my ladder?

Then Avis did the one thing you have to do to make progress inside the mind of the prospect. They acknowledged their position on the ladder. "Avis is only No. 2 in rent-a-cars. So why go with us? We try harder."

For 13 years in a row, Avis had lost money. Then, when it admitted to being No. 2, it started to make money, lots of money. Shortly thereafter, the company

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was sold to ITT, which promptly ordered up the advertising theme, “Avis is going to be No. 1.”

No, they’re not, said the prospect. They’re not on the top rung of my ladder. And to make the point, many picked up the phone and called Hertz. The campaign was a disaster.

Many marketing people have misread the Avis story. They assume the company was successful because it tried harder (i.e., it had the better service). But that wasn’t it at all. Avis was successful because it related itself to the position of Hertz in the mind. (If trying harder were the secret of success, Harold Stassen would have been president many times over.)

Many marketers make the same mistake as Avis did. Currently, Adelphi University in Garden City, Long Island, is comparing itself (favorably) with Harvard. Wait a minute, says the high school senior, Adelphi is not on my college ladder. As you might expect, Adelphi is not very successful in attracting the top students.

The mind is selective. Prospects use their ladders in deciding which information to accept and which information to reject. In general, a mind accepts only new data that is consistent with its product ladder in that category. Everything else is ignored.

When Chrysler compared its cars with Honda, very few people traded in their Preludes and Accords for Plymouths and Dodges. The headline of one Chrysler ad said: “Comparing a *used* Dodge Spirit to a new Honda Accord seemed a little ridiculous. Until we saw the results.” According to the ad, 100 people were

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asked to compare a Dodge Spirit with 70,000 miles on it to a new Honda Accord. The majority (58 out of 100) chose the used Dodge.

Ridiculous. (But not necessarily untrue.)

What about your product's ladder in the prospect's mind? How many rungs are there on your ladder? It depends on whether your product is a high-interest or a low-interest product. Products you use every day (cigarettes, cola, beer, toothpaste, cereal) tend to be high-interest products with many rungs on their ladders. Products that are purchased infrequently (furniture, lawn mowers, luggage) usually have few rungs on their ladders.

Products that involve a great deal of personal pride (automobiles, watches, cameras) are also high-interest products with many rungs on their ladders even though they are purchased infrequently.

Products that are purchased infrequently and involve an unpleasant experience usually have very few rungs on their ladders. Automobile batteries, tires, and life insurance are three examples.

The, ultimate product that involves the least amount of pleasure and is purchased once in a lifetime has no rungs on its ladder. Ever hear of Batesville caskets? Probably not, although the brand has almost 50 percent of the market.

There's a relationship between market share and your position on the ladder in the prospect's mind. You tend to have twice the market share of the brand below you and half the market share of the brand above you.

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For example, Acura was the first Japanese luxury car Lexus was second. Infiniti was third. In a recent year, Acura sold 143,708 cars in the United States, Lexus sold 71,206 cars, and Infiniti sold 34,890. The relationship among the three brands is almost a mathematically correct 4-2-1. (The Acura-Lexus-Infiniti battle is in its early stages, where the cars are new and there's a lot of interest among the public and the press. In the long run, when the products are no longer exciting, another phenomenon occurs. See the next chapter: The Law of Duality.)

Marketing people often talk about the "three leading brands" in a category as if it were a battle of equals. It almost never is. The leader inevitably dominates the No. 2 brand and the No. 2 brand inevitably smotheres No. 3. In baby food, it's Gerber, Beech-Nut, and Heinz. In beer, it's Budweiser, Miller, and Coors. In long-distance telephone service it's AT&T, MCI, and Sprint.

What's the maximum number of rungs on a ladder? There seems to be a rule of seven in the prospect's mind. Ask someone to name all the brands he or she remembers in a given category. Rarely will anyone name more than seven. And that's for a high-interest category.

According to Harvard psychologist Dr. George A. Miller, the average human mind cannot deal with more than seven units at a time. Which is why seven is a popular number for lists that have to be remembered. Seven-digit phone numbers, the seven wonders of the world, seven-card stud, Snow White and the

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seven dwarfs, the seven danger signals of cancer.

Sometimes your own ladder, or category, is too small. It might be better to be a small fish in a big pond than to be a big fish in a small pond. In other words, it's sometimes better to be No. 3 on a big ladder than No. 1 on a small ladder.

The top rung of the lemon-lime soda ladder was occupied by 7-Up. (Sprite was on the second rung.) In the soft-drink field, however, the cola ladder is much bigger than the lemon-lime ladder. (Almost two out of three soft drinks consumed in America are cola drinks.) So 7-Up climbed on the cola ladder with a marketing campaign called "The Uncola."

As tea is to coffee, 7-Up became the alternative to a cola drink. And 7-Up sales climbed to where the brand was the third largest-selling soft drink in America.

Unfortunately, in recent years 7-Up lost its grip on third place by violating one of the laws yet to be discussed (chapter 12: The Law of Line Extension).

The ladder is a simple, but powerful, analogy that can help you deal with the critical issues in marketing. Before starting any marketing program, ask yourself the following questions: Where are we on the ladder in the prospect's mind? On the top rung? On the second rung? Or maybe we're not on the ladder at all.

Then make sure your program deals realistically with your position on the ladder. More on how to do this later.

8

The Law of Duality

**In the long run, every market
becomes a two-horse race.**



Early on, a new category is a ladder of many rungs. Gradually, the ladder becomes a two-rung affair.

In batteries, it's Eveready and Duracell. In photographic film, it's Kodak and Fuji. In rent-a-cars, it's Hertz and Avis. In mouthwash, it's Listerine and Scope. In hamburgers, it's McDonald's and Burger King. In sneakers, it's Nike and Reebok. In toothpaste, it's Crest and Colgate.

When you take the long view of marketing, you find the battle usually winds up as a titanic struggle between two major players—usually the old reliable brand and the upstart.

Back in 1969, there were three major brands of a certain product. The leader had about 60 percent of the market, the No. 2 brand had a 25 percent share, and the No. 3 brand had a 6 percent share. The rest of the market included either private label or minor brands. The law of duality suggests that these market shares are unstable. Furthermore, the law predicts that the leader will lose market share and No. 2 will gain.

Twenty-two years later, the leader dropped down to 45 percent of the market. The No. 2 brand has 40 percent, and No. 3 has 3 percent. The products are Coca-Cola, Pepsi-Cola, and Royal Crown cola, respectively, but the principles apply to brands everywhere.

Look at the three long-distance telephone companies. AT&T has 65 percent of the market, MCI has 17 percent, and Sprint has 10 percent. Who will win and who will lose in the telephone wars? While the future

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is unknowable (chapter 17: The Law of Unpredictability), a betting person would put his or her money on MCI. MCI has won the battle with Sprint for second place, so now MCI ought to become the upstart alternative to old, reliable AT&T.

Sprint is probably feeling very comfortable on the third rung of the ladder. Nine percent doesn't sound like much, but it translates to \$6 billion in annual sales. And the market has been growing rapidly.

For the long term, however, Sprint is in serious trouble. Look what happened to Royal Crown cola. Back in 1969, the Royal Crown company revitalized its franchise system, 350 bottlers strong, and hired the former president of Rival Pet Foods and a veteran of both Coke and Pepsi. The company also retained Wells, Rich, Greene, a high-powered New York advertising agency. "We're out to kill Coke and Pepsi," declared Mary Wells Lawrence, the agency's head, to the Royal Crown bottlers. "I hope you'll excuse the word, but we're really out for the jugular."

The only brand that got killed was Royal Crown. In a maturing industry, third place is a difficult position to be in.

Take the domestic automobile industry. In spite of heroic measures undertaken by Lee Iacocca, Chrysler is in trouble. In the long run, marketing is a two-car race.

Take video games. In the late eighties, the market was dominated by Nintendo with a 75 percent share. The two also-rans were Sega and NEC. Today Nintendo and Sega are neck and neck, and NEC is way

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behind. In the long run, marketing is a two-game race.

Time frames, however, can vary. The fast-moving video game market played itself out in two or three seasons. The long-distance telephone market might take two or three decades.

Take the airline industry. American Airlines, with 20 percent of the market, got its nose out in front and will probably wind up as the Coca-Cola of the skies. The interesting battle is between Delta and United, tied at 18 percent apiece. One of these two will take off like Pepsi—the other is headed down with Royal Crown. In the long run, marketing is a two-airline race.

Are these results preordained? Of course not. There are other laws of marketing that can also affect the results. Furthermore, your marketing programs can strongly influence your sales, provided they are in tune with the laws of marketing. When you're a weak No. 3, like Royal Crown, you aren't going to make much progress by going out and attacking the two strong leaders. What they could have done is carved out a profitable niche for themselves (chapter 5: The Law of Focus).

Knowing that marketing is a two-horse race in the long run can help you plan strategy in the short run.

It often happens that there is no clearcut No. 2. What happens next depends upon how skillful the contenders are. Take the laptop computer field. Toshiba is in first place with 21 percent of the market. But there are five companies in second place.

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Zenith, Compaq, NEC, Tandy, and Sharp each have between 8 and 10 percent of the market. It ought to be fun to watch six horses come around a turn where there's room for only two. Toshiba and who? Which one will finish second?

What's especially tragic from the economy's point of view are the resources wasted in many high-visibility categories like laptop computers. Currently there are 130 laptop brands on the market. The law of duality will see to it that very few of these brands will be around in the twenty-first century.

Look at the history of the automobile in the United States. In 1904, 195 different cars were assembled by 60 companies. Within the following 10 years, 531 companies were formed and 346 perished. By 1923, only 108 car makers remained. This number dropped to 44 by 1927. Today, Ford and General Motors dominate the domestic industry, with Chrysler's future in doubt.

Successful marketers concentrate on the top two rungs. Jack Welch, the legendary chairman and CEO of General Electric, said recently: "Only businesses that are No. 1 or No. 2 in their markets could win in the increasingly competitive global arena. Those that could not were fixed, closed, or sold." It's this kind of thinking that built companies like Procter & Gamble into the powerhouses they are. In 32 of its 44 product categories in the United States, P&G commands the No. 1 or No. 2 brands.

Early on, in a developing market, the No. 3 or No. 4 positions look attractive. Sales are increasing. New,

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relatively unsophisticated customers are coming into the market. These customers don't always know which brands are the leaders, so they pick ones that look interesting or attractive. Quite often, these turn out to be the No. 3 or No. 4 brands.

As time goes on, however, these customers get educated. They want the leading brand, based on the naive assumption that the leading brand must be better.

We repeat: The customer believes that marketing is a battle of products. It's this kind of thinking that keeps the two brands on top: "They must be the best, they're the leaders."

9

The Law of the Opposite

**If you are shooting for second place,
your strategy is determined by the leader.**



In strength there is weakness. Wherever the leader is strong, there is an opportunity for a would-be No. 2 to turn the tables.

Much like a wrestler uses his opponent's strength against him, a company should leverage the leader's strength into a weakness.

If you want to establish a firm foothold on the second rung of the ladder, study the firm above you. Where is it strong? And how do you turn that strength into a weakness?

You must discover the essence of the leader and then present the prospect with the opposite. (In other words, don't try to be better, try to be different.) It's often the upstart versus old reliable.

Coca-Cola is a 100-year-old product. Only seven people in the history of the world have known the Coke formula, which is kept locked in a safe in Atlanta. Coca-Cola is the old, established product. However, using the law of the opposite, Pepsi-Cola reversed the essence of Coca-Cola to become the choice of a new generation: the Pepsi Generation.

When you look at customers in a given product category, there seem to be two kinds of people. There are those who want to buy from the leader and there are those who don't want to buy from the leader. A potential No. 2 has to appeal to the latter group.

In other words, by positioning yourself against the leader, you take business away from all the other alternatives to No. 1. If old people drink Coke and

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young people drink Pepsi, there's nobody left to drink Royal Crown cola.

Yet, too many potential No. 2 brands try to emulate the leader. This usually is an error. You must present yourself as the alternative.

Time built its reputation on colorful writing. So *Newsweek* turned the idea around and focused on a straightforward writing style: "We separate facts from opinions." In other words, *Newsweek* puts its opinions in the editorial columns, not in the news columns.

Sometimes you need to be brutal. Scope, the good-tasting mouthwash, hung the "medicine breath" label on its Listerine competition.

But don't simply knock the competition. The law of the opposite is a two-edge sword. It requires honing in on a weakness that your prospect will quickly acknowledge. (One whiff of Listerine and you know that your mouth would smell like a hospital.) Then quickly twist the sword. (Scope is the good-tasting mouthwash that kills germs.)

Also in the mouthwash field is an interesting example of the futility of trying to emulate the leader. In 1961, Johnson & Johnson introduced Micrin mouthwash, focusing on its "scientific" virtues. Within months Micrin became the No. 2 brand. But with its germ-fighting approach, Listerine was also a scientific brand. So in 1965, when Procter & Gamble introduced Scope, it had the "opposite" position to itself. Scope went on to become the No. 2 mouthwash. By 1978, when Johnson & Johnson withdrew

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the product from the market, Micrin's share had fallen to 1 percent.

When Beck's beer arrived in the United States, it had a problem. It couldn't be the first imported beer (that was Heineken), nor could it be the first German imported beer (that was Lowenbrau). It solved its problem by repositioning Lowenbrau. "You've tasted the German beer that's the most popular in America. Now taste the German beer that's the most popular in Germany."

Today Beck's is the second largest-selling European beer in America. (When it comes to beer, Americans trust German mouths more than they do their own mouths.) This is a rare example of overturning the law of leadership and manipulating perceptions in the mind. (All this is academic today, since Lowenbrau is now brewed in America.)

As a product gets old, it often accrues some negative baggage. This is especially true in the medical field. Take aspirin, a product introduced in 1899. With thousands of medical studies conducted on aspirin, someone was bound to find flaws in the product. Sure enough, they found stomach bleeding—just in time for the 1955 launch of Tylenol.

With all the "stomach bleeding" publicity, Tylenol quickly was able to set itself up as the alternative. "For the millions who should not take aspirin," said the Tylenol advertising. Today Tylenol outsells aspirin and is the largest-selling single product in American drug-stores.

Stolichnaya was able to hang the label of "fake

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Russian vodka” on American vodkas such as Smirnoff, Samovar, and Wolfschmidt by simply pointing out that they come from places like Hartford (Connecticut), Schenley (Pennsylvania), and Lawrenceburg (Indiana). Stolichnaya comes from Leningrad (Russia), making it the real thing.

There has to be a ring of truth about the negative if it is to be effective. One of the classic examples of hanging a negative on a competitor is an advertisement that Royal Doulton China ran about its main U.S. competitor. The headline said it all: “Royal Doulton, the china of Stoke-on-Trent, England vs. Lenox, the china of Pomona, New Jersey.” The ad exploited the fact that many people thought Lenox was an imported china. By repositioning Lenox where it really belonged, in Pomona, New Jersey, Royal Doulton was able to establish itself as the “real English china.” Reason: Most people have a hard time imagining craftsmen making fine white-bone china in a tacky-sounding place like Pomona, New Jersey. (When the folks in England saw the ad, they howled with laughter. It turns out that Stoke-on-Trent is just as tacky as Pomona.)

Marketing is often a battle for legitimacy. The first brand that captures the concept is often able to portray its competitors as illegitimate pretenders.

A good No. 2 can't afford to be timid. When you give up focusing on No. 1, you make yourself vulnerable not only to the leader but to the rest of the pack. Take the sad story of Burger King in recent years. Times have been difficult for this No. 2 in hamburgers.

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It has been through many management changes, new owners, and a parade of advertising agencies. It doesn't take much of a history review to see what went wrong.

Burger King's most successful years came when it was on the attack. It opened with "Have it your way," which twitted McDonald's mass-manufacturing approach to hamburgers. Then it hit McDonald's with "Broiling, not frying" and "The Whopper beats the big Mac." All these programs reinforced the No. 2, alternative position.

Then, for some unknown reason, Burger King ignored the law of the opposite. It got timid and stopped attacking McDonald's. The world was introduced to "Herb the nerd," "The best food for fast times," "We do it the way you do it," "You've got to break the rules," and on and on. It even started a program to attract little kids, the mainstay of McDonald's strength.

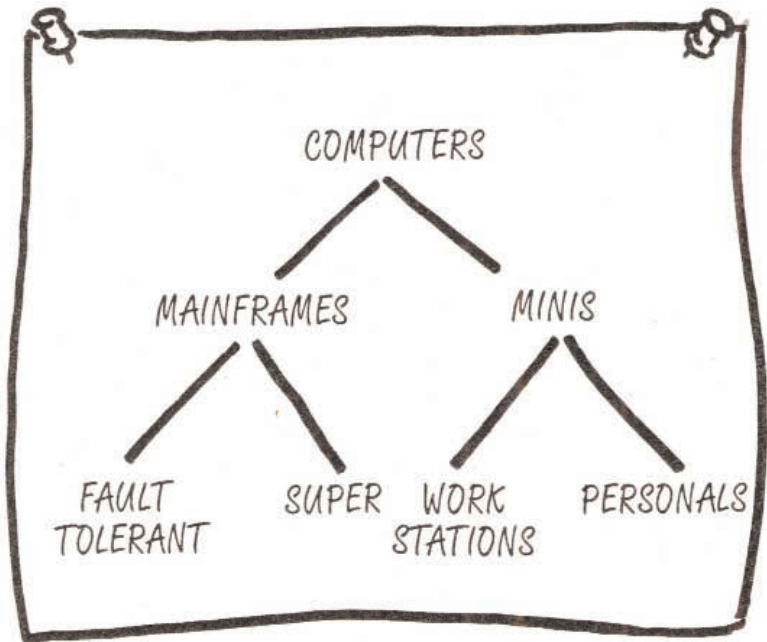
This is no way to stay a strong No. 2. Burger King's sales per unit declined and have never returned to the level they were when it was on the attack.

Burger King made the mistake of not taking the opposite tack.

10

The Law of Division

Over time, a category will divide and become two or more categories.



Like an amoeba dividing in a petri dish, the marketing arena can be viewed as an ever-expanding sea of categories.

A category starts off as a single entity. Computers, for example. But over time, the category breaks up into other segments. Mainframes, minicomputers, workstations, personal computers, laptops, notebooks, pen computers.

Like the computer, the automobile started off as a single category. Three brands (Chevrolet, Ford, and Plymouth) dominated the market. Then the category divided. Today we have luxury cars, moderately priced cars, and inexpensive cars. Full-size, intermediates, and compacts. Sports cars, four-wheel-drive vehicles, RVs, and minivans.

In the television industry, ABC, CBS, and NBC once accounted for 90 percent of the viewing audience. Now we have network, independent, cable, pay, and public television, and soon we'll have instore and interactive television.

Beer started the same way. Today we have imported and domestic beer. Premium and popular-priced beers. Light, draft, and dry beers. Even non-alcoholic beer.

The law of division even affects countries. (Witness the mess in Yugoslavia.) In 1776, there were about 35 empires, kingdoms, countries, and states in the world. By World War II, the number had doubled. By 1970, there were more than 130 countries. Today,

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some 190 countries are generally recognized as sovereign nations.

Look at the music field. It used to be classical and popular music. To stay on top of the popular music field you could watch "Your Hit Parade," which featured the top 10 hits of the week. Radio adopted the same idea with a "Top 40" format. Today Top 40 is falling apart because there isn't one list anymore.

Billboard, the bible of the music business, has 11 separate hit lists: classical, contemporary jazz, country, crossover, dance, Latin, jazz, pop, rap, rhythm and blues, and rock. And 11 leaders for the 11 categories. They recently included Itzhak Perlman, Four-play, Garth Brooks, Luciano Pavarotti, Michael Jackson, Mi Mayor Necesidad, Dave Grusin, Enya, Public Enemy, Vanessa Williams, and Bruce Springsteen.

Each segment is a separate, distinct entity. Each segment has its own reason for existence. And each segment has its own leader, which is rarely the same as the leader of the original category. IBM is the leader in mainframes, DEC in minis, Sun in workstations, and so on.

Instead of understanding this concept of division, many corporate leaders hold the naive belief that categories are combining. *Synergy* and its kissing cousin the *corporate alliance* are the buzzwords in the boardrooms of America. IBM, according to the *New York Times*, is poised "to take advantage of the coming convergence of whole industries, including television, music, publishing and computing."

"IBM's strongest suit," says the *Times*, "in the

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expected convergence of cable and telephone networks with computer and television manufacturers may be technology that it has developed to create extremely high-speed networks.” (See chapter 20: The Law of Hype.)

It won’t happen. Categories are dividing, not combining.

Also look at the much-touted category called “financial services.” In the future, according to the press, we won’t have banks, insurance companies, stockbrokers, or mortgage lenders. We’ll have financial services companies. It hasn’t happened yet.

Prudential, American Express, and others have fallen into the financial services trap. Customers don’t buy financial services. They buy stocks or life insurance or bank accounts. And they prefer to buy each service from a different company.

The way for the leader to maintain its dominance is to address each emerging category with a different brand name, as General Motors did in the early days with Chevrolet, Pontiac, Oldsmobile, Buick, and Cadillac (and recently with Geo and Saturn).

Companies make a mistake when they try to take a well-known brand name in one category and use the same brand name in another category. A classic example is the fate that befell Volkswagen, the company that introduced the small-car category to America. Its Beetle was a big winner that grabbed 67 percent of the imported-car market in the United States.

Volkswagen was so successful that it began to think it could be like General Motors and sell bigger,

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faster, and sportier cars. So it swept up whatever models it was making in Germany and shipped them all to the United States. But unlike GM, it used the same brand, Volkswagen, for all of its models.

“Different Volks for different folks,” said the advertising, which featured five different models, including the Beetle, the 412 Sedan, the Dasher, the Thing, and even a station wagon. Needless to say, the only thing that kept selling was the “small” thing, the Beetle.

Well, Volkswagen found a way to fix that. It stopped selling the Beetle in the United States and started selling a new family of big, fast, expensive Volkswagens. Now you had the Vanagon, the Sirocco, the Jetta, the Golf GL, and the Cabriolet. It even built a plant in Pennsylvania to build these wondrous new cars.

Unfortunately for Volkswagen, the small-car category continued to expand. And since people couldn’t buy a long-lasting, economical VW, they shifted to Toyota, Honda, and Nissan.

Today Volkswagen’s 67 percent share has shrunk to less than 4 percent.

Volkswagen isn’t some minor European brand like Saab or Alfa Romeo. Volkswagen is the largest-selling automotive brand in Europe. The cars VW sells in the United States are the same as the ones it sells in Europe. Only the minds of the people buying them are different. In America, Volkswagen means small and ugly. Nobody here wants to buy a big, beautiful Volkswagen (chapter 4: The Law of Perception).

One of Volkswagen’s competitors, Honda, decided to go up-market. Rather than use the Honda name in

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the luxury-car market, it introduced the Acura. It even took the expensive step of setting up separate Acura dealerships to avoid confusion with Honda.

The Acura became the first Japanese luxury car in the United States, where today Honda sells many more Acuras than Volkswagen sells Volkswagens. Honda now has the leading brand in two categories.

What keeps leaders from launching a different brand to cover a new category is the fear of what will happen to their existing brands. General Motors was slow to react to the superpremium category that Mercedes-Benz and BMW established. One reason was that a new brand on top of Cadillac would enrage GM's Cadillac dealers.

Eventually, GM tried to take Cadillac up-market with the \$54,000 Allante. It bombed. Why would anyone spend that kind of money on a so-called Cadillac, since their neighbors would probably think they paid only \$30,000 or so? No prestige.

A better strategy for General Motors might have been to put a new brand into the Mercedes market. (They might have brought back the classic LaSalle.)

Timing is also important. You can be too early to exploit a new category. Back in the fifties the Nash Rambler was America's first small car. But American Motors didn't have either the courage or the money to hang in there long enough for the category to develop.

It's better to be early than late. You can't get into the prospect's mind first unless you're prepared to spend some time waiting for things to develop.

11

The Law of Perspective

Marketing effects take place over an extended period of time.



Is alcohol a stimulant or a depressant?

If you visit almost any bar and grill on a Friday night after work, you'd swear that alcohol was a stimulant. The noise and laughter are strong evidence of alcohol's stimulating effects. Yet at 4:00 in the morning, when you see a few happy-hour customers sleeping it off in the streets, you'd swear that alcohol is a depressant.

Chemically, alcohol is a strong depressant. But in the short term, by depressing a person's inhibitions, alcohol acts like a stimulant.

Many marketing moves exhibit the same phenomenon. The long-term effects are often the exact opposite of the short-term effects.

Does a sale increase a company's business or decrease it? Obviously, in the short term, a sale increases business. But there's more and more evidence to show that sales decrease business in the long term by educating customers not to buy at "regular" prices.

Aside from the fact that you can buy something for less, what does a sale say to a prospect? It says that your regular prices are too high. After the sale is over, customers tend to avoid a store with a "sale" reputation.

To maintain volume, retail outlets find they have to run almost continuous sales. It's not unusual to walk down a retail block and find a dozen stores in a row with "Sale" signs in their windows.

Have the automobile rebate programs increased