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Fill in the Holes in the Consumer's Mind

But to Do That, You Need an Actual Position

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There's the key and the lock. The bolt and the nut. The button and the button hole. So, too, there's the position and the hole in the mind the position is trying to fill.

Except, of course, many marketers seem to have forgotten about those holes in the mind.

Which is strange. If there is one constant in the communications chatter about the marketing function it's this one: *The consumer owns the brand*.

True enough. But where in the world is the consumer going to put the brand except in his or her mind?

To file something in the mind is conceptually no different than filing something in your home or apartment. Clothes in the closet. Books in the bookcase. Food in the refrigerator. The car in the garage.

"A place for everything and everything in its place," goes the old saying.

Today, we have many well-known brands with no places in the mind to put them.

What's a Dell?
In a word, "direct."

As a matter of fact, "Direct from Dell" is the title of Michael Dell's 1999 book. "Strategies that revolutionized an industry."

There are few 20th-century success stories more impressive than Dell Computer Company. In the decade of the 1990s, Dell had the best stock market performance of the S&P 500, Standard & Poor's index of 500 large companies.

By the year 2001, Dell was the largest-selling personal-computer manufacturer in the world with 13.3% of the market. And that share continued to climb, reaching 16.8% in 2005.

Then things started to fall apart. Dell's worldwide market share fell to 15.9% in 2006. To 14.3% in 2007 and 2008. And to 12.2% last year. Once the world's largest PC maker, Dell is now buried in third place.

And Dell's net profit margins fell along with its market position. From 6.4% in 2005 to 4.8% in 2007 to 2.7% last year.

A leader losing its leadership position is highly unusual. Did Duracell ever lose its leadership position to Energizer, in spite of the power of its bunny? Did Visa ever lose its leadership position to MasterCard in spite of its potent "priceless" campaign? Did BlackBerry ever lose its leadership position to the iPhone in spite of Steve Jobs and the incredible media attention.

Leaders seldom lose to superior products or superior marketing tactics. Leaders usually lose only when they make a serious mistake in marketing strategy.

What's a Dell? It used to be personal computers sold direct to business, a hole drilled in the mind by a brilliant Dell strategy that promised lower prices plus the ability to tailor the machines to your needs.

Not today. In 1997, Dell set up a new division to sell personal computers to consumers primarily through retail stores, including Sears, Walmart and other large chains. (That year Dell forecast that within just a few years, 50% of its revenue would come from consumers.)

And not just personal computers. In 2003, Dell started to sell flat-panel television sets, handheld computers, computer printers and MP3 players, all under the Dell name. The company even opened an online music-downloading store.

This product expansion was accompanied by a massive advertising expansion. In the five years from 2004 to 2008, according to Advertising Age, Dell spent $3.1 billion on measured media.

More than Walmart ($3.0 billion). Home Depot ($2.7 billion). American Express ($2.4 billion). Citibank ($2.3 billion). Sears ($2.3 billion). Hewlett-Packard ($2.1 billion). Budweiser ($1.7 billion). Coca-Cola ($1.5 billion).

In spite of all of its advertising, last year consumers accounted for only 19% of Dell's revenues.

What's a Dell today?

A company in trouble because it lost its hole in the mind and didn't drill a new one.

What's a Hewlett-Packard?
In a word, "printer."

Hewlett-Packard pioneered the desktop laser printer and today has some 40% of the world market for computer printers.

"Most people think we are just a printer company," says Michael Mendenhall, H-P's chief marketing officer. That's why H-P is launching a new corporate advertising campaign, according to The Wall Street Journal, "to recast itself as a broader technology concern."

In addition to its leadership position in printers, Hewlett-Packard is now No.1 in personal computers with 19.8% of the world market. How long it can hold its computer leadership position is another matter.

Compaq was the No.1 PC maker until its purchase by Hewlett-Packard. That acquisition and Dell's decline left a vacuum for Hewlett-Packard to fill.

Like Dell, H-P has been busy expanding its services business (with the acquisition of EDS) and launching TV and smartphone products.

According to Fortune magazine, Hewlett-Packard CEO Mark Hurd, is "pushing the notion that customers need not shop anywhere else for their computing, printing and tech services needs."

Or as Forbes noted on the cover of its current issue: "He wants it all."

What does that sound like to you? Sounds like IBM in the 1980s to me.

What's an IBM?
In a word, "mainframe."

For decades, IBM dominated the mainframe computer market with a market share in the 70% range.

But that wasn't good enough for IBM, so the company started down the line-extension path. By the 1980s, IBM was into "everything." Mainframes, midrange, personal computers, copiers, telephones, satellites, software, you-name-it.

With the company's 1981 introduction of the first 16-bit business personal computer (the 5150, commonly known as the IBM PC), the company was on a roll. Within two years, the IBM PC was the best-selling personal computer in America. And the media lavished praise on the company and its strategies.

Time magazine, July 11, 1983: "The colossus that works. Big is bountiful at IBM."

The following year (1984), IBM had profits of $6.6 billion, the largest any company anywhere in the world had ever achieved. That same year, Fortune magazine selected IBM as "the most admired company in America."

Big might be bountiful in the short term, but not in the long term. Early in the next decade, IBM was recording big losses. $2.9 billion in 1991. $5.0 billion in 1992. $8.1 billion in 1993.

Why did IBM get in trouble? Conventional wisdom faulted IBM's "mainframe mentality." But I think it's the opposite.

It's IBM's mainframe mentality that is getting the company out of trouble.

What's a mainframe anyway? It's the electronic nerve center of every major corporation in the world. IT managers may not be buying a lot of mainframes, but they certainly depend on them to keep their companies running efficiently.

In order to serve the needs of these mainframe-dependent companies, IBM has made a major push into services and software. In 1992, for example, IBM did $7.4 billion in services. By 2001, it was doing $30 billion.

The following year, IBM bought the consulting and technology services unit of PricewaterhouseCoopers. Last year, IBM did $76.4 billion in services and software, or 80% of the company's revenues.

And IBM's net profit margin was 14%. (Hewlett-Packard's was 6.7%.)

In spite of these impressive results, conventional wisdom never dies. Last year, The New York Times quoted Microsoft's Steve Ballmer on the subject: "Technology companies must pursue constant market expansion and diversity to stay alive and relevant, Mr. Ballmer said."

"IBM is the company that is notable for going the other direction. IBM's footprint is narrower today than it was when I started," he said.

The Times noted rather unkindly: "Shares of IBM are up about 30% since 1999, while shares of Microsoft have dropped about 30% over the same time span."

What's a Xerox?
In a word, "copier."

Xerox is one of the very few companies to have put a word in the dictionary. (Xerography: a process for copying printed material.)

Shielded by patents, the 1960s were boom years for Xerox. By the end of the decade, the company started down the expansion route. First step: Spending nearly a billion dollars to buy a mainframe computer company, Scientific Data Systems.

In a 1970 Business Week article titled "Two gee-whiz giants go at each other," Xerox President C. Peter McColough said: "Xerox and IBM are the two big companies exclusively in the information business. IBM owns the manipulative data processing part, and we own a part that puts things on paper."

"But the lines of separation are getting blurred, and it will be harder and harder to distinguish them. Sometime in the 1970s, we intend to be able to say to any big customer, 'We can handle all your information needs.'"

(Where in the mind is a hole marked "information?")

By the time the 1980s rolled around, the mainframe computer business was long gone and Xerox had narrowed its thinking from "information" to "office automation systems."

It had high hopes for the 820, its first personal computer. "We think the 820 could accelerate the move to office automation," declared a Xerox vice president.

"Team Xerox" was the advertising campaign that launched the office automation effort. "We'd suggest talking to a company that offers more than just typewriters. Or just copiers."

"Only Team Xerox can offer you a complete line of copiers, of Memorywriter typewriters, of electronic printers, of facsimile machines, of computers and professional workstations and an Ethernet network that can tie most of these machines together right now."

(Where in the mind is a hole marked "office automation system?")

By the 1990s, reality had set in. Team Xerox was disbanded and the financial-services firms Xerox had bought in the 1980s were sold off.

Someone apparently noticed that the only hole filled in the prospect's mind by Xerox was the copier hole. So in a creative twist, Xerox focused on the "output" of a copier, not on the copier itself.

"The document company" was the concept Xerox developed to exploit its copier hole, a concept the company still uses today.

What's a Google?
In a word, "search."

Almost no company has grown as rapidly as Google, nor has any company expanded its offerings as rapidly as Google.

Today, there's Gmail, Google News, Google Maps, Google Templates, Google Groups and Google Applications. Then there's the Google operating system (Chrome OS), Google mobile computing (Android) and the Google smartphone (Nexus One.)

And I should also mention Google's efforts to sell radio ads, print ads and TV ads.

With all this expansion, Google should be growing like crazy.

Not exactly. Here are year-over-previous-year revenue growth rates for Google's past seven years.

- 2003: 233.5%
- 2004:117.6%
- 2005: 92.5%
- 2006: 72.8%
- 2007: 56.5%
- 2008: 31.3%
- 2009: 8.5%

It doesn't take a mathematician to figure out that Google's rapid growth is coming to a screeching halt. Then what?

Instead of expanding in all directions, a better strategy for Google might have been to focus on a second hole and a second brand.

Much like Apple did years ago.

What's an Apple?
An "Apple," like a "Procter & Gamble," is a company, not a product brand.

Nobody ever says, they bought an "Apple" unless they have just visited a supermarket. Instead they say they bought a "Macintosh," or an "iPod," or an "iPhone."

The way to keep a brand narrowly focused and still expand the company, as Apple did, is to launch second, third and even fourth brands.

"Apple" used to be a product brand, the first 8-bit "home" personal computer. One of the key decisions that started Apple down its winning way was to give its "business" computer a different brand name (Macintosh.)

Why didn't IBM do the same? Give its personal computers a different brand name than its mainframe computers.

Why didn't Kodak do the same? Give its digital cameras a different brand name than its film-photography products.

Why didn't Dell do the same? Introduce a consumer computer sold in retail outlets with a different brand name than its business computers sold direct.

Why didn't Hewlett-Packard do the same? When Hewlett-Packard acquired Compaq in 2002, the Compaq brand had 11.1% of the PC market and H-P had only 7.2%.

Why not use "Compaq" as the company's PC brand and "Hewlett-Packard" as the company's printer brand? Two brands. Two holes in the mind.

Each of Apple's brands fills a separate hole. Macintosh is the "high end" personal computer. The iPod is the "high capacity" MP3 player. The iPhone is the "touch screen" mobile phone.

Many marketers instinctively know that a new brand requires a unique idea or concept (what I would call a hole in the mind) if the new brand is going to become successful.

That's difficult to do. So they take the easy way out and introduce "me-too" line extensions, hoping to trade on the power of their brand names.

This might work in the short term, but seldom works in the long term.

ABOUT THE AUTHOR

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