

DISPATCHES™

Insights On Brand Development From The Marketing Front

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THE ADDED VALUE OF TRADE-UP

Whenever we ask our clients which of the “classic” marketing objectives their marketing plans are aiming to achieve, we most often hear either “to switch a certain percentage of competitive brand users” or “to increase the brand’s frequency of purchase/consumption by some amount.” No surprises in these, really, when you consider that most brand marketing plans continue to be geared toward the business objective of gaining share of market. And what better way to grow market share than to either (a) steal share from another brand by capturing some of their users (or, at least, some of their users’ occasions); or (b) increase the amount of usage the brand currently has with its own users?

Probably the next most popular marketing objective we see in today’s marketing plans is the one that most category-leading brands are supposed to stay on top of: namely, growing the category by continuing to attract new users—in classic terms, incenting adoption. Of course, for many brands the marketing plan may well include all three of these...with, say, their promotion and merchandising activities aimed at increased usage frequency, their communication activities aimed at incenting adoption, and their innovation programs aimed at competitive switching. But what we **don’t** see so often is that “other” classic marketing objective most commonly referred to as *trade-up*. While trade-up may not be right for every brand or for every timeframe, we think it is well worth reconsidering by many brands—for its inherent versatility and, even better, for the added value it can bring to the brand’s consumers, customers, and shareholders!

Trade-up is what, again? The dictionary defines trade-up pretty much as you would expect, based upon the two hyphenated root words: “To trade something in (as an automobile) for something more expensive or valuable of its kind; to stock or purchase higher-priced items.” To us, the two most significant parts of such a definition are contained in the words “more expensive” and “of its kind.” That’s because at the very heart of the trade-up concept are the notions of getting someone to buy something in the same category, and at a higher price. Actually, as we know from so many successful trade-up examples—particularly within fast-moving consumer goods—the trading-up most marketers desire is even more confined than within the same category...it’s within the same brand.

In the Beginning...Who knows for sure when and where trade-up first got started? Likely, it was a long, long time ago. And just as likely, it was started not by some pioneering marketer, but by some clever, silver-tongued salesman. Back in the days of the old American West, can’t you just imagine those homesteaders on the Great Plains waiting for six months until the traveling salesman and his wagon full of goods came rumbling back through? The salesman has no intention of trying to sell the same pots and pans he sold last time through; on the contrary, he

wants to sell a newer, better version of some of those items. He wants to trade the settlers up, make more money, and very probably, build some further loyalty to his business in the process. Fast-forward a century or so and you can envision the early days of corporate American marketers refining this very same trade-up concept. Among the most common early trade-up initiatives were, quite simply, larger sizes of the same items. For FMCG companies there were two critical principles underpinning the effective implementation of larger sizes:

Original Trade-Up Principle 1: In virtually every FMCG category, more in-home inventory meant, automatically, more in-home consumption—even if there was no change in the number of in-home *use occasions*;

Original Trade-Up Principle 2: For consumers to “bite” on buying larger sizes in place of their previous smaller ones, they had to perceive a *better value* when buying more, which was typically manifested in a lower cost per ounce, liter, gram, or whatever the familiar measurement. In some cases, this may have resulted in a slightly lower profit margin on the larger size, but who cared? The dollar volume was increasing considerably (and so were the absolute profit dollars).

One of our favorite, all-time examples of amazingly successful FMCG trade-up was initially orchestrated by the Coke and Pepsi brands here in the U.S. Many of you may not have been around at the time, but back in the 1950’s and 1960’s, Coke and Pepsi single-serve packaging was a standard 6 ounces. That was considered a reasonable one-time occasion serving. But look at what has happened in the intervening fifty years: the 6-ounce glass bottle was replaced as the standard single-serve by the 12-ounce can...which was eventually overtaken by the 16-ounce plasti-shield bottle...which has now become the 20-ounce plastic bottle. And don’t forget that, while all of this trade-up incenting was happening to the single-serve size, the take-home standard went from one to two and, even for a time, three-liter size.

More Recent Trade-Up Moves & Permutations—As with all other FMCG marketing concepts and strategies, trade-up has been copied and adapted by the more recent converts to customer and consumer marketing: the pharmaceutical and medical device brand marketers. Naturally, with all the regulations governing professional brands, such direct FMCG “lifts” as a larger sizes are not so feasible, nor do they make much sense (do we really want patients to consume *more* medicine each time they dose?).

But the smart drug marketers have adapted the trade-up concept well in a couple of ways: (1) they have regularly launched product improvements as an incentive to have doctors write prescriptions for a more profitable item in their line (like shifting from Glucophage to Glucophage XR, or extended relief, within the diabetes management drug class); and (2) some have very deftly transitioned from one of their leading brands about to lose its patent to another one in the same or similar class (perhaps the most famous of these in recent years being that of Prilosec’s “Purple Pill” becoming Nexium’s “Purple Pill”). Is such a transition really “classic” trade-up? Not exactly, you might say...but it accomplishes much the same results: it prevents a mass exodus or switching from the lost patent brand to a competitor’s brand, and it encourages on-going usage of the same Company’s (if not the same Brand’s) product—it helps sustain a certain level of *loyalty*. Maybe we should therefore call this kind of adaptation, not trade-up, but *trade-over*.

By the way, though we mentioned that both pharmaceutical and medical device marketers are practicing “adapted trade-up,” has any device brand in recent memory done a more masterful job of trading consumers up from one device to the next than Apple? Even if moving a consumer from iPhone 4 to iPhone 4S does not result in more profit per unit (it may), what a great way to keep iPhone consumers from “switching” to another brand!

The Versatility of Trade-Up—In these kinds of examples you can see the inherent versatility of the trade-up marketing objective. It’s doubtful that any other classic marketing objective can do so many good things at once...for instance:

- Increase the brand’s dollar volume/dollar share
- Increase the brand’s absolute profit dollars per unit sold
- If, as a larger size or amount, increase tonnage consumption per occasion
- If, leading to more inventory in the home, immunize the brand’s regular users (via “loading”) from attractive competitive promotions
- Prevent, or at least discourage, competitive switching
- Sustain an enviable level of brand loyalty

Maybe the Trade-Up Marketing Objective is worth another look by your brand?

BOATS & HELICOPTERS:

1. It may seem ridiculously obvious, but we’ll say it anyway: make sure your brand has something *worth* trading up to before you get too excited! This will most likely be a product improvement, a line extension, or possibly, an additive product to the brand’s overall performance “portfolio.”
2. As with any marketing objective, take the time and have the detailed discussions with your entire team—to ensure you can articulate a SMART (Specific, Measurable, Achievable, Results-Oriented, and Time-Bound) trade-up objective. And when we say “Specific,” we mean that the objective specifies the customer or consumer *behaviors* we intend to cause.
3. Make time for creative brainstorming. Think as the Rx marketers have: what trade-up models might your brand adapt to make them work best for your category?

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