When Wal-Mart enters the scene, a shakeout begins. Savvy retailers know that market share will change hands like never before. They add stores as competitors' sales decline – either by building new ones or by buying the assets of dying rivals. By being prepared to capture share just as rapidly as Wal-Mart does, aggressive competitors end up even stronger than before. Target has used this approach to attract and keep customers who once patronized now-defunct Ames, Bradlees, Venture, Jamesway, and Caldor.

Next, winning competitors carefully segment their customers and then wow the ones that matter most. They cater to targeted segments, expanding signature categories, customizing local assortments, and raising loyalty benefits. Because Wal-Mart seldom takes even as much as 30% of any regional market, 70% or more of the market remains for fairly priced competitors to serve in ways that Wal-Mart can't – whether it's with personal attention or ten types of tomatoes.

Winners also develop more rigorous pricing strategies. Wal-Mart's entry marks the end of hunch-based pricing, since it puts price gaps so squarely in the spotlight. Successful competitors therefore sharpen their analysis of price elasticity curves, geographic pricing zones, and the implications of everyday pricing versus high-low promotions for each product category. They expand and accelerate the gathering of competitive intelligence and train local store managers to

quickly identify pricing opportunities or vulnerabilities.

Finally, because market prices generally decline as much as 10% when Wal-Mart enters a market, winning competitors scrutinize their supply chains, store labor deployment, marketing programs, and overhead costs to eliminate every wasted dollar. Competing against a behemoth enjoying 22% lower costs than an average retailer is tough. The key to survival? Play the bear's game while others become it. Reprint F0412J

MARKETING

# Competence-Based Marketing

*by* FRANCESCA GOLFETTO AND DAVID MAZURSKY

Marketing is in ferment as traditional advertising declines in efficacy. With buyers increasingly savvy, how can companies resist relentless commodification and distinguish themselves from rivals? An increasingly popular approach is to emphasize one's expertise in the business, as distinct from the quality of one's product. Such competence-based marketing is especially persuasive in business-to-business relationships that involve hard-to-assess goods or follow-on services.

No enterprise demonstrates this approach better than a group of yarn makers in the Tuscany region of Italy. For many years, the Tuscan spinners were the world leaders in producing yarn for high-fashion apparel, and they showed their wares at a semiannual trade fair in Florence, Pitti Filati. But in the mid-1990s, competition emerged from spinners in developing countries who offered imitations of Tuscan products at substantially lower cost.

To restore their primacy, the Tuscans did something bold: They broadened the scope of Pitti Filati to make it a showcase for innovation far beyond yarn. Specifically, the spinners began working with university researchers and prominent designers to develop new styles of fabric and apparel. The resulting exhibits have proved immensely popular, and attendance at Pitti Filati has doubled. The buzz attracts people from throughout the industry, far beyond the mainstay fabric companies. Attendees consider the fair a learning experience, not just a commercial event.

Many companies would have regarded this huge investment as an opportunity to expand downstream. But the spinners decided to stay put. Unlike, say, IBM, which moved beyond machines to "solutions" that involve consulting and implementation, the Pitti Filati spinners still make just yarn. The elegant fabric and apparel designs are for show; anyone is free to copy them.

So what do the spinners gain from this large, ongoing expense? Certainly they learn by collaborating with the researchers and designers, to the benefit of future yarn designs. But the real payoff comes from marketing. The exhibits communicate that Tuscan spinners understand the complexities of high-fashion apparel makers, that their fashion competence covers the entire production chain. As a result, the exhibitors report a substantial improvement in their image.

The Tuscans could have followed other companies' lead and signaled their competence through association, by simply sponsoring someone else's fashion show. But by doing the hard work of designing and displaying fashions of their own, they took marketing to a new level. Reprint F0412L