



Closing Deals. Opening Doors.

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Price wars, decade's best and worst industries

By ERIN CONROY
AP Business Writer

PRICE WARS: Is imitation the sincerest form of flattery? Maybe, but businesses should think twice before they try to match the prices of their competitors.

Cost-cutting can erode and destroy brands and can render companies unable to survive, says Richard D'Aveni, author of the recently published book, "Beating the Commodity Trap."

Just because a low-cost competitor comes along from seemingly out of nowhere, or a rival business offers discounts and snazzy perks, doesn't mean you have to sacrifice profit margins.

"By improving their power over real prices, firms can actually beat their commodity trap rather than simply trying to outpace it," D'Aveni said.

D'Aveni offers these examples of companies that have succeeded in combating price wars:

_ Wal-Mart Stores Inc.'s rock-bottom prices and wide selection may have seemed impossible to compete with. But Target Corp. has been able to work its way into the discount niche with its own touch of low-cost styles and designs. Meanwhile, BJ's Wholesale Club Inc. and Costco Wholesale Corp. are able to offer even lower prices with membership fees.

_ Gillette, a unit of the Procter & Gamble Co., was able to move its customer base from disposable cartridge razors to higher-end blades like the Sensor or the Fusion, which were more expensive but still cost less than other premium razors.

_ Harley-Davidson Inc.'s has used its iconic, rebellious image to promote its premium-priced brand. Because of its cult status, the motorcycle manufacturer has been successful for decades in the face of cheaper Japanese competitors such as Honda Motor Co., Suzuki Motor Corp. and Yamaha Motor Co.

_ Holiday Inn, operated by InterContinental Hotels Group PLC, had more than 1,000 hotels dotting American interstates by the 1970s, offering mid-range family accommodations as an alternative to independently owned motor courts. But the chain soon found itself cornered — on the low end by Quality Inn, Comfort Inn and Motel 6, and on the high end by new four-star competitors. By launching the inexpensive Holiday Inn Express and the more luxurious Crowne Plaza, the hotel chain was able to plant the brand's name firmly in the middle of the spectrum of

hotel star ratings, shielding it on both sides.

— Victoria's Secret, run by Limited Brands Inc., has marketed a collection of diamond-studded bras and briefs for price tags of up to \$15 million. Nobody ever buys them — in fact, they're not produced. But the move enhances its image and even discourages high-end fashion designers that threaten to extend into the lingerie market, D'Aveni said.

DECADE'S BEST INDUSTRIES: Search engines and Internet calling were the best performing sectors by revenue growth this decade, while men's and boys' apparel manufacturing ranked worst, according to one industry research firm.

Revenue growth for search engines has surged more than tenfold since 2000, while voice over Internet Protocol — or VoIP — was nonexistent before becoming popular in recent years, according to IBISWorld Inc. The market is currently dominated by Vonage Holdings Corp. and Google Inc.'s Voice application, as well as Skype, which was recently sold by eBay Inc. to a group of private investors.

A mobile VoIP application is expected to emerge, which could completely undercut calling rates of major wireless carriers, said George Van Horn, senior analyst with the firm.

The other top performing industries of the decade are eCommerce and online auction sites such as eBay Inc. and Amazon.com Inc.; online dating; tank and armored vehicle manufacturing; and petrochemicals, including major players Exxon Mobil Corp. and Dow Chemical Co.

The men's and boys' apparel manufacturing industry, which includes companies such as Hanesbrands Inc. and Phillips-Van Heusen Corp., ranked worst. That list also included clothing accessories manufacturing companies, banking and broad woven fabric mills, including textile maker Milliken & Co.

"Industries that have not performed well are primarily in the slow decline stage of their life cycle," Van Horn said, adding that they are struggling with competitive pressures from overseas. "While the performance of the economic recovery will dominate near-term industry performance measures, innovative products, competitive costs and improving efficiency will continue to separate the winners from the losers in the upcoming decade."

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