

Case Study

Competing with a Goliath

A Peruvian apparel company struggles to position itself against a global brand. *by Jill Avery*

"IT FEELS WEIRD eavesdropping like this," Alejandra Chirinos told Ricardo Rodriguez, her marketing VP, and Miguel Martinez, her head of sales. They were in a conference room in Lima watching a focus group in Surrey, England, via Skype as the group discussed the fashion ponchos designed and manufactured by Alejandra's five-year-old company, Tela.

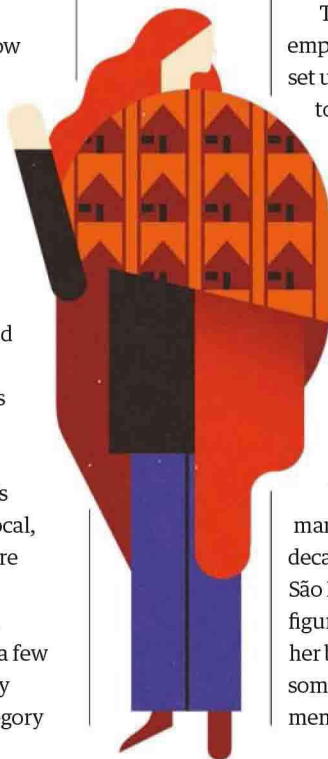
Ricardo chuckled. "They know they're being watched," he said.

Soledad Orellana, the market research consultant who'd arranged the session, concurred. "There are cameras everywhere in that room."

This was Alejandra's first focus group. She'd agreed to it because Soledad and Ricardo had convinced her that Tela needed to up its marketing game if it was to compete on an international stage against the U.S.-based poncho maker Saira. While Tela's ponchos were made in Peru of local, sustainable materials, Saira's were made in Bangladesh of cheaper materials and labeled "Peruvian design." But Saira had launched a few years before Tela and had quickly captured a 60% share of the category



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across markets in western Europe and North and South America—in fact, in every South American country except Peru. This was mostly due to its smart and heavily marketed "buy one, give one" business model: Like TOMS with shoes and Warby Parker with eyeglasses, Saira donated a poncho to a person in need for each one a customer purchased.

Tela had a social mission too. It employed traditional weavers and set up programs to teach weaving to underprivileged women. And not only were its ponchos authentically Peruvian, but they retailed for \$40 to \$70, whereas Saira charged \$60 to \$100. But Tela hadn't been able to get those messages across outside its home market, and Peru was too small to provide a platform for continued growth.

Ricardo, a Lima native who'd been working as Saira's head of marketing for South America, had decamped from the U.S. company's São Paulo office to help Alejandra figure out how to better position her brand. She was thrilled to find someone with his experience, not to mention a shared love of the product

and Peru. Together they'd decided to invest a sizable portion of their meager marketing budget to partner with Soledad on developing and testing several marketing messages in key expansion markets, such as the UK.

On-screen, a British facilitator stood facing 10 compatriots. "If you had to use one word to describe the ponchos in your hands, what would it be?" she asked.

"Soft," replied a woman with dyed red hair.

An older lady spoke next: "Peru."

"Real," said a man with a nose ring.

"I know this isn't one word, but I have to ask a question," said a guy in the back. "This is the same poncho as Saira's, right? With a different label?"

Ricardo winced. "Ouch, that stings," he said. He had come to believe that Saira's charitable giving was just a marketing ploy designed to cover the fact that the quality of the products didn't warrant their high prices.

"It's not a bad thing," Miguel countered. "If customers see no difference between our products and Saira's but ours cost less, it will be easy to take some of its market share."

This was an ongoing debate between the two men: Should Tela emphasize the quality and authenticity of its products, or their affordable prices? Alejandra had always argued that the company should promote its social mission. It sometimes infuriated her that Saira had claimed the crown of "do good" poncho company before Tela had had a chance to make a mark. But her colleagues and Soledad agreed that the company needed one simple story to sell to customers around the world. Saira had "buy one, give one." What did Tela's brand stand for?

Alejandra held up a hand. "We're not here to rehash old arguments," she said. She looked at the screen. "Let's listen to what they have to say."



Case Study Teaching Notes

Jill Avery teaches the case on which this one is based in her branding course.

WHAT DREW YOU TO THIS STORY?

I've been researching how underdog brands can position themselves as passionate and determined by calling attention to their disadvantaged status. While in Buenos Aires I visited Paez and found that it was experimenting with several value propositions to compete against TOMS but hadn't yet given thought to labeling itself an underdog.

HOW DO STUDENTS TYPICALLY REACT?

They are often reluctant to make hard choices about the positioning options and want to combine all the messages into one.

WHAT LESSONS DOES THE CASE OFFER?

Strong, compelling value propositions are relevant to consumers and durable against the competition. This case provides an opportunity to analyze some of the most common positioning options companies are using today—price, social mission branding, authenticity, and lifestyle.

The Social Mission

Soledad and Ricardo had come up with four concepts to test. The first emphasized Tela's support of local entrepreneurs and workers; the second its made-in-Peru bona fides; the third its price point. The fourth was a combination of the other three.

As the facilitator read the taglines for the first concept—"Tela isn't just about style; it's about livelihood" and "Our ponchos keep you warm and keep women entrepreneurs in business"—there was lots of nodding in the focus group.



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The red-haired woman said she tried to buy "socially responsible" products, and a young man agreed it was important to "give back to a cause."

Alejandra smiled. "See, I told you mission matters," she said, forgetting the directive she'd given moments before. "Maybe we've found a winner."

"Not so fast," Soledad warned. "That was just the first one."

Ricardo was only too happy to jump back into the conversation. "Unfortunately, Saira has already staked out that territory," he said.

"Yes, but it's our territory too," Alejandra replied. "I founded this company to give Peruvians stable, well-paying jobs and to help develop a new class of entrepreneurs."

"You don't have to convince me that what we do is more effective and important than what Saira does," Ricardo said. "They hand out donations; we create employment and develop economies. But they sold their social mission first and better. We can't compete. We'd look like cypocats—ones with a much more complicated message."

"You could ride in their marketing tailwind," said Soledad. "A lot of small companies have grown by attaching their sails to the biggest ship."

As if on cue, the man who had mentioned their rival did so again. "I'd bet doing good is why Saira has become so big in the UK," he said. "When you buy a poncho for yourself, you're helping someone else. It's easy to understand. I guess I care about helping weavers and Peru's economy.

But putting warm clothes on a child's back? That just feels good."

Ricardo gave Alejandra an "I told you so" look.

Authenticity

The facilitator turned to the next concept, the one positioning Tela as a maker of "authentic Peruvian ponchos" with an emphasis on tradition and back-to-the-land craftsmanship.

When she finished reading the taglines, a young woman spoke up. "I don't understand the distinction. I know the knockoffs in Tesco aren't made in Peru. But Saira's are, right?"

"Wrong!" Ricardo shouted.

The facilitator explained the differences between the two companies' supply chains, and Ricardo got excited. "I'm telling you, this is Saira's Achilles' heel," he said. "The people buying these ponchos want to know they're getting the real thing, and my old colleagues are shaking in their boots, worried that someone will expose their product as the fraud it is."

Miguel shook his head. "You really think they spend time worrying about us? They're too focused on world domination. And what are you suggesting—that we go on the attack? Accuse Saira of cultural misappropriation? Not only would that diminish our brand, it would be like a flea kicking an elephant's toe!"

Alejandra shushed them. The Saira fan was talking again; she was beginning to think he worked for the company. "Does it really matter where they're made as long as the quality is good and you know you're helping someone?" he asked.

"It matters to me," said the man with the nose ring.

"Yes!" Ricardo shouted, pumping his fist as if he were watching a soccer match, not a focus group.

"I disagree," the redhead said. "And Saira's not lying. It's a design from Peru that's made in Bangladesh—where they need jobs too, by the way."

Several in the focus group murmured in agreement. Ricardo groaned.

Affordability

The facilitator turned to the third set of taglines: "Fashion at the right price" and "A poncho for real people."

Miguel leaned forward. "If Saira has an Achilles' heel, *this* is it," he said to Ricardo. "Customers might say they care about social mission or authenticity, but all they really want is a nice poncho for a good price."

"This is where Saira's size helps you," Soledad said. "They've built up demand, and you can swoop in and win over the more price-sensitive consumers without spending a lot."

"And I don't need to tell you how little we have to spend," Miguel said.

"But will a \$20 price difference matter that much?" Ricardo asked.

"Let's find out," said Soledad, pointing to the screen.

The man with the nose ring was speaking. "Wait a minute," he said. "How can Tela provide the same quality as Saira at a lower price? If it's selling its ponchos so cheaply, are the weavers even making any money?"

"Because we're not ridiculously marking them up," Miguel muttered.

"It's like people don't understand that the buy one, give one model means consumers are essentially paying for two ponchos!" Ricardo said. On this, he and Miguel saw eye to eye.

The older woman was saying she liked this concept best. "Saira is for young people. I'm on a pensioner's income, and I want to know I'm getting the best deal out there."

After a pause, the nose-ring guy spoke again. "Still doesn't make sense to me. Something's fishy."

Miguel put his head in his hands. "This is one of the risks of a fast-follower strategy," Soledad said. "Consumers assume the lower-priced product is lower quality."

"So we should emphasize authenticity," Ricardo replied. "Let people know our product is the real deal."

"We're not done yet," Soledad said.

A Combination?

"I'm not sure why we're even testing this batch," Miguel said as the facilitator turned to the last concept, the taglines that combined all the other positions.

Alejandra knew they were doing it only to placate her, but she couldn't help feeling that the more complex message was the most accurate one. Tela didn't offer just authentic ponchos made in Peru, or ones that helped women and families, or ones people could afford. It offered *all* those things, and she wanted consumers to understand that.

The facilitator read the taglines: "Locally sourced and mission driven, without passing the cost on to you." "The real thing at an affordable price." "Buy Peru, build Peru."

A long silence hung over both rooms.

"I'm sorry to say it, Jandra, but they look awfully confused," Ricardo said.

It was another few seconds before the man with the nose ring said, "I don't get it. What's the brand?"

The redhead chimed in: "Is this supposed to be all the messages mixed together?"

Alejandra sighed. It looked as if Soledad and the others were right.

The facilitator wrapped up the session, and the participants shuffled out, most giving a small wave to the

cameras. After the screen went black, Soledad was the first to speak.

"As I've said all along, the decision isn't solely up to customers. Sure, the participants were leaning toward the social mission, but I have hesitations about that direction. Branding is like trying to buy real estate in the consumer's mind, and I'm not sure you want to spend time and resources fighting for space Saira already has. You might be better off finding an empty lot elsewhere. And at the end of the day, you need a message that feels comfortable for Tela."

Alejandra had to laugh. "None of this is particularly comfortable," she said.

She was joking, but she didn't know how they were going to resolve this. Ricardo had deep industry experience, but she couldn't tell if his judgment was clouded by a personal desire to undermine his old employer. Miguel had been with Tela since the beginning but was acting the way any salesperson would. Her own instinct was to promote the mission even if it meant an uphill battle.

"It's not easy," Soledad said with a sympathetic smile. "You're figuring out what the soul of your company is."

"Or at least what we're going to tell the world our soul is," Alejandra replied. "I don't want to hide who we really are behind a message that's easier to explain."



HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on the HBS Case Study "Paez" (case no. 316085-PDF-ENG), by Jill Avery, Maria Fernanda Miguel, and Laura Urdapilleta, which is available at HBR.org.

