USING TWO-PRODUCT STRATEGY AGAINST LOW-PRICE COMPETITION IN VIETNAM

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Currently, many branded producers are facing an increasing competition from competitors entering Vietnamese market with extremely aggressive prices. It is the case of motorcycle industry where numerous Chinese's producers have entered the market with low-price strategy. Moreover, electronics, small appliances, household goods, and some other industries are facing the same situation. As the result, market share of branded products has been slumped down rapidly. One question arising from this situation is that how a branded producer can cope with this situation? Generally, those branded producers can lower their own prices or do not react to such attacks at all. Both strategies are not optimal. A third alternative is the two-product strategy, which can be successful in many cases. Namely, branded producers can add a lower positioned product to the existing higher positioned product, which is targeted directly against the low-priced competitors.

1. Impact of low-price competitors on the market structure

Actually, the new competitors prefer to attack in markets where the established prodųcers have lived with acceptable margins for years, keeping the price level stable. In such a situation, the market entry of new low-priced competitors can rapidly change the market structure, cutting deep into the profits of the existing branded producers. The new products will not only attract the low-price segment that was kept from using the product because of the high prices, but also attract many of those that have used the existing products so far. The result of such market entry is that the overall market grows and the major part of this bigger market can be reached by the new competitors. Thus, the market will be spitted into three major segments: one is the top-end segment that for reasons of loyalty, quality, channel usage, etc. sticks with the established brands and has a higher willingness to pay. The second is the large middle segment, which is the main focus of the new head-on competition. Finally, there is a small bottom-end segment that cannot be reached even with lower prices because of an even lower willingness to pay. So, the result of such market entry is that the overall market grows and that the major part of this bigger market can be reached by the new competitors. (Exhibit 1)

Recently, Honda Vietnam has used this strategy to strengthen its position and expand its market share. Honda Vietnam introduced a new model Wave Alpha, priced at VND11 million -which was a little higher than Chinese products, targeted at the sensitive price segment while still keeping model Future and Dream for the top- end market. As the result, it has sold 27,000 units per month but not yet met the huge demand.

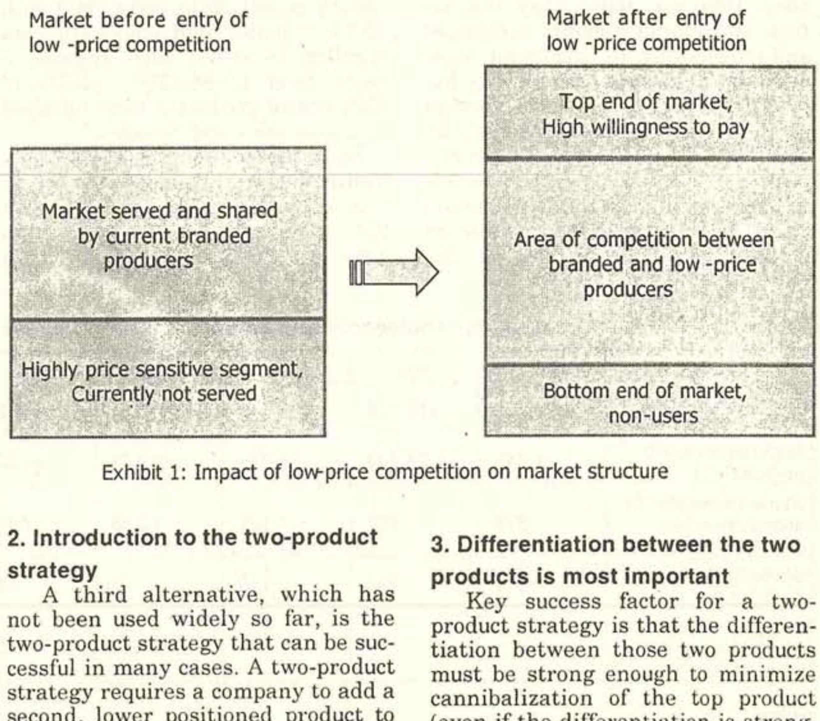


Exhibit 1: Impact of low-price competition on market structure

2. Introduction to the two-product strategy

A third alternative, which has not been used widely so far, is the two-product strategy that can be successful in many cases. A two-product strategy requires a company to add a second, lower positioned product to the existing higher positioned branded product. This second product is targeted directly against the low-priced competitors. Its goals are to weaken the competitors' market position, drive them out of the market, or even to prevent them from entering the market and to help the higher-priced product to maintain its position.

3. Differentiation between the two products is most important

Key success factor for a two-product strategy is that the differentiation between those two products must be strong enough to minimize cannibalization of the top product (even if the differentiation is strong, cannibalization can also happen). A strong enough differentiation can usually be reached by using all or some of the following factors:

- Price: The goal of a two-product strategy is to compete against low-priced competitors while at the same time serving the high-price segment with the high-end product. Therefore, the price level of the lower positioned product should be significantly below the top product. In most cases, this price difference is between 30 and 40 percent. If the lower positioned product is offered under the same brand as the top product, the second product's price can be 10-15 percent above the low-priced competitors' price. Furthermore, the cost of the second product has to be significantly below the cost of top product.

- Quality: The second product must be of lower quality than the top product and not moving below the acceptance barrier or below the quality of the low-price competitors. Thus, the performance in factors such as features, performance, lifetime, services, warranty, etc. must be reduced.

- Brand: Another major decision that has to be made is whether the second product should be sold under the current brand or under a new brand name. In case the current brand name is used this will strengthen the second product, but the danger of cannibalization of the top product will increase as the differentiation is reduced. If, on the other hand, the second product slips under the acceptance barrier or below the quality of the low quality attack products, this could jeopardize the value of the brand.

A two-product strategy can be used successfully to attack established low-priced competitors or to prevent such competition from entering the market. It also helps approach the different segments in a market with more customized products. The products must be well differentiated in price and quality and, depending on the market situation, even on brand and distribution.

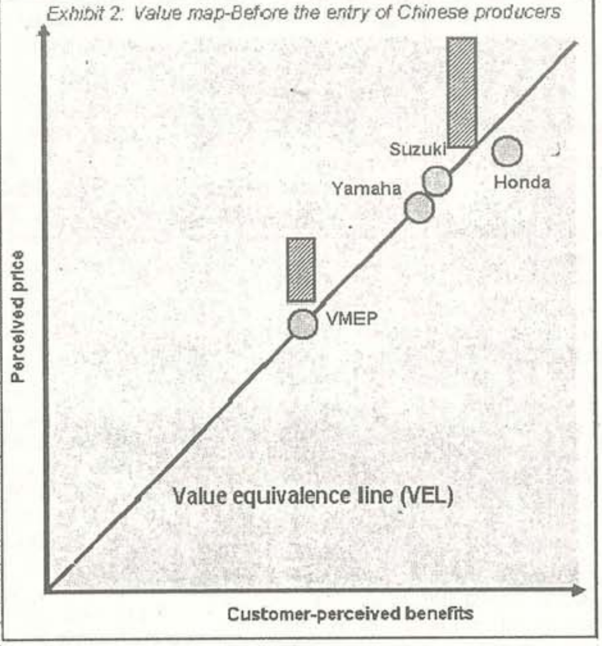
4. Illustrative case: Motorcycle market after the launching of Wave Alpha

We will use the value map to analyze how motorcycle market will be in the future. The value map explores the way customer value and the price/benefit tradeoff works in real markets for a given segment (Exhibit 2). The horizontal axis quantifies benefits as perceived by customers; the vertical axis shows perceived price. Each dot represents a producer. Higher-priced, higher-benefit producers are toward the upper right; lower-priced, lower-benefit producers are at the lower left.

In reality, customers do not buy solely on low price. They buy according to *customer value,* that is, the difference between the benefits a company gives customers and the price it charges. More precisely, customer value equals *customer-perceived* benefits minus *customer-perceived* price. So, the higher the perceived benefit and/or the lower the price of a product, the higher customers value and the greater likelihood that they will choose that product.

In a stable market, most producers position themselves on the value equivalence line (VEL) which expresses an equivalence of the perceived benefits and price. When a producer is below the VEL line, this means he has a value advantage over competitors and as a result he can gain a market share in this segment.

Exhibit 2: Value map-Before the entry of Chinese producers



Initially, there were four key producers in which Honda, Suzuki, Yamaha were from Japan and VMEP was from Taiwan. Those Japanese producers had positioned themselves as high price and high quality product makers (Exhibit 2). Besides, VMEP had positioned as an average quality and price counterpart (Exhibit 2). The motorcycle market was rather stable in which almost brands were on the value equivalence line (VEL). Due to the strong brand image, Honda set higher prices than the other two Japanese producers but customers still evaluated very high perceived quality. Consequently, Honda was below the VEL line so that it could increase market share through time. In such stable market, each producer captured part of the market and enjoyed a certain level of profit. However, the market was not served fully because a huge range of customers couldn't even afford for the VMEP average price. There was a huge opportunity for producers in the low- end segment.

Chinese producers took this opportunity by launching very low priced motorcycles. Although the perceived quality was low but the extremely low price had helped them to capture a major part of the market (Exhibit 3). Those Chinese brands were below the VEL line so that they could increase market share rapidly. Actually, Chinese producers served

Exhibit 3: Value map - After the entry of Chinese producers

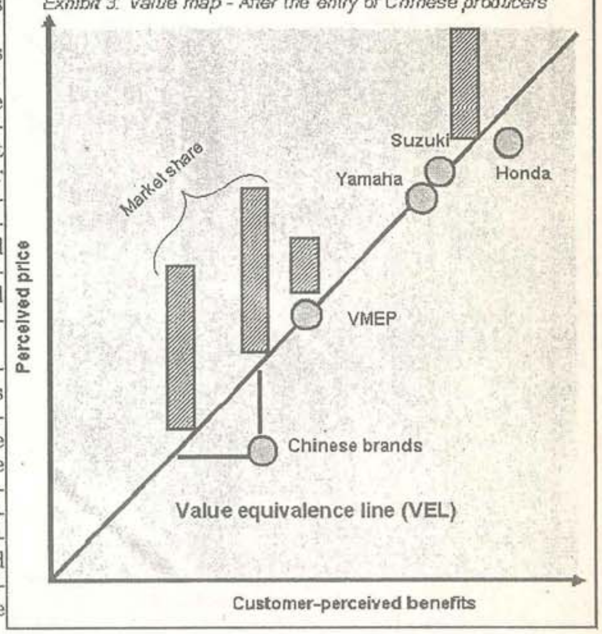
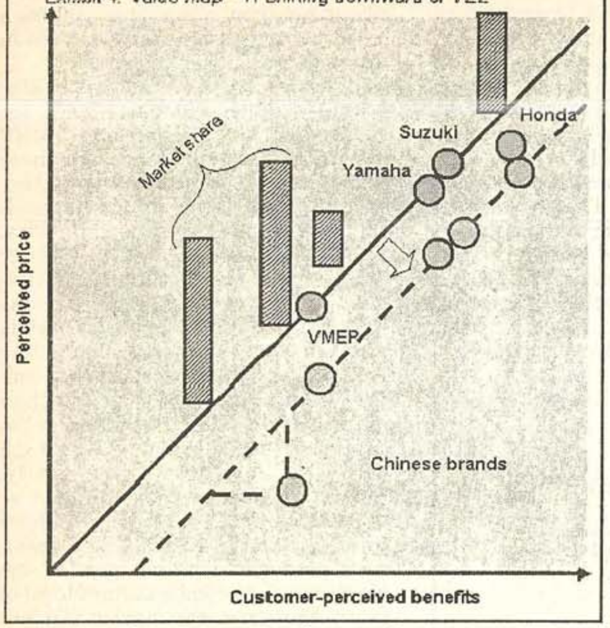


Exhibit 4: Value map – A shifting downward of VEL



the untapped customers and part of price- sensitive customers whom were served by Japanese and VMEP producers previously. As a result, the motorcycle market structure had changed in which the major part was belonging to Chinese brands.

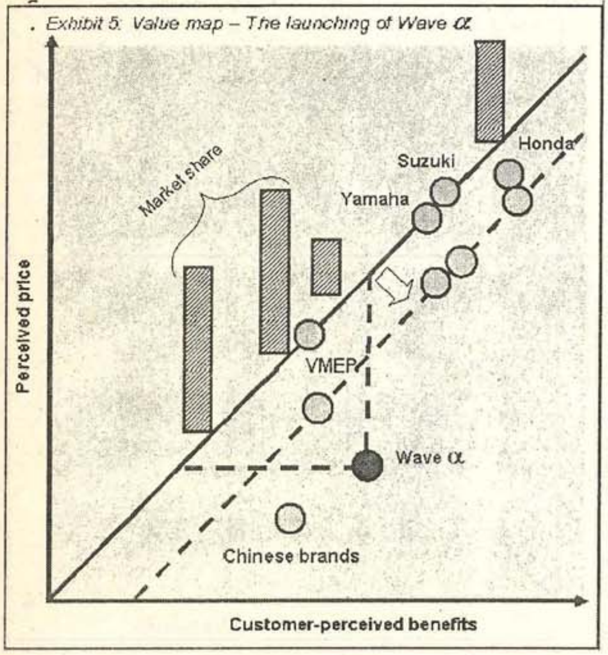
How did branded producers fight against the low price Chinese competitors? Initially, they reduced price to attract the price- sensitive customers with the hope of gaining back partly of the market share. Consequently, the value equivalence line shifted downward (Exhibit 4) which mean customers could pay cheaper price for a motorcycle. However, the main part of the market share was still belonging to low-price Chinese brands. Finally, regaining market share through reducing price didn't work in this situation.

Recently, Honda Vietnam had used two-product strategy to compete against low-price Chinese brands. Honda Vietnam introduced a new model Wave Alpha, priced at VND11 million - while keeping Future and Dream models for the high- end segment. The price of Wave Alpha was a little higher than Chinese products and lower than VMEP products (Exhibit 5). With this positioning, Honda could gain market share from both Chinese brands and VMEP. As a result, it has been sold around 30,000 units per month but not yet meet the huge demand.

The success can be explained by the value map. Honda has a very strong brand image so that customer perceived value of Wave Alpha is high. In contrast, the price is so low that customers realize that they are gaining a super value. The exhibit shows that Wave Alpha is lying below the VEL line or it has a super value advantage as compared with other brands (Exhibit 5). This means Honda can gain more market share in the future.

What does the market look like in the future? It belongs to the reactions of other producers. It seems that Suzuki and Yamaha need to launch new models positioning at the low-end segment to compete with Wave Alpha. It can also be the reduction in price of VMEP and Chinese brands in order to have a better customer value.■

Exhibit 5: Value map – The launching of Wave α



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