

## **Reverse Positioned Brands: Where Psychology meets Strategy**

*“The writer-physician Atul Gawande has written about the phenomenon of ‘positive deviants’ in the medical profession, that small set of players who are mired in the same environmental conditions as everyone else but stubbornly refuse to allow themselves to be constrained by conventional wisdoms, and as a consequence are able to identify fresh and often counter-traditional ways to address seemingly intractable problems. In business, I believe that there will always be positive deviants, brands that are exceptional, not because they are able to run harder or faster than the rest, but because at some fundamental level they have made a commitment to not taking the status quo for granted.” – Youngme Moon in ‘Different: Escaping the Competitive Herd’ (2010)*

### **Original Thinking + Focused Specialisation + Simplicity**

In our first piece for The Ken, my friend – Anupam Gupta – and I concluded that the path to a more meaningful and successful life lies in deep specialisation allied to original thinking and simple rules. (Click here to read The Ken article: <https://the-ken.com/story/tsundoku-mental-clutter/>) No sooner was this piece published that we started consuming our own cooking i.e. applying this recipe to Marcellus Investment Managers. In the process, my colleagues at Marcellus and I came across a very interesting branch of marketing strategy – reverse positioned brands.

### **Changing the playing field**

The standard paradigm along which competition evolves in any sphere of life involves gradually upping the ante. So if you and I are Indian politicians and I call you a scoundrel, you will call me an even bigger scoundrel. I will then call you and your previous generation various names. You will then retaliate by saying that my last three generations were wasters and thus this linear escalation in abusive competition will continue.

As Youngme Moon explains in her short, lucid book on marketing, in business life, the standard paradigm plays out as:

- “1. A company augments its value proposition by offering customers a new benefit.*
- 2. Customers are pleased.*
- 3. Competitors race to match (imitate) the augmentation.*
- 4. The augmentation becomes standard across the category.*
- 5. Satisfaction levels are recalibrated, which is to say that customers now feel entitled to what they were grateful for yesterday.*
- 6. Meanwhile, the expanded value proposition has expanded and the minimal requirements for competing in the category have gone up.*
- 7. Repeat step 1.”*

The result of this iterative process in which everyone copies everyone else is that over time most of the players in the sector end up with very similar offerings. So, for

example, once upon a time, Jet Airways was markedly more comfortable than Indigo and Indigo was markedly cheaper than Jet. Now neither is Jet Airways significantly more comfortable than Indigo nor is Indigo significantly cheaper than Jet.

In this context, reverse positioned brands - i.e. brands which refuse to stick to the standard playbook - tend to change the paradigm and turn the industry on its head. When I was in college in the mid-1990s, I discovered the internet. I was clueless about technology and delighted to find Yahoo – a portal which would guide me to useful sites on sports, entertainment, travel, etc. From 1997 until 2000, I was a devoted Yahoo user. Then one day in 2001, a colleague told me about Google. Initially, I was puzzled by the emptiness of Google's search engine page. It took me a while to understand that Google was a reverse positioned brand.

Youngme Moon defines a reverse positioned brands as: *"A reverse positioned brand is a very particular kind of idea brand, one that makes the deliberate decision to defy the augmentation trend in a category in which customers have come to expect augmentation. What this means is that there is a commitment to withholding benefits that the rest of the industry considers necessary to compete. Reverse brands say no where others say yes. And they do so openly...In business...there are few greater sins than failing to meet customer expectations. So nothing is likely to raise eyebrows more quickly than a decision to strip away benefits that consumers expect to receive. This is why the concept of reversal goes against every instinct a businessperson has. When the entire category is racing north, it is no trivial matter to point yourself south."*

Conventional Brands	Reverse positioned Brands
<b>American examples</b>	
Yahoo	Google
United Airlines	SouthWest, Jet Blue
Rolex	Swatch
Microsoft, IBM	Apple
Fidelity	Vanguard
Sears	WalMart
Toyota, Ford, GM	Mini Cooper
Traditional furniture stores	Ikea
<b>Indian examples</b>	
Jet Airways	Indigo
Detergents: HUL's Surf	Nirma
Traditional FMCG	Patanjali
Broking: ICICI Direct	Zerodha
Hospitals: Max, Fortis	Narayan Hrudayalaya
Retail: Big Bazar	DMart
Hotels: Lemontree, Ginger	Oyo Rooms
Conventional wealth management models	Arthayantra
Big banks' branch based Mutual Fund distribution models	NJ



In other words, a reverse positioned brand changes the parameters along which competition will henceforth play out in the sector. So, for example, in the American mutual fund management industry, Vanguard changed the customer's focus away from performance and towards expenses. In the process, even active investors of the stature of Warrant Buffet became fans of Vanguard – the limited part of his wealth that he will leave for his family will be invested in Vanguard's index funds. Fund flows in the American mutual fund industry have now become inversely correlated to expense ratios.

In India, Zerodha has transformed customers' expectations of what online broking will cost (next to nothing) and how good the brokers' website/app will be (Zerodha's cloud-based superfast site/app is streets ahead of HDFC Direct, ICICI Direct, Axis Direct, Sharekhan, etc). Other retail brokers now have no choice but to play the game on the terms dictated by Zerodha.

In the FMCG sector, Patanjali took India by storm three years ago by aggressively advertising a range of relatively low cost products which supposedly used ayurvedic recipes and made less use of preservatives and artificial flavouring. Leaving aside the veracity of these claims, Patanjali's entry forced other FMCG companies to launch Ayurveda centric offerings.

Clearly, there is survivorship bias at play here – there must be thousands of reverse positioned brands which flamed out before anyone got to hear about them. However, focusing on the failures misses the point; after all there are plenty of conventionally positioned brands which also died.

A well-executed reverse positioned brand tilts the industry's competitive paradigm towards its strengths, its uniqueness (and tilts the playing field against its rivals). By focusing its offering on its strengths (eg. superfast search engine (Google); lightning fast cloud based broking platform (Zerodha); online distribution of mutual funds via insurance brokers, accountants, etc (NJ); Ayurveda centric low cost offerings (Patanjali)) and de-emphasising its weaknesses, a reverse positioned brand blows a standard Michael Porter five-forces type framework out of the water.

Furthermore, uniquely in India, the serendipitous coming together of Jio (cheap 4G), Aadhar (and hence eKYC) and online banking is making the Financial Services sector (which accounts for 40% of the Nifty) uniquely vulnerable to reverse positioned brands. For example, a SEBI regulated robot advisor like Arthyantra provides high quality wealth advice comparable to any conventional wealth manager (using the combination of a website and Chartered Financial Planners located in Hyderabad). It provides the advice cheaper and it gives the customer more options on how to act upon the advice. Similarly, online mutual fund distributors like Clearfunds, FundsIndia, NJ each have slightly different business models but they appear to be significantly more scalable than the traditional branch based, people intensive mutual fund distributor model. NJ is already amongst the largest mutual fund distributors in India.

Whilst marketing gurus like Youngme Moon have articulated the market positioning of reverse positioned brands, the man whose work really explain why such brands succeed is Simon Sinek. In his celebrated Ted Talk and his book *"Start With Why"*:



*How Great Leaders Inspire Everyone to Take Action*", Sinek explains that firms like Apple do NOT focus on "WHAT" they are offering (i.e. phones, watches, tablets); instead they focus on "WHY" they are offering these products. Apple's WHY is "Think Differently". They did it with the computer in the 1970s, with the iPod in the early noughties and with the phone in the late noughties. Apple's customers identify with the WHY.

Similarly, I have met Patanjali customers and Zerodha customers and DMart customers who identify with the WHY of these firms. I met a dollar billionaire yesterday who always flies Indigo. As Sinek says: *"We want to be around people and organisations who are like us and share our beliefs. When companies talk about WHAT they do and how advanced their products are, they may have appeal, but they do not necessarily represent something to which we want to belong. But when a company clearly communicates their WHY, what they believe, and we believe what they believe, then we will go to extraordinary lengths to include those products in our lives."*

At Marcellus Investment Managers we know our WHY – people's savings have to be invested in clean, well-managed companies at relatively low cost. As we work on our reverse positioning, we would love hear your thoughts on the subject.

Note: the above material is neither investment research, nor investment financial advice. Marcellus is not authorized to provide either. Marcellus does not seek payment for or business from this email in any shape or form.

*Saurabh Mukherjea is the author of "The Unusual Billionaires" and "Coffee Can Investing: the Low Risk Route to Stupendous Wealth". He's also the Founder of Marcellus Investment Managers.*