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Challenger Brands in Asia:

Opportunities in Disruption

By Michel Brekelmans

Challenger brands have become a major force across many consumer product categories over the past decade creating substantial value for founders and investors and substantial headaches for owners of incumbent brands.

It's never been easier to launch a new brand and the COVID-19 pandemic has substantially accelerated the growth of e-commerce and challenger brands across the Asia-Pacific region.

In this article we take a look at the rise of challenger brands in Asia, the impact of COVID-19 and explore common strategies deployed by owners of incumbent brands.

What are challenger brands?

Challenger brands punch above their weight

A challenger brand is a brand that is defined primarily by its mindset and operating model. It communicates goals that are bigger than its budgets, although it does not market with the intent to become an industry leader.

Adam Morgan who popularised the term 'challenger brand', defines it as brands and businesses with ambitions that outstrip their resources; those who know they must apply a very different approach to strategy, positioning and company culture in order to compete with the established leaders.

Challenger brands can eventually become market leaders, but the true strength lies in their ability to thrive as the underdog. Challenger

brands don't spend the money that market leaders do for promotion, R&D, or operations.

Characteristics of the challenger brand business model include:

- They are led by a bigger purpose typically focussed on sustainability, equality or protection of the vulnerable
- They tell a compelling story that often goes beyond the products or services provided
- They build and nourish some kind of community which is important in a world of socially conscious millennials who typically consider company values before making a purchase decision
- They relentlessly focus on giving the consumers a positive experience
- They ensure repeat business by creating customer loyalty and offering innovative subscription based solutions
- They often by-pass traditional channels but go direct to the consumer through digital platforms thus retaining a significant proportion of channel value
- They shun expensive marketing approaches through traditional media but instead rely on highly targeted brand building and promotional campaigns though social media channels
- R&D and manufacturing is outsourced to private / white label manufacturers thus doing away in significant capital investments in related infrastructure.

Business model combines frugal spending with a sense of purpose and high customer loyalty

The rise of challenger brands in Asia

Challenger brands first emerged on the big stage in the US market. From industry to industry challenger brands have been eating incumbents' lunch. For instance

- Six years since founding, Harry's has carved out 4.3% of America's $2.2bn men's razor market from the likes of Gillette, whose share has fallen from 73% to 53% since 2009. Subsequently, in 2019 Procter & Gamble took an $8bn write-down on Gillette, which it had bought in 2005 for $57bn;
- Chobani, a 15-year-old company, sells one in five American yoghurts;

- Halo Top, a low-calorie ice cream created in 2012, was the top selling ice-cream pint in America five years later, ahead of Häagen-Dazs and Ben & Jerry's;
- Casper was founded in 2014 and helped popularize the "bed-in-a-box" concept. In its wake ~175 "bed-in-a-box" companies were founded, such as Leesa, Tuft & Needle, Nectar, and Purple highlighting the risk of 'copy and paste' competition if challenger brands fail to establish customer loyalty elements to sustain growth.

Emergence of challenger brands with Asian characteristics

The success of challenger brands in the US has triggered interest in Asia. However a true local challenger brand is harder to identify. Markets tend to be more complex in terms of accepted social and cultural conventions. The often brash and cheeky attitude of the challenger fails to resonate among many Asian consumers, especially in countries that place strong emphasis on traditional virtues such as generational respect. This is changing, although with typical Asian characteristics.

Malaysia, is home what is perhaps the ultimate Asia challenger brand - budget carrier **AirAsia**, which pitted itself against the might of Malaysian Airlines through aggressive marketing, direct-to-consumer e-commerce sales and a charismatic and highly visible owner and CEO. Their bigger purpose resonated well with the less well off in Asia: "now everyone can fly".

China's Xiaomi was founded in 2010 and released its first smartphone in August 2011. The company rapidly gained market share in China using challenger tactics to become the country's largest smartphone company in 2014. By 2018, Xiaomi was the world's fourth-largest smartphone manufacturer leading in both the largest market, China, and the second-largest market, India..

Indonesia's Wardah Cosmetics is a brand of beauty products owned by PT Paragon Technology and Innovation. The company is a pioneer in Halal beauty products in Indonesia and has succeeded in creating a strong portfolio of Halal skincare and make-up products.

Whilst Wardah's parent follows a traditional end-to-end manufacturing to distribution business model, the launch of Wardah was one following the challenger playbook. In just over a decade, it has

emerged as one of the most popular and fast-growing cosmetic brands in Indonesia . The company capitalized on the high internet and social media penetration in Indonesia to launch an online campaign to engage millennial muslin women.

Wardah has expanded its consumer base by offering both premium and affordable product lines, targeting women who wear hijabs and those who do not, and expanding its distribution network into neighbouring countries such as Bangladesh and Malaysia, as well as European countries.

Start-ups adopting challenger strategies to disrupt established consumer players

On the other end of the scale-spectrum, numerous start-ups are sprouting up around the region with typical challenger models:

- **Singaporean** start-up **Two of a Kind** closely follows the challenger checklist with it's affordable contact lens delivery model. Subscription based, direct-to-consumer digital platform, sourcing directly from a manufacturer and off course a Millennial friendly cause in the form of Project 2x2, their contact lens recycling initiative
- **India's Hector Beverages** was founded in 2009 and markets a range of traditional, indigenous Indian snacks and drinks such as Aam Panna, Jaljeera and Aam Ras. Its Paper Boat brand is based on age-old recipes and the marketing strategy revolves around nostalgia, childhood and innocence. Paper Boat has a strong presence on social media with compelling digital marketing campaigns. Global VC firm Sequoia Capital has been an investor in Hector Beverages since 2012.
- **Japanese** craft whisky brands have taken the global spirit industry by storm over the past decade. Several start-ups are now trying to replicate this success in gin distilling. In 2015, **The Kyoto Distillery** was the first player in Japan dedicated exclusively to gin. It's Ki No Bi gin was awarded one of the highest honours at the International Wine & Spirits Competition 2018 – The Contemporary Gin Trophy.

  Now, Japan has found itself in the midst of a gin boom, with the number of domestic producers swelling to around 30 in 2019 and taking on the establish Western volume brands through a combination of heritage, local botanicals and product quality. Brands are promoted heavily using social media platforms and

aim to achieve the highly desirable and aspirational cult status of their Japanese whisky peers.

The emergence of challenger brands in Asia is slowly taking place and will likely accelerate post the pandemic. To be successful, many of these brands are playing more to unique local cultural, physiological and botanical characteristics and place somewhat less emphasis on greater societal purposes, compared to the Western model.

Asian challenger brands often less 'lean' compared to Western players

Also, compared to Western challenger brands, the Asian players can still be quite asset heavy, often retaining in-house manufacturing and R&D functions. This is partly a reflection of Asia continuing to be the manufacturing shop of the world whereas in other geographies the contract manufacturing model has become a norm across many consumer product categories.

The impact of COVID-19 on challenger brands

In the time of coronavirus, quarantines, and social distancing, every company will face difficulties. For challenger brands, growing fast but without the capital of their larger competition, these difficulties are amplified.

Challenger brands already operating on shoestring budgets have seen sales plummet, forcing them to furlough staff, make people redundant or shut their doors entirely. Of the various Asia examples discussed earlier, AirAsia is facing a horrendous battle, much like most other players across the travel and tourism value chain.

Spirit companies rely heavily on sales through on-trade channels (restaurants, bars and clubs) as well as travel retail (airports). Whilst much of Asia has been gradually easing restrictions, bars and clubs continue to be at the end of the line for reopening in many countries, especially since second wave flare ups in South Korea were linked to nightclubs. The closure of these channels has been a tremendous blow for craft spirit brands who generate the bulk of sales through the on-trade channel.

Also, a number of challenger brands, particularly those emphasising craft or product features tailored to local taste or physiological features

have traditionally been able to command a premium price for their product. But during times of economic turmoil a proportion of customers may be trading down to value products hurting sales for premium challenger brands.

Challenger brand business model provides resilience during COVID crisis

On the other hand, there are a number of challenger brands that, by luck or design, are fairly well equipped to weather the current storm better than most. These may be businesses selling products that are still required during the crisis (think contact lenses or razor blades for instance) or have established on-line sales platforms with associated digital infrastructure and backend solutions. In many cases the direct-to-consumer sales model is key feature of challenger brand business models and a big advantage in maintaining steady levels of sales activity.

Another feature of the challenger brand business model is the use of subscription-based solutions, whereby consumers are supplied on a weekly or monthly basis after they sign up for a subscription package. This is not to say all subscription services will thrive, and those whose products are deemed luxuries by consumers may be cut loose from monthly budgets. However, those that can offer regular access to items that consumers feel are necessities or may have trouble accessing over the next few months, will be well placed to come out the other side of this crisis standing tall, with its customer base intact.

Incumbent Brand Strategies

The rise of challenger brands has caused major headaches for incumbent players across many categories. Challenger brands are more in touch with millennial values and lifestyles. Besides, authenticity and creating a sense of purpose for a greater good are easier to confect for young brands that don't come with historical baggage of polluting the environment or mistreating workers. They present a challenge for big, established companies striving for universal appeal.

In response, incumbent brand owners are adopting a number of strategies to combat the in the era of the challenger brand:

- They are adopting challenger behaviour for internal disruption
- They are themselves creating brands that appear independent and sometimes operate independently

- They acquire challenger rivals and let them target customer segments that are out of reach for the incumbent brands

Incumbent brands are adopting challenger behaviour in Asia so they can stand out and compete against successful local brands in their sectors. Case in point is KFC in China which behaved in unexpected ways for their sector in devising and pursuing a strategic path that won favour with consumers.

KFC case study: incumbents adopts challenger behaviour to disrupt from within

The millennial generation, some 225 million of them in China, has come of age, and for them KFC had become a legacy brand. From 2015, the company embarked on a transformation into what Sina News called 'a tech company disguised as a fried chicken business'. Three key insights underpinned KFC's strategy towards millennials: eating is a trendy social experience; technology has massively changed millennial lifestyles; and they do everything with a purpose.

With that in mind, a range of innovative solutions and brand adjustments were put in place. Technology was brought to the forefront of the brand, through in-store experiences including augmented reality, an AI-enabled in-store robot, digital payment, and an intelligent voice ordering and AI delivery system. The regional service experience was integrated into a single platform, the KFC Super App, which gives customers a single point of entry for ordering, payment, delivery, loyalty rewards and e-gifting.

KFC's reinvention has delivered results as the company earned 200 million loyalty memberships, from zero in 2015, and experienced the strongest sales growth ever. It is proof that structural disruption can deliver business results, by combining new technologies such as big data and AI with the traditional retail experience.

KFC has rewritten the category rules by bucking obvious routes to market and taking a purpose-led approach rooted in providing value to the consumer through original executions and clarity of thought.

A second approach taken by incumbent brands is a new spin on private labels: **some multinationals are themselves creating brands that appear independent** and sometimes operate independently.

Burt's Bees is one of the leading natural personal care brands in the US. If you go to the Burt's Bees website you will get a folksy tale about a couple of Maine hippies befriending fuzzy insects and philosophizing

about contributing to “The Greater Good” and “Playing by nature’s rules since 1984.” But it’s a little know secret that the company was acquired by the Clorox Company back in 2007. Clorox is best known for its chemical-based cleaning products, something which clearly does align too well with Burt’s Bees wholesome image.

Amazon has well over a dozen challenger brands, such as Goodthreads (clothing) and Solimo (household essentials). Walmart has Allswell, a mattress company in the vein of Casper, but sells it on an Allswell-branded website, not in its own supercentres.

A third strategy adopted by incumbent players is to **acquire challenger rivals** and let them target the customer segments that are out of reach for the incumbent brands.

M&A by incumbent players a typical route to get in on the challenger action

The razor blade sector has seen a lot of M&A action. Unilever bought Dollar Shave Club, a rival to Harry’s, for $1bn in 2016. Last year Edgewell, which makes Schick blades in America and Wilkinson Sword in Britain, announced the acquisition of Harry’s for $1.4bn, citing its “best-in-class brand building”. But earlier this year, Edgewell scrapped the deal. The Federal Trade Commission had filed a lawsuit to block the acquisition, arguing it would harm competition in the U.S. shaving industry.

In the F&B sector, M&A is also a common route the acquire challenger brands. Craft brews like Camden Town Brewery and Goose Island now belong to Anheuser-Busch InBev, the world’s biggest beer producer.

Global spirit companies are also actively perusing deals to snap op craft brands. Market leaders such as Pernod Ricard, Beam Suntory and Diageo are scoping potential targets; the main challenge is not buying them but integrating them into their portfolios without damaging the brand’s craft authenticity.

Industry leaders have developed strategies to select, buy and manage new additions to their portfolios. In March 2020, with COVID-19 in full swing, Pernod Ricard announced a significant investment in The Kyoto Distillery from Japan, famous for its Ki No Bi Kyoto Dry Gin. The funds will be used primarily to build a new, state-of-the-art, distillery to meet the growing demand for ultra-premium gin.

The Japan gin deal is the latest investment by Pernod Ricard as part of their three year ‘Transform and Accelerate’ strategic plan. Ki No Bi joins

a number of recently backed craft ventures from the Pernod which include bourbon whiskey brand Rabbit Hole, Smooth Ambler whiskey, mezcal brand Del Maguey, Italian gin Malfy, and German gin brand Monkey 47.

Challenger brands have become an exciting addition on the battlefront for consumer products and services. The are many examples where players have captured a significant share of business in a relatively short time by meeting the needs of millennial consumers with authentic, hassle-free and value-based solutions. They have created significant value for founders and investors alike.

Asia is increasingly seeing the adoption of challenger strategies and the creation of challenger brands across the region. But there is still plenty of white space to be captured and incumbent players are responding by adopting challenger behaviour to disrupt themselves from within, by launching their own challenger brands and by acquiring leading challenger brands to add to their portfolio.

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