



**BCG**

# Six Strategies for Avoiding Cannibalization

# Savvy pricing and a later launch date for the more basic iPhone SE helped Apple sustain sales of its premium phones

## Apple's 2015–2016 launches

### VALUE

iPhone SE

### PREMIUM

iPhone 6s

iPhone 6s Plus

## PRODUCT FEATURES

Screen size

Small

Large

Ultra-large

Screen tech

**2D** (same as iPhone 5)

**3D** touch (new)

**3D** touch (new)

Front-facing camera

Old **1.2MP** module

New **5.0MP** module

New **5.0MP** module

## PRICE AT LAUNCH

\$399

\$649

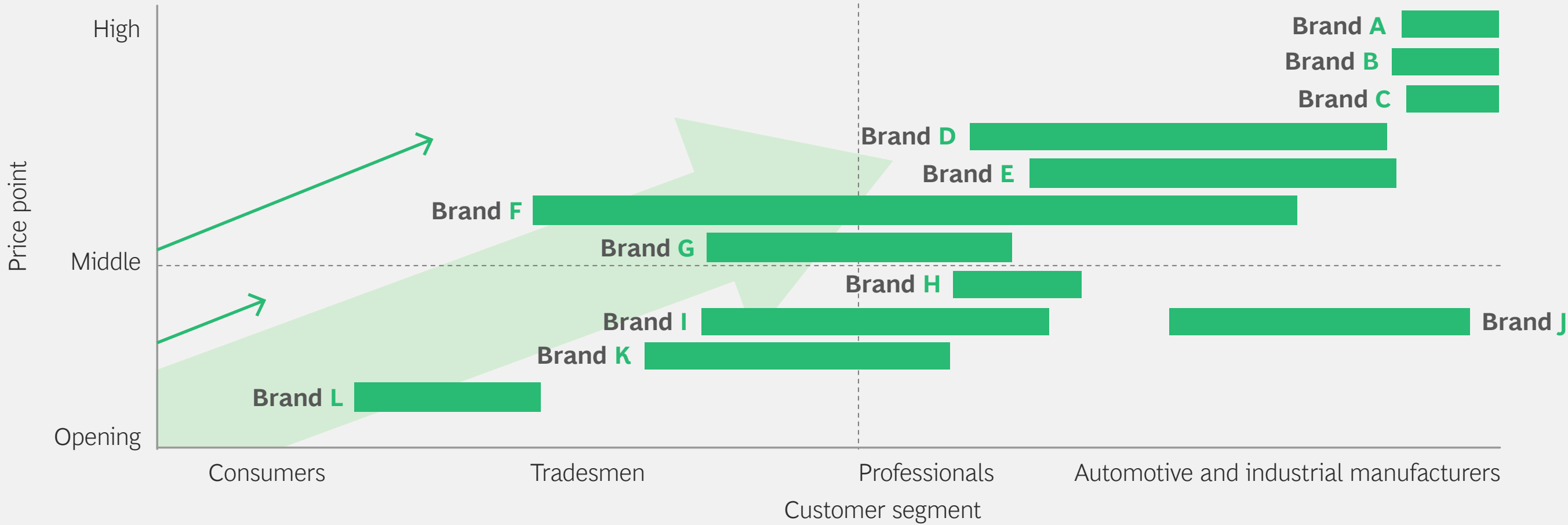
\$749

Sources: Consumer Intelligence Research Partners; Forbes; Nomura; BCG analysis.

Note: MP = megapixel.

A manufacturer of industrial tools and household hardware distinguished its brands by customer segment and product usage to safeguard sales of higher-priced offerings

**A typical brand-positioning lineup**



Source: BCG analysis.

# An apparel retailer minimized cannibalization by keeping its full-price and discount channels entirely separate

CHANNEL	FULL-PRICE FLAGSHIP	OFF-PRICE OUTLET
<b>Strategic objective</b> 	Drive overall sales growth and represent the brand image via a core set of customers	Achieve clearance levels while extending brand to a different customer group
<b>Products available</b> 	Large assortment selling in full-price stores Core products always available	Overproduced or returned items from full-price stores Products made specifically for off-price channels
<b>Target customer profile</b> 	Willing to pay full price Higher price elasticity Care about product selection and shopping experience	Unwilling to pay full price Sensitive to price changes Comfortable with out-of-season SKUs and limited selection
<b>Promotion design</b> 	One promotion at a time 2-3 weeks following the promotion calendar	Multiple stacked promotions 3-5 weeks plus ongoing promotions

An e-reader company offset potential profit loss from its new bargain product by offering add-ons for sale

	VALUE E-READER	PREMIUM E-READER	ULTRA-PREMIUM E-READER
<b>PRODUCT FEATURES</b>			
Screen size	Small	Large	Ultra-large
Resolution	Low	High	High
Storage	Low	Medium to high	Medium to high
Upgraded features	⊗	⊙	⊙
Smart features	⊗	⊗	⊙
<b>COMMERCIAL METRICS</b>			
Price	Low	Medium	High
Popularity	Medium	High	Low

**Add-on HW, SW, and services, with various pricing models**

ADD ON	PRICING MODEL
Unlimited content	SaaS
E-books	SW à la carte
Accessories	HW à la carte
Device protection plans	Service à la carte

Sources: Business Insider; BCG analysis.

Note: HW = hardware; SaaS = software as a service; SW = software.

# A medical device company optimized value-based pricing by differentiating products according to clinical value and conditions to be treated

PRODUCT	CPAP	BiPAP	NIV
<b>Description</b>	Basic fixed-pressure device	Bilevel pressure machine	Versatile respiratory device
<b>Category</b>	Continuous positive airway pressure	Bilevel positive airway pressure	Noninvasive ventilator
<b>HCPCS code</b>	E0601	E0470 and E0471	E0466
<b>Monthly rental cost</b>	Baseline cost	~3 times the CPAP cost (without backup) ~5 times the CPAP cost (with backup)	~25 times the CPAP cost
<b>Target conditions</b>	Obstructive sleep apnea	<ul style="list-style-type: none"> <li>• Severe COPD</li> <li>• Restrictive thoracic disorders</li> <li>• Central and complex sleep apnea</li> <li>• Hypoventilation syndrome</li> </ul>	<ul style="list-style-type: none"> <li>• Chronic respiratory failure from COPD</li> <li>• Neuromuscular diseases</li> <li>• Thoracic restrictive diseases</li> </ul>
<b>Medicare guidance</b>	Sleep-test diagnosis	Non-life-threatening condition that requires intermittent, short-duration respiratory support	Severe condition; interruption of respiratory support could lead to serious harm

Sources: HHS OIG Data Brief (September 2016); BCG analysis.

Note: COPD = chronic obstructive pulmonary disease; HCPCS = healthcare common procedure coding system.

A household appliance maker tailored product characteristics to local markets to discourage customers in expensive markets from buying the same offerings from less expensive markets

CHARACTERISTICS	EXAMPLES	US	CHINA	ISRAEL	UK	GERMANY
<b>Number of products</b>	<b>Purifier<sup>1</sup></b>	10	10	2	7	9
	<b>Humidify only</b>	–	2	–	–	–
	<b>Fan only</b>	–	2	–	–	2
<b>Specs</b>	<b>Power voltage</b>	110V	220V	230V	230V	230V
	<b>Color offers</b>	5	2	1	1	2
<b>App language</b>		American English	Simplified Chinese	Hebrew and American English	British English	German
<b>Price<sup>2</sup></b>		Medium	High	High	Medium	Medium
<b>Post-sales support</b>	<b>Warranty</b> <b>Customer support</b>	1 year Local hours and numbers	2 years WeChat	Unspecified Local hours and numbers	1 year Limited, via text or email	2 years Local, via text or email

Source: BCG analysis.

<sup>1</sup>Includes both purifier only and purifier with additional features.

<sup>2</sup>Absolute price comparison between similar products after exchange conversion.