course, this can be tricky: McDonald's is still smarting from the uproar in cyberspace several years ago when it set up a fast-food kiosk in the Sims Online game. But marketing that is consistent with the virtual environment–no Pepsi cans littering the banquet table in a medieval fantasy game–and that enhances the experience of participants could bear fruit. In the shopping mall of a virtual world, for example, an avatar could try on–and try out in front of virtual friends–real-world clothing brands or styles her creator wouldn't dare to wear. If she got rave reviews from her pals and became comfortable with the idea of wearing a particular outfit, a purchase in the real world might follow.

Marketers may even discover ways to sell to avatars after they accompany their creators back to the real world. A company might, for instance, create an advertising campaign aimed at "furries," a class of genderless beings that enjoy a Beanie Baby–like popularity in many corners of cyberspace, including Second Life, where they have proliferated as, essentially, avatars' avatars. Or it might offer a distinctive clothing line only to people whose avatars have, through achievements in an online world, earned their creators the right to wear the gear. Marketers could thus "tie products to the game without busting the fantasy of the game itself," says Edward Castronova, a professor of telecommunications at Indiana University and the author of *Synthetic Worlds: The Business and Culture of Online Games.*

This is virtually unexplored marketing territory. But conceiving of avatars and other online personae as a new set of potential customers, one that can be analyzed and segmented, provides a useful lens for identifying marketing opportunities. Indeed, the day may not be far off when someone says to a store clerk, "Wait a minute, give me one of those as well. After all," the customer will add, in a near-echo of pregnant women's perennial refrain, "I'm buying for two."

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Befriending the Private Label

On a recent visit with retailers in the Middle East, a Sony sales representative astonished his hosts by offering to manufacture knockoffs of some of Sony's products and brand them with trade names of the retailers' choosing.

They shouldn't have been so surprised. Although the practice of creating private labels for retailers has long been considered a suicide strategy, national and global brands such as R.J. Reynolds, Nabisco, Panasonic, and Siemens are embracing it. Corporations are helping retail customers compete with their own branded products in categories that include cellular phones, financial services, packaged goods, and clothing. And they are doing more than just stimulating low-price competition. Many private-label brands created and supported by large manufacturers are of equal or superior value to the manufacturers' own.

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Why are so many companies doing this? Research that David Soberman of Insead, Namwoon Kim of Hong Kong Polytechnic University, and I have conducted points to a seeming paradox: An effective way to grow profits as a manufacturer is to advertise your best-selling or premium-priced products like crazy while encouraging private-label versions of them.

We all know why private-label brands have become so powerful. As product markets matured and the retail industry consolidated, a growing percentage of sales was controlled by a shrinking number of retailers. That shift considerably strengthened the power of retailers relative to both manufacturers and consumers. Retailers exploited this power by replacing generic product offerings with their own store brands, which were manufactured by the former suppliers of generic goods. That process helped drive a number of relatively down-market national brands from retailers' shelves. (Remember Royal Crown Cola?)

Inevitably, many strategists reckoned, premium national and global brands would also feel the squeeze. But that hasn't happened. Our empirical studies across hundreds of categories show that the price differential between big brands and private-label brands has remained steady or even widened. The big brands have maintained or improved their margins even as private labels have proliferated.

That has happened because consumers can be divided into two basic categories. "Brand seekers" buy only branded products. "Private-label seekers" prefer the store label. The more (and more effectively) a manufacturer uses advertising to enhance the perceived value of its premium brand, the more the brand seeker is willing to pay for it. That, in turn, allows the retailer to mark up its private-label prices without having to narrow the differential between its brand and the premium one (the differential, of course, is what makes the store brand look like a bargain to private-label seekers). Heavy advertising by the manufacturer increases the perceived

value of the product category as a whole. Both manufacturer and retailer benefit.

That dynamic means that retailers have every reason to stock the heavily marketed big brands, whose price differential with their own brands is largest and whose customers will never buy private labels anyway. At the same time, premium-brand manufacturers have every reason to encourage retailers to launch private labels rather than carry cheaper national-brand products that might compete for brand-seeker customers. And by actually manufacturing private-label products for retailers, a big brand manufacturer further weakens direct competitors while retaining a bit more power in the value chain.

Last October, ACNielsen announced the results of its global study "The Power of Private Labels 2005." According to Hubert Lobo, the head of ACNielsen's Retailer Services, "private labels will give global brands a run for their money in the next two years." The money may, in fact, be for those global brand managers who are courageous enough to exploit the upside economies of the private-label market.

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A Critical Mass for the Long Term

In an open letter filed with Google's 2004 prospectus, founders Larry Page and Sergey Brin promised to pursue high-risk, high-reward projects, despite the intense short-term earnings pressure they expected as a public company. They wrote of the "fortitude" such actions required and asked shareholders to take a long-term view. Their tone conveyed a message: This would not be business as usual.

Now, if a vanguard group of corporations has its way, the Google guys won't feel so lonely. A number of companies have banded together to see if they can orient markets toward the long term.

Corporate leaders are expected to base decisions – about outsourcing, for instance, or employee benefits, or investment in new markets – on those decisions' medium- or long-term implications. But only 59% of financial executives say they would pursue a *positive* net present value project if it meant missing the consensus earnings-per-share estimate for the quarter, according to a recent study by Fuqua's Campbell Harvey and John Graham and the University of Washington's Shiva Rajgopal. Worse, 78% say they would sacrifice value – in some cases a lot of value – to smooth earnings. Similarly, research by Wharton's Brian Bushee shows that managers are more likely to cut R&D to reverse an earnings decline if a significant amount of the company's equity is owned by institutions with high portfolio turnover. Many companies have the same philosophy about such long-term investments as infrastructure and employee training.

The harmful effects of short-term thinking aren't limited to companies' investment decisions. Calling for extended corporate time horizons, the Conference Board's Blue Ribbon Commission on Restoring Public Trust blamed "short-termism" for contributing to business malfeasance. It also creates a formidable obstacle to corporate involvement in social problems like global warming.

CEOs consider reducing short-term market pressure to be outside their purview. Certainly, one company by itself can do little. But history shows that the right people, working in concert, can alter markets for good.

In 1950, the right people were the 21 leaders of Japan's most important industries, who attended a dinner party in Tokyo with the American statistician W. Edwards Deming. Deming persuaded his dining companions that quality was the answer to the country's woes. Collectively, and without regulatory or legislative goads, those leaders adopted his recommendations, kicking off what ended up being a manufacturing and economic renaissance.

Lengthening corporate perspectives will require a similar critical mass. The