

Alliance Consulting Group



The Power of Branding *Brand Architecture: Building and Maintaining Competitive Advantage*

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On her weekly trip to the supermarket, Jane is pushing her shopping cart through the beverages section, when an innovative new fruit juice product catches her eye. She's never heard of it, nor the maker. In a split second, she tosses it in her cart...

Ambling down the next aisle over is Mary, who notices a new multi-grain bread created by a well-known bakery. In a split second, she passes it by...

Why is it that an established brand can make or break the success of a new product launch? How can a manufacturer know when the brand will boost sales... or even deter sales of new products?

What role does the maturity of a brand play in the appeal of new products? What impact does an established brand have on a market segment that differs from its core audience? When a retailer spins off a new retail concept, when should the brand be prominent and when should it be invisible?

The Power of Branding

Brand Architecture: Building and Maintaining Competitive Advantage

Proper use of branding can make or break the launch of a new product or service, and similarly constrain or accelerate the growth of a mature product. Brands generally fail because: they become stale as customer needs or preferences change over time; they become clouded by haphazard product extensions; or their marketing fails to resonate with the targeted customer group. Correctly defining your brand essence and supporting it with clear brand architecture is critical to long-lasting success. While brand architecture must evolve and product lines should expand (or contract) over time as the market changes, brand essence must remain constant as the core value for which the particular product or service is sought out. Alliance has a three-step methodology for analytically and comprehensively defining and growing brands. This article explains the elements of our approach in more detail.

The Power of Brands

Branded products and services play an undeniable role in driving profitable growth for any organization, regardless of its size. Brands communicate the reasons why a customer should purchase a specific item. They make claims and set expectations their products have to fulfill. Brands can be a powerful source of competitive advantage. Harley-Davidson, Apple Computers, Nike, and Coca-Cola have built superior success with brands that enjoy loyal – at times fiercely loyal – customers.

Many brands, however, fail to achieve or maximize/maintain brand loyalty and recognition. Marketing of such a brand may have failed to resonate with customers. Keeping current with market trends and staying competitive in the face of new market entrants may have proven challenging for the brand. Attempts at brand extension may have been unsuccessful due to the haphazard nature

of the brand's approach to expansion. The brand's identity may be ill-defined, with a myriad of marketing messages, product introductions, and customer experiences having joined together over time to create perceptions of the brand and its key competitors.

While there are a number of possible reasons for a brand's limited success, a common root cause lies at the heart of these brand issues – the failure of management to construct a brand hierarchy that will foster brand equity with customers. Management fails to thoughtfully establish the brand's essence and to support the brand's essence with brand and product line architecture and brand marketing.

In order for managers to construct a brand hierarchy successfully, they must understand the needs of and purchasing decisions employed by their customers and segment their customers accordingly. Conducting a systematic, disciplined examination of the effectiveness of perceptions of the brand and its product structures is fundamental to achieving this understanding and segmentation. Three interrelated tasks are at the center of this process: understanding customer needs; reviewing the brand hierarchy; and, examining the current and future product line architecture. The following is a detailed discussion of these tasks and the competitive advantage that can be achieved with an effective brand hierarchy.

Understanding Customer Needs

Customers buy products for a reason – they want to solve a problem or attain desired benefits. Some customers are acutely aware of their needs. They can articulate their desired outcomes, survey competing offerings, are confident in their ability to make the right choice, and know how to judge value (price to benefit ratio). These customers are rare. Most customers need help in this process.

Effective marketing facilitates a customer’s decision-making process and leads to a purchase that satisfies a customer’s needs. Brands, advertising, product packages and other marketing efforts can educate and influence recommenders (e.g., salespeople, doctors, or store clerks) and consumers to make the right choice.

A systematic analysis of what motivates brand choice is a critical step in the brand equity strategy effort. Three tools that have proven very effective in this process are the *customer need hierarchy*, the *purchase decision tree* and *customer segmentation*.

1. The Customer Need Hierarchy

In our work with leading consumer products marketers in a variety of product categories, we have found it useful to explore customer needs with the following *need hierarchy*. Although most customers do not take the time to literally and systematically address each of the following topics, research has shown that customers go through the following steps leading up to the purchase of a product or service:

Step 1: Awareness and Education	<ul style="list-style-type: none"> ▪ Awareness that I have a “problem” or that I could gain desirable new benefits ▪ Belief that there are products available that could fill this need
Step 2: Navigation	<ul style="list-style-type: none"> ▪ Ability to figure out which of many available types of product is right for the desired purpose ▪ Confidence that I have selected the right product type to achieve my desired outcome
Step 3: Functional Benefit and Efficacy	<ul style="list-style-type: none"> ▪ Ability to articulate desired functional outcomes ▪ Belief that the product actually delivers: it will solve the problem and deliver on its claims
Step 4: Emotional Benefit and Efficacy	<ul style="list-style-type: none"> ▪ Ability to articulate desired emotional benefits ▪ Belief that I will feel good about the product, by myself and in the eyes of others
Step 5: Value	<ul style="list-style-type: none"> ▪ Ability to judge price/benefit relationship ▪ Belief that the benefits I received were worth the price I paid

The very first time a customer purchases a product in a new category, a first-time dog owner for example, the buyer tends to sort through each level of this need hierarchy, perhaps clumsily or with help. Over time, customers develop knowledge, experiences, beliefs, and opinions that help speed up the purchase process by narrowing the consideration set to fewer choices.

2. The Purchase Decision Tree

Experienced consumers eventually appear to make purchasing choices in a seemingly “automatic” manner at a sub-conscious level, without an ability to verbalize their strategies. In fact, customers’ mental strategies do follow a rational process, and when properly “slowed down,” customers can articulate the reasoning that informs their purchase decisions. Qualitative research, such as focus groups, or quantitative research techniques, such as paired comparisons or conjoint analysis, can make these decisions more transparent. We have found it important to examine two separate processes in decision-making.

The first is **navigation strategy** – a set of cognitions that inform the customer’s problem definition and desired functional and emotional benefit profile. *Navigation leads to choice of product type.*

Customers also go through a second process during which they develop a **preference strategy** – a set of cognitions that form the reasons for choosing a specific offering among competing, acceptable products. *Preference selection leads to brand choice.*

One of the tools that can be helpful in examining both strategies is a “purchase decision tree.” A purchase decision tree, properly developed, uncovers several key components of the customer’s purchasing decision strategies, such as:

- *choice categories* a customer considers
- *criteria* within each choice category that influence the selection
- *sequence* of choice categories, i.e., the order in which a customer examines various categories and criteria
- *importance* of a category or a criteria, i.e., whether it denotes a light or strong preference, or a “veto”/must have

In mature industries, choice categories and criteria can be obvious. In most businesses, however, the discovery of latent choice categories or criteria can result in innovative new products and profitable

growth. In-depth interviews with customers and recommenders and other research can provide valuable insights into the decision-making process.

3. Customer Segmentation

Purchase decision trees can become quite complex. They often differ from one customer to the next. For example, in the pet food market, purchase behavior may vary widely from one consumer to the next. One type of consumer may first consider her pet’s “life stage” (e.g., puppy, adult dog, senior) when buying dog food, and then have a preference for a certain flavor and package size. Another consumer

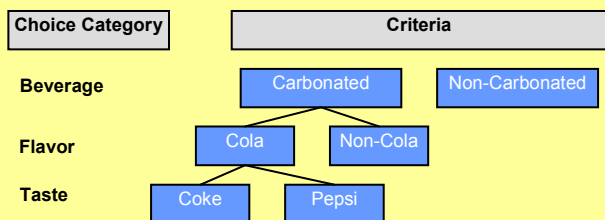
may instead focus on the size of her pet (e.g., small, medium, large breed), believing that dogs require different nutrition as they grow and age. Yet another may seek a pet food to treat a specific health condition (e.g., dry skin, sensitive stomach). The art and science of good marketing is to define an addressable number of *customer segments*: groupings of customers that have similar needs and decision trees. A company can then more precisely tailor a specific set of products, brands, and marketing messages. Customer segmentation is at the core of all insightful marketing strategy efforts.

Soft Drinks: “Redefining Organizations To Address Consumer Need States”

Here is a very simplified example of how this methodology can be applied and lead to fundamental changes in marketing strategy. A leading soft drink manufacturer went through several phases of how it conceptualized the decision trees of its customer and, therefore, how it designed its marketing strategy and organization. Three phases of this evolution provide us with a novel example of reorganizing to better address changes in customer needs.

Phase I: A Simple Choice

In the early years of the company, the decision tree of most customers was simple: it came down to either a carbonated or a non-carbonated drink. The next node was cola or non-cola. Within carbonated colas Coke and Pepsi fought each other. A simple world existed, where the customer needs hierarchy was easily mirrored by the company’s business definition and internal organization.



Phase III: Need States

Strong success in business often has an unfortunate by-product – it creates organizational structures, beliefs, and cognitive blind spots that make it difficult for the leader to change.

Both Coca-Cola and Pepsi built dominance in carbonated soft-drinks, pursuing a similar path of introducing more and more product variants. But both were late or completely missed the growth in large new beverage categories that have taken share from carbonated soft-drinks, such as water, flavored water, energy drinks, premium coffee, iced teas, etc. Acquisitions or joint ventures in some of these categories often languished, receiving little attention in the size-driven pecking order of the organization.

After thorough research of customers’ beverage purchasing behavior and their decision trees, The Coca-Cola Company completely reorganized its marketing approach. The highest level of importance is given to four choice categories or “need states.” Each category reflects the high level outcome customers seek when making a beverage choice:



The marketing group is now organized into four divisions, each responsible for providing a variety of solutions to the specific choice category with a multitude of product types and brands.

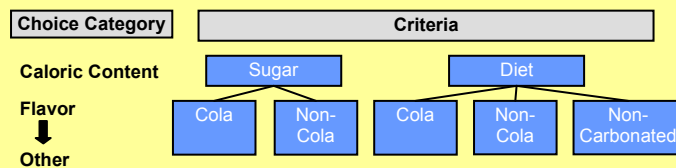
Phase II: Diet

The Phase I structure was successful for many decades. One customer need, however, was not met: the need for a non-caloric cola. Non-calorie colas had been available, but were unsuccessful. Tab, for example, had a weak brand and an unpleasant aftertaste. Coca-Cola consciously refused to put its trademark on Tab. Breaking an established purchase decision process within a large customer population is not easy; it typically requires the confluence of three separate trends:

- a fundamental shift in perceived customer needs
- a change in technology that allows the development of a new products that better satisfies the new needs
- the introduction of a new product that takes advantage of both trends

Diet Coke was the first diet cola that capitalized on a new, much better tasting sweetener technology and fully leveraged Coca-Cola’s brand equity. Diet Coke made a non-caloric soft drink appealing to the increasingly large segment of the population that had become weight conscious.

This product, and its competitors, radically changed the decision tree for a large group of customers. The first, crucial choice category was no longer carbonation, it now was caloric content.



For Coca-Cola, Diet Coke was a brand extension, another cola, and the company managed and organized accordingly. For many consumers, however, the choice category “diet” now had greater importance than either the cola category or the brand.

Brand Hierarchy

Brands, products, and marketing all play complementary roles in a company's strategy – they have to entice customers to make the purchase, satisfy the customer's needs, and build loyal relationships. Understanding how customers think about their needs and how they make their purchase decisions allows the marketer to most effectively use the levers of marketing at her disposal to target defined customer segments. Defining a brand essence and creating a powerful brand hierarchy are among the most critical marketing tasks in building a winning brand or brand portfolio that spans multiple segments.

1. Define The Brand Essence

Brands live in the minds of people. Not unlike personal relationships, they develop and evolve over time. They are also hard to describe in words. Brand essence is an attempt to describe the unchanging character of the company and/or product by defining key elements of the brand, such as:

- A clearly defined *scope of needs* for which the customer can rely on the brand
- A *distinct set of benefits* that are meaningful to the customer and which the brand promises to deliver
- A point of *competitive difference*, a reason to believe why this brand is the “better choice”
- A *personal appeal*, a reason why “this brand is for me. It is me!”
- A *value promise*, an implicit assurance that no matter the price point, you get what you pay for
- A pledge of *reliability and caring*, an assurance that the brand will consistently meet its claims and promises

The most powerful and valuable brands have managed to convey these messages to the majority

of their customers. More importantly, their brand essence directly addresses their customers' most important needs. A successful brand delivers the right message at all critical junctures of the purchase decision tree – in the key choice categories and for the critical choice criteria. A good brand facilitates both the navigation strategy and the preference strategy of its target customers.

Brand essence is conveyed through an intricate set of messages that are delivered by the various levels of the brand and the product itself. In addition, the company uses advertising, promotional activities, trade relations and other communication tools to influence the perception of its brand.

2. Consider The Role Of The Manufacturer's Brand

A manufacturer's brand operates like an umbrella at the highest and broadest level of the brand hierarchy, often covering multiple product line brands. Some manufacturers with very diverse businesses – P&G for example – do not use this brand level at all. Others use it to spread a benign, mostly emotional benefit across a portfolio of products (“We bring good things to life.”). The most successful manufacturer's brands have a tightly defined brand essence that is demonstrably embedded in each of its product lines. Harley-Davidson is all about heavy motorcycles with classic design, a recognizable sound, American ideals, the community of riding. Apple, Sony, and Johnson & Johnson are other umbrella brands that add strength to products underneath. In recent years, designers such as Ralph Lauren have demonstrated how much value well-defined umbrella brands can create by helping customers find a consistent “essence” in a wide variety of categories.

Example: Gillette vs. Bic

The application of the manufacturer's brand can have important strategic implications. Gillette, for example, consciously limited or de-emphasized the use of its name on its products. A key reason was the desire to enter multiple product categories, many of which were sold to women. In the 1950's Gillette was attacked by Bic. In an epic battle Bic employed the opposite strategy to great effect. Bic built a formidable company across multiple categories with a single brand essence: "good enough, plastic disposable products at a very low price, with a bit of personality." The strategy built sizeable advantages in plastic extrusion and superior scale in branding and distribution. In the first round the Bic Pen beat up Gillette's Papermate. Soon the Bic cigarette lighter ("Flic a Bic") eviscerated the position of Gillette's Cricket. In the third round the Bic's disposable razor attacked the core of Gillette's business. Gillette's defense was weak again – the Good News disposable brand's revenues and profits declined. An uprising within the company finally led to a reversal of strategy. Gillette shifted the battle back to its areas of advantage and developed the Sensor, a product that stopped the growth of disposable razors and brought back profitability. The company also drafted the Gillette brand for bigger duty; it developed a completely new line of men's toiletries under the Gillette brand.

3. Employ Product Line Brands Where Appropriate

Product line brands operate at a level below the manufacturer's brand. These brands have their individual brand essences, but they are both more narrowly and more specifically defined. Successful product line brands such as Tylenol, DeWalt, or Newman's Own excel in all important dimensions of conveying a brand essence and still credibly span several product types, applications, or even categories.

Successful product line brands build on and reinforce the manufacturer's brand. Apple and iPod are a prime example of how the product line (iPod) breaks open a vast new market while leveraging the essence of Apple – ease of use, sleek design, and comprehensive solutions. Cadillac and Escalade illustrate how one of a brand's product lines can be a wedge to open and penetrate a new, faster growing customer segment (younger buyers) and thereby reinvigorate the umbrella brand.

Olay demonstrates how to use multiple product lines, such as Total Effects, Age Defying Series, or Regenerist, to target well-defined need categories, tailor unique technologies or formulations, and craft a distinctive look and feel for the product lines. These lines, in turn, continually move the umbrella brand – Olay – towards more upscale, differentiated positioning. At a strategy level, the premium lines strengthen Olay's position with Wal-Mart and other powerful retailers by providing distinct, high margin revenue and thus differentiating Olay from the more commoditized moisturizers.

4. Make Use Of Product Sub-Brands

Within large product lines, individual products or sub-brands typically are tailored to address a more narrowly defined need or a certain customer sub-segment (e.g., Miller and Miller Lite).

Successful marketers design a product architecture where each product and/or sub-brand plays a clearly defined role in overall strategy of the product line. Such a strategy often involves careful trade-offs between variant proliferation vs. scale economies. Recent experience at Coca-Cola has shown, for example, that product line extension beyond a certain point has high system costs in the supply chain while generating only short-term boosts in volume.

5. Recognize The Value Of Product Components

Further down the brand hierarchy are product components, i.e., messages that highlight a particular aspect of the product. This may be an ingredient, a type of manufacturing process, or some other claim that can influence a customer's navigation or preference choices as they near the finish line. Frequent examples of effective use of product components are claims relating to "purity" of the product (such as "organic") or promises of positive side-effects ("non-drowsy").

A product component can achieve strategic importance if it is proprietary and rises to prominence in the customer's need hierarchy. Chrysler and its Hemi-engine offer an example of a

very successful component strategy. The Hemi-engine is a particular design with a strong history. Chrysler invested heavily to promote the “resurrection” of this engine and positioned it as a “macho-power” option. The engine is offered in select models of all Chrysler brands (Dodge, Chrysler and Jeep) and realizes a sizable price premium.

Product Line Architecture

The structure of a product line – its range of sub-brands, types, flavors, sizes, etc. – is the most important physical embodiment of a brand. The product line architecture is the result of critical strategic choices: it reflects how the company defines the needs of its customers; it demonstrates which segments of the market the company wants to target; and, it shows what the brand essence is like “in person.” In some companies, these choices are the result of a more organic process – product lines grow like an English garden. This is especially true in technology-driven companies.

The challenge brand and marketing managers face is to design a product architecture and brand hierarchy that are tightly interlocked, where each level and each component mutually reinforces the other.

Summary

All these factors come into play in the consumer’s mind when encountering a new product launched by an established brand. In a blink of an eye, the consumer can accept or reject the product because of the brand or despite it.

By following a thorough brand strategy process – understanding customer needs, determining the purchase decision tree, segmenting customer groups, defining brand essence, considering the role of the established brand, and developing the product line architecture – the manufacturer can discover the best combination of brand-product for greater success.

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In his thirty years of consulting experience, Michael has worked on many growth strategy assignments, specializing in people and knowledge-intensive industries. Major clients include Office Depot, Coca-Cola, Disney, Hasbro, IBM Global Services, PRG Schultz, PWC, BDO Seidman, Bell&Howell, and others.

Michael has led senior executive workshops and seminars for a large number of Fortune 500 companies. He has also led several merger, acquisition and divestiture studies. He is a member of the Board of Directors of Overland Storage (OVRL), The Whitehead Institute, and The Boston Public Library Foundation.

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In his fifteen years of strategy consulting, Tony has led a wide range of engagements for clients focused around areas such as innovation growth strategies, profit improvement, and marketing and sales effectiveness. His clients have included leading companies in soft drinks, magazine publishing, toys and gaming, and themed entertainment. Recent assignments have included repositioning a major cruise line, finding profitable new growth opportunities for a leading beverage manufacturer, and improving the marketing effectiveness for a leading toy and gaming company.



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