The Ministry of education and science of Ukraine
Ternopil Ivan Puluj National Technical University

IRYNA KOTOVS'KA

A course of lectures on discipline

Brand Management

for the 4th year students
of the specialty 6.030601«Management»

Ternopil– 2015

Made by: Ph.D. Kotovs'ka Iryna

Reviewer: Ph.D. Haluschak Olga

Content

INTRODUCTION TO BRAND MANAGEMENT

We live in a brand-conscious world. Here a pair of denims is not just denims but Levi's, Wrangler and Tommy Hilfiger. We talk of these brands as if they were our next door neighbours or our childhood buddies, and they indeed are that familiar! Nevertheless, how does a Tommy Hilfiger of New York, become a household name in Alaska? The answer is 'brand management' – the art of planning, developing and directing marketing efforts to make a brand popular. A brand manager coordinates with the specialists of all major processes like production, research, marketing, sales and finance to come up with strategies to promote a particular brand or product. Creative? Yes. Easy? Not really. Read on to get to know more.

Details Of Course Curriculum

The course curriculum of brand management obviously revolves around methods to promote brands. This study also requires an extensive understanding of how branding evolved with communication. Branding has acquired a whole new meaning in the internet awareness era where competition is cut-throat. Hence, the curriculum also includes techniques of maintaining and redefining brands in the wake of aggressive competition.

General course curriculum for branding at both graduate and post-graduate levels remains similar. Only the depth of study differs.

- Brand Marketing Overview – history and strategies
- Brand Equity – brand building and customer value
- Brand Positioning – identifying customer segments
- Choosing Brand Elements – tactics
- Designing Brand Building Marketing Programs – product, pricing and channel strategy
- Integrated Marketing Communications – marketing with the new media
- Brand Equity Measurement – qualitative and quantitative research
- Growing and Sustaining Brand Equity – brand extensions and revival

UNDERSTANDING BRANDS – INTRODUCTION

Brand management as one of the marketing functions has been around for as long as we have known professional marketing.

But, it has been a part of the traditional marketing approach in which many functions of today's brand management were performed in a spread out fashion by the marketing manager and a combination of his team members like the sales manager, the advertising and communications manager, and the marketing administration manager to name a few. The terminology of brand management was not used.

Brand management, in its present integrated form, has come into limelight and focus over the last 20 years. The functional execution has undergone transformation in terms of its description as a substantive job under one head. This implies that the overall functions of brand management are full of substance and therefore are described specifically under the head - brand management and not as disparate parts of the overall marketing functions.

In other words, brand management has not lost its primary roots that are well-entrenched in marketing; it only has acquired explicitly defined dimensions within which the function operates.

To further elucidate the point, there have been functional adjustments within the overall marketing functions only to bring into clear and sharp focus the specific functions and job of brand management.

Brand management now presents itself as a distinct part of an integrated marketing approach in which it connects with all the touch points within and outside of the marketing department. The whole concept can be exemplified by seeking your attention toward two fruit baskets; one full of mixed fruits and the other having compartments carrying different fruits of each type in each compartment. Each type comes into a sharper focus! So do the touch points.

This course is going to give you a clear understanding of what a brand is, why and how it is managed, and what are the dynamics involved in managing brands in the present day competitive market.

What is a Brand and Brand Management?

We all know from our study of the basic marketing course and also as consumers that a brand is "a name, term, sign, symbol, design, or a combination of them intended to differentiate one product from those of the competitors".

Perhaps, the most distinctive professional skills of marketing persons are their abilities to create, maintain, and protect a brand in a hostile market. These abilities call for a collective input on part of all within the marketing department and other departments.

Brand creation, therefore, is the end product of a team of professionals and not just one person. It is a team effort. If the art of conceptualizing the brand rests with marketing, then the actual creation of it is the cornerstone of the overall company team.

How Brand Management Came into Being?

We also know that brands have been around for as long as we can look back into the modern business management. However, we need to have a distinct understanding of how brand management came into being in its present form.

Over the decades as businesses and competition grew, in case of multinational corporations in particular, the growth of brands exploded. With economic growth and the technological advances of the later half of the 20th century in particular, various industries ranging from the areas of foods to pharmaceuticals to textiles to cars to electronics and many other registered impressive growth.

Growth of industries attracted more players, who along with the existing ones felt the need to make their presence felt by way of differentiating their products from each other. Hence, the drive toward brand management got progressive impetus.

The more competitive the markets became, the more they tried to get into the areas of distinction and differentiation and created conditions worthy of sophisticated management techniques. Hence, the emphasis on brand management became increasingly evident.

The stronger the brands emerged, the higher the value they created for the company and led businesses into diversified areas, and hence, brand management became ever more obvious and sophisticated.

Growth, however, is not something that takes place overnight. A tremendous effort in terms of time and money is required. Despite the effort, results do not stand guaranteed.

To cope with that possibility, companies tried to acquire brands from each other instead of creating their own. The practice is still on. Also, growth took place not only within the same category, but also across categories. Growth across categories owed to strength of brands. This implies that a strong brand with high loyalty offers its company the temptation to get into another category (for example, from milk to juices) with higher chances of success.

Whether it was only one product category or diversified product categories, the amount of activities dictated that all product categories be managed separately. Various
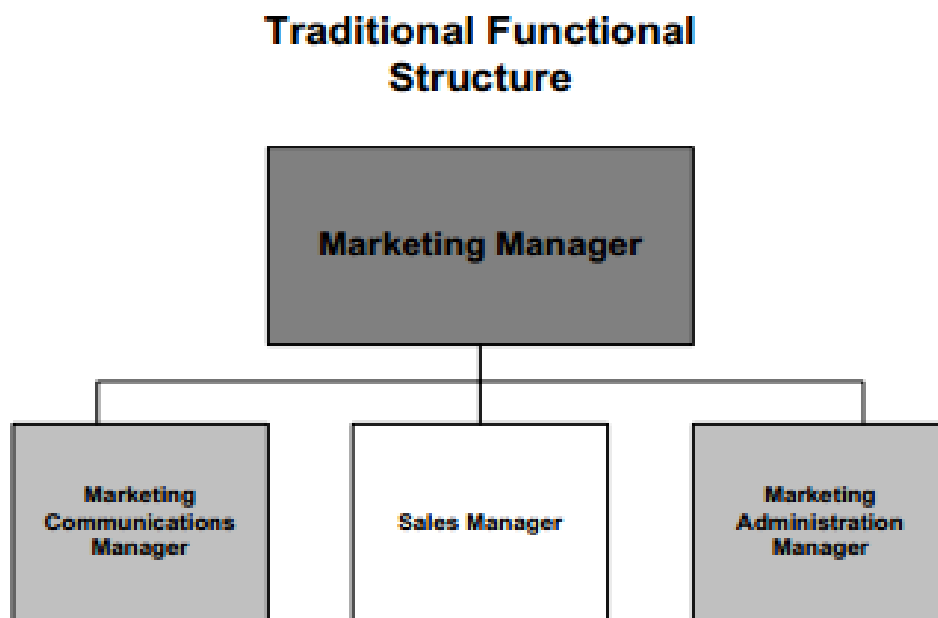
areas or markets in which different corporations were dealing (for example, a company could be producing or trading products ranging from detergents to foods to personal care) made it imperative for those corporations to bring every single category in the first place and brand/s in the second under acute scrutiny for better management.

It became clear to corporations that to bring the marketing effort relating different brands into a sharp focus, they needed to have different people (brand managers) looking after different brands.

Empirical evidence has it that professionals working across product categories tend to lose focus, make less-than-highly qualitative decisions, and in the end hurt the products and brands, making the whole process either less profitable or even a loss-bearing-proposition.

Conversely, especially designated managers, who have the sole responsibility of managing their designated brands, can concentrate on developing a cost-effective marketing- mix for the brands they are responsible for. The attached figures 1 and 2 illustrate the evolution of the layer of product and brand management, with the passage of time.
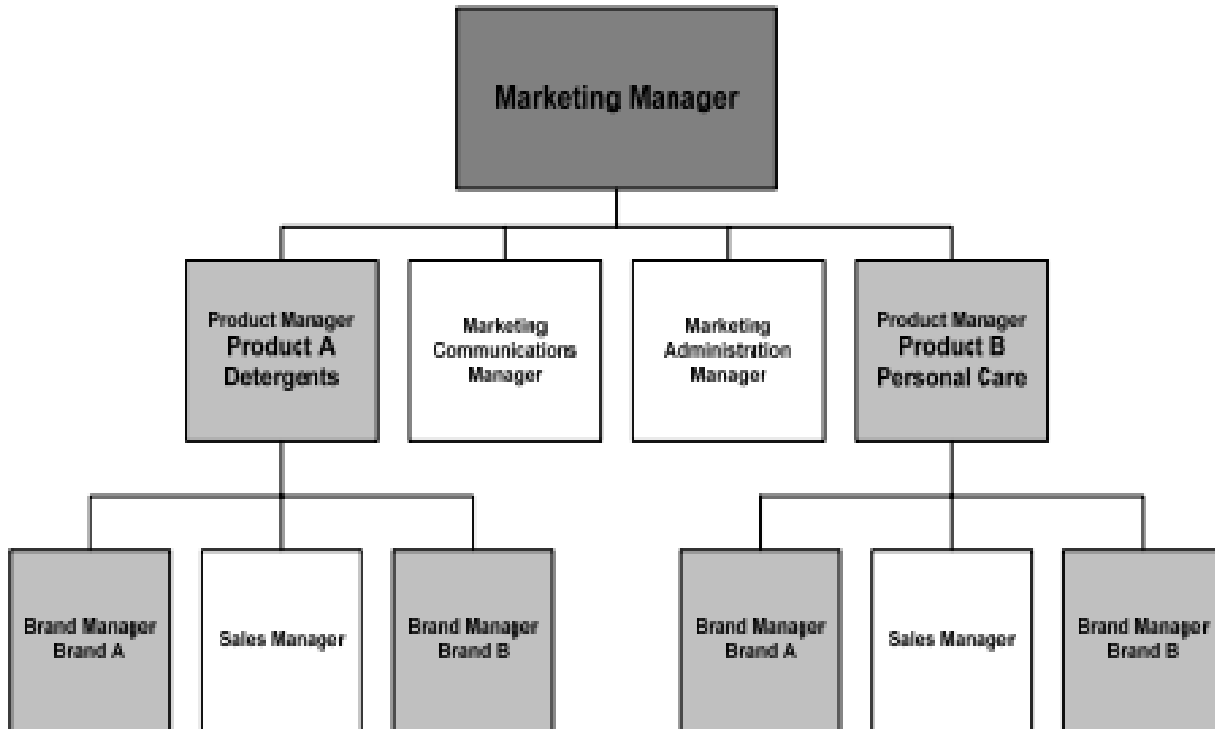
Figure 1

Traditional Functional Structure

```
                    Marketing Manager
          ┌────────────────┼────────────────┐
    Marketing                            Marketing
  Communications      Sales Manager     Administration
    Manager                              Manager
```

First, the product(s) was brought into focus and put under the charge of a product manager. As an example, one product manager dealt with all the brands of biscuits. Competitive pressures demanded more sophistication and gradually paved the way for management of each brand by a separate manager. Each manager took the role of a brand manager. This is how brand management took shape. And, this is the way it drives brands of today.

Functional Structure
With Product and Brand
Management

Figure 2

The figures clarify that product and brand management is practical when a company is dealing in more than one product category or more than one brand within one category.

It is also obvious that product and brand management does not replace the traditional functional structure. It merely adds more layers to the organization for the purpose of improving functionality. Brand management, therefore, is a function of the marketing effort and not a substitute to it. Refer to figure 3.

Functions of Brand Management

While performing the core functions of brand management, brand managers:

•   Develop long range competitive strategy for success of the brand. All tactical moves that form part of the strategy are formulated for execution by relevant personnel of the company.

Prepare in coordination with sales personnel *sales forecasts* and dovetail the same into marketing plans and *budgets.* Sales forecasts serve as the basic denominator of all budgetary figures, which are divided and sub-divided into small pieces to be achieved by different personnel in different departments.

Figure 3

• Work with advertising and other related agencies (promotional and research) to develop advertising *copy,* communication strategies, and plans for execution of advertising and promotional campaigns.

• Stimulate support of the brand among the sales force and trade members (distributors, wholesalers, and retailers) through communicating lucidly all the rationale for *brand plan.*

• Gather intelligence on the brand's performance to see how the brand stacks up against competition, customer and trade attitudes develop and change, and new problems and opportunities arise. Identification of problems, their solutions and further improvements are part of the function that keeps brand managers busy for most of the time.

• Meet changing market needs through improving and initiating new products/brands. This function is an extension of the preceding one and, as mentioned, cannot be performed convincingly unless problems are identified and changing needs pinpointed.

Why so much talk about brand management?

What is the background of so much talk about brand management? As and when competition among products in various categories of consumer items intensified, it made

the question of "how to grow business?" larger and larger for business managers. We have to remember there are only two ways to grow your business, namely

- Through *organic growth*
- Through *acquisitions*

As the markets grew more and more mature (western markets), the route to growth through organic means went from tough to tougher. The lower rate of category growth, intensified competition, well-established consumer preferences, and a host of other factors made it tough for businesses to invest into organic growth mechanism and wait for results over an extended period of time.

That paved the way for the other optional route, that is, through acquisitions. Business managers found it more business-savvy and prudent to start buying existing businesses with strong brand names.

Why? This owed to the simple reason that strong brands assured long term earnings, healthy cash flows, and, hence, attractive *bottom lines.* It was in this background that the 1980s witnessed a lot of activity in terms of buying and selling of businesses.

The cash rich and financially strong companies were willing to buy (and still are) the intended target companies at a price many times more than the value of their *stocks* and price earnings. The happenings on that front were dramatic. The prices paid were astronomical; the intention was to buy an established company and own its strong brand.[1]

What really drove the business managers to be that aggressive was the potential they saw in the brands that could generate high earnings, positive cash flows, and good profitability on a consistent basis.

The businesses that were being acquired confirmed their realization that the real value of their businesses did not lie in plants, buildings, and machinery; it rather lay outside the tangible domain of their business, into the value of their brand, meaning into the minds of their potential customers. And that is precisely what acquirers buy - positions in the mind of potential consumers.

That awareness took strong roots in the 1980s and it has given brands a new financial dimension in terms of their value; that value is reflected in balance sheets of the companies as brand's financial value or equity.

Organic growth or inorganic (through acquisitions), what is important is the fact that brands must be sustained in a competitive and hostile environment regardless of who owns them, at any particular point in time!

We shall realize the importance of sustaining brands as we go along the course by looking into the background of developments in the area of brand management.

The understanding of the background in light of market dynamics will throw light on the variables that play their role in making brands strong and stronger. We shall see that it is not just a few mechanical steps that lay the foundation for good brand management; it also is the perpetual existence of a compatible brand-based organization that makes leveraging of the brand possible. It is the commitment on part of all in the organization that good things happen to brands.

A realistic understanding on part of the management and staff paves the way for deciding whether to strengthen an existing own brand, refresh it, develop a new one, or acquire someone else's strong brand.

Existing or new, own or acquired, managers face challenges on the road to brand management. You, as brand management students, will visualize and understand the challenges, and have a good grip of the tools at your disposal to meet the challenges and beat them for leveraging your brands.

INTRODUCTION

The more successful a brand, the higher value it carries and more equity it enjoys. To learn what is brand equity and how to create it through a brand management process is the objective of this lecture?

Brand Value and Power

Brands, whether grown organically or through acquisitions, have to generate revenues, profits, and net earnings to make businesses viable. The ability to generate financial results rests at the core of brand value and power. It is because of this value and power that brands must be sustained.

Level of value and power differ for different brands. All brands are intended to become great in terms of value and power. Some succeed and some do not.

To achieve a high level of value and power, marketing and brand managers have been working to create home in the minds of their consumers. With the rise in importance of brand management, they have become more and more convinced that the real value of brand is driven by how dear consumers keep a particular brand to themselves. The endearment drives value and value in turn translates into brand power and brand equity.

Before understanding what brand equity is, let's see how varying levels of brand value and power relate varying levels of market leadership and, hence, brand equity. This implies that different levels of power offer different levels of brand equity. The more the power, the higher is the equity and vice versa.

The following pieces of evidence of strong brands were put together by Peter Doyle (1989) from the largest database of business results in the world – Profit Impact of Market Strategy (PIMS).1

Brands with a market share of 40% generate 3 times as much ROI as those with a share of only 10%. A higher share means higher volumes that offer scale economies and, hence, lower costs. Cost optimization on all fronts lead to better margins and returns.

For UK grocery brands, the number 1 brand generates over 6 times the return on sales of the number 2 brand, while number 3 and 4 are unprofitable. Higher returns on part of the number 1 brand again owe to lower costs, optimum outreach, availability and better sales.

For US consumer goods, the number 1 brand earned a 20% return; the number 2 earned around 5% and the rest lost money for the same reasons as cited above.

Small brands can be profitable. A strong brand in a niche market earns a higher return than a strong brand in a big market. An interesting finding, it leads us to believe that concentration on a niche market keeps all variables of marketing mix focused, efforts economical, and returns high no matter the volume may remain small. Managing a strong brand in a huge market, however, demands spread out efforts, more resources employed, but lower returns no matter the volume may remain big. Bear in mind that not all markets offer the opportunity to operate in a niche. Therefore, this finding is not to be misunderstood with not trying to build your brand in a huge market.

These findings explain why companies want to lead by having strong brands with very high share of the market. The stronger the brands, the lower the costs, the larger the returns, and more the power the brands enjoy. Strong brands are assets and enjoy value that far exceeds the value of those fixed assets that produce them. Brands, therefore, have to be managed like vital assets.

Brand Equity

An understanding of the concept of brand equity helps us define the process of brand management. It, therefore, must be understood before we can put definition in place.
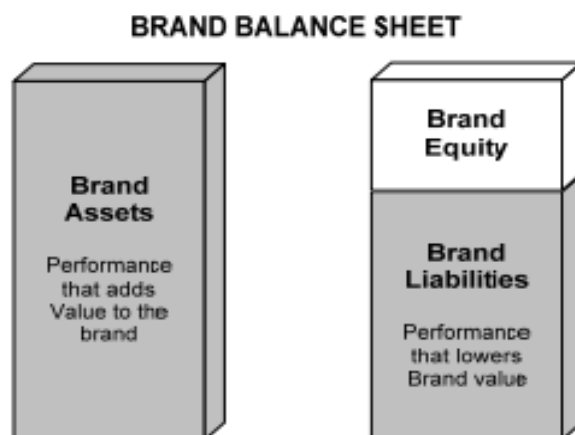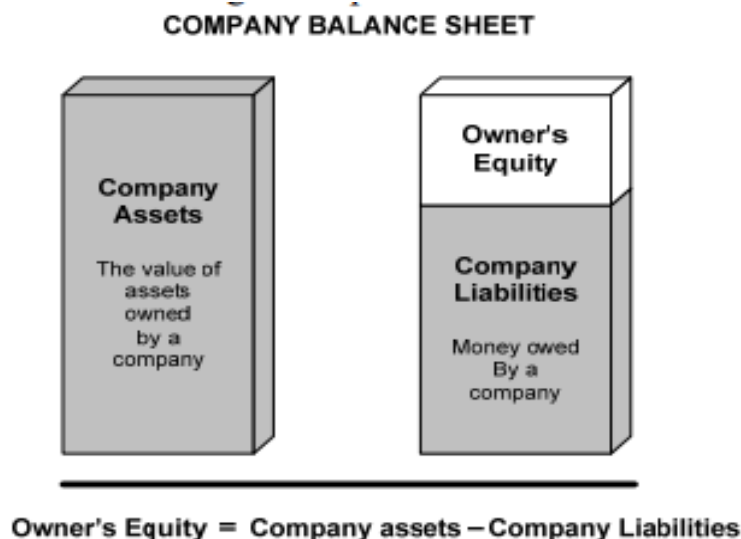
In a business, the owner's equity is the value of owner's holding in the company. And, that is defined as the difference between what a company owns in assets and what it owes in liabilities. The larger the ratio of assets to liabilities, the larger is the owner's equity.

Likewise, brand equity is the difference between a brand's assets and brand's liabilities. Brand assets are a function of reputation, quality, relevance, and loyalty. The concept is well-illustrated with the help of the attached figure.

Brand liabilities are incurred by brands because of failures and questionable business practices that may increase costs and liabilities. The larger the ratio of brand assets to brand liabilities, the greater is the brand equity.

In other words, if brand management is at the heart of marketing, then brand equity is at the heart of brand management. With the understanding that we have generated so far, we can now attempt to put together what brand management process looks like.
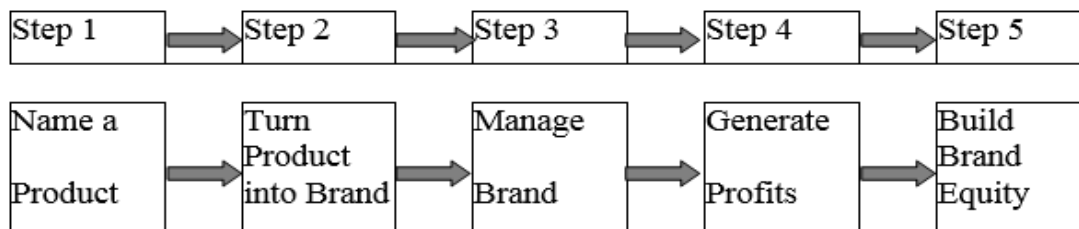
Figure 4

COMPANY BALANCE SHEET

Company Assets

The value of assets owned by a company

Owner's Equity

Company Liabilities

Money owed By a company

Owner's Equity = Company assets – Company Liabilities

BRAND BALANCE SHEET

Brand Assets

Performance that adds Value to the brand

Brand Equity

Brand Liabilities

Performance that lowers Brand value

Brand management is "the process of naming products, turning products into brands, and managing brands to fully attain maximum brand equity and a brand's full profit potential." The following figure explains the process as a step-by-step approach toward managing brands.

BRAND MANAGEMENT PROCESS

Figure 5

Step 1	Step 2	Step 3	Step 4	Step 5
Name a Product	Turn Product into Brand	Manage Brand	Generate Profits	Build Brand Equity

Name a Product

To make your product distinctive, you have to name it as the first step toward the process. There are no hard and fast rules for the name.

A new brand should preferably reflect its positioning. Positioning exists in the mind of the consumer. It is an exercise by the company to offer its product in a way that it occupies a distinct position in the mind of the consumer.

Al Ries and Jack Trout gave the very concept of positioning. According to them, consumers have in their mind a ladder of images in relation to different brands.

The best brand occupies the top rung of the ladder, the position. The follower brands occupy positions at the lower rungs. It should be the priority of any brand manager to have his/her brand positioned at the top rung. You will find more on positioning in lectures number 16 through 20.

Naming a brand could be the company name, a stand-alone name, or an existing brand name with well established reputation.

Another view is to name a brand with its future and destiny in sight at the time of its birth. Future and destiny point toward vision for the brand. You must consider:

Is it going to be a regional, national, or international brand?

Is it going to represent one category or will have the potential and power to represent more than one category.

Answers to the above questions will comfortably lead you to go for a name most appropriate for the brand. There could be different strategies employed for the purpose. You will get insights into this area in lecture number 28.

Turn Product into Brand

You need to do consistent hard work to give meaning to the product to turn it into a brand. The underlying aspect of this exercise is differentiation. A brand presents itself in its differentiated form and features for consumers to acknowledge. Without differentiation a product does not qualify to be acknowledged as a brand.

If features allow the brand to occupy its intended position in consumer's mind, the product is deemed turned into a brand.

Manage Brand

The process does not cease upon turning the product into a brand. A perpetual effort is needed to sustain it. Brands go through the rough and tumble of market dynamics. Competition createschallenges for your brands all the time. Management must face the challenges and live up to those by responding professionally, with the help of brand management tools at its disposal. Management commitment to sustain brands, therefore, is

of paramount importance. Brands must be managed keeping in view their value for the consumer and for the company.

There could be a lot of conflicting and opposing views across functional areas while you manage a brand. All such views must be resolved for convergence onto one point – full support to the brand and brand strategies for achievement of goals. You gain support from all concerned by creating a brand-based culture within the organization. The objective here is to involve people from across functional areas in a way that they end up owning the brand-based decisions.

Generate Profits and Build Brand Equity

Generating profits and building equity are two steps, but interlocked in terms of their occurrence. A well managed brand is an assurance of profits. Only profits will lead the company into a better competitive position and allow for further moves to reach destination as envisioned by the company. Profits make a brand powerful. Power gives the brand value, which is translated into financial value, and hence equity.

BRAND MANIFESTATIONS/ FUNDAMENTALS

To manage your brand as an asset, full of value and power, you must understand a few fundamentals that form the basis of brand asset management. Armed with that understanding, you, as brand managers, will do your job right only if you understand brands correctly.

The following four fundamentals will allow you to develop with ease and consistency the ability to build different strategic steps involved in creating a brand or refreshing an existing one.

Dimensions

Characteristics

Levels

Brand Owners' Commitment

Foreword to Brand Dimensions

For comprehension of a brand's dimensions, three models are fundamental to any discussion about the subject. That is the first and the foremost thing you have to keep in your mind. Those are:

Brand identity

Brand image

Communication

Brand identity: Brand identity is what a company transmits about the brand to the market place. Identity has many components – the name, the packaging, the colors, the typestyle, the logo, and a host of other factors that comprise its personality. The personality of a brand should be created for it to get expressed in terms of well-defined characteristics. For example, reliable, friendly, durable, and serious etc.

What is most important here is that the company must be able to express the real essence of the product to the target market. Any product, however high on the quality and reliability grid, may not exploit its full potential if it is not expressed right by way of creation of the right compatible personality.

If a brand is to be registered in the minds of consumers as "durable", then the whole identity has to revolve around the aspects of durability. You must not develop a package and related components that convey a sense of "fashionableness". That will be contrary to the personality/identity of the brand.

Brand image: Brand image is a term used very loosely by people outside the sphere of marketing. Changing the image is a favorite topic while discussing brands under distress. But image is not something that can be changed or transformed with the speed we change a color on the drawing board.

Brand image follows identity. It is a reflection of what we projected to send to the public. Managers must be clear about what they want to send and how they want it received. Brand image, then, is something that builds into the minds of the consumers.

To what extent that image is in line with the identity created by the company is the greatest challenge for brand managers! The more the managers can have the market imagine their brand's identity the way it is intended to be imagined, the more successful they are in their effort. If there is a gap between the identity and the image, then there is a need for corrective action.

Companies' efforts to build the right image span so many different means of communication of which brand's own appearance is a part. Brand image, therefore, is the totality of information, advertising, promotions, and other brand manifestations that the consumer has seen and received about the brand over a period of time. It is, in other words, his experience with the brand modified by certain perceptions, previous beliefs, biases, social norms, and a level of forgetfulness.

Due to a finite level of information retention in human mind coupled with the fact that other variables mentioned above modify perceptions, the image on the consumer's side may not be 100% identical with the identity. The reasons can be clarified with the help of the following explanations:

Your inability to continuously advertise may become one factor putting your brand out of the mind of the consumer.

Your bias about the origin (from a certain geographic area) of the product may change the product's image in your mind.

Your beliefs about the way a product should or should not be used may affect product's image.

Communication: The vehicle that transmits brand's identity to the target market for creation of the right image is communication. To ensure that image remains as close to identity as possible, companies get into communications of different kinds. This is where brand communication takes an important stage. Correct communication goes a long way in creating and building brand identity.

In the words of Philip Kotler, "communication is an interactive dialogue between the company and its customers that takes place at the pre-selling, selling, consuming, and post-consuming stages". This implies that communication is a recurring process that starts

before you buy (advertising, promotions, and other), remains in force while you buy (the brand itself communicates), and does not end even after you have consumed the brand (brand's ability to satisfy you keeps reminding you of being loyal to it). It goes on and on.

It further means that communication is not restricted to the traditional communication platform, which is advertising, promotions, public relations, personal selling, and also some technologically advanced ways of reaching the consumers through e-mail and internet-based direct marketing. The working of three models can be graphically illustrated as follows:
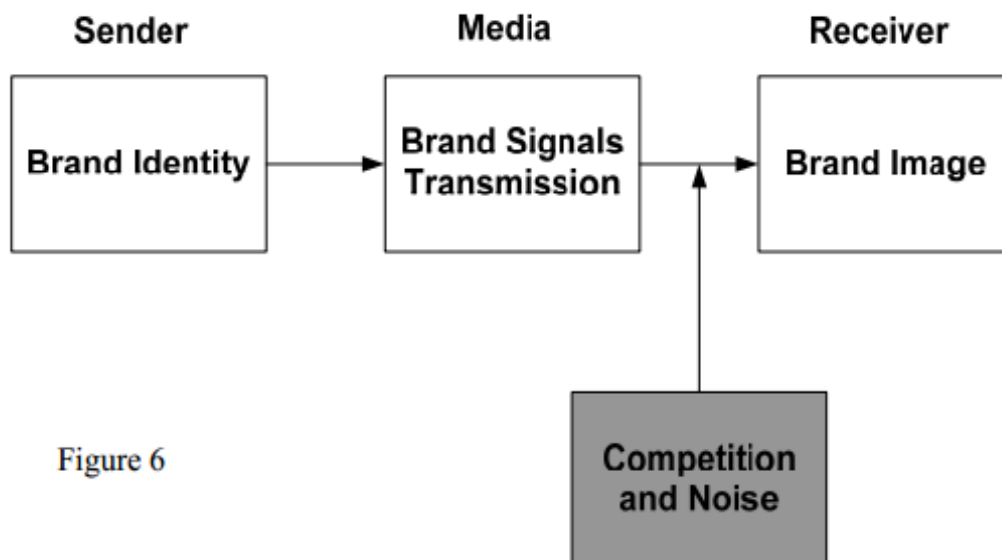

Figure 6

All components of brand's personality discussed earlier also form brand contact points that strengthen or weaken customers' view of the brand, and, hence, work as brand communicators. We, as brand managers, have to assess which impressions can influence the customer's buying process more so that we can direct our communication toward that point.

Brand Dimensions

Having understood the three models, namely, brand identity, brand image and communication, we can go ahead with our discussion of the dimensions of brands, which is graphically represented hereunder:

Figure 7
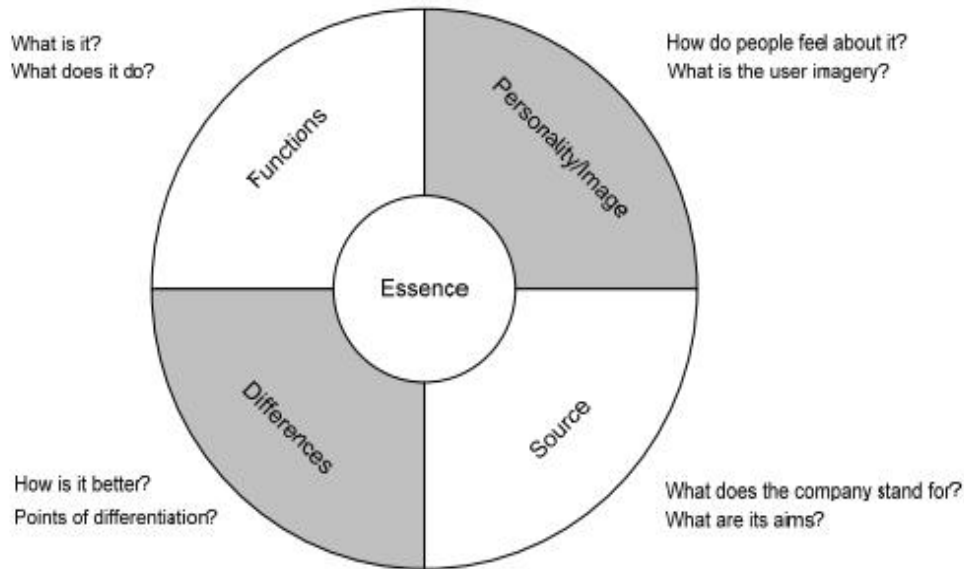
Functions: Every brand has a reason for being. If managers have correctly created a brand that fulfills a particular "need" in a convincing way, then their understanding of the brand is clear about what function the brand is going to fulfill.

Functions, therefore, stand for the central purpose of a brand. Why it exists? What need(s) it fulfills? Whose need (target market) it fulfills? Starting point in the process of brand development, the functions are carefully studied before making the decision for brand's introduction. Management must be clear about the value the brand is going to offer its customers and the value it will generate for the company.

Differentiation: In order to fulfill a certain need, a brand has to have a certain level of differentiation, which refers to different and extra features. It is these extra features that attract your target and offer them value.

In the age of fierce competition, the comparison is not between products that are perceived as "passed products" and "failed products". The competition is among excellent products. According to Kapferer, some brands (products) are "more excellent" than others.

Differentiation can take so many shapes and forms. Apart from extra physical attributes of a brand, differentiation may also take place in terms of creative distribution channels and promotions.

The source: The source company is important in terms of its reputation. Consumers as well as trade members who play an important role in promoting brands to consumers gauge commitment of producers that they may have with their brands in light of their reputation, history, and image in the market place.

Two brands of equally good quality by two different companies may not enjoy the same level of following and loyalty. The one offered by a company with strong reputation in all probability will have a better chance of gaining a wider customer base. Businesses must carefully consider this source dimension to continually improve their reputation and leverage their brand(s).

Personality/Image: Personality and image have been discussed in detail as part of identity and image models and offer themselves as very important dimensions of any brand management effort.

The reason for a separate discussion on identity and image models ahead of discussion on dimensions stems from the fact that they are always at the center of any overall dimensional model that may be described differently from the one above. Actually, different authors have explained the dimensional model in different ways with terminologies different from the four dimensions explained above. To understand any models, an understanding of identity and image must take precedence over anything else.

What is of significance is that all the dimensions around the essence have to be consistent and they must complement each other. The more consistent they are the stronger is the essence and the brand identity.

BRAND MANIFESTATIONS/ FUNDAMENTALS

The discussion on brand fundamentals continues from the previous lecture.

Brand Characteristics

Brand characteristics fundamentally relate with the value brands offer their customers and create for their companies. Value being at the heart of brands' characteristics necessitates that brands be managed accurately.

The level of accuracy in brand management is reflected by the power brands have. A higher level of power undoubtedly mirrors a higher level of accurate brand management.

Value and power are not a guarantee that brands will not be attacked. Competition will attack your brand by trying to dislodge it or snatch market share from it. The battle will never stop. The question arises, "how to bring in accuracy into brand management in a way that brand's characteristics get enhanced under competitive challenges and threats"? Competitive pressures threaten brands' success and even existence.

Given all that, brands become so very essential to the survival and success of business firms that we need to understand them in all their complexities, so that we can manage them correctly.

A very strong argument put forward by world renowned consultants, McKinsey is that companies need to win the right to brand their products. This simply means that branding is just not about wrapping your product into a nice package and selling that in the hope that you have turned the product into a brand, which is not going to face any pitfalls and rather is going to be profitable and powerful, straightaway – NO! To have the right characteristics, brands have to be subjected to a certain criteria, the consultants have concluded.

The consultants claim that in order to win the right to brand, a company has to meet the following vital criteria.1

The brand must offer a superior value proposition

The brand must deliver the superior value

The brand must maintain a relationship with its customers.

If a brand meets the above criteria in all senses, then it can be defined as the one having the right characteristics. The criteria to create and maintain brands are so well-meaning that any company operating outside of them does not have the right to do branding.

This can be further elaborated as follows:

Brand management is a strategic process and involves complete company effort beyond the functional boundaries of the marketing department. And, therefore, offering value is a function and commitment of the whole company.

The company must have all its resources at work to deliver superior value, which must be defined in consumer terms. Exactly how the company delivers value varies from company to company. It could be superior technology, lower cost, strength in distribution, history of the brand, and creative advertising. Anything defined in consumer terms will automatically translate into something valuable for the company as well.

The brand must have a continuing relationship with the customers, and the brand must adapt to changes in response to fierce competition yet meaning the same to its loyal customers.

Brand value at the core of brand characteristics

Brand characteristics offer us an opportunity to explain what brand value means to consumers and how a brand creates that value. Bear in mind that brand value is at the center of brand's characteristics.

The consumers must feel that they are getting full value for the money spent in terms of quality. The value has to be more than the generic product. Right branding adds value to the product. Reconsider the definition of brand management.

They must feel that the purchase of a certain brand has optimized their decision of buying the best brand in the category. It is a subjective value, but nonetheless should be created.

They must get confirmation of the self-image that they present to others.

They must get satisfaction out of the attractiveness of the brand.

They must get satisfaction from the responsible social behavior of the brand in terms of ecology and other ethical issues.

A brand also creates value for the company.

A strong brand works in the same way for the company as for the consumers. It assures the following:

Good future sales

Good future earnings

Good future cash flows

Source of good future demand and lasting attractiveness

Strong entry barrier to competition

Carries its value into other markets - local as well as international

Carries its value into other business categories i.e., new product areas and, hence, offers economies of scale in advertising, promotions, and other marketing-mix variables

Layers/levels of brands

Brands are offered in lines, mixes, stretches, and extensions. Behind every form of a brand are strategic considerations. Such considerations form brand architecture, which is a topic of detailed discussions in lectures on brand extension and brand architecture.

It owes to strategic considerations that brand managers decide whether a brand should form a product line as a stand-alone brand, a company-name brand, designer-name brand, or an extension/stretch of an existing brand name.

The decision to name a brand into any one of the above-mentioned classifications has one fundamental common to all – the relationship between a product and a brand. An understanding into developing that product-brand relationship leads you to build up the right branding strategies. This implies you will then be able to define different layers of brands .
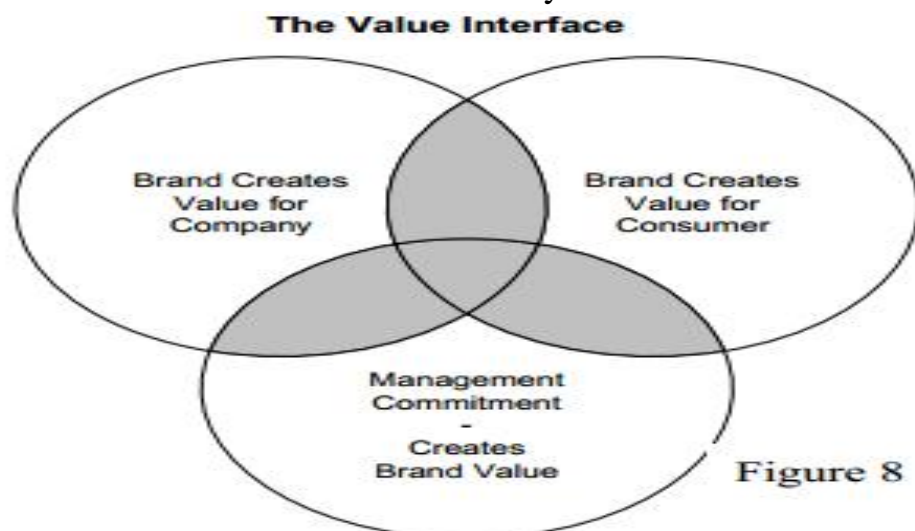
Commitment of top management (Brand owners' commitment)

We are clear how brands create value for the consumer and the company. We must also look into how a brand generates its own value to be able to create value for its two beneficiaries, namely the consumer and the company.

Actually, a brand does not generate its own value; it is the commitment and quality of brand management that builds up value of a brand over the years.

Companies that believe in continuously maintaining value of their brands and adding further value to them are the ones that view brand management as strategic objective and never lose sight of that goal.

The concept can be explained graphically with the help of a value interface. If you come to think of it there are brands on the international market as well as our local one that have been around since the early last century - the examples are from the beverage, tea, smoking, and other industries. You can create a list of your own.

The Value Interface

Brand Creates Value for Company

Brand Creates Value for Consumer

Management Commitment - Creates Brand Value

Figure 8

Such brands have their longevity owing not to accidents. They owe that to commitment of their managements that have been investing into manufacturing and marketing areas:

In manufacturing for the purpose of innovations and adapting to changing consumer tastes, maintenance and improvement of quality – andIn marketing from the distribution and advertising viewpoints. The whole exercise is expensive!

That above explains:

Why companies invest into brands and manage them prudently over years and years?

Why acquiring companies are willing to pay a high price for established brands that are leaders in their own right?

Why is it tempting to buy brands than to build them from scratch?

The answers to all the questions converge on one point – create value for the consumer and the company, which is possible only if management is totally committed.

BRAND CHALLENGES

If brands are strong and powerful, they also face challenges regarding sustenance and growth. These challenges vary in degree and intensity for various markets.

The basic determinant of challenges is the level to which a certain market is mature. Maturity holds the key. If a market is very mature, the challenges are intense; if a market is less mature, meaning still growing and robust, the challenges are less strong.

Markets become mature due to overall purchasing levels reaching a plateau. This simply implies that demand in the category is no longer elastic and has no further room to grow. And, the consumers are buying various brands in a certain pattern of frequency and quantities which are optimal and, hence, their buying behavior will not give further impetus to overall growth of the category. We can also call it maturity of the economic cycle.

Under the circumstances just explained, markets seem to lose vitality in terms of growth, but not in terms of availability of loads of products. This can be further simplified by saying that the size of the pie reaches the most optimal level from where it does not increase unless there is growth in population. Whatever changes take place they take place within the pie in the shape of competitive wars.

Competitive pressures and wars have led to a few difficult situations that companies have to face as challenges. The following are the typical ones:

Brand proliferation
Consumer revolt
Retailer power
Media cost and fragmentation

Brand Proliferation

Owing to the reason of low growth, the classic response of marketing people has been (and is) to develop new brands or extending/stretching existing brands into different varieties. Brand extension and stretching essentially is an exercise meant for having different varieties of products under the same brand name.

In trying to do so, marketing people may not create products that really are new. That is, an inevitable response to the dynamics of markets may not generate a real new product for the simple reason that innovations do not come by so very easily and frequently.

The result has been a variety of products that are very similar not having differentiated features that can attract consumers. Creating distinctions without differentiation does not make a product stand out and convince consumers to go for it.

In many instances, products carry the label of "new" indicating new features. But those are not recognized by consumers as really new. The result is "irritated consumers" who think their buying decision has been made complicated into an unnecessary effort. The net result is no increase in sales.

To meet this challenge, manufacturers have to introduce products with real meaningful added features that can be perceived as "performance benefits" and not just cosmetic changes.

Consumer Revolt

Because of the little differences that are not found meaningful, the consumers are not willing to pay premium prices in most of the cases until real performance benefits are perceived by them.

The manufacturers find it hard to amass profits. For this reason, marketing departments get under pressure to produce results. Such pressures lead them to get into the following options:

Introduce more brands

Introduce brand extensions

Advertise or promote existing brands

The net result of introduction of more brands and extensions is high expenditure with no guarantee of increased sales with good profits. Actually, it leads to proliferation with no new benefits to consumers. Consumers' unenthusiastic attitude to buy as much as companies would wish is tantamount to a revolt.

The option that is most widely used by brand managers is to promote the existing brands with the help of some attractive promotional features, like "buy-one-get-one-free" or something similar.

The promotional schemes, in other words, come into being not so much for adding value to brand with a long term perspective, but rather stem from short term pressures of increasing sales in competitive markets.

Experience has shown that promotions have a short term effect, but are damaging in the long run. The costs are high and the results do not have an element of permanence.

Retailer Power

Here, retailer exploitation comes into play. Knowing brand managers being under pressure, retailers like to keep them under pressure for promotions that suit retailers more than anyone else in the trade sections.

Growth of brands has given rise to retailing all over the world. With retailers' concentration, the balance of power between the manufacturer and the retailer has tilted toward the retailer.1 Whether it is introduction of new brands or promotion of the existing ones, marketing people find retailers existence in either case extremely significant.

The pressures mount and brand and marketing managers find themselves pressed from two fronts – internal (finance and top management) and external (retailers).

Media Cost and Fragmentation

The style of mass advertising campaigns of yesteryears does not hold too strong a ground. It has become too expensive to go national on the TV network with no specific plans for points of attack and reinforcement in relation to brand's potential in different areas. In other words, marketing people should concentrate on those areas, which offer better prospects of brand's growth.

With technical advancements, number of channels has increased manifolds. Developments of cable and satellite systems offer enormous choices, with the help of which you can reach fragmented audiences.

Under such circumstances, it has become challenging for brand managers to be practically aware of the media costs and the effects of fragmenting a TV campaign. Not only that, they also have to be able to plan an integrated communication campaign with various tools of communication at their hands. The managers have to capitalize on the factor of fragmentation and align their campaigns accordingly.

We have seen what a brand is, how it differs from a generic product and what it takes to turn a product into a brand. With that understanding the definition of brand management makes sense in all its manifestations.

There are a few fundamentals that are at the heart of brand management. Of those, dimensions, characteristics, and layers of brands are very central to the concept of brand management, while commitment of management is the cornerstone of the development process. Management has to stay committed all along the road to the destination.

Good and committed management creates brands full of value and power. Management creates value for the consumer and for the company through good brands.

Despite having value and power, brands are lnerable to competitive attacks. The road to destination is full of challenges and threats. It again is the responsibility of good management to face those challenges through practical decision making. Decisions made on realism reflect the level of your ability to cope with the dynamics of the market. Any shortcomings that may come to the surface offer you opportunities to gear up against the odds and come out as winners– whether it is a question of growth in a stagnant market, dealing with powerful retailers, or circumspection required to come up with an optimal,

integrated communication approach. Very macro in its nature and form, the preceding overview is essential for your basic understanding before we embark on the strategic process of brand management.

Strategic Brand Management Process

With the overview in place, we now move on to the strategic process as it emerges while you develop a new brand or sustain an existing one. For the sake of consistency of tutorial, the brand management approach is going to be a reflection of the process explained by Scot Davis in his book "Brand Asset Management". All the chapters are included in the tutorial. There, however, are a couple that are added for your benefit.

The understanding will come into a better light if viewed from the standpoint of developing a new brand. Comprehensive in nature, it will automatically point out the measures needed to refresh an existing brand, whenever and wherever the need arises.

Vision

The point of departure toward the process is to have a clear vision for your brand. Vision should not frighten you, for it is not something poetic or philosophical that you may consider only blessed ones having been endowed with.

If you are a person of average intellect, that most of us are, then you should not have any problems developing a vision. It is all about where you want to see your brand at the end of a certain period of your definition. In very simple words, vision is the journey from here (present) to there (future).

Being the brand manager, you are responsible for the destination planning of your brand in terms of its future movements relating, for example:

The volume

Share of the market

Markets to serve

Distribution improvements

Quality parameters and benchmarks

Overtaking competition

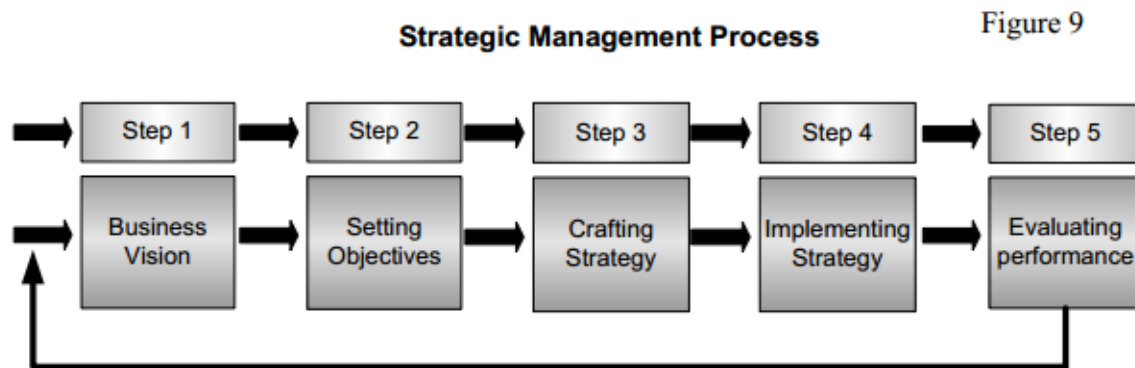Product innovation or extension, to name a few

With the vision in place about your brand's movement, the next step for you is to take top management into confidence. The top management is extremely interested in the planned brand's movements as envisioned by you and your department.

If the top management has an overall vision, then the brand vision should automatically fit into that. The brand vision, therefore, is an extension of the overall business vision. It flows out of the latter.

Brand vision tells us about a brand's growth and future direction. It is the most important statement before we undertake the strategic management process. It tells us how our brand is going to help the company achieve its goals – financial and strategic.

Before going any further, it is important that we learn how the strategic management process (SMP) works! An understanding of the basics of the process will allow us to easily fit the vision into it and then see how to proceed with every successive strategic step of importance.

Consisting of five steps, the SMP can be explained easily with the help of the following figure:

Strategic Management Process   Figure 9

Step 1	Step 2	Step 3	Step 4	Step 5
Business Vision	Setting Objectives	Crafting Strategy	Implementing Strategy	Evaluating performance

The figure being self-explanatory, it explains that forming the vision is number one task, followed by setting objectives (both financial and strategic), crafting the right strategies to achieve designated objectives, implementing the crafted strategies, and evaluating performance for any corrective actions or adjustments anywhere along the sequential process.

Very early in the strategy making process, managers ask themselves the question:

What is our vision for the company?

Where is the company headed?

What kind of enterprise we want to build?

What should be the company's future make-up?

A careful analysis of and answers to the questions lead them to conclude:

Where the company stands today and where should it reach in say 5 to 10 years? This addresses the question of reaching from here to there!

What businesses they should be handling? This relates whether they should extend their brand into similar products, or diversify into unrelated areas.

What customers should they serve? Decision about extension or diversification will pinpoint the target customers.

Do they need more brands to serve more businesses? This indicates whether they should be keeping their existing brand name or go for new ones.

What capabilities and resources they need to have to achieve all that they envision? A very careful analysis of what is it in terms of financial, human, and technological resources that they need to succeed is required here.

The above analysis creates organizational purpose and identity and form very clearly the "VISION" of the company. You can feel from the discussion how important it is to have a clear vision for the company and, also, how closely related that is to creating vision for the brand!

Key point

An understanding on your part of the SMP is important in that you must appreciate the elements that top management considers toward company's business planning. That will enable you to better integrate your function of brand management into the overall business whole.

STRATEGIC BRAND MANAGEMENT

Mission

A mission statement speaks of the present form of business, the products it is dealing in, the customers it is serving, and the areas in which it is operating etc. In other words, a mission is all about achievement of present objectives.

It also talks of the commitments and values that are needed to let the company achieve its objectives. It does not speak beyond that. But, the process of strategic management does not stop there. It makes it imperative that managers see beyond the mission, or the present, to determine a long- term direction that the company must take for tomorrow. Nothing is static. The dynamism of the market necessitates that managers must see the impact of:

- changing technologies
- changing lifestyles
- changing needs of customers
- changing benchmarks of quality, and
- changing competition and overall conditions

They have to make some fundamental choices about where they want to take the company and how that evolution and transformation will take place. Such choices form their vision of the company and supplement present company mission with factors like

✓ future business makeup
✓ product line, and
✓ customer base

These factors form the foundation for brands and branding. They are closely intertwined and lead you to form the right branding strategies. It is from that point of view that brand managers must understand the subtleties of the vision and the mission of the company.

In case a company's mission statement talks not only about its present, but also future, then the mission merges into the strategic vision and we can say the mission is future- oriented. Mostly company mission statements are more concerned about their present business than their future one.

The conceptual distinction between vision and mission, therefore, remains relevant. A clear vision of future business and strategic direction is a prerequisite to strategic leadership. It steers the whole company toward the desired destination.

Nothing could direct the company better toward that destination than having good strategic leadership. And, nothing could give brand managers better insights into developing brands that really fit into the strategic vision of the top management.

Setting Objectives

After vision and mission are in place, the next step is converting those statements into specific objectives. Performance of all managers is measured by the level of achievement of those objectives.

Any organization setting itself ambitious and bold objectives become aggressive in its pursuits. Ambitious and bold should not be misinterpreted as unrealistic. Organizational capabilities must be considered before setting realistic objectives.

Targets

Toward achievement of objectives, all managers across the company must get targets that can be measured. Targets broken into divisions, departments, and then units develop a result oriented work culture. It improves work performance with no confusion about who is supposed to do what and who is stepping on whose toes!

The collective achievement of targets helps the company to achieve its mission and assure fulfilling its vision.

Types of Objectives

Following are the two major types of objectives set in a typical organization

- ➢ Financial Objectives
- ➢ Strategic Objectives

Financial Objectives deal with:

- ⇨ Revenue growth
- ⇨ Earnings growth
- ⇨ Return on investment
- ⇨ Dividend growth
- ⇨ Share value appreciation, and
- ⇨ Positive cash flow etc.

Strategic objectives deal with

- ⇨ Winning greater market share
- ⇨ Overtaking competitors on quality
- ⇨ Staging innovations
- ⇨ Cutting costs
- ⇨ Creating and sustaining technological leadership, and
- ⇨ Capturing growth opportunities etc.

Both financial and strategic objectives are set in short and long term basis. The job of managers is to achieve both in order to improve competitive strength of the company. While short range objectives keep the managers involved in accomplishing the mission, long range objectives prompt them to think what to do next to achieve company's vision.

Crafting a Strategy

Strategy is crafted in compatibility with the stated objectives. Objectives are the "ends" and strategy is the "means" to achieve those ends. Strategy deals with "whether to" and "how to" areas of the management process and seeks answers to the following kind of "whether to" and "how to" questions.

Whether to concentrate on one business or diversify?

Whether to serve a large number of customers or operate in a niche?

Whether to have a narrow product line or a wide one?

Whether to achieve competitive advantage through lower costs, better quality, or unique features?

How to respond to competitive pressures?

How to respond to changing preferences?

How big a geographic market should be?

How to grow the organization in the long run?

The "whether to" and "how to" aspects relate to branding strategies as much as they do to overall business. If you come to think of it, many of the questions fall within the area of brand management.

Implementing Strategy

The fundamental is to assure "what are and should be" the means at management's disposal to achieve what is envisaged. Implementation is all about what must be done to achieve the desired performance goals by putting strategy at work.

Proficient execution consists of the following key aspects

Building an organization and developing a culture of motivating people by instituting reward systems.

Developing budgets and steering resources into strategy critical areas of success.

Installing information and operating systems.

Evaluating Performance

What has been set as objectives and targets have got to be evaluated to see if management is really moving along the path it envisioned for itself! Movement identical with the planned path is generally not possible. If performance is above par, then it is not bad. If not, then the following questions have to be considered:

☞ Change of strategic direction

- ⇗ Business to be redefined
- ⇗ Vision changed; narrowed or broadened or revised altogether
- ⇗ Performance standards to be lowered or raised

It is clear that all the above considerations relate modifications and adjustments in the strategic frame work.

The Brand Vision

An understanding of the strategic management process makes it amply clear that a company cannot carve its future path without accounting for its brand(s). Brands lay the foundation for fulfillment of the vision and they also serve as the keystones for sustaining that fulfillment.

If brands help the company achieve its strategic and financial goals, then a brand vision must flow out of the company vision. The overall vision must specify the way the management looks at the brand future in the long run.

Brand future refers to:

- markets and market segments to be served
- quality improvements to be achieved
- envisioned changes to be met
- investments to be made, and any other factors that address brand movement in times to come

The Brand Mission

Clarity of vision leads management to state the mission, that is:

- ⇨ What customers the company serves?
- ⇨ Why it serves?
- ⇨ What geographical areas it serves?
- ⇨ What benefits it provides?
- ⇨ What kind of results it envisages to achieve:
  - Sales
  - Profits
  - Market share

Values

Values are a set of virtues employees should share. Those are described asintegrity,trust honesty, commitment to quality, and teamwork etc

The vision and the mission for the brand are embedded in the values a company has and cherishes. The conduct of a company in relation to the market and all stakeholders is a

reflection of the values the company harbors. You must have heard about Japanese work ethics having deep roots into the Japanese cultural values. All their businesses, therefore, are an evidence of those values in the form of good quality products.

It has been observed that companies that explicitly state their vision, mission, and values to uphold what they want to achieve in the short and the long run are successful in:

Having high market shares

Good profitability

Good level of leadership

And, hence, succeed in fulfilling their mission and vision.

Why brand vision?

Scot Davis makes a statement that not many companies go by the process of having a vision. Such companies are committed to brands but leave much to be desired, he maintains. Subsequently, they keep changing strategies, as desperate moves, from time to time with the result that the brand never gets the desired support.

Lack of proper support could be

Less market investment

Less manufacturing investment

Less human resource investment

The net result is that the company cannot fulfill what could have been the right vision and mission, a sure indication that it is not upholding what should have been the right values. You may like to relate this with brand future discussed above and then develop linkages between the two.

BRAND VISION

Purpose of brand vision

To earn the right level of profitability, you have to leverage your brand rightly. It is here that we start treating brand as an asset and manage that asset by having a vision.

Vision fulfills three basic purposes:

⇨ Consensus among management

⇨ Commits company to research

⇨ Mandates telling all stakeholders

<u>*Consensus among management:*</u> A bottom-up approach, it extracts understanding and consensus from management about brand's contribution. All concerned with the brand give their input regarding brand's potential and an effort is made to have all of them committed to the respective tasks they are to perform toward brand's contribution.

Brand vision brings management to a platform from where they all have to agree what level of growth the brand will generate to fulfill company's objectives. It is not a function limited to the boundaries of marketing management; it is an objective for total management to agree on one point – brand's reason for being (why it exists?) and its potential toward profitability.

The question of why the brand exists entails detailed discussion on many exciting areas of marketing, which will be touched upon from time to time in their proper perspective throughout the course. What it essentially means is the "fulfillment of a particular need" of customers. Identifying the right need and then committing yourselves to fulfill that with the right product takes you on the journey of starting with a vision to complete development of the brand.

<u>*Commits Company to research:*</u> Consensus leads management to initiate research on so many vital research projects. Because of the commitment, no one wants to make decisions without any solid basis. The tendency to make assumptions on the ground that we know the market well and therefore there is no need for research should be avoided. Only research provides the company with grounds like:

✓ Customer attitudes and usage

✓ Brand attributes to maintain and change

✓ Segmental changes; multi-segment brands

✓ Geographical changes; new categories etc.

The list is not exhaustive. It can be much longer depending on the needs of the company at any given point in time.

Knowing customers' attitudes offers insights into product build-up, service requirements, and any other fulfillment of customers' requirements. Maintaining or changing product attributes relate responding to changing needs, preferences, and competitive pressures that exist and the ones that are anticipated.

You can also determine the differences among different offerings of the brand as perceived by your consumers in different segments of the market. You can make decisions about which segments are more attractive and which are less attractive. That may also take you into what geographic areas to be emphasized more in relation to strength of different offerings. Brand strength may lead the management to start considering introducing its brand across categories. What is it that took Nestle from milk to yogurt to juices to chocolates? This is a good example of going across categories.

Management can either stick to its vision and plans or change it according to the findings of market research. As you go along the learning path you will realize that almost at every step you can undertake a research project. Research does not have to be tedious, cumbersome, and expensive. Small and simple research designs can lead you to verify your hypotheses as the need emerges.

Mandates telling all stakeholders: Since vision is well thought-through and shared by all in the company, it mandates that management tell all stakeholders to know and share it as well. Sharing the vision means that stakeholders will also know the objectives that are a reflection of the vision.

The present day's competitive pressures have made the day-to-day management very fast paced and, hence, prone to dynamic changes and adjustments. Information on past performance, recent trends, and research findings present a strong case for the brand plan and vision. Having support from all stakeholders toward your brand objectives makes the job of management less difficult. It also keeps the blame game and finger pointing from taking place if things go wrong. Going right strengthens management's confidence.

Let us now try to develop hypothetical vision and mission statements of a fast food company that is planning to enter the category of fast food. The exercise is intended to take you through a case that offers an opportunity of developing a practical understanding of the concepts.

After you feel comfortable with the learning process, you may like to develop similar statements of any business you may envision yourself handling or heading.

Vision Statement of a Fast Food Company

"The company will enter the fast food category by introducing a range of quality sandwiches with brand name XYZ; the sandwiches will have health-food-appeal for lunch time in particular and anytime later in general. It will price the entries within the

consumer friendly range to optimize the number of customers, who are professionals within the age bracket of 20-50 years. It will attempt to reach its potential customers at their door step and always stay close to where they are".

As is clear from the statement, the company's business model will be based on three fundamental factors of:

- ▲ High quality
- ▲ Affordability
- ▲ Accessibility

The basic objective of this statement is to emphasize the point that vision relates the future. The statement talks about the nature of the product and how it envisions entering the category with consumer-friendly pricing within the target market. (The statement is a little longer than the usual vision statements. It is designed to basically enhance your ability to develop one independently).

We shall be referring to the implications of this statement frequently to see that every thing said in the statement has a meaning in terms of brand management. The figures 10 - 12 exhibit the translation of consumer-friendly pricing as it fits into the market gap that will allow the company to optimize its sales.

Figure 10

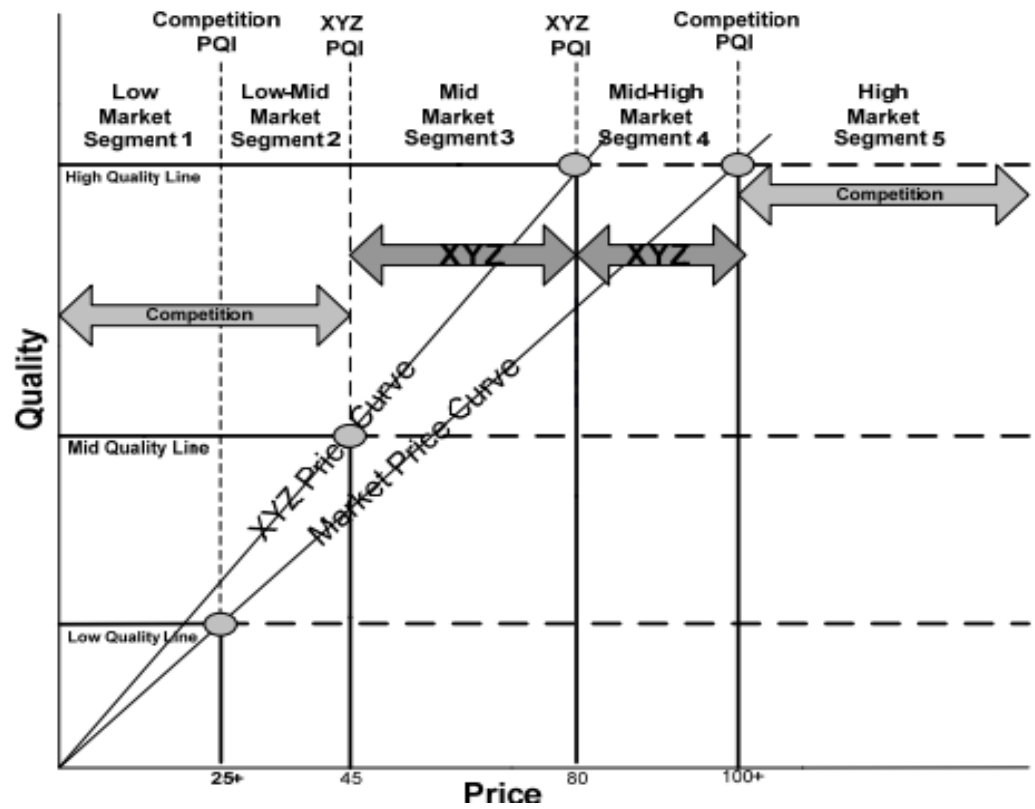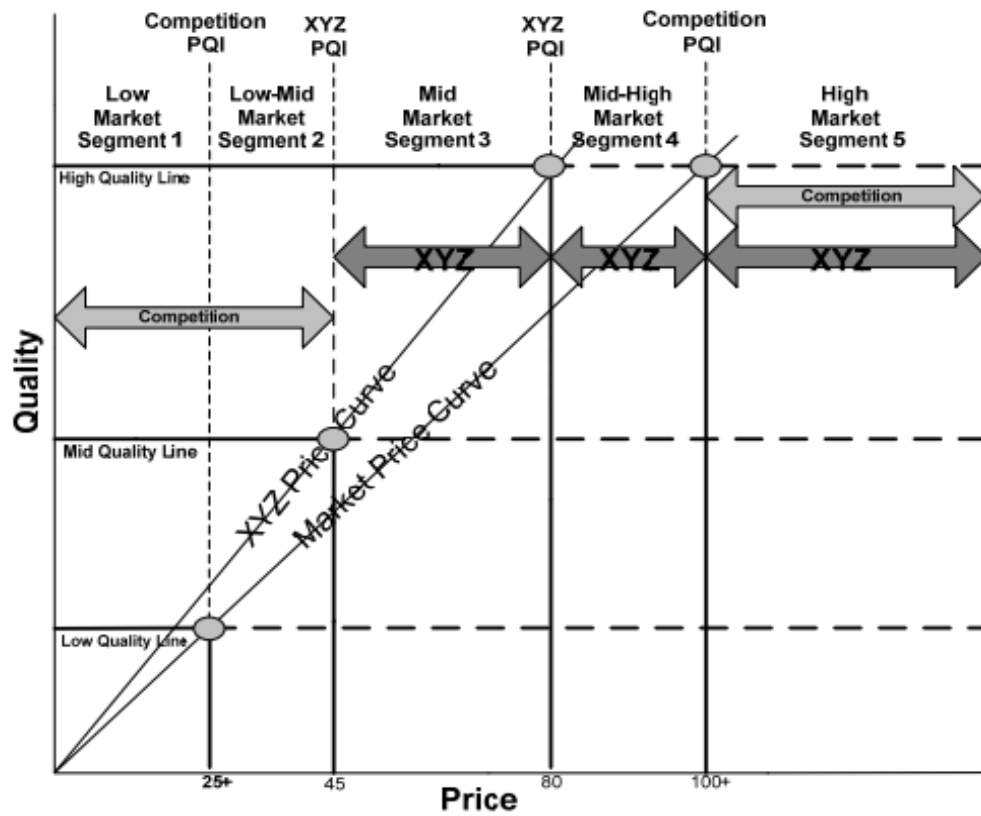## Price-Quality Index - PQI
XYZ vs. Competition
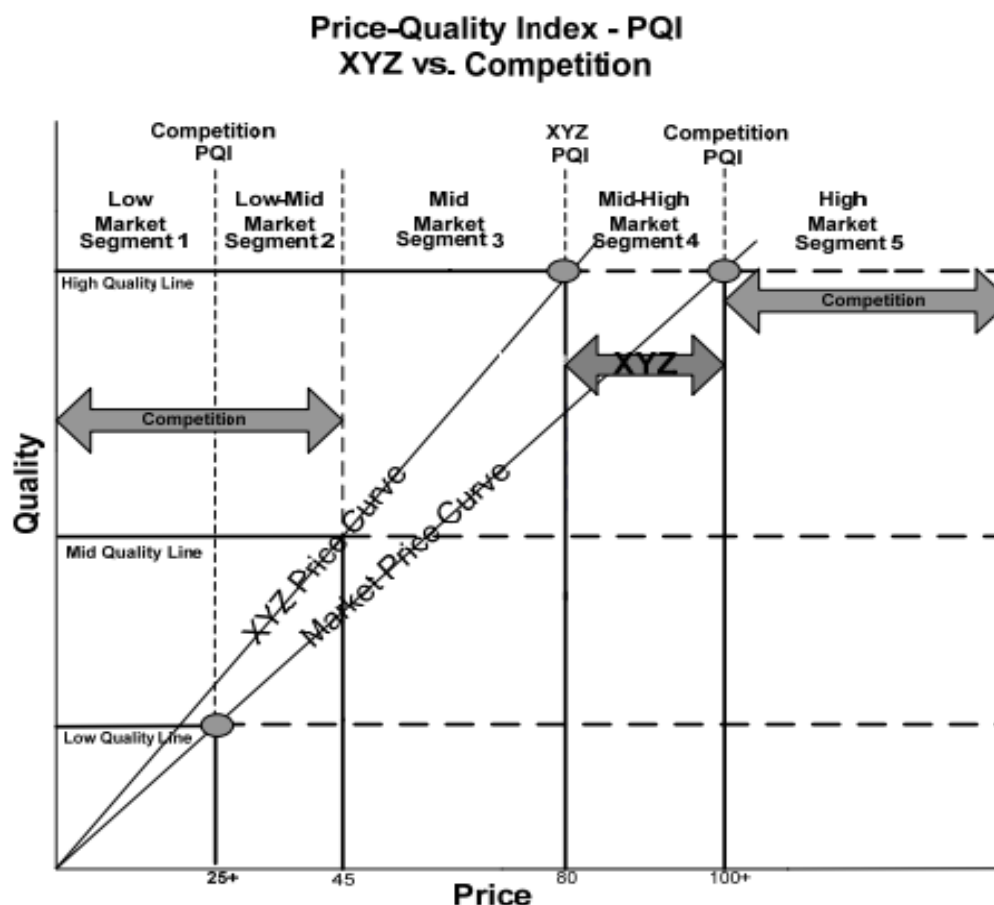
Figure 11

Figure 12

We can sum up the components of this statement into the following:
- ✓ It explains the overall goal of the brand
- ✓ It defines the target market
- ✓ It underlines the need to have differentiated sandwiches
- ✓ It makes it easy to translate the above three components into financial goals

If you think that XYZ has to create more than one sandwich with different taste profiles in order for its customers to have choice, then your thinking is practical. If you think that XYZ should deliver sandwiches at the doorstep of its customers, then your understanding is correct. And, if you think that XYZ by saying "close to where its customers are" should also create its own restaurants, then your vision is comprehensive about the future business make-up. Should you also think that the statement will have implications in terms of specialist personnel to operate restaurants; your vision is then absolute and totally inclusive about the nature of business.

Mission being the business at hand, the statement will look like the following: Mission statement of XYZ

"XYZ's mission is to develop a team of delivery personnel conversant with the job of delivering food with high efficiency and low operational costs. Part of its mission is also to simultaneously develop fast food outlets with appealing but economy-driven architectural features, from where it can serve its customers through highly-trained and motivated crew." We are assuming that XYZ has in place all requirements fulfilled for the right human resource for sandwich making and purchasing on daily basis of the requisite supplies. Sustaining the operations through excellent systems and procedures are part of the development process.

Brand Value Statement

"XYZ professes integrity of character, conscientiousness of work ethics, quality consciousness, and mastery of skills as its basic values."

To have the quality of sandwiches as envisioned by XYZ, it is important to have the staff inculcate the declared values. It should take special training sessions and periodic refresher meetings to renew company's commitment to the professed values.

The three figures show a grid representing on the x-axis five segments of price and on y-axis three levels of quality. The intersection of the price line and the quality line represents one particular price-quality index that basically defines one particular segment. You can have as many price lines as you may deem representing the actual market situation.

XYZ makes an entry in "mid-high market segment 4" (figure 10) and later plans to enter with different offerings into "mid-market segment 3" (figure 11) and "high-market

segment 5" (figure 12) later on. The strategic moves are a translation of the vision the company developed for itself. Workings on the moves as are evident from the figures are all about company's mission and strategies that flow out of the vision and mission.

Key point

Vision generally represents a time frame of 5 to 10 years. Once translated into mission, it stays intact for a couple of years or more. It is said that a mission statement should not be changed before two to three years approximately.

BUILDING BRAND VISION

Brand vision must be written down as a statement like the one we have for the fast food business. The question is how to build that statement, for it has implications for so many areas, the prime one being finance. You need to commit yourselves to pre-production expenses followed by full-fledged production, marketing, and other areas. Reaching the vision, therefore, is very serious and cannot be the decision of just one manager.

It is a systematic process that involves people from the top management right down to the level of brand managers. Development of the vision leads brand management to develop the right picture for the brand. It is a four-part approach as expressed by Scot Davis.

⇨ Seek senior management's input
⇨ Determine the financial contribution gap
⇨ Collect industry data and create a brand vision starter
⇨ Meet with senior management to create the vision

1. Seek senior management's input

One of the top responsibilities of senior management is to develop business. Their view of the products to be introduced is important. Brand managers should talk candidly with senior management about their opinions.

Senior management's perception of their brand's role toward brand's growth, in overall growth, and how far the brand will go should be shared by asking the following kind of questions:

What markets, business lines, and channels the company will pursue? Markets can be defined in terms of needs, segmentation, and geography. Company XYZ can look at its markets in terms of fulfilling needs of children in addition to just the lunch market of professionals. That will take the brand managers into the area of segmentation and development of brands belonging to those segments.

XYZ may also consider expanding into different geographic areas to make its outreach effective. The company, in all probability, will consider reaching its customers through restaurants (in addition to serving them at restaurants) and supplement selling through delivering direct to nearby customers at peak as well as odd hours.

What are the financial and strategic goals of the company? The brand managers must share with the senior management company goals in terms of financial returns and other strategic goals like share of the market and brand's standing against competition.

What do they think are strengths and weaknesses of their brands? The senior management must be honest in pronouncing the strengths and weakness in relation to competition. The realistic spelling out of strengths and weaknesses by them will allow brand managers to be proactive in capitalizing on strengths and safeguarding their position against probable threats. They will (brand managers) come up with strategic moves keeping reality in view.

How to reinforce strengths and rectify weaknesses? An extension of the preceding question, the answer will allow brand managers to look into the areas needing reinforcements either through perpetuated communication campaigns or boosting their channel capabilities.

The answer to this question will also allow you to overcome weaknesses with the confidence that all in the company view them from the same angle.

What resources the company is willing to deploy for supporting the brand? The support to the brand has to both strengthen its position and rectify weaknesses. You should get incisive insight into the matter of where you need the support – overall financial support, advertising and promotions, human resource, or investment into channel development and equipment etc.

Companies always have finite resources. It is important to understand the senior management's perspective and then match it with yours for the right development of vision with no gaps.

Will the company be able to achieve its objectives? If not, why? If the management is confident of supporting the brand and has all the resources in place, then the chances of achievement of objectives should be bright. If not, then the whole exercise may end up in futility. It is at such a juncture that you need to review the possible negative factors and decide with the help of senior management about the alternative course of action.

Do we have to redefine our business? If yes, what are the measures that the company should take now? Redefinition of business generally relates redefining the brand's position.

For the sake of example, you may think of a company that deals in branded sandwiches for modern supermarkets, bakeries, and convenience stores at gasoline stations. The company's business falls under an FMCG category.

Success in FMCG sector may prompt this company to also develop the character of a fast food company. The whole marketing complexion will change and the company faces

the challenge of redefining its business. The question that should tax their minds should be, are we going to remain an FMCG company, or should we be known as a fast food company with an impressive track record in FMCG area?

The redefinition has its implications in terms of investment into fixed assets like restaurants and specialized staff. It will also need an effective communication campaign through which the company can talk with the target market about its intended position. If customers really perceive the image of the company the way its new identity is created, the redefinition of the business has worked.

Are their any role models among competitors or associated companies that brand managers should follow? You should try to find out if there is a competitor that the senior management of your company really envies. Study the business model of that competitor and determine what can be done to excel that model.

2. Determine the financial contribution gap

The contribution gap is the difference between company's present financial position and the financial objectives. Filling the gap means having more revenue that can lead to better and higher contribution margin. Higher revenue is sourced from either new products, price increase on existing products, or both. Here, top management's input also becomes important.

What bear importance for the brand managers are the following questions:
– Go for price increase
– Expand markets and availability
– Improve distribution – intensive and extensive
– Improve communication
– Introduce new offerings for new segments
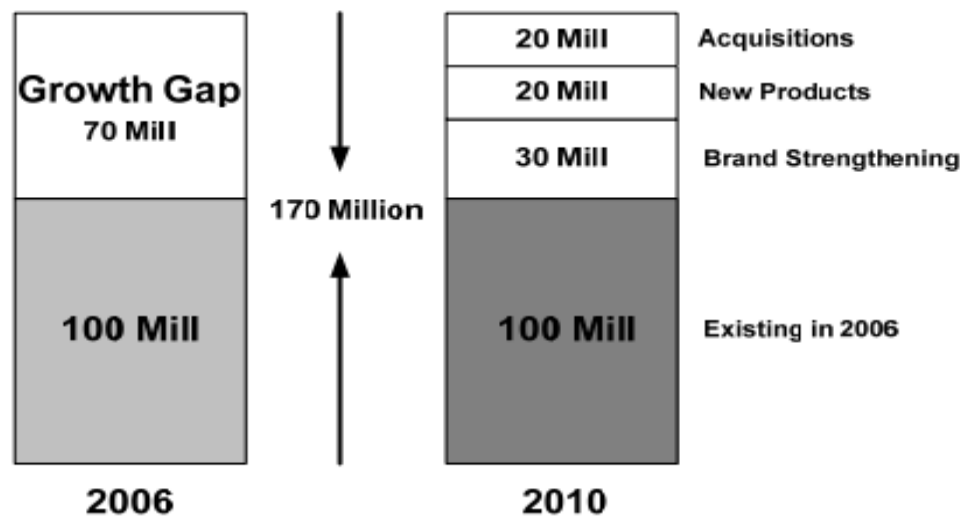– Make acquisitions

Answers to filling the growth gap

The answers could be best obtained with the help of the following figure 13.

The company plans to register sales revenue of RS.170 million by the end of 2010. The existing revenue level of year 2006 is RS.100 million. The plan, in other words, envisages a growth of 70 percent, which translates into a yearly average growth rate of 17.5 percent. (This is a hypothetical situation and does not represent a real life company case; in real life a growth rate of 17.5 percent is very high and is witnessed only in high growth industries).

Financial Growth Gap
Brand XYZ

Figure 13

Growth Gap
70 Mill

20 Mill — Acquisitions

20 Mill — New Products

30 Mill — Brand Strengthening

170 Million

100 Mill

100 Mill — Existing in 2006

2006

2010

The challenging part is how to achieve what is envisaged. The senior management is convinced that additional revenue of RS.70 million will come from a combination of the following strategic moves:

- o Strengthening of existing brand(s)
- o Introduction of new products, and
- o Acquisitions

The questions of brand managers regarding how to fill the contribution gap stand answered. What the above reveals is that no single move can bring the company the desired level of growth; rather, it needs to move into three strategic directions to achieve the objective.

The brand and marketing management know what they need to plan to strengthen the existing brand(s), to introduce new brands, and to formulate moves for brands that are planned to be acquired.

The intended targets of acquisitions may not be revealed to brand management immediately at the time the top management envisions to do so. But, the fact remains that acquired brands will also bring their part of contribution. Generally, acquisitions bring with them staff members at the level of brand managers, who get immersed into company's management and continue performing their functions to maintain consistency.

With the questions answered, brand managers find themselves a step further in building the brand vision toward a clear picture of the brand.

3. Collect industry data and create a brand vision starter

Translation of visionary thinking into financial and strategic goals must have a base. Nothing could provide a better base than analyzing the industry the company is a part of. Industry analysis comprises the following:

♯ Defining the industry
♯ Determining industry growth and size
♯ Key growth factors
♯ Seasonality
♯ Industry lifecycle

Defining the industry: Defining the industry is the first step toward the analysis. You must consider the following:

A description of the economic sector that the industry occupies – manufacturing, services, distribution, or any other

The range of products and services offered by the industry

A description of the geographic scope of the industry – whether local, regional, national, or international

The industry definition may also include a listing of major market segments. For example, a computer manufacturer may divide its market into desk top computers, laptops and notebooks, and servers for web hosting.

The idea is to find a definition that is broad enough to include all of the company's major competitors but narrow enough to permit useful comparisons. However, it is better to be a little broad than being too narrow.

Industry size and growth : You have to determine the current size of the industry for the company's products or services. You can determine this through published data or informal means and arrive at numbers for total units sold and revenue generated by all the players in the industry.

You can then go on to determining the annual growth rate of yesteryears, project for the next few years and compare that with your company's. That will show you how you seem to be growing – as much as the industry, faster, or slower. Such analysis will also enable you to compare your company's growth with other major competitors.

Figure 14 exhibits market shares enjoyed by three different companies ABC, MNP, and XYZ as projections for a three-year period.

Market Share
Years 2006 - 2008

Figure 14

2006

ABC	MNP	XYZ
29%	38%	33%

2007

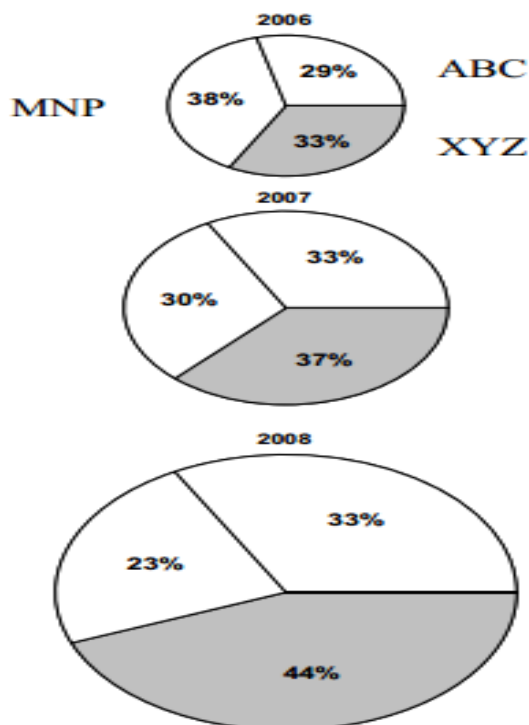|		
33%	31%	37%

2008

33%	23%	44%

Company XYZ shows a consistent rise in its market share at the expense of the other two companies. Company MNP is losing over the three-year period, while company ABC is barely maintaining the marginal growth it is projecting to register in year 2007. This kind of a comparison helps managers develop a realistic picture of the industry and, hence, the standing of their own company while they are in the process of developing a vision for their brand. Another factor that brand managers should consider while analyzing market is the growth of the category or market. The rise or drop of market shares as projected for the three companies can be interpreted in yet another way giving the managers better insights into the movements of different players.

It is evident from figure 15 that company XYZ has a market position stronger than it may look from the

Industry Growth
Years 2006-2008

Figure 15

2006

29% ABC

38%

MNP

33% XYZ

2007

33%

30%

37%

2008

33%

23%

44%

preceding figure 14. This company is gaining market share in a fast growing category, which is different from having the same level of shares in a category that is growing slower or is static. Company MNP is dropping its share fast over the three-year period, but may not be losing the volume as fast. The volume may still be the same as it is in the year 2006. Although a consolation by way of utilizing the production capacity, the company definitely is not growing and is on the declining path. Company ABC may be static in terms of the market share, but it is gaining volume on yearly basis. The situation, however, is not as rosy as that of XYZ and company ABC is not reaping optimal benefits of the category growth.

Such analyses arm the brand managers with analytical insights into realistic comparisons and solid basis for developing the right vision for their brands.

Key growth factors: Growth factors are trends and conditions beyond the control of the industry or firms within it. Such factors significantly affect market growth and the level of demand, hence having impact on all.

The car and electronic industries in Pakistan have undergone a tremendous growth phase owing basically to bank financing, which is easily available. The access to bank financing is the key growth factor, which has given a new shape to the whole supply chain of the two industries. The level of demand on part of those who are into manufacturing of car accessories and electronic parts for TVs, for example, has witnessed a growth rate unprecedented in the past.

Cyclical Influences

Cyclical industries are those that are directly affected by the rise and fall of external economic cycles, usually the national business cycle. Cyclical industries generally dowell during strong periods of growth and do poorly during recessions. Typical cyclical industries are manufacturing (consumer durables) and construction (cement and other building materials), to name a couple.

Cyclical patterns should be identified to know the strengths and weakness of such industries, if those affect your business.

Seasonality: It refers to the distribution of business activity during the year. If an industry is subject to seasonality, then its sales in one part of the year are disproportionate to the other part of the year. For example ice cream and cold drinks have a higher level of demand in the typical season of summer. Brand managers must consider such seasonal variations while they are in the process of developing the brand vision.

Industry life cycle: It is important to know the level of maturity of an industry. There are four stages that characterize maturity:

⇨ Embryonic

⇨ Growth

⇨ Mature

⇨ Aging

You, as brand managers, have to see what stage the industry is in and how you relate to that cycle (one of the above four stages) in terms of growth rate, market share, product line planning, investment in technology etc.

4. Meeting with top management to create the vision

Equipped with all the relevant details and information, you are now in a position to make a presentation to the top management. In all chances, the findings should be acceptable to all since many vital factors in the report owe their inclusion to information from the top management. It can still be debatable, but you have a chance to defend the bases that have led to the conclusion. It offers a good opportunity to iron out any differences that brand and marketing management may have with other departments for the good of the brand.

A consensus on the report puts the company on the course to developing a clear brand picture, which is the next strategic step in the brand management process.

BRAND PICTURE

The second step of the strategic brand management process is development of brand picture. Toward creating the right picture, you have to do everything possible to create the right image. The whole exercise of creating the right picture is to create meaningful parallels between the brand's identity and its image. We know by now that more the image coincides with identity the more brand managers are successful in communicating the right identity and creating the right image.

Creating the right identity is of paramount importance, for it means that the product has been given the right meaning that will be rightly received at the consumer's end. Creating a brand, therefore, is the end of the process that is the sum total of all company resources deployed to create the point of difference that highlights brand's identity.

Brands therefore are born out of the marketing strategies of differentiation and segmentation, as is already clear from the discussion on all preceding concepts in general and the example of company XYZ's vision statement in particular.

The soul of branding

Branding is not just putting a name on top of a product. Branding is that you do inside of the product, that is, give it meaning through creating the point of difference in a way that its identity is taken at the receiving end the way it is intended. It is because of

such an identity of powerful brands that you look at them as relevant and genuine even in the absence of a label.

You do not give the same treatment to a fake brand even if it carries the label that may look genuine. Why? Because the actual brand (the inner soul) is not there! The brand name is visible, yet the brand is absent. The image, in other words, that consumers have of the two products is different. In case of the original, it has the top of the mind image; in case of the fake one, it has the bottom of the mind image.
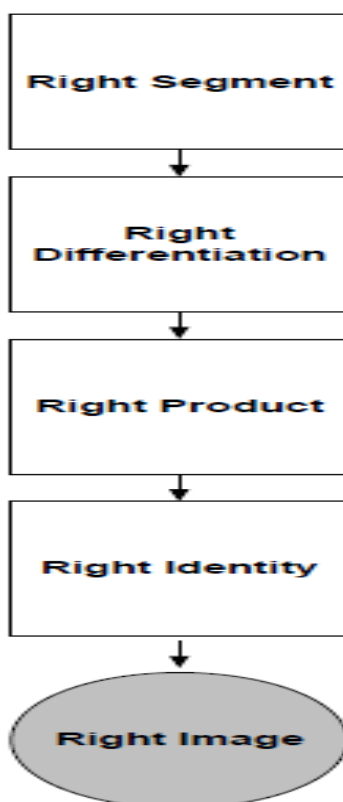
How to develop the right picture?

The question is how do you create a brand that injects into the product what gives it the right image? The first task toward doing that is to envision:

What attributes materialize?

What advantages are created?

What benefits emerge?

What obsessions does the brand represent? A brand picture has to answer all the questions. A simple question that embodies all the above-mentioned four questions is, "what would the market lack if our brand was not there?" If the answer is nothing, then the brand managers may not go ahead with the brand development.

If the answer is substantive, then the substance will be found systematically through the above four questions in knowing the features, advantages, benefits, and the obsessions the brand offers. Therefore, once brand managers are gone ahead with the right vision and the purpose, the right image will result.

Figure 16 illustrates the process of developing the brand picture - right segment, right differentiation, right product, right identity, the right image!

Figure 16 **B**rand Picture Process Starter

The right picture gives you the right basis for the brand strategies that will leverage the brand the way it is envisioned. An important thing to keep in mind is that brand picture is externally driven with customers as the focal point3. It takes into account customer

needs and the comptition. The competitive environment gives you the right customer perspective regarding your product vis-à-vis competition.

- ✓ Human
- ✓ Characteristics
- ✓ Brand Persona

According to Scot Davis, associations are part of a laddering approach, whereby the more you ladder up the perceived benefit in your consumers' mind the stronger is the association.

He goes on to say that features and attributes remain undifferentiated in the minds ofconsumers unless they translate into perceived benefits.

He also states that benefits are weak unless they relate to the customers' central valuesand beliefs.

Example

A chain of schools cannot create perceptions of good quality education tochildren unless its program of teaching relates to the central values of children's parents. The values could be a set of good worldly education, knowledge ofbasic religious tenets, and high morals. Emphasis on physical training and extra-curricular activities may also be among the beliefs of the parents.

The education system of the school has to create all the relevant attributes and then deliver those as benefits for the target market (parents) to perceive that the delivered product is very much in line with their perceptions. The higher the quality of delivery and substance of education, the higher the school has laddered up the benefits. Add to that the extra-curricular activities and the school has further laddered up the benefits.

BRAND PICTURE

Brand picture is based on brand image, which has two following components:
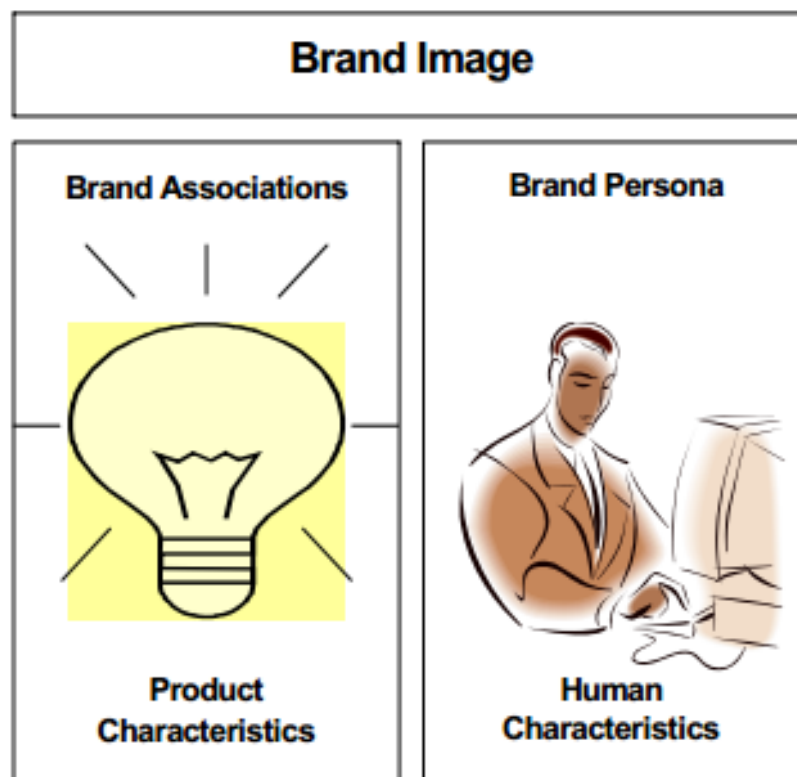
Brand associations

Brand persona

Brand Associations

Associations refer to attributes the brand carries and benefits it offers to consumers. Persona is description of the brand in human characteristics. You must be able to express your brand in human terms like sturdy, reliable, well-meaning and well-serving, stylish, modern, and caring etc. A brand expressed as reliable must have those characteristics so that it can be perceived as that by the target market. By the same token, a brand perceived as outdated by the market while the company thinks of that as modern is at odds with the market perceptions. The objective is to better understand brand's strengths and weaknesses and have realistic strategic goals. A long exercise in brand vision enables us to understand company's strengths and weaknesses and their reflection on your brand plans. A clear picture of the brand will emerge out of the understanding of strengths and weaknesses toward leveraging your brand.

The two components of brand image are expressed graphically in the following figure.

Figure 17

Associationsare part of a laddering approach, whereby the more you ladder up the perceived benefit in your consumers' mind the stronger is the association.Features and attributes remain undifferentiated in the minds of consumers unless they translate into perceived benefits.Benefitsare weak unless they relate to the customers' central values and beliefs.

Example

A chain of schools cannot create perceptions of good quality education to children unless its program of teaching relates to the central values of children's parents. The values could be a set of good worldly education, knowledge of basic religious tenets, and high morals. Emphasis on physical training and extra-curricular activities may also be among the beliefs of the parents.

The education system of the school has to create all the relevant attributes and then deliver those as benefits for the target market (parents) to perceive that the delivered product is very much in line with their perceptions. The higher the quality of delivery and substance of education, the higher the school has laddered up the benefits. Add to that the extracurricular activities and the school has further laddered up the benefits.

The concept of laddering up the attributes and perceived benefits can be explained with the help of the following set of three related examples:

Example 1

Think of a brand of clothing that you may not buy but do think is worth considering. The reason you think it is worth the space on the market is that it does demonstrate certain features and attributes that may have appeal for some, if not you. The brand is out in the market fulfilling need of a certain segment that has to be addressed by some brand(s).

Example 2

Think of another brand of clothing that you desire just to fulfill certain basic needs with no intention for self-fulfillment. You expect the brand to offer you basic benefits and feel satisfied. You do not feel the need for projecting yourself. Your concern is all about the functional benefit that the brand provides. Consider a basic sport shirt in the light of this example.

Example 3

Think of the best possible brand of clothing with which you associate yourself the most. If it rings a chord with your emotional values and beliefs, then it is laddered up in your mind to the highest. Your values dictate that you must look different by way of having expensive and fashionable clothing and be able to protect yourself as a modern, sophisticated person. What happens is that you start feeling very important and confident thinking you are projecting the image you deserve.

The laddering up of benefits can be explained with the help of the following graphic illustration:

Figure 18

Features	Benefits	Values
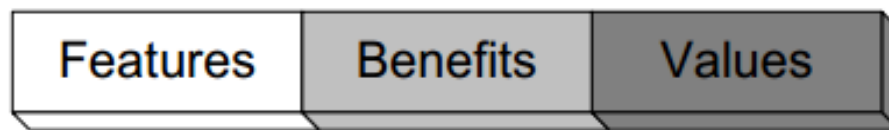
Features refer to demonstrable features and attributes that fulfill basic needs.

In the second stage, features and attributes translate into benefits, while in the third stage customer values are also fulfilled along with benefits. Refer to extra-curricular activities offered by a school with a good education system. The concept can be summarized in the following words:

Stage 1: Demonstrable Features & Attributes.

Stage 2: Features & Attributes + Benefits.

Stage 3: Features & Attributes + Benefits + fulfillment of values.

We can conclude from the set of three examples that brand associations have different levels in the mind of consumers. The higher the level the more powerful is the brand. When a brand addresses your emotional values, it is at its pinnacle.

Getting to the pinnacle should be the objective of all good brands. But then not all brands can do that. The following figure demonstrates the brand value build-up by way of a pyramid.

Importance of being at pinnacle

Those brands that rule their respective categories and define them are the trend setters; others follow them to maintain their existence in the market place. The trend setters establish certain benchmarks not following which means getting your brands out of the playing field and undermining consumer franchise for them. Not following therefore is risky. Following may amount to having your brand known as "me-too", meaning a follower without creative elements.
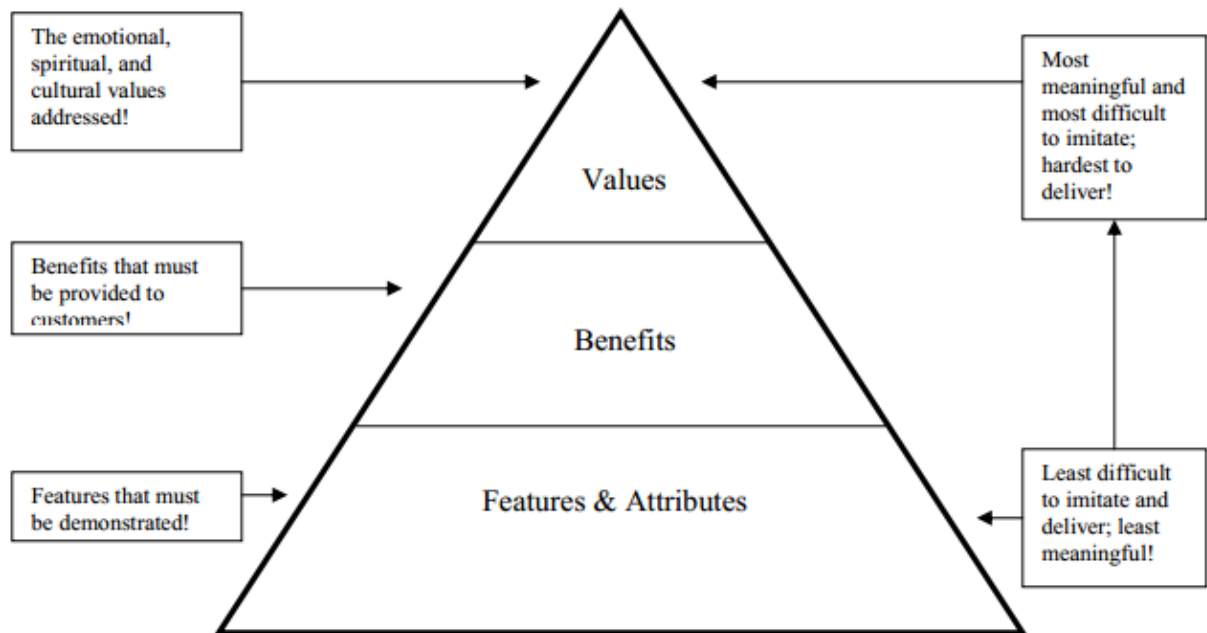
It is here that the point of differentiation acquires significance and calls for concerted efforts to rightly identify the dimension of the need your brand is out to address, satisfy that need and get to the pinnacle.

Leveraging from the pinnacle

The question is why do you have to be at the pinnacle? Companies do not invest phenomenal amounts of money to be at the pinnacle for the sake of marketing fun! Investments into branding are done to attain a position from where you can leverage your brand. Needless to say that it is the brand loyalty that offers your brand the slot at the pinnacle. You can go for price premiums and introduce new products through the brand

Brand Value Pyramid

Figure 19

The emotional, spiritual, and cultural values addressed!

Benefits that must be provided to customers!

Features that must be demonstrated!

Values

Benefits

Features & Attributes

Most meaningful and most difficult to imitate; hardest to deliver!

Least difficult to imitate and deliver; least meaningful!

Source: "Brand Asset Management" by Scot M. Davis

power. Eventually, you want your brand power to translate into profitability and bottom line growth, and increase the asset value of the brand . If you succeed in doing so, you define the category in which every one else is a follower. You enjoy ultimate power.

Pinnacle testifies right image

Any brand at the pinnacle testifies the need it is fulfilling was rightly identified, the identity was right, its image has been received in the right most way, and the communication was perfect.

From pinnacle to bottom

There are categories in which all players work hard to win over customers by offering points of difference with quality. The offerings eventually get so close to each other that they lose the charm of having had differentiation at one point, thereby reducing the whole category to basic features and attributes. What once was a differentiated feature offering unique benefits and values is now commonplace and hence calls for working all over again through the brand value pyramid.

The renewed working may not mean changing the product all together. It could be done through various ways of offering meaningful value to the customer, like improving service, distribution, and management practices. Toyota Corolla is an excellent example

under such circumstances. Its direct competitors offer everything in tangible terms in their models, and yet Toyota is right on top. The position owes to the unmatchable customer value the brand offers through better availability of spares, service, and resale price of cars. The extra meaningful value does not let Toyota lose its exceptional laddering and reduce the model to the first level of brand pyramid.

Conversely, in many cases of consumer consumables, similarities let brands catch up with each other and prevent them from offering any meaningful ways of retaining differentiated customer value. The result is all brands lose their exceptional laddering and reduce the category to the first level of brand pyramid. Price wars and massive promotions start. Result is shake-outs. Category gets a new life with the advent of new technology or at least new innovation or a substitute category of products.

BRAND PERSONA
Determination of attributes and benefits

To have your brand present its customers the right attributes and benefits, you have to first determine what those attributes and benefits are that brands present and values they address. The key to the whole process is clarity about the need to be satisfied.

You must not under-serve or over-serve the customers. In other words, the segment that you are serving has to be fully aligned with the features and attributes that you envisage your brand to carry. Under- or over-doing will let you unintentionally navigate the segmental territories not meant for your offering.

Determination can come through one way and that is research. The objective is to compare your brand with that of competitors and gauge the level of associations all evoke. The results of the research will enable you to be specific about the features that you must create for your brand and the benefits your brands must offer to your customers.

In the absence of this comparison, it is hard to formulate a sustainable competitive strategy - a strategy that highlights the features and benefits and sets your brand apart from the rest of the crowd. Refer to industry analysis and consider a couple of established competitors to draw the right comparisons that can lead you through the competitive path with success.

Need-based segmentation research

It is good to get into segmentation research that should cover demographics as well as psychographics to give the findings a true need-based dimension. Needs drive all the strategies and always emerge as the most purpose-serving research basis. Right identification of needs also offers the best alignment between strategies and associations that we are out to evoke on part of the customers. It is here that we are able to determine the balance between under- or over-serving the segment of population that is our target market. The following two examples explain the phenomenon of the balance between under- or over-doing.

Example 1

A fast food restaurant should not start offering in the manner of a full-served fine dinning restaurant, nor should it demote its offerings below the level of product profile perceived by customers as authentic fast food.

Population to be researched and relevant questions asked

The population to be researched should consist of company's present, past, and potential customers and competitors' customers in relation to determining the levels of

association with the brand. Members of the trade (distributors, wholesalers, and retailers) who are category influencers should also be included in the population.

The respondents should be approached with the objective of determining the right attributes and benefits to be offered by the brand and values addressed. The responses, when put side by side, for different brands will lead you through realistic mode of decisions for your brand.

The questions should revolve around the level of awareness about your brand versus competition and strengths and weaknesses as respondents perceive in relation to your brand versus competition. The series of questions should also take you through determining whether respondents consider your brand up to their expectations and worthy of recommendation to others! All questions should be asked in the simplest and direct form to have straightforward and credible answers.

With no ambiguities of answers you should be able to gauge the levels of associations your brand evokes vis-a-vis competition.

Purpose served by asking the right questions

The objective of asking the questions is to precisely determine the level of associations your brand has evoked. An even bigger objective is to see whether customers think your brand has reached the pinnacle. If the answers to your questions are mostly "yes", then it is a testimony to your hard work of identifying the right need, developing the right product, and making the right branding moves. You must maintain your brand's position and further fortify it. If the answers to your questions are mostly in negative - which it should not be - then you must look into the reasons and make corrections wherever those are warranted. The typical questions that you must ask yourself are the following:

- ➢ Why is our brand not right on top?
- ➢ Why is competition right on top?
- ➢ What can you do to bring your brand right on top?

The answers to the above questions will be of comprehensive nature and will not allow you escaping any shortcomings. Whether your company has the resources or not to come to grips with the problems is another issue. The assumption here is that it is capable of handling all major problems; otherwise it would not have undertaken the brand development process in the first place.

Keys to developing associations

According to Scot Davis, the build up of brand value has to be an incremental process.

No brand can get into the pinnacle without moving incrementally through the stages.

There has to be a complete alignment of associations all across the three stages. The alignment can be achieved through the process discussed above, that is, identify the right need for the right segment, have the target market perceive the benefits as the ones desired by them, and make them believe that your brand addresses the values they hold dear to themselves.

Make the whole process difficult to copy. This can be achieved by creating customer value highly meaningful to customers.

The following example of Toyota Corolla is expressive enough about the levels of associations and the alignment that exists among the three levels to the benefit of the brand and the customers as well.

Features and Attributes
- Good styling
- Fair pricing
- Great value
- Spacious
- Looks of a bigger car
- Sturdy Benefits
- Good consumption
- Good resale value
- Good quality
- Dependable
- Widespread availability of inexpensive spares

Beliefs and Values
- Gives you confidence
- Friendly; makes you feel good and important
- Approval of neighbors, friends, and relatives

What is after the brand pinnacle?

Whether to stay within the same pyramid or go beyond it into a new one is defined by the leader of the category. The leadership role comes with the power the brand has. It depends on how high the leader wants to go within the same pyramid.

Most of the brands have the potential to ladder further up. It is here that business managers have to decide whether to create higher standards of excellence within the same pyramid or go beyond it with a new brand name by adding more attributes to existing products and create a new identity altogether.

Is new category needed?

Companies choose to go into a new pyramid for two reasons. One, laddering up under the same name may offer resistance from the customers. Two, a new identity under a different brand name with endorsement from the same manufacturer can bring the company premium pricing that may get subject to resistance under the existing brand name. This is why Toyota introduced Lexus; Honda launched Acura, and Nissan Infinity. Lexus, Acura, and Infinity are all very expensive cars that fall within pyramids different from those belonging originally to Toyota, Honda, and Nissan. The new offerings came to the market with high premium on them. What is important about the brand value pyramid is that the pinnacle has to be reached so that the emotional value connection can be established with the consumer.

BRAND PERSONA

The second part of image is brand persona. Along with associations it provides a complete understanding of the brand image. Brand managers look at brands from the standpoint of human and other characteristics that can be easily identified and understood.

The objective of the exercise is to personify your brand so that consumers can express and associate themselves with the brand just as they associate themselves with other persons.

Persona examples

Car. It is like you describe a car as rugged; you can describe a person from a certain area as rugged.

Biscuits. You may describe a high-end expensive biscuit brand as "sophisticated" as opposed to another you may want your fun-loving kids to take as "funny". People can be described as sophisticated and funny.

SUV. A four-wheel vehicle can be personified as "warrior, tough, and no-nonsense" as opposed to a family car having a "majestic and well-composed" personification. People can be described in just about the way a four-wheel vehicle or a family car is described in this example.

<u>Need to create the right traits</u>

The exercise of personification is meant to fully understand what personality traits you should create for your product so that it is perceived by the consumers the same way. The objective therefore is the same as it stands in developing associations. Customers must perceive your product the way it is intended to be perceived.

In order to understand the traits of your brand right, you again have to carry out market research and ask consumers questions to arrive at the right most personification.

<u>Personality traits through research</u>

A few questions can resemble the following:

Does the product look educated?

Does it look fashionable?

Is it urbane or a villager?

Is it babyish or mature-looking?

The most important factor is to ensure that your brand's persona must be matching with consumers' perceptions. A baby shampoo has to be perceived as such not because you have introduced it as baby shampoo, but because its personality traits are such that anyone taking a look at the retail shelf can pinpoint the product is meant for babies.

When you combine your results with those of brand's associations, you come up with a complete understanding of the valid and sustainable positioning of your brand. The right position of the brand will evoke right image of the brand and serve as the focal point of all strategies that will follow to make the brand a success.

BRAND CONTRACT

How to create a brand contract?

The objective of this lecture is to learn how a company should go ahead with creation of a brand contract in a way that its brand gets duly leveraged

The key to developing the contract lies in making the promises known to customers. The more customers are knowledgeable of the brand's promises, the more they are inclined to be bound into a contract. A customer bound by a contract is a loyal customer.

Promises present themselves in two different forms – implicit and explicit. Implicit promises are taken for granted, that is, customers must see those delivered whether the brand talks about those or not. Tea is an excellent example of carrying implicit promises of smell, color, and taste regardless of what brand name it carries. Any good brand of tea has to have the features mentioned in the example.

Some promises are explicitly claimed through well-designed communication. A personal computer with features relating processor's specifications, the size of the hard disk, and the capacity of the random access memory (RAM) have got to be communicated very specifically, not left to customers' imagination. Any promises that the company makes but cannot deliver amount to a breach of the contract.

A brand contract may also contain some negative promises that must be eradicated from the contract. Negative promises creep into the contract due to company's inability to address certain problems or challenges. One example of negative promises can be of an automobile company falling short on its promise of 3S – sales, spares, and service. If the company cannot cope with the challenge of maintaining free availability of spares at affordable prices, the company has unintentionally brought a negative promise into the contract.

As another example, think of a cellular phone company that may talk a lot about efficiency of service, low rates at particular time of the day, and many other options to its subscribers. If the service cannot catch up with the growing demand of customers by way of frequency distortions or non-connectivity, then the company has definitely brought into the contract a negative promise.

The two companies (car and cell phone) have to fix the negative contracts and then prove they no longer deprive the customers of their needs or inflict the service. Powerful brands have the resilience to bounce back if corrective action is taken in timely manner.

Need for upholding the contract

Unless the breach of contract is fixed, the brand will suffer in sales, in image and spoil other programs. To make the contract complete and effective shortcomings have to be removed.

A hypothetical brand contract

With the understanding of mechanism of a contract, we can proceed toward hypothetically creating a brand contract of the fast food company we discussed earlier. This company has decided to talk about all the relevant promises on the package of the product. The terminology of "contract" is very intra-company and is not used when it comes to communicating with the market. Although not using any head is generally the norm of the market, this company has chosen to label its promises under the head of "product integrity".

The company promises to offer you world class quality of meat, and a compatible level of quality breads.

The company maintains all the critical control points involved in maintaining the minus 20-degree temperature for its meat ingredients. It makes sure there is no bacterial growth in the vital ingredients.

All other condiments have been selected with the sophistication of a world class chef for your eating pleasure.

Our kitchen is immaculately clean; if you were to see that you not only will overindulge in eating but also recommend our sandwich forcefully to others.

We undertake to deliver the order within 30 minutes.

Our staff is efficient, skillful, and courteous who deliver on time with a smile.

We claim to have revolutionized the lunch service – unique product that couples efficient service, and hence offer you a unique experience.

The value for money that we offer is second to none. Compare our prices with those of competitors.

As brand manager, you may like to retain the above promises as they appear, discard a few, or make adjustments in line with the dynamics of the market. Even if you do not wish to communicate the above contract on the package, you must have this as guidelines for your own staff. Keeping all employees mindful of what the company wishes to deliver amounts to strengthening their commitment toward the product and stands as part of the internal marketing. Brand contract therefore represents total consensus and commitment on everyone's part.

Since the contract is validated by the market, it is important that the market is adequately educated on all the promises and the factors that make those promises deliverable. Should the customers find the promises fulfilled, the contract stands upheld.

Promises change with changing strategies and circumstances. The fast food business started as lunch-time delivery service. Assuming that the service has been successful, the business would like to expand itself by creating small restaurants. The induction of restaurants will bring a change in promises, which may look like the following:

Our restaurant is a modern, utility based set-up. No frills, no make-ups, straight forward, down to earth atmosphere and pricing make it an experience of a life time!

The atmosphere is friendly, warm, and home-like in the real sense of the word.

Our preparation procedures are highly industrialized, that is, we do the same thing againand again to maintain standardization.

If customers feel the same kind of satisfaction from their product and service, it is a reflection of the brand contract that the management has created. That wins customers' trust and gives the brand value and power.

Brand contract principles

There are four basic principles that we use in creating a contract. The principles are pretty straight forward. Use the same market research that you used for brand image exercise. Add a few more questions and the model for research is ready. Never forget to include competition in your research projects. Without comparisons, you may not come up with the best contract.

Understand customers' perspective

Go back to the sandwich project and see the kind of questions you should ask:

In purchasing our sandwich, what benefits you expected?

Did it meet your expectations? If yes, how? If no, why?

Tell us the most important aspects of product quality – taste, freshness, smell, size, filling, and overall presentation.

What promises our brand makes?

Do other brands make different promises? If yes, how?

What really triggered your decision to buy our brand and do you see your decision worth making?

What is it that we can do more to improve our service and product?

The basic objective is to make this exercise customer driven. You must take into account the opinions of the key purchase influencers. Be ready to face a few negative comments. Fix the situation if the comments make sense.

Translate into standards

There are a host of activities that are to be undertaken before you put a product together. This implies you are putting together different promises. Not one department is

involved in carrying out a task that is as comprehensive as putting a product together. The numerous activities, therefore, have to be standardized by ensuring optimal and accurate input from every employee of all departments, starting with purchasing right through production and selling.

Well-coordinated actions will result from standardization of activities and lead to meeting promises as made. If we go back to the example of sandwiches, all actions involved from product preparation to delivery have to be standardized under a common set of guidelines – production, delivery, sales, and transportation. One action out of the standards can land the company into trouble by affecting one or a set of promises the company has explicitly made with its customers.

All standardized actions are the touch points brand management has with other functions. They must converge, so that you can uphold your contract. Any lapses at the cold storage in terms of maintenance of the requisite temperature will lead to abuse of meat quality. Inefficient transportation of ingredients may cause delays in preparation and delivery of product. Lack of training of staff may not keep the service as pleasant as the company may claim. These possibilities exemplify the need for all to work like a cohesive whole in which all actions are repeated accurately according to standards day in and day out.

Fulfill Good Promises

Once standards are in place, it is the job of managers to develop a standards-compliant culture. Such a culture keeps all checks in place and prevents people from omitting major as well as minor tasks. Companies should not become complacent at this juncture and leave things to juniors or chances in the hope that all systems are being followed. Systems and procedures being in place is no guarantee of compliance of standards. Strict adherence to procedures is even more important than constituting those procedures. Execution is gaining more and more importance nowadays – even more than strategies. Management must involve itself to ensure adherence of all procedural tasks to the standards for fulfillment of promises.

Fulfillment of good promises, at times, escapes attention because management is shifting its business strategy. Shift comes in shape of expansion of business, a major change in distribution, or entry into a new line altogether. It is here that commitment of management as part of brand vision counts. The example of business expansion through adding restaurants to its line expresses this phenomenon. The company has to ensure that existing good promises keep getting translated into benefits and the new ones get absorbed into the basket of benefits offered to customers.

In case of a new offer, if the new line is pursued in more enthusiasm than the promises of the existing brand require, then you may damage your brand.

Uncover Bad Promises

Through a consistent contact with the marketplace and through research studies, one can easily uncover the negative promises. Once uncovered, the strategy to fix those and turnthem into good promises should not be difficult. One must convert the shortcomings into strengths.

BRAND EXTENSION

With an understanding developed on positioning, this lecture takes us into the area of brand extension. Although loosely used, the term brand extension comprises of two sub areas – line extension and brand extension. The latter is generally used in all situations of extensions, diversifications, or stretch. We have to draw a distinction between the two for a clear understanding of the concepts.

Concept of positioning clarifies that not one position can satisfy all the varying needs within the category. Different needs have to be identified toward their fulfillment. To keep up with the evolution you have to evolve new points of difference. Different needs refer to different segments and every product has its variants to address to those segmental needs. This holds true for consumer consumables as well as consumer durables. Regular and mild cigarettes, regular and fruit yogurt, regular and high fiber cereals, regular and low cholesterol margarine, and economy and executive models in cars are all examples of product variants in different segments and categories.

To let the market know that you have something different to offer, you must differentiate between the existing offering and the new entry. For the new entry meant to address a different need, you must create a different image reflecting the new promise and must have an evolved contract in place. You do that in either of the two ways:

Staying within the value framework of the original brand, meaning under the same brand name. You do not go too far away from the core identity.

Create a different identity altogether, meaning a new stand-alone brand.

BRAND EXTENSION

Brand extension is all about the existing brands. As the terminology suggests, we do something with the existing names for the new offerings. Brand extension, therefore, is the study and practice of deciding

What to do in situations that evolve with changing needs? Examples could be cited of soups coming into different flavors, biscuits in different tastes and packs, and detergents in powder and liquid forms.

What to do in situations that offer an opportunity to enter a new market altogether?

Examples could be furnished about manufacturers of juices getting into milk and yogurt, tea getting into soups, chocolate getting into ice cream, and cameras into photocopying machines etc.

Let's be clear that we are discussing both situations in relation to using our existing brand name that is strong. One situation relates getting into variants of the existing

product, while other involves going across the existing business lines into new ones. Both have a common factor and that is the same brand name. We use the same brand name because it is strong!

Leveraging

The opportunity of using the same brand name for variants or altogether new products takes us into the domain of leveraging – adding value to the company by capitalizing on the brand as an asset. Temptation to do so is always huge. We keep the same brand name so that customers can develop an immediate familiarity with the new introductions – variants or new products. And that is what leveraging is all about!

Managers feel the need to leverage their brands under the following two different sets of circumstances:

When they are led into genuine situations of satisfying evolving needs, they feel rightly driven to leverage the brand by introducing its variants – light cigarettes and sugar-free chewing gum fall under practice 1 of brand extension discussed above.

When it is attractive to go across category, managers do that with the confidence that their existing brand name is going to add value to their new introduction and will become popular immediately. This relates practice 2 of brand extension.

Leveraging without purpose

If managers attempt to leverage their brand only because it has high value but it does not really have a specific need to satisfy, then the managers are wandering into the marketing no-man's land and end up introducing something with no substantive difference. It is merely an exercise toward brand proliferation!

This means that brands should be seriously treated as extremely valuable properties and not subjected to meaningless extensions with minor differences. Over-proliferation is a serious threat to a brand's future. Customers show resentment to brands with no real point of difference.

Why brand extension?

Brand extension is on the rise. Most of the new product launches take place with the existing strong brand names. Cost of launching a new brand in three majormarkets (US, Europe, and Japan is aboutUS$ 1 billion), whereas launching a productunder the same name is a fraction of that cost. It is estimated to be one fifth 30% of new brands survive just about three years, but the rate goes up to 50% iflaunched under an existing brand name3. Brand extension, therefore, is cheaper and securer. It looks like a sure way to gain market share and produce visible results.

50%

Survival
Rate

30%

Existing Brands

New Brands
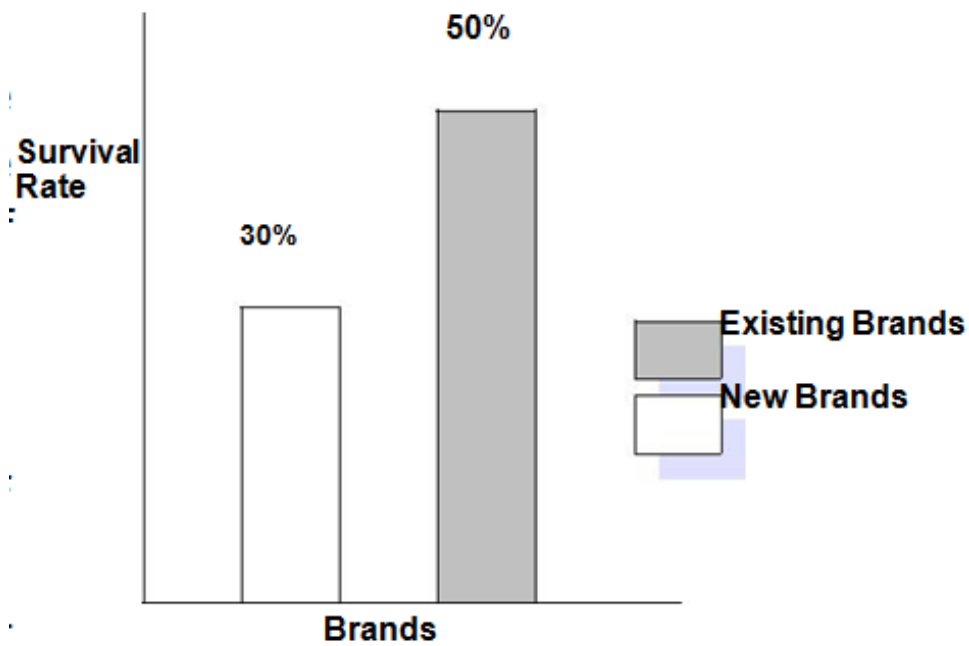
Brands

Kinds of extensions

There are two kinds of extensions, namely line extension and brand diversification. Brand diversification is in effect brand extension, but this terminology of brand extension somehow is used generically for both types of extensions. You have to make an effort not to be confused by this.

Line extension is basically getting into different versions of the same base product on the same market. A manufacturer of spices getting into more non-traditional spices or recipes and a cheese manufacturer getting into different kinds of packing, portions, slices, and boxes to appeal to different target audiences are examples of this phenomenon. The objective here is to add more depth to your offerings within a definite market. Line extension corresponds to practice 1 of brand extension discussed in the beginning of the lecture.

Brand diversification/extension/stretching this refers to stretching your brand into new product fields. Your brand becomes an umbrella covering very different segments and products. A few examples are Mitsubishi, Philips, and GE. Mitsubishi includes shipyards, nuclear plants, cars, hi-fidelity systems, banks, and even food; Philips includes electrical appliances to lighting to sophisticated systems; GE is intoaircraft engines, electrical appliances, energy and more. They use one name because that is a direct recognition of the fact that their name is the real capital of their company. Brand diversification or extension or stretching corresponds to practice 2 of brand extension discussed earlier. It is real diversification toward different product categories and, hence, is a highly sensitive and strategic choice.

"Line extension" and "brand extension" therefore are two well differentiated concepts that must be understood for the sake of knowing how and when each will have a perfect fit with the situation. Both could be explained with the help of two graphic illustrations on the following page.

Line Extension in detail

Extending the line is an evolutionary step in the life of a brand and occurs to address the changing needs. In the words of Kapferer, just as human species survive by adapting to the environment, brands that start as single products have to adapt to the marketing environment by breaking into sub-species5. Toyota cars, Coca-Cola, National and Shan "Masalas", LU and English Biscuit Manufacturers' biscuit brand variations are a few examples that clarify the whole concept.

Forms of line extension

It takes on the following forms:

Multiplication of formats and sizes. It is typical in cars, soft drinks, cakes, and biscuits etc.

Multiplication of variety of tastes and flavors. Yogurt, juice, and milk are excellent examples of this form.

Multiplication of the type of ingredients. Caffeine-free coffee and sugar-free juice fall into this form.

Multiplication of generic forms of medicines. For headache, a pharmaceutical company may introduce extra-strength, without drowsiness, no-allergy formulas etc.

Multiplication of physical forms. Detergents in powder and liquid; deodorants in sticks, spray, and roll-ons are perfect examples.

Multiplication of product add-ons satisfying closely related needs of the same consumer. Mascara, lipstick, skin-care creams by one company and deodorants, shave cream, gel, and soothing balm by another are examples of this form.

Multiplication of versions having a specific application. Shoe cream for regular leather, powder or spray for suede leather – polish for wooden furniture and polish for marble top to give a few examples.
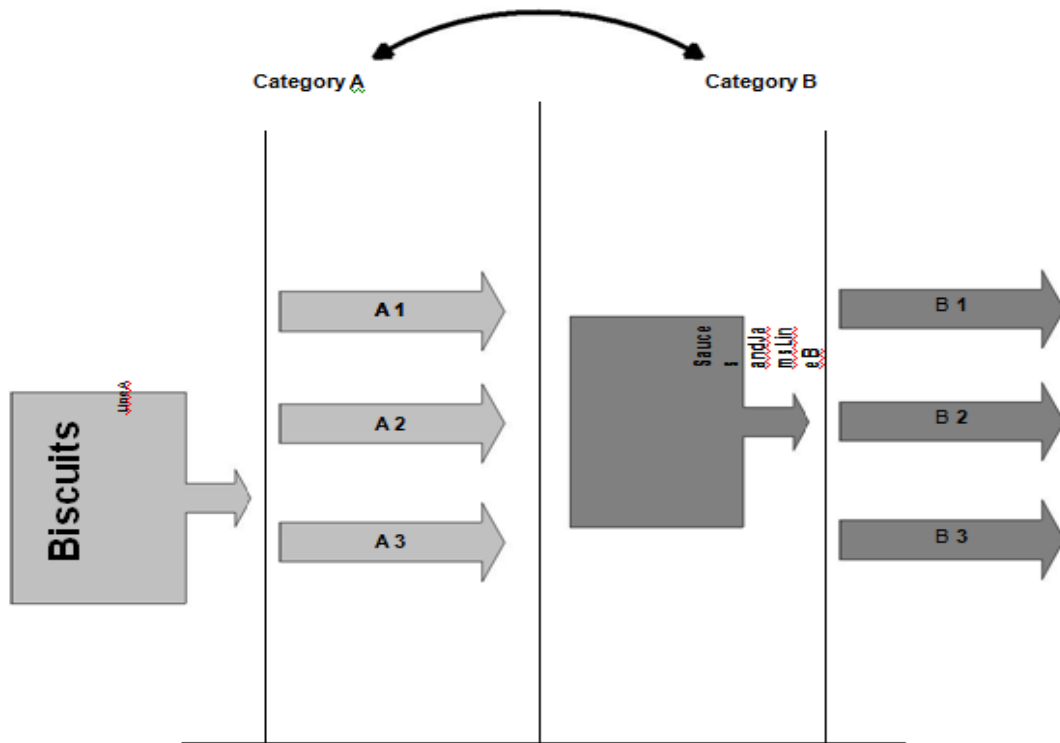
Positive side of line extension

Line Extension
Within Category

Category A

Figure 24

Biscuits

A 1

A 2

A 3

S
T
R
E
T
C
H
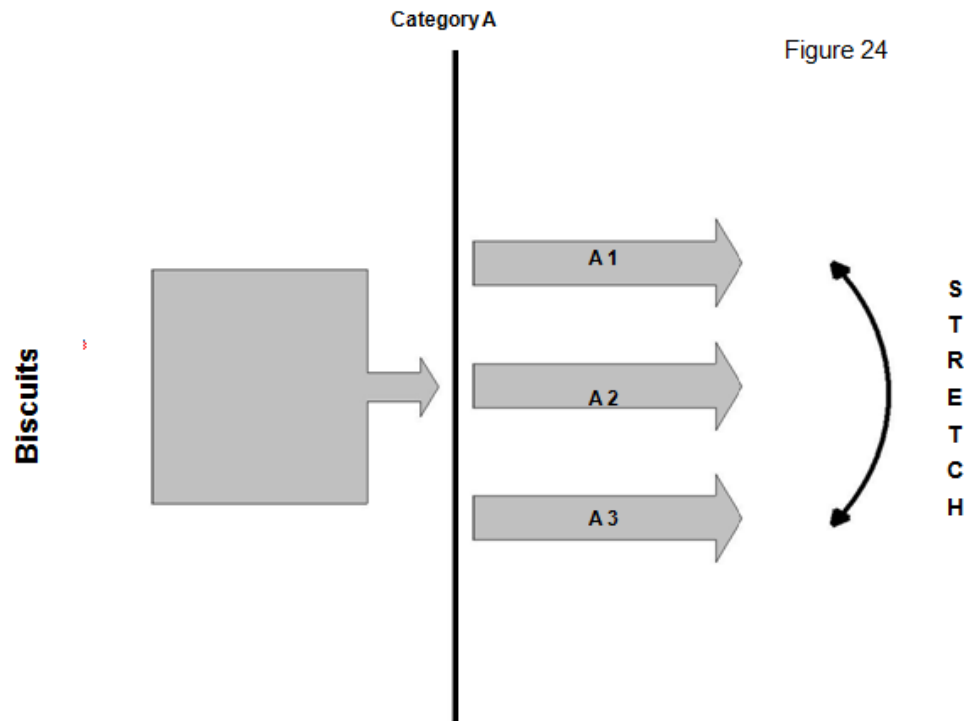
Brand Extension
Across Category

Figure 25

Category A

Category B

Biscuits

A 1

A 2

A 3

Sauce

and a
milin
e B

B 1

B 2

B 3

As said earlier, each brand starts as a single product and with the passage of time becomes sub-divided into variants that respond to differentiated expectations.

Increases Usage

Cola drink is an example, the multiplication of versions has increased its consumer base – in family size bottle, disposable bottle, can, and returnable bottles all are directed toward increasing usage.

Reinforces Sales

With each version designed for one particular usage mode, the brand reinforces its sales with a wider market base. With product variants in the categories of biscuits, cheeses, butters and margarines, and packaged cakes, you extend the market by opening a variety of eating occasions.

Friendly and Caring

It shows sensitivity to consumer's needs and the brand energizes itself by responding to those. In doing so, it maintains an interesting, friendly, and caring character. A small tub of jam or a sachet of powdered milk is an example.

Pushes Boundaries

It pushes the boundaries of the market and strengthens the brand's domination. It increases brand's visibility through successive launches.

Revitalizes failing Brands

Line extension helps ailing and tired brands. It revitalizes many brands by way of introduction of new offerings. Because of the resilience brands have, they bounce back if they are introduced with a new fervor justified by a meaningful point of difference. Brands fail because of price competition. It helps the company launch another version with a lower price.

Maintain relationship between market share and shelf-space share

Knowing that customer involvement in consumer items is low, the number of impulse buyers is increasing. Also knowing that shelf space at the retail outlet is limited, it is always good to introduce something by the existing name and keep competition pushed out.

Negative side of line extension

Retailer power

When all managers like to extend with similar objectives, the obvious results are bottlenecks at the retail level. This clutter leads to selective attitude on part of retailers who obviously are more receptive toward more powerful brands. Those that get discriminated try to react by getting into promotions, thereby making retailers and consumers happy at

the same time. What ensues is obviously the price wars and erosion of brand loyalty. Not good for the brand!

Lack of scale economies

As against a mono product, handling and managing a variety of products is cumbersome from production, logistics, inventory, and costing points of view. Smaller runs deprive the company of scale economies. They are more expensive.

Non-controlled extension weakens range Extensions without strong rationale can become counter-productive, because creating meaningful positioning for a variety of products within the same line becomes challenging. All positions have to be created with subtle yet distinct differences. Without meaningful differences, products tend to eat into each other's volume and cause cannibalization!

Reaction to negative side of extensions

There has been lately a tendency on part of the companies to de-segment or counter-segment their markets. Proctor and Gamble reduced their line by about 15 to 25 percent in 1992 only because those entries were not turning in requisite volumes and profitability1. It also leads to consumer frustration and that's what we learnt in terms of consumer revolt. The factor of scale economies takes a turn for better under the circumstances of de-segmentation. Lesser number of offerings leads to higher volumes, which result in lower costs of producing.

Immediate actions for better managing line extensions

Improve cost accounting systems

Management experts lay a lot of emphasis on improving cost accounting systems. Experience shows that many companies are system-deficient in this regard. You must have accurate figures to charge every range item that you produce. The objective is to determine which items are more profitable than others.

Allocate resources more to high-margin items

As brand managers and good businesspeople, you must allocate marketing resources to different items in line with their contribution to the overall profitability. The extensions that give higher margins must get priority over those that attract occasional buyers.

Salespeople must define the role of each extension

Each extension has to be seen in the context of its sales value. The salespersons responsible for each must produce figurative evidence of what they sell is worth its existence. Salespeople must understand the costing angle and then produce results out of the extensions that account for most of the profitable business.

They must be able to relate profitability with high volume items. Their education as part of AUDIENCE is of significance, for mostly salespeople go after volumes no matter

how high is the cost. They must understand the actual positioning of the product along with the strategic goals of financial growth. Volumes just for the sake of a high market share with low profitability may not be the company's priority at all times.

Small volumes adding up to a certain total volume cost a lot more than the same total arrived at by less number of products. Economies!

Encourage product withdrawal

Implement this philosophy and withdraw low volume items in a phased way so that your existing customers do not turn away to competition; they should rather switch over to another attractive offering within your range.

Brand Extension/ Diversification

Brand extension is dealing with brands that make their place in different fields or categories. These could be called a collection of different branded products having a common name. Mitsubishi and Philips have already been cited as examples. In the context of our local market, Guard brand of products are as diverse as oil filters and packaged rice. Sufi brand originally known for soaps has diversified into edible oil and mineral water. Why companies prefer to go across categories using their established brand names is an interesting exercise to carry and educate ourselves about!

Why extend/diversify the brand

Remaining modern and up to date

It has become necessary. Branding is the name of the game in which brands try to surpass themselves and consumers' tastes and expectations by being responsive. Cars, electronics, and many food items are perfect examples of tangible products, while banking and courier services are convincing service areas in which services have been rationally defined and delivered, on daily basis, to consumers as products of ever-increasing standards.

Brands that try to stick to a single product relying on communication alone to update their image do not do well. To stay modern and responsive in present day's world, brands have to stay in tune with developments in consumers' habits and practices1. As habits change, brands also change. A salt brand extends into an iodized offering; a spice brand offers a curry recipe, while a yogurt brand extends by offering hi-calcium yogurt for kids and young ones. Brands respond out of the energy they muster from the market.

Cost of advertising

Supporting a family of different brands through advertising is very expensive. Companies seem to be putting an end to the practice of introducing new brands every time they introduce a new product. Knowing that the modern business practices and the brand logic are based on competition, it must be the objective of every company to save costs.

Working all the time to look for a new point of difference and surpassing their own benchmarks, companies have to invest and reinvest. To recover costs, volumes have to be increased (regardless of which category you are in) to achieve high productivity and economies of scale. Costs, therefore, have to be cut wherever and whenever possible.

Cost-cutting is possible in the area of advertising by selecting a few branded products bearing the same name to give mileage to all in various categories.

Defends a brand at risk in its basic market

There are situations in competitive environment where an established branded product starts facing serious threats due either to:

✦ Stiff competition, or
✦ Shrinking category as a whole, or
✦ The need to catch up with new technologies

The best course of action for brand managers is to develop something new on the basis of brand awareness, loyalty, quality image, and also sympathy. As an example, a bicycle manufacturer may get into the market of motorbikes due to one or a combination of the above factors. Sohrab brand of bicycles and motorbikes is a case in point.

Defines new segments

It helps define new segments. This may sound like remaining in the same market. But the fact is if a manufacturer of safety matches decides to get into the area of disposable lighters, the manufacturer is venturing into an industry that is totally different from match making. What is common is the target market that cuts across two industries (match lights and lighter lights) and hence leads to creating two segments of the same market of "lights".

In actuality, it is a function of so many diverse efforts like making investment into the new plant and creating an appeal for a sub-segment of smokers from within the overall segment of users of lights. While it is extension of an existing brand into a new industry, it also is an effort to define new segments within a market.

The need to do so may arise due to one of the factors discussed under the preceding point, that is, stiff competition or shrinking category of match lights.

Brand extension, therefore, also has the ability to draw fine lines within the segments and define those by taking the lead.

Brand extension gives access to an accumulated image capital

Part of the high prices negotiated during takeovers of companies with established brands is the intention of the acquirer to extend the brand immediately after the take over, extend it and reap the profits from the image capital of the brand. That is why many companies internationally are known as good acquisition targets because they have established brands.
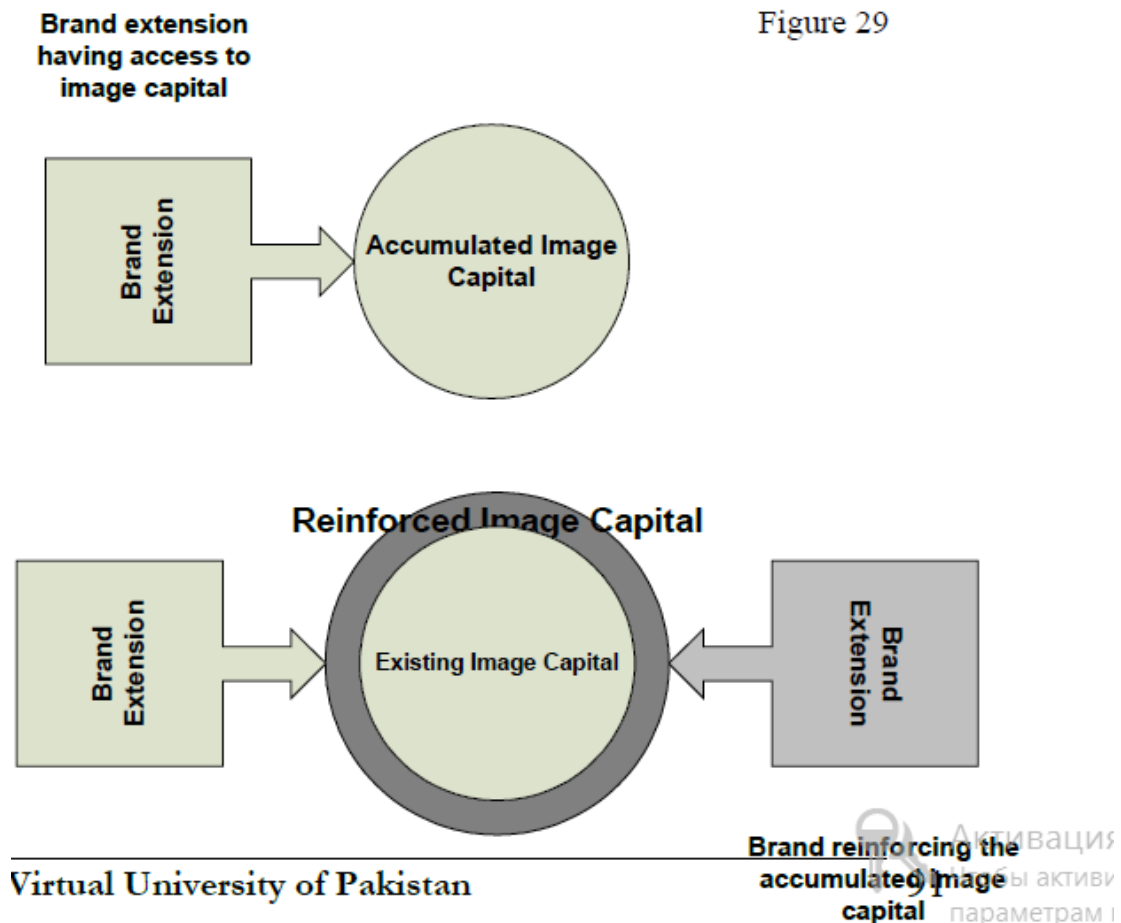
Some brands have such a high awareness that those are perceived by customers to be in categories where they are not present. As an example, a famous maker of jams may be perceived to be in the market of chutneys and pickles. Realizing such a perception on part of the consumers, companies feel obliged to get into those categories. Situations that drive brand extension make it mandatory for the management to capitalize on those. Such situations reinforce the accumulated brand image. It is an interesting phenomenon; on the one hand it motivates managers to acquire from the image capital of the acquired brand and on the other it lets extensions add to the cumulative image. The graphics further illustrate the concept.

Essential for brand survival It is absolutely essential to break away from the mono product in order to survive. All products have a life-cycle and are bound to decline one day.

Before a product is subjected to the implications of the law of obsolescence, we must introduce another as a strategic move into a diversified area. The product gains from the brand name and yet it is independent having its own meaning.

Accumulated Image Capital

Brand extension having access to image capital

Figure 29

Brand Extension → Accumulated Image Capital

Reinforced Image Capital

Brand Extension → Existing Image Capital ← Brand Extension

Brand reinforcing the accumulated image capital

Positioning as the key for extension

Positioning being central to brand strategy is at the core of extensions. The three components of positioning in the form of the definition of business, the target market, and the point of difference are the guidelines for positioning. Whatever extensions that we may be considering have to stem either from one or a combination of these three fundamental components of positioning. Let's discuss them one by one.

Extending your target market

This extension is all about defining new segments that are going to be served by a product with features differentiated from the basic product. A bicycle manufacturer getting into manufacture of mountain bikes is extending the target market. A jeans manufacturer getting into comfortable and fashionable dress pants is again extending its target market of jeans. We may have been considering such examples before, but they were restricted only to the understanding of what extensions are. Here, the emphasis is on understanding the rationale for such extensions.

Extending the definition of business

Extension of segments or target market automatically leads you to extend your business definition. Obviously, you now want to operate in more than one segment, which requires that you extend definition of your business. Getting into more segments, in other words, means redefining the scope of the market within which the company plans to operate in a bid to satisfy more than one need with more than one offering.

Extending the target market cannot be viewed in isolation of extending the overall business. Going back to the examples of bicycles and jeans, their manufacturers have to redefine the overall businesses with emphasis on a larger scope.

Extending your point of difference

In order to make extensions meaningful, improved features with convincing benefits have to be offered to customers. Small improvements are taken for granted by customers, who expect you to keep making those for the sake of contemporariness.

Meaningful improvement with an attempt to address a different need, however, justifies an extension of the existing product. Every time you come up with a new formula of packaged yogurt (fat-free, high-calcium, or fruit formula) you are improving the point of difference and hence deserve to extend the brand. The improvement can also be in package size to suit customer needs at different occasions. A pack of yogurt to be served with in-flight meals has to be smaller and ergonomically designed keeping in view the occasion. This refers to "brand for when" and "brand for whom".

Each time a chip maker comes out with a faster chip, it extends the benefit and hence the point of difference. The point of difference, in other words, relates extra benefits that you offer your customers.

It is obvious that extending the brand on the basis of extension of the target market, overall business, and the point of difference relates to line extension. When we consider extending (diversifying/stretching) the brand into new areas, we extend the entire positioning. It is newposition. The concept is graphically illustrated for clarity.

Extending the entire positioning

The examples of oil filters manufacturer getting into rice husking, or a company of shoes getting into the area of foods explain this concept. It is risky, but if done with the right strategic deliberations, it can make a company follow the true portfolio approach to managing its brands. What bears importance here is the need to add to image capital and not diminish it. Diversification must give the brand strength and supplement the overall brand picture.

The next step is to learn "when" part of the extension exercise. This relates to "when" part of extensions.

When should you extend your brand?

Brand extension is a very sensitive area that takes on highly strategic proportions. An extension should come by only with a strategic rationale supporting it. It must be undertaken to add strength and value to the brand and not diminish those. Therefore, before undertaking an extension, we must make some strategic deliberations relating the following factors. We must make sure that the extension:

⇨ Is consistent with the brand vision.
⇨ Upholds the overall brand picture.
⇨ Is consistent with overall positioning

Consistency with brand vision

Vision tells you where you are and where you want to reach. You are clear about the financial gap that you have to fill. New introductions have to be undertaken in that light keeping in view the bases of positioning. It was during development of the company vision and in turn the brand vision that you determined any related (line extension) or unrelated (brand extension) areas that you planned to enter. You did that in the light of existing brand strengths and weaknesses. That vision must lay the foundation for decisions relating extensions.
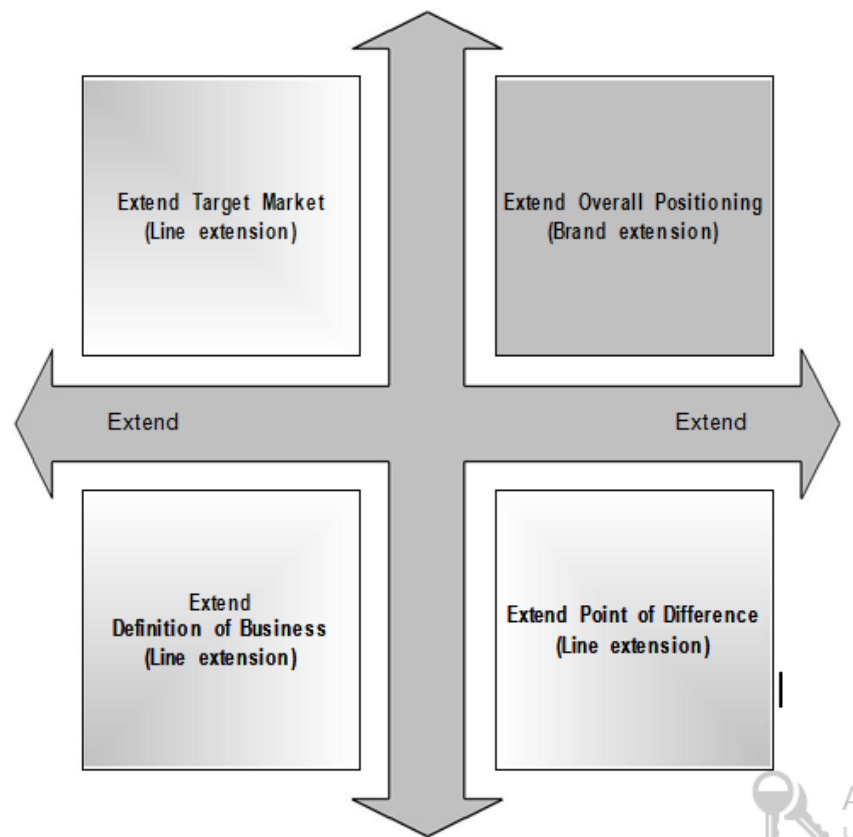
Brand Positioning – key to Brand Extension

Fast food Brand XYZ example

If the vision is all about restricting ourselves to the lunch market, then we may get into a few more entries in segments right and left of the one we chose to stage our debut.

If the vision calls for getting into the fast food by targeting the lunch market as just the starting point, then extensions could take on different forms.

You may like to get into related lines like fried chicken, when you put up restaurants that will gradually redefine your target market and overall business.

Razor blades and shave market example

A company in the market of shaving blades may define its business as the blades market. The moment it envisions getting into shave creams, balms and other related products, it must translate that vision into creating brand extensions that are consistent with the vision.

The company is redefining its business as the one from blades to the one in personal care items. The redefinition is through extension by target market, but essentially necessitates changing the entire positioning for different products it plans to introduce.

Extension must uphold and strengthen brand picture

We know the image of our brand and the contract it fulfills and also the fact where our brand stands against competition. Knowing this picture, we should not go wrong in extending our brand. In other words, if we have created the right brand picture it almost guarantees right kind of extendibility.

Consistency with overall positioning

The price, the target audience, the distribution, and the quality factors must form a position that offers extendibility possibilities. Any abuse of one or more of the factors amounts to deviating from the original position of the brand. To make sure that there are consistencies between overall positioning and brand extensions, we have to make sure that the extensions do not:

- ⚲ detract customers from what the parent brand stands for
- ⚲ confuse the customers in making their choice (meaningful differences)
- ⚲ cannibalize your current brand

A few more deliberations: Basically, these refer to things that should be avoided.

Not to have a narrow vision

Some companies keep the brand locked up in a way that they define its scope in too narrow-minded a way. They forget that brands are broad-minded creatures that have a caring character in that they like to respond to changing needs and in the process add value to themselves and the companies. The result is that the brand's real potential never blooms and it either becomes static not adding to the companies strategic goals or declines and goes into the records of history as the one that was killed for not getting an extension. The following example illustrates this thinking to the benefit of all of us.

Managers responsible for "Maggi" at Nestle, Switzerland thought that the image of their brand was old and they needed to launch further introductions with little connection to Maggi. They locked the brand and its potential in the sense that Maggi could not cover latest and modern products. This is what they thought and not the market. They had forgotten that brands stay alive by continuously responding to the changing expectations of their customers.

By disassociating new introductions with Maggi, they only reinforced Maggi's old image. They had forgotten that a brand proves its modernity by creating and offering new and modern products from time to time. They got caught into the product life cycle and failed to realize that brand building is a long gradual process. The vision for the brand should not be narrow to the point that the future becomes hostage to too much focus on the past, as the case has been with Maggi. The present must be given importance to determine brand's potential to stay up-to-date. Failing this, it cannot enter the future with energy and zeal.

A manufacturer of spark plugs staying too much focused on the existing line of business cannot grow beyond a certain point by not going into other accessories. The vision should also not be broad to the point that a company stretches it in all directions. A brand cannot be everything to everybody. The same manufacturer of spark plugs should avoid, by all logic, getting into foods.

Awareness and reputation of the parent

These two always provide an advantage and have to be present at the same time. Absence of one may harm the brand. Levi's experience demonstrates that despite having high awareness, its reputation for blue jeans did not transfer into formal clothing4. The lesson is to be sensitively careful to extendibility if one of the factors does not seem to be working in favor of the brand. Do not do it if you are not 100% confident.

Brand essence should be applicable

Extension of overall business in certain situations stems from a common denominator. Bic's brand essence is all about small disposable items like ball point pens, disposable lighters, and disposable razors. The denominator in this case is disposability that gives Bic a position of similarity across the categories of writing instruments, lights, and shaving. When Bic got into perfumes, it failed. The character of perfumes did not have the element of disposability. The lesson here is not to go against the essence of your brand, especially if the essence is very strong.

BRAND PORTFOLIO

Due to limitations of line and brand extensions, companies have to go for a portfolio of brands. Portfolios offer advantages. At the same time, they also are not without disadvantages. The lecture discusses both.

Brand portfolio and segmentation

Every market can be segmented by product, customer expectation, or the type of customers. A chain of hotels may like to have its presence in different segments of the hotel market by having three-, four-, and five-star hotels. Its presence in three different segments addresses different needs of customers within those segments.

Customers in the three-star segment are economy- oriented audience interested in neat accommodation with no frills at affordable pricing in a middle class area of town. Conversely, customers in the five-star segment are desirous of high comfort, pampering, sophisticated ambience, and high status. Customers in the four-star category fall in between the two ends of the spectrum.

The example illustrates different products and different types of customers with different expectations. Considering the variance of factors among different segments, it is obvious for the company not to sell its services through three kinds of hotels under the same brand name. With the same name, customers in the five-star segment will feel degraded and under-served, while those in three- and four-star segments will expect to have upgraded service offered at the five-star set-up at the pricing of three- and four-star accommodations. It will lead to quite a confusing situation devoid of a rationale.

The company therefore should consider different brand names for the simple reason that all three products relate to a particular set of corporate objectives through segmentation and differentiation. This implies that depending on the corporate objectives, degree of competition,and company's resources, the company should decide about the number of brands it should be having. In this case, it looks apparent to have three brand names for three different hotels. It, however, is a multi-stage process that drives one to decide the practical number of brands. The stages are related with a historical study of the segments that you have been in or are interested in. All strategies flow out of two areas of marketing – segmentation and differentiation. That owes to the external growth factor of the total category. As mentioned above, given the degree of competition and historical perspective of the whole category, you position differentbrandsindifferent segments.

The Positioning Map
Multi-brand portfolio

Price

High

Own

Competition

Low   High   **Quality**

Low
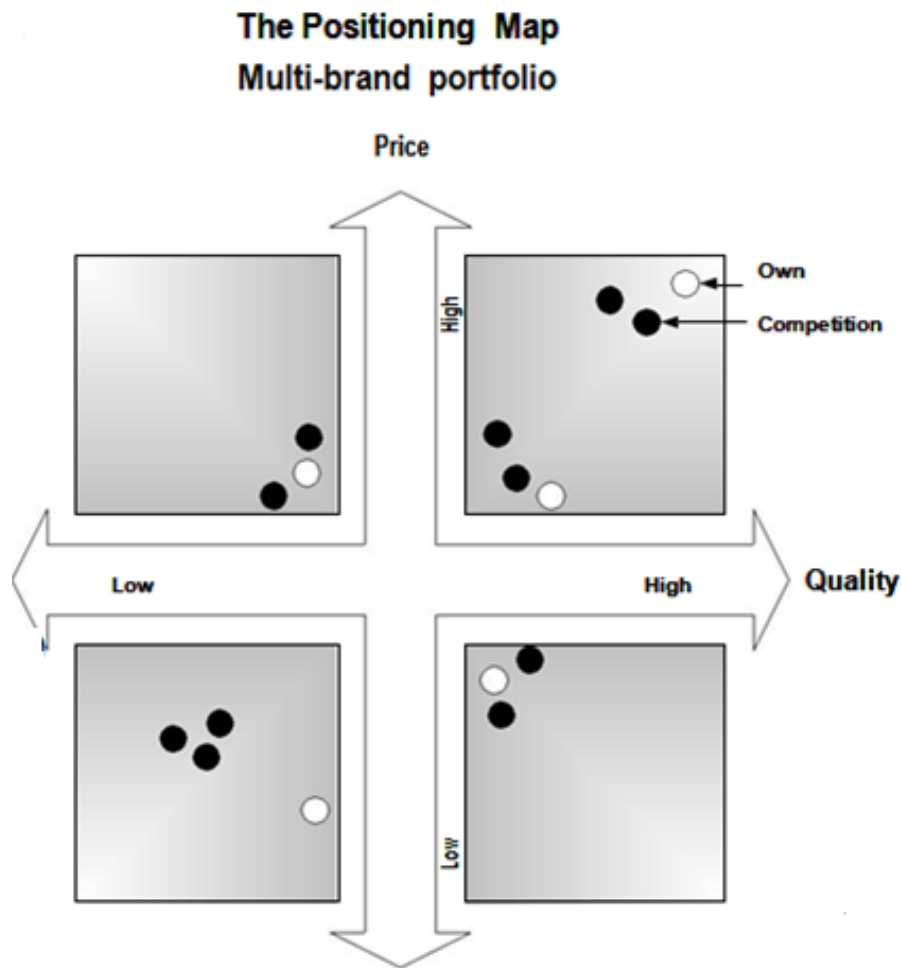
To address differentiation, you may not successfully do that by way of having just one brand do all the jobs for you. It is graphically illustrated.

Segment variance

If the variance in terms of segments is too broad like in the case of the hotel, then one brand will work at cross purposes. You have to have different brands. If the variance is narrow, then you may go for an extension. But, you may still go for some distinction in name that signifies differentiation. It can be exemplified by way of calling one economy and the other executive.

By competing at the bottom of the top segment (top right quadrant), you are defining new boundaries, repositioning the competition, and keeping it off-limits to your top-of-the-line offering, which is surrounded by two direct competitors. You are a little more expensive there, but less expensive at the bottom of the segment where you have a nice fighting brand with higher quality than those offered by two others.

The variance in segmentation corresponds to different positions. That is, different positions on the positioning grid necessitate different brand names. A multiple brand

policy therefore corresponds to a segmented market, where various expectations in each segment are not only different, but also seen as incompatible by consumers.

The above means customers in upscale segment will never accept the same brand name unless there is differentiation between their brand and the one that is perceived inferior. You may go back to the hotel example. As a comparison and conclusion, we can say thatwhile brand extensions correspond to a strategy of domination and competitive advantage via low costs the multi-brand strategy is a logical consequence of a differentiation strategy and as such cannot coexist with low costs in view of reduced scale economies, technical specialization, specific sales networks, and necessary advertising budgets. Yet it should not mean that companies are prepared to spend unlimited sums in the areas of multi-brands. The objective to cut costs never escapes managers' attention. They like to offer differentiation at the end of the production process, thus trying to make brands appear different. The tendency to achieve productivity gains via fragmentation of the assembly line at the fag end of the process kills two birds with one stone:

Companies try to achieve differentiation there and

Companies try to reap the benefits of the learning curve, which is characterized by a lot of common features

Most of the multi-brands of cars make use of such productive gains. Look at the models by Toyota and see the differences between the base model and the saloon model. Differentiation seems to take place after having had the gains of productivity in terms of the shape of the model. Even the latest "Altis" with a bigger engine is subjected to the philosophy of production harmony and cohesion.

What makes it necessary to have different brands?

Collective play

One brand cannot develop the market. It's the collective positions and communication campaigns that educate the customers about different features different brands offer. When different players collectively promote their respective differences, it tends to promote the market collectively. Combined advertising offers a combined view of the whole category thus improving the whole category. Multiplication of players, therefore, becomes essential.

Market coverage

The role played by multiple players automatically strengthens the concept of segmentation, because they all opt for different segments by positioning them uniquely. Such situations lead to coverage of the market that is not possible with just one brand. Different price-quality-indexes (PQIs) emerge and one brand revolving around all PQIs is bound to lose its identity.

Effective fight to competition

You introduce a new brand to position it right below established competitors' pricing. You don't do that with the original brand, for that amounts to cutting brand's pricing and hurting its image. Refer to figure 31. In other words, it offers you to create the territory of marketing battle away from that of your original brand.

Fills the market and keeps the competition out It offers you the opportunity in line with the fundamental that says a multiplication of players is important. A strong player can take on the role of a multi-supplier by having different brands and hence keeping the competition out.

Protects the main brand image

If the new entry is not successful, it doesn't hurt the original brand.

Responsive to retailers' needs

A multi-brand policy fulfills needs of different retailers, because different retailers cater to the needs of a different level of clientele and, hence, needing an array of different brands for different customers with different demographic backgrounds is essential. Actually, the identity of retailers is defined by the selection of different brands they carry and specialize in selling.

Takes over where extensions feel limited

A multi-brand policy emerges from the limitation of extensions to look after all the segments of the market. A sophisticated market is bound to be confused by extension of one brand, if it addresses different quality and needs-fulfilling criteria across different zones of customers' attitudes. Electronics offer a perfect example. Japanese electronics companies offer more than one brand of televisions and musical instruments by being sensitive to the following psychographics.

There are customers who buy on the basis of technical innovation and, hence, don't care about the price.

There are customers who buy on the basis of basic need-fulfillment, and hence, are economy-oriented

There are customers who buy on the basis of reliability and durability

If you classify customers in the above three segments, you may like to have different brands for those segments. You, therefore, have to relate different features and benefits with the brands' attributes. One brand extension cannot do that.

Constraints

Clear meanings

In multi-brand portfolios, each brand must have its clear meaning. If the differential between brands is minimal and not meaningful, then not only the customers, but also sales people feel confused and offended.

Cost management

Costs always remain a prime objective of all businesses. They try to keep so many common features, which should not expose themselves to the point of undesirability. Should consumers perceive commonalities not appealing and rather offending, then managing costs for the sake of keeping them low can endanger brand's image capital? Businesses must maintain a balance between such cost management and image capital of the brand.

Developing the model – multi-brand portfolio

Just on the lines of brand extensions, we have to go by the following steps:

Look for opportunities and growth areas.

Analyze and assess the potential each opportunity offers in targeting customers in each segment.

Go for the brand strategy that explains its positioning, its reason for being, and the strategic framework for executions of tactics.

BRAND ARCHITECTURE

We have seen that all brands regardless of what circumstances gave them birth appear as independent brands and play a significant role through their existence. We have also seen that circumstances can lead to creation of a stand-alone brand, a line extension, or a diversification. Corporate strategies also lead to a collection of different brands that are managed as a portfolio or a set of portfolios in case of large corporations.

What can be concluded from our discussions so far is that brands belonging to one business do not work in isolation of each other for the reason that one set of circumstances give rise to the existence of another brand – whether extension or stand-alone under a different name.

Such developments are not without links and hence drawing a hard and fast line between and among the boundaries of various brands is difficult. Their relationships go across each other's boundaries and make those brands appear in hybrid forms, at times. If a brand is an extension, it could well be part of a portfolio of a few other brands that may be a mixed bag of stand-alones and extensions of some mother brand. The stand-alone(s) could be an acquired brand making a good combination with other stand-alones or extensions introduced by the company at different occasions for different segments. How do you manage such apparent complexity? The lecture attempts to answer that.

BRAND ARCHITECTURE

To understand brand architecture, we must know that there is a close relationship between brands and products; brands distinguish one product from the other and they also indicate products' origin. Given that, there has to be a system followed by different companies to name and then organize their products as brands in production and marketing terms. The system must also make it easy for the customers to understand those products in terms of buying different brands. Such a system is driven by the branding policies a company follows and is known as brand architecture.

Branding strategies

This system of naming brands and organizing them in marketing terms can be understood by looking into how different companies develop brand-product relationship by offering every brand a separate role. A study has revealed six different strategies followed by companies1. All the strategies facilitate branding distinctions or serve as indicators of products' origin.

✿ The product brand strategy – PBS

It involves one particular name assigned to one particular product. This name reflects just one positioning and hence is restricted to that positioning. In other words, for each new positioning there is a new brand name and hence different names correspond to different positions.

The Product-Brand Strategy
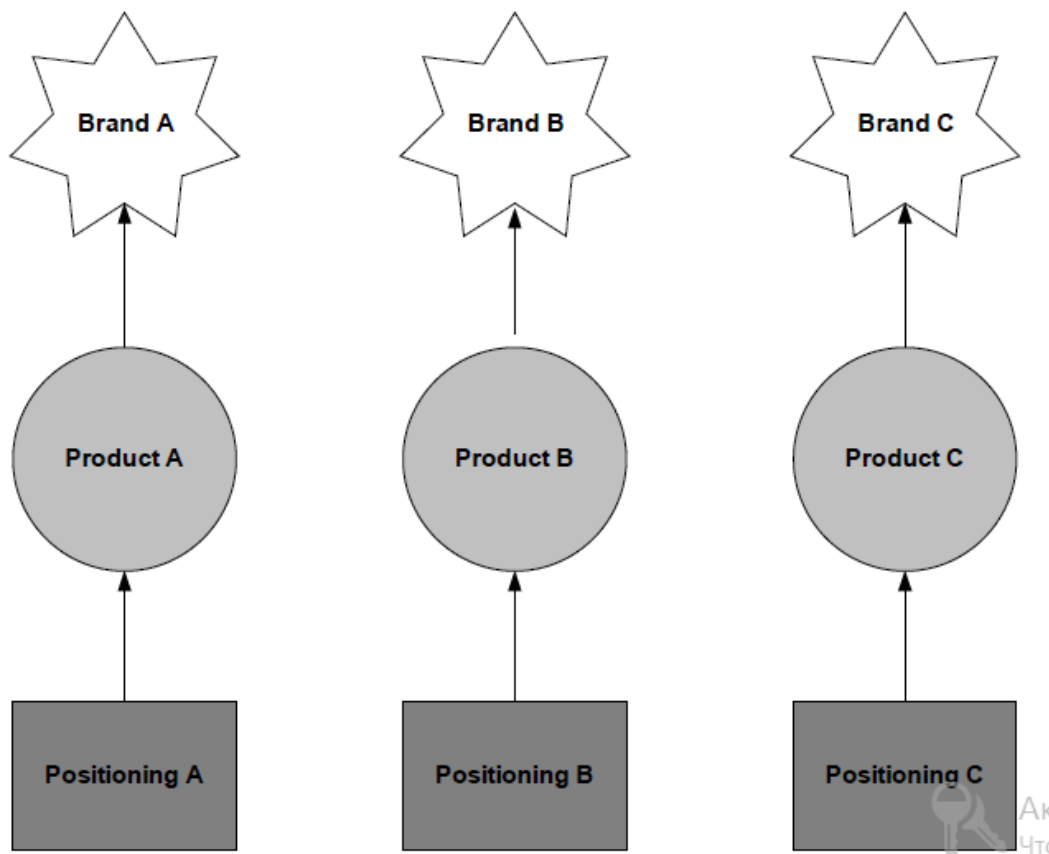
P&G has adopted this as brand management philosophy. In almost all fields they are a part of, they have different brands for different positions – detergents and soaps. Each of the products has a precise and exclusive position to itself. As an example, one soap could be for skin enhancing properties, another for energy, another for family use, and yet another as a medicated one. As another example, a detergent could be positioned as the best for taking the stains out, the other for overall neatness, and yet another as the best value for money etc. Each brand has an identity of its own and hence a complete chain of application of all marketing practices. The accompanying figure graphically explains the concept.

The benefits are:

Resourceful companies opt for this strategy; they like to create that multiplication-of-supplier-effect to energize the category with multiple brand entries. It is the collective effort on part of all players to do their bit in talking about points of difference, educate the customer and as an aggregate effect bring the category to full bloom, you will recall from discussion on multi brands.

One big manufacturer like (P&G) likes to occupy and dominate all the functional segments of the category, and by meeting different needs it consolidates its market share.

Different products help customers identify those differences better than extensions that have external similarities. It is because of these factors that one starts appreciating how the differences among various offerings of detergents are optimized through their precise positioning that define – stain removing properties, a neat wash, or something that's ideal for hand wash etc.

The product brand strategy is good for companies that enter a segment to preempt a position and then acquire the role of the market leader. The name of the company may not be highlighted with the result that each brand is independent of each other and the failure of one does not really affect the other.

Drawbacks of the product brand strategy

Each brand launch is a new launch. It is expensive considering the costs of communication in different sectors of company's choice.

Retailers are skeptical of new product's chances of success and hence resist stocking.

Multiplication of product brands in narrowly defined segments demands quick return on investment. It is possible only in new and emerging markets in which even smaller volumes can bring about high returns due to premium pricing.

Unlike extensions, a new brand cannot benefit from the success of another one within the portfolio.

Distributors give the brand hardly any patronage despite company having a high level of awareness and reputation.

✍ The line brand strategy – LBS

This strategy deals basically with extensions. Meaningful success of a brand can motivate a company into extending the line. The advantages are known to you. This sets the stage for finding meaningful "fits" and "complimentary" products. The objective is to offer coherent products under the same brand name.

Line Brand Strategy

Figure 33

Lipstick

Mascara

Cleansing Cream

Cosmetics

Complementary Products
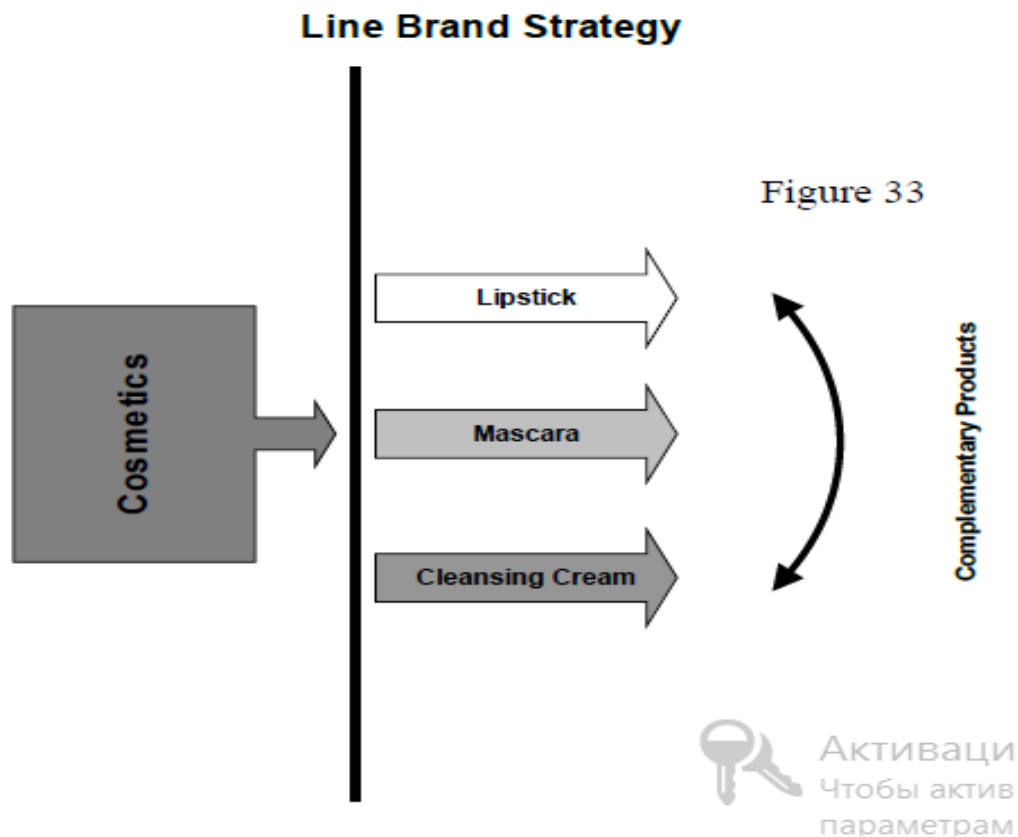
Upon success of a brand of lipstick, the manufacturer should get into complementing products that may have an emotional appeal across the same clientele. It, in other words, exploits the success of the concept by extending the brand while staying very close to the central theme.

The benefits are:

The eventual extension involves only marginal costs linked to distribution and packaging etc.

It reinforces the selling power of the brand and the image.

It leads to ease of distribution.

It reduces launch costs.

The drawback is:

That you have to stay very close to the existing product.

Range brand strategy

This strategy offers one brand name through a single promise for a range of products belonging to the same area of competence. Range brands are common among food items – soups, sauces etc., and luggage industry; suitcases, brief cases, and attaches.

Communication takes place in one name for promotion to all the product subjects. Brand, in other words, communicates in a generic manner by developing a unique concept.

Range Brand Strategy

Figure 34

Range Brand Formation
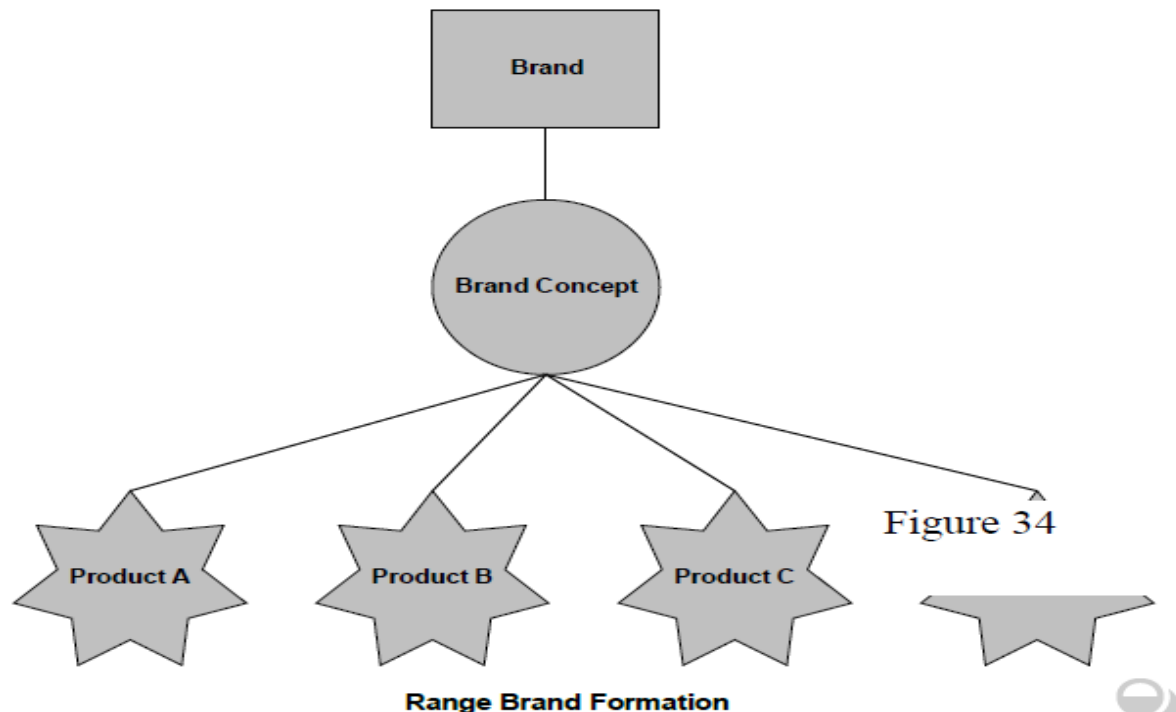
☞ The umbrella brand strategy

When the same brand supports several products in different markets, it is known as theumbrella brand.Yamaha in bikes, pianos, and guitars; Philips in electrical bulbs and lighting, electric shavers, and televisions; Mitsubishi in banks, ship building, cars, and foods etc are all examples of umbrellas.

The main benefits are:

One can capitalize on the strength of one product and gain the benefit of scale economies in other markets.

The almost instantaneous goodwill can be generated only if the brand is well known and enjoys great reputation like the brands mentioned above.

Firms of great reputation can save a lot of money on communications if they enter markets where they were not present before.

In present day's over-communicated era, this is a tremendous advantage given the fact that the cost of achieving awareness is out of reach of so many companies.

Umbrella Brand Strategy

Figure 35
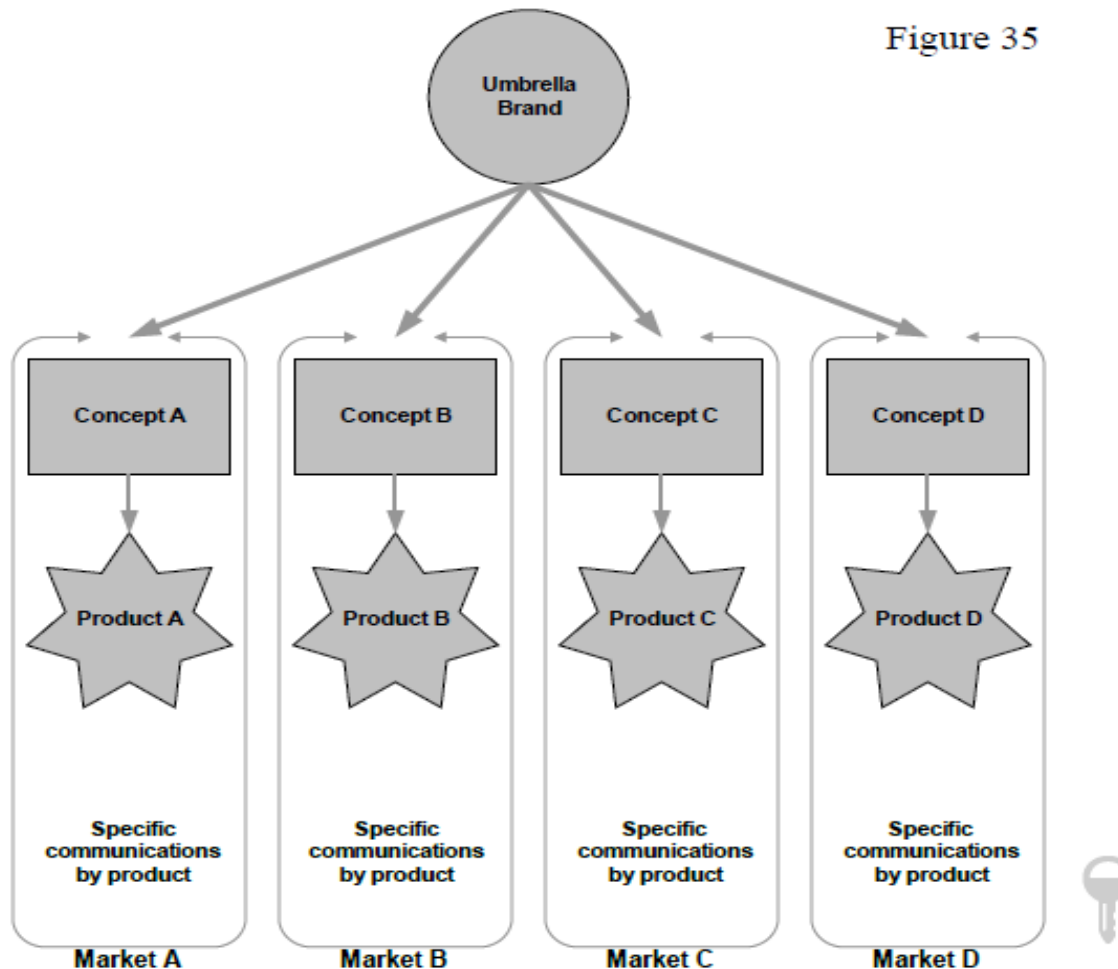
Umbrella brand strategy allows the core brand to gain strength from the associations in the areas it was not present before. Umbrella attracts new entries for the image capital, but in the process gets more strength from the new entries and reinforces the image capital

The drawbacks are:

The main constraint toward creating the umbrella is the fact that each division has to come up against a specialist brand in its segment convincing the customers that they not only match, but excel in quality. In most of the cases, it is not evident except the Japanese companies! Toshiba in different segments! From computers to TVs to musical instruments to kitchen appliances and more areas are rightly perceived as Toshiba's strengthThey have to prove the relevance of each product they produce (Toshiba's example) otherwise it becomes difficult to become a dominant force. It is because of this quality factor that only companies with good reputation can be successful in creating such a strategy. Mere awareness doesn't work.

Since umbrella strategy is a stretch into categories not charted and navigated before, there should be a limit to the temptation. It is like stretching a rubber band; beyond a certain point it breaks. It is called the rubber effect. The more categories a brand covers, the more it weakens like a rubber and hence loses its force.

☞ Source brand strategy

This is very close to umbrella brand strategy with one exception –different brand name under the source name. This is a two-tiered structure with double branding. Most of the Japanese cars are examples of the source brand strategy.
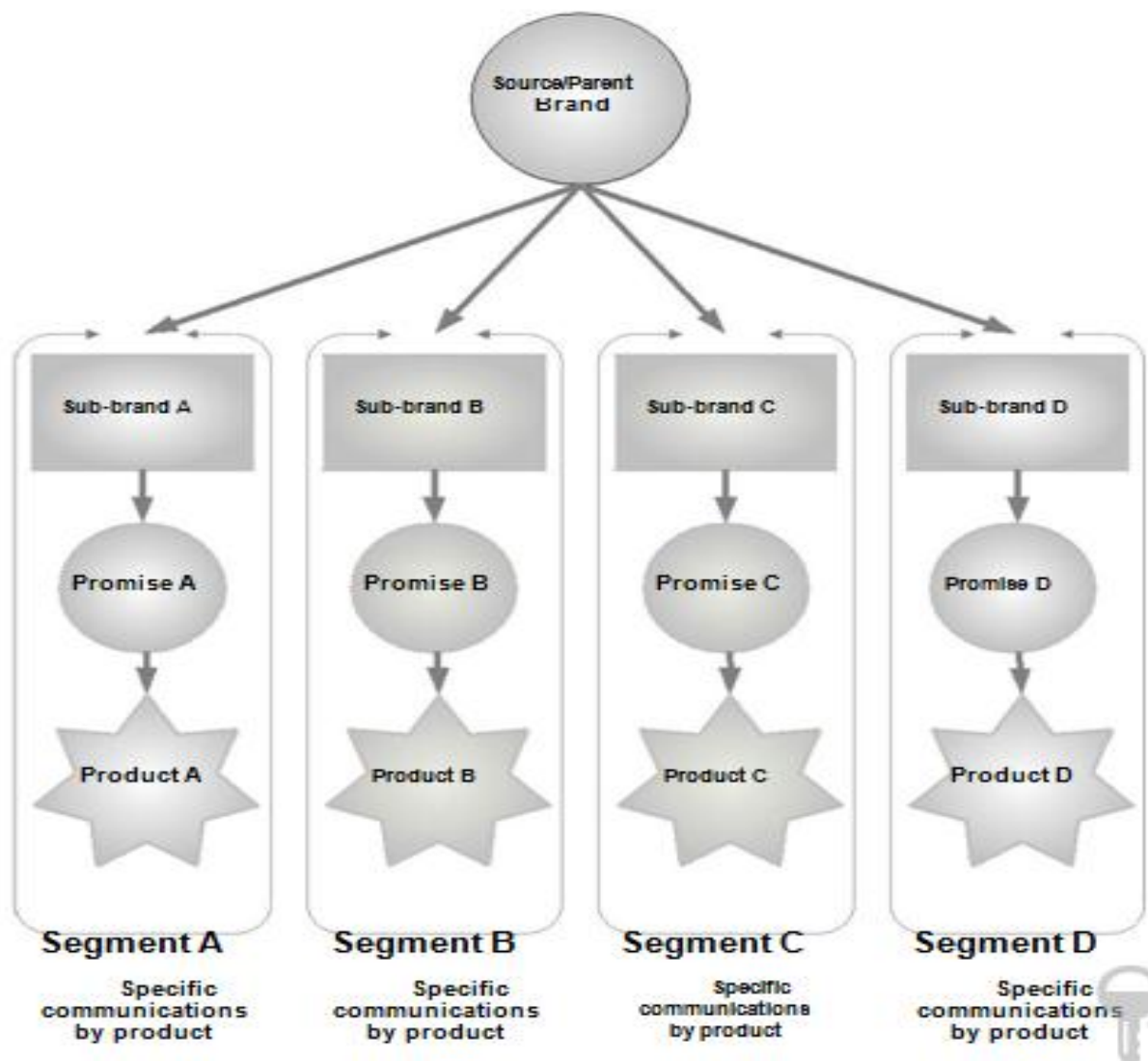
One product starts andgets sub-divided intosub-species giving them different names. As is already learnt,different names aregiven to different products to fulfill different promises.Each product with adifferent name carries one specific contract. The

power of the source supports the offspring until they become established brands in their own right.

The sub-brands or theoffspring become so strong owing basically to strength of the source that a point comes when the source takes the back seat and offspring emerge as the main brands because of their own promise.

If you look at the source brand on Japanese cars, you may not find that. The brand expression is limited only to the logo of the source, because the offspring have developed a strong identity of their own.

It is a unique situation in which the brand strategy offers a two-level sense of difference and depth. The family spirit dominates! Toyota and Honda are excellent examples of this strategy. And, there are many more.

✎ <u>Endorsing brand strategy</u>

The endorsing brand is generally the company name, which takes on the overtones of a brand name. It covers groups of diverse products in the shape of product brands, line brands and range brands. Strong company names support different brands that demonstrate their originality - LU in the category of biscuits on the Pakistani market is an example of this strategy. Cars by GM (General Motors) are another example on the side of consumer durables.

The endorsing brand strategy is one of the least expensive ways of giving substance to a company name as a brand name. The company name in return gives strength to the product brand name.

What strategy to choose?

The six models discussed are the typical cases of branding policies adopted by different companies as brand architecture. Different strategies have different advantages and disadvantages to offer. There is no prescribed list of "dos" and "don'ts". In reality, there is no fixed model for a certain situation. Companies use one or a combination of the models discussed.

It is not a matter of style. It is very strategic in nature aimed at promoting company's products with a long term view. The nature of arrangements used by the companies is developed in response to the strategic situations of those companies, their markets, competition, and company resources.

The choice of brand architecture of a company, therefore, is a reflection of the strategy it chooses under a certain set of circumstances. It must be considered in the light of three factors: the product; consumer behavior, the firm's competitive position.

PRICING

We move on to the next learning block of pricing. The lecture discusses the concept for developing premium pricing for your brand. The considerations that lay the ground for developing such a model are a part of the lecture.

Pricing

Once you have determined the positioning of your brand, developed brand architecture, and have plans in place to leverage it through the right channels and communication, the next most important task is the determination of pricing. Pricing has to be done keeping in mind that your brand is an asset that is going to provide you with the right contribution to enable you achieve all your financial goals.

Raising or lowering the price point makes the difference between high or low contribution margins. Pricing, in other words, determines the level of value that it adds to the company.

The ideal situation is that we try to command a premium price in relation to competition, but idealistic set of circumstances is not what always prevails in the market. We, therefore, have to take a realistic look at all the determinants of our brand architecture strategy in the light of forces that define the market.

Strong umbrella lets you charge premium

If you are stretching a strong, powerful brand or following umbrella strategy to gain the benefits of a strong brand, then you should be all set to go for a premium price.

Source/endorsing brand strategy also helps premium

Similarly, if you are introducing a new brand under the source brand or endorsing brand strategy to gain the benefits of brand power, you again are in a position to charge a premium price.

The question is what if you are a new company offering a new brand? It may be difficult to go for a premium pricing. However, it is not impossible. You may co-brand and go for a decent price point, if not premium.

There are so many different pricing models, but let's concentrate on the premium price model and see under what conditions it works best? Some of the following conditions offer a good ground for brands to stand on and enjoy the benefits of premium pricing:

The stronger the brand, the greater the potential to charge a premium price. Customers are always willing to spend more on a brand that is well established and commands power.

A strong extension (line or brand) sets the stage for a launch that is less expensive and, hence, offers you a platform from where you can extract better margins. This is a case of lower costs!

By the same token, you can recover development and launch costs sooner if your introduction is endorsed by a strong brand. Customers are willing to try a new product under a familiar brand name than a new one. This also entails lower costs!

The larger the base of loyal customers, the greater the chances that those customers will pay a premium price. That is why managers work so hard to retain their customers over time. The longer customers stick to one brand, the more they are willing to pay, thus enhancing value of the brand.

A strong brand allows all the members of the channel to make more money and make it fast. It, therefore offers you the leadership role and you control the channel.

A strong brand offers opportunities like licensing, franchising, and co-branding. Capitalized strategically, these offer companies value in financial as well as market terms.

Three facts about strong brands

We can figure out three facts from the above conditions:

Brand strength, pricing, and costs are related

Brand strength, pricing, and costs have such a relationship that their combination allows you to have a healthy bottom line either through charging a premium price or through lowering costs.

Strong brands offer added benefits and hence premium

Another fact that is clear is that strong brands are superior products that offer you added benefits. If you happen to be at the top of the value pyramid, there is nothing stopping you from charging a premium price.

Brand loyalty brings you premium

Similarly, it becomes obvious that loyalty and premium pricing are also related. Maintaining brand loyalty, therefore, is one of the prime jobs of brand managers who must know what are the drivers of brand loyalty?

Factors that drive loyalty

General observations of marketing managers are substantiated by research findings that show us that the factors that really drive loyalty carry weight in the order they are shown asgrtaphics.
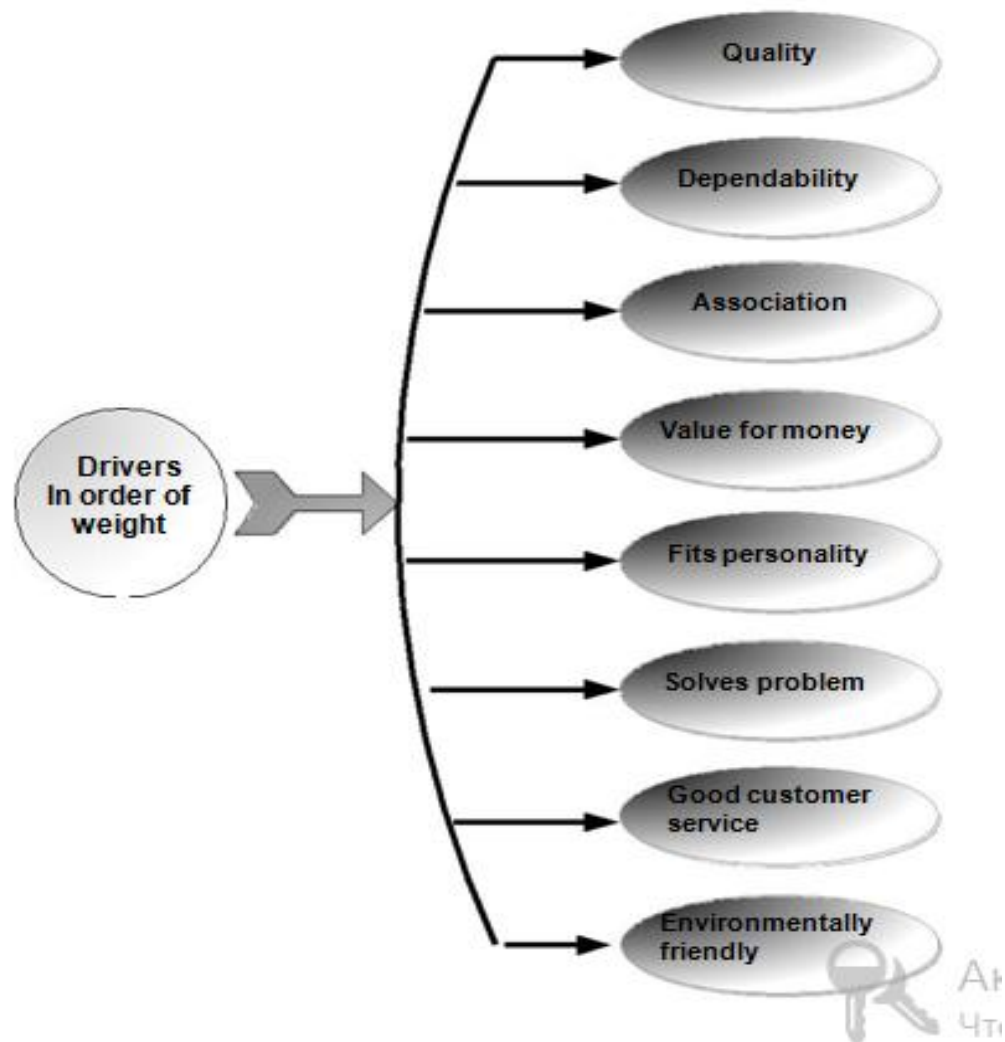
Drivers of Loyalty

The order is significant, and convincingly reflects the fact that it isnot the price that a company shouldfocus on; it is the benefits that must get concentration of managers. The more acompany can generate the drivers on topof the list, the better chances it has to charge a premium.The concept of value pyramid is gettinga testimony for credibility here. The need to be consistent all along the roadfrom brand picture to contract topositioning to brand architecture and communication cannot be emphasized anywhere more than here at the price juncture.

The pricing, in other words, has to beconsistent with product development strategy. Rest will fall in place. A goodproduct that can offer customers thebenefits illustrated graphically, preferably in the order shown has a greatchance to demand a premium pricing. This applies to all brands, tangible products and services, regardless of the category.

We have seen how a premium pricing model works, but then not all situations are conducive to charging a premium pricing. What then is the right model? We shall discuss that in the next lecture.

The pricing models are grouped into two pricing bases. The discussion centers on both the bases of pricing – *market-based pricing and cost-based pricing.*

Market-based pricing

Market- based pricing starts with the customer, competition, and company positioning. Keeping in view customer needs, price sensitivity, and competing products, a price is worked out to offer customers a superior value1. The price is worked out in the market.

This pricing model is just not possible without having a focus both on customer needs and competition (market intelligence). Concentration on one to the exclusion of the other is not going to enable you to come up with the right price.

Price, under this model, therefore is set in the market and not internally within the marketing and finance departments2. Market-based pricing model can be executed with different strategies relating product life-cycle stage. Those are briefly discussed for your renewed understanding3:

Skim Pricing: It works under the circumstances of high differentiation that gives you a sustainable advantage in quality-conscious market. The business charges a premium for delivering superior customer value until competition catches up.

Value-in-use Pricing: This model basically applies to consumer durables or industrial products that stay with customers for a certain period. From the time the product is bought to the time of the completion of the life-cycle of the product, the customers have to incur certain costs. Those certain costs could be anything from installation to maintenance to resale of the product.

If customers perceive that the economic benefit that they get out of buying such product is higher than that of competition, they will be willing to pay premium for your product. Examples are air conditioners and cars. Customers will pay more for brands they think offer them better value-in-use.

Segment pricing: One of the goals of segmentation is market-based pricing. Different customers in different segments have different product needs and different pricing priorities and sensitivities. This pricing model offers opportunity to set different levels of pricing for different needs. An example could be different packages offered by cell phone companies.

One thing must not be overlooked that the concept of economic value remains in force while working out pricing for your products belonging to different segments.

Strategic Account Pricing: Large customers are important customers to any business and therefore taken in a strategic light. The underlying assumption is always to maintain a

long-term relationship with such customers with focus on meeting their needs. To maintain the strategic relationship, you may offer a special price to such customers, while general prices are on the higher side.

By the same token, you may also make them pay you higher prices, while the overall conditions generally slacken and prices register a fall. Since the objective is to serve the customers with a long term perspective, offering them economic value that surpasses the one that may be offered by competition, the model works well.

Plus-One pricing: This model applies in mature market conditions, in which all products carry good benefits for customers. For those brands that are bent upon differentiating themselves from the rest of the crowd, they position themselves as a "plus-one" brand.

A "plus-one" position allows the business to charge a market-based premium price on the basis of that one feature which competition does not offer. Examples are Volvo for safety, BMW and Lexus for performance, and Mercedes for overall reputation of performance, luxury, and dependability.

What is important is an understanding of all the cost drivers and the full value of the product. Realizing the full value of the product that the customer perceives getting may offer an opportunity to charge more than what the traditional cost-based mechanism may present you. Attentions to product benefits and value for customer enable you to charge more, earn more and hence achieve more.

Cost-based pricing

Cost-based is adding your desired margin to the actual cost, and then adding to that margin of every member of the channel to arrive at the final selling price. Most businesses engage in cost-based pricing for their products. You may end up doing that, but you must not start with that.

Market- based pricing may look like the preferred approach to pricing, but it may not be ideal in many situations that may call for cost-based pricing. A cost-based model starts at the company with manufacturing costs in view. Desired margin is added and the product goes through successive channels with the same mechanism of added margins at every stage till it reaches the customer with the final price.

This pricing is applied mostly in the markets where differentiation is minimal. Let's discuss a few models in practice.

Floor pricing: As the name suggests it is the lowest possible price a company can charge. As a means for achieving certain financial objectives like margins or return on

investment, companies set to themselves certain benchmarks. For example, we have to have 20% margin or 30% return on investment.

Such pricing is not a reflection of the reality of the market; it is a benchmark that indicates that at the established price, the company will remain a viable concern by achieving its basic goals. It should be avoided.

Cost-plus pricing: This is what is generally referred to as cost-based pricing. It is essentially mark-up based. A mark-up is added at every stage of the cost. The channel works on this basis and the final price is the consumer price. What is important for businesses is to increase their volumes and lower their costs at the manufacturing end. Reduced costs mean higher margins. However, the margins to other members of the channel should stay the same.

Penetration pricing: This model is applicable in situations of growth. You want to increase your volume and in a bid to do that you lower the price. High volumes bringthe costs down. This model is workable in markets with minimal differentiation, price sensitivities, a large number of manufacturers, a large number of substitutes, and easy entry.

The one with the highest volume and share is in a position to cause a shake out and hence discourage new entrants from coming in.

Harvest pricing: This model applies to products at the decline stage when volumes are falling. You increase the price and try to reap higher margins on costs. When volumes further slide, margins compensate for that until the product fades away and makes way for another one.

We have seen that market-based pricing starts with the market, competitive situation, and product positioning and from there it works backward to arrive at margins.

Cost-based pricing starts from the company and reaches its final stage by adding mark-ups at every stage of the chain.

It is wonderful to command a premium price and make more margins, but volumes may not be that high. Conversely, it is prudent to follow a conservative approach that generates benchmarks for the company to charge prices almost bare minimum. But then, you may be grossly under-pricing and denying yourselves the opportunity of charging the right price.

There is no one answer to a variety of situations you may find yourselves in while pricing your brand. However, following are a few guidelines for you to be sensible in pricing your brand.

Differentiation: Level of differentiation does offer guidance into the kind of model you should follow. Market-based model for differentiated products and cost-based model for those with minimum differentiation seem to be one guideline.

Touch both the bases: Within the generalized guidelines, you should look into the positive aspects relating both the bases while pricing your brands.

Don't forget contribution: One important factor that you must not lose sight of is that of total contribution. You have to arrive at a combination of volume and margin that increases businesses' total contribution.

High volume and low price affect contribution negatively: Going for high market share and high volumes at the cost of price may not be a good strategy, for it affects contribution negatively. However, if there is a pressing argument for doing so, then consensus among marketing and other colleagues must be achieved to make the best possible decision.

Assess the perceived value: The perceived value your brand offers to your customers must neither be over-estimated nor under-estimated.

Stay within the mainstream price: Customers will never pay a price they think is beyond what they assess as the added-value your brand carries. Staying within the mainstream price is the answer. You should try to see how close or far off that is from both the models and what kind of contribution that offers. Subsequent to that consider the factor of contribution margin to have confidence in your decision.

RETURN ON BRAND INVESTMENT – ROBI

All strategic moves are made according to a game plan that we have learnt through different stages of the brand management process. From brand picture to positioning to channels to communication are all strategic formulations that require investment. If these formulations are put right, the result you get is brand value and profitability. To what extent the strategies in place are giving return on brand investment should be measured so that you can make adjustments in your strategic moves whenever and wherever those are required. The lecture throws light on that!

Return on brand investment – ROBI

The basic idea of ROBI is to measure brand's performance. To manage your brand well, you have got to measure its movement in terms of changing preferences and loyalties. The most important challenge here is to see that loyalty to the brand does not erode, for it is one basic measure of keeping your customers, bringing in new ones, and keeping them loyal as well.

There are different measures that are employed to gauge the strategic movement and growth of your brand. Such measures allow insights into the following factors or formulations that organizations have in place to ensure growth of their brands:

Allow to see that overall strategic movement is according to the strategic plans.

Offer insights into any changes that may be required in adjusting brand position or further strengthening it.

Let you adjust or reinforce communication plans for consistent focus.

Offer insights into provision of resources in a more effective way.

Let you identify brand strength and potential areas of growth within and across categories, that is, line or brand stretch.

Why measure performance?

It can be argued that in the presence of accounting measures like revenues, margins, and returns on revenues and investments, why measure brand's performance? The achievement of financial goals is a requisite of the highest order. What else is needed? These are interesting questions and should be answered.

Beneath the surface of accounting and other statistical figures are strategic factors that cause subtle changes to brand's movement as time passes by. It therefore becomes important to track such changes in order to make right decisions and adjust tactical moves

relating those changes. In other words, we measure, on the one hand, financial results, and, on the other, strategic factors that cause those results.

Brand dynamics

There is a cause-and-effect relationship between strategic factors and financial measures. The strategic factors, according to the most relevant brand equity model by Young and Rubicam (Y&R) are:

- Differentiation
- Relevance
- Esteem
- Knowledge

According to this model brands are built sequentially according to the four factors as shown inthe graphic illustration.

Model of Brand Dynamics

Differentiation

↓

Relevance

↓

Esteem

↓

Knowledge
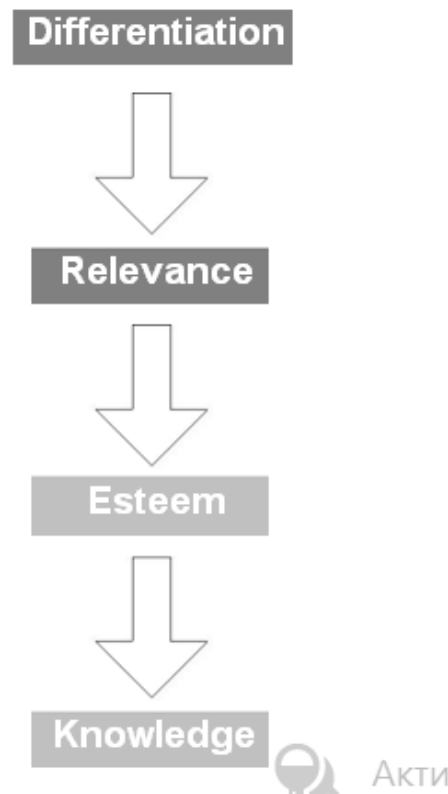
Differentiation comes first, as no brand with ambitions can become strong unless it has a point of real differentiation. It is the bottom line characteristic of any brand that seeks to acquire price premium or a decent price with good margins.

Relevance is next on the model. It means that a brand must have clear meaning for its users. Unless it is relevant for the target market, it will not buy it, despite being much differentiated.

Very expensive professional cameras and chronograph wrist watches are much differentiated, but they have an appeal for a niche market and not a large target market. Therefore, they are no good for a common customer.

If a brand has differentiation and is highly relevant for a big market, it becomes a big seller and, hence very strong.

Brand strength, then, is a function of differentiation and relevance.

We can say that

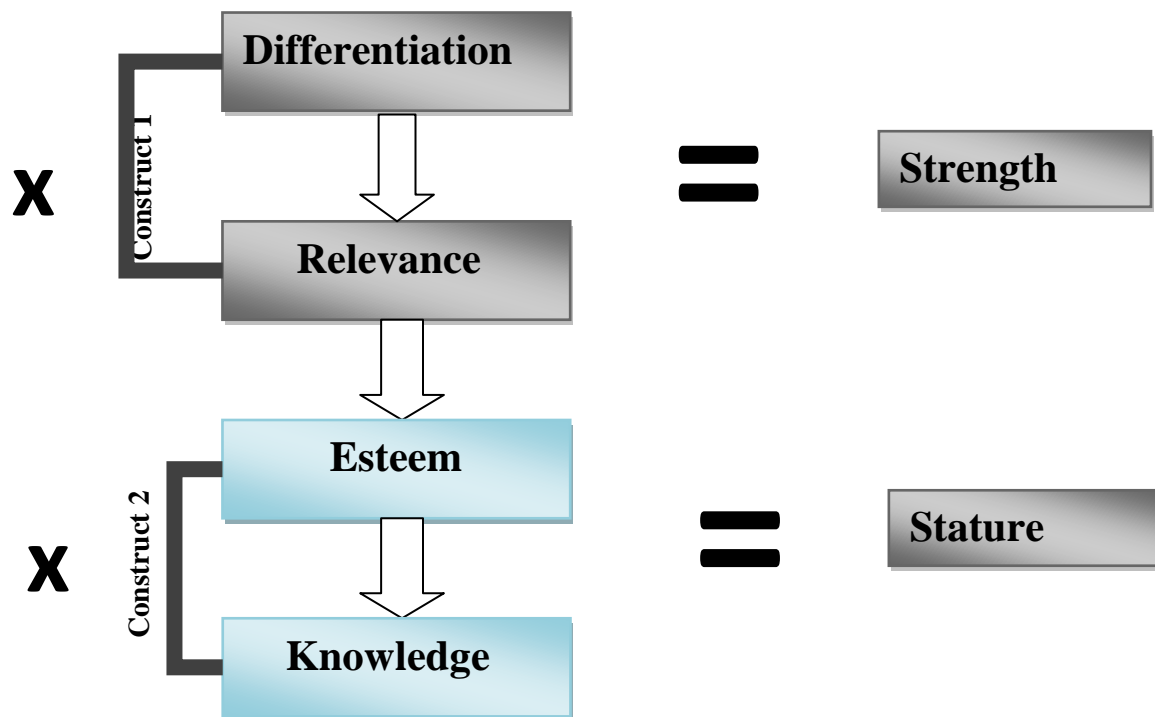**Brand strength = Differentiation multipliedby relevance**

We must try for our brands to become strong on both characteristics, which offer one "construct" of brand strength. The other "construct" comprises of the other two dimensions that are esteem and knowledge. Esteem multiplied by knowledge is the brand stature construct. See the graphics on the following page.

Esteem refers to perceived quality and a rise or decline in popularity. Customers loyal to their brands hold them in high esteem owing to the quality perceptions. Esteem then has a direct relationship with loyalty.

Knowledge illustrates that customers are not only aware of the brand and its product, but also understand the reason for this product's existence. They are aware of the positioning of it and have a true understanding of the brand. That is the height of the brand building process.

The four dimensions have further variants. You study their variants within the two major constructs and choose which ones are most relevant for measuring performance of your brand. In other words, the performance and subtle changes that are caused over time stem from these dimensions. Starting with awareness, recognition, and recall, these dimensions end with referral index.

As a reminder, these measures are carried out along side routine financial results to complete a balanced brand-building process. One important beginning about these measures is that they

X **Construct 1** Differentiation → Relevance **=** Strength

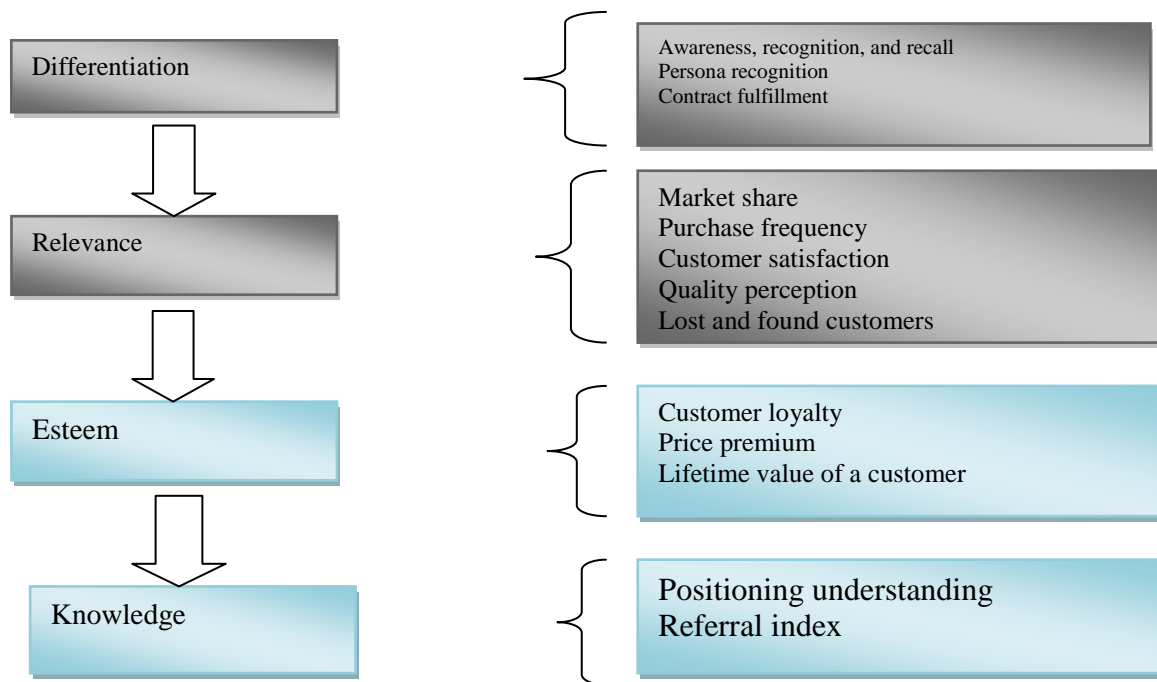**X** **Construct 2** Esteem → Knowledge **=** Stature

require researching across a representative sample of your customers. Maintaining a contact with them leverages your knowledge of the brand in a much more structured way. You can also improve upon the brand-based customer model that is a composite of brand picture, brand contract, and positioning.

Let us now take a look at the variants of the dimensions that become important strategic measures of brand's performance as shown by the graphics on the page after next.

On the differentiation dimension:

Awareness and recognition: Customer's ability to recall and recognize the brand as a distinct identity is a reflection of brand's strength. The more differentiated it is, the easier the recall and recognition. Awareness and recognition play a dominant role in building brand equity. Being in the minds of consumers, it also plays a role in developing outreach for the brand. It is similar to the measure that ad agencies undertake in establishing the aided and unaided recalls to gauge the success of their campaigns. Used as a measure of brand performance, recall and recognition should however go beyond just measuring the level of recall. It must provide relevant data that you can relate with other variables and gauge strategic implications.

Differentiation	Awareness, recognition, and recall Persona recognition Contract fulfillment
Relevance	Market share Purchase frequency Customer satisfaction Quality perception Lost and found customers
Esteem	Customer loyalty Price premium Lifetime value of a customer
Knowledge	Positioning understanding Referral index

While carrying out research, importance should also be given to symbols and imagery. In many cases, symbols and images cannot be separated from the brand name when it comes to evoking a recall. Question about what comes to your mind in terms of symbols and images while we mention this name is important.

Getting people to recall and recognize your brand goes a long way in building brand equity. The data generated on recall and recognition therefore should be used very strategically in making decisions about different variables of the marketing mix.

Persona recognition: It measures the extent to which your brand is consistent with its persona. Are distinct and differentiated features recognized by your customers? Basically, it is a measurethat tells you whether the brand persona developed by you is being received at the customer end the way it was intended!

This measure should also be drawn on a representative sample of your customers to find out how they associate themselves with your brand. It should be judged by the degree to which customers perceive receiving the benefits and developing emotional associations with your brand.

You, therefore, have to devise a questionnaire that is intended to evoke the correct and objective responses. The next step is obviously for you to compare the results with your original persona. Any variations that you detect have to be taken care of in relation to their nature and severity.

If you intended to create a persona of a dependable, friendly, and, informal brand and the results are contrary to that persona, you must make adjustments where ever those are warranted– in quality, packaging, just the visual part, symbols, or maybe your communication.

The chances are that major changes will not be desired, for your persona should not be that much off the mark to dictate major changes. That will, most probably, bring your focus on to the imagery, where some adjustments will fix the problem

Contract fulfillment: It measures the extent to which the brand upholds the contract. Are all promises being delivered? This measure gives a straightforward report on how much your brand is keeping all the promises it has made with its customers.

Are customers satisfied about whatever they think should be delivered is being delivered? If the answer is yes, then you are keeping the contract. Any breaches dictate that you must repair the contract and win over customers' confidence.

You will recall this contract is only emotional and economic in nature. Unavailability or erratic availability of a successful brand of yours reflects flaws either in distribution system or company's logistics.

Customers expect regular availability to reap the benefits your brand offers. This is a breach of the contract and has to be repaired. Not being able to supply or deliver the product through a direct marketing system is another breach of contract. Compromising quality is yet another.

Conversely, fulfillment of the contract builds trust in your brand. Trust creates loyalty, which in itself starts off a process of gaining new customers on a continuous basis.

On the relevance dimension

Market share: This measure lets you have a clear picture of the number of customers or usage of your brand in comparison with competition.

Purchase frequency: This measure lets you have the number of times your customers buy your brand. Your objective becomes, "how can I have these customers buy more every time they buy?

Customer satisfaction: This provides a rating on the degree of satisfaction with your brand. It also shows you how much willing customers are to stick to your brand.

Brand-driven penetration: You use this measure on line and brand extensions. It basically tells you how many of your existing customers have chosen to buy products and services that are an extension of your existing brand. It confirms or does not confirm the extendibility of your brand by giving you a proof of to what extent your customers are willing to go with you on your extensions. In other words, it is a measure of how rational you are in devising your product strategies. Quality perception: It is a measure of

satisfaction with your brand; it shows quality comparisons with competitors on scales such as

High quality vs. shoddy quality

Best in the category

Consistent quality

Brand-driven customer acquisition: This measure reflects the number of customers that you have gained in comparison with some preceding period. This could be one year. The difference between two numbers (if positive) is additional, new customers.

To determine the additional customers is not as difficult as it may sound. If you are selling consumer durables like TVs, it is pretty much straightforward. The findings can be very interesting from the standpoint of branding strategies that you have employed.

If you are selling consumables in big quantities, it may be a little more challenging but not outright impossible. Being the brand and sales managers, you people can draw certain bases of consumption in relation to population served. You can then ascribe increased consumption to additional customers based on those bases. The basis of consumption can be per person, per family of a predetermined number of members to it.

The measure does not end at determining new, additional customers. The challenging part of the measure is to determine, through the questions to respondents, what drives them to make buying decisions they make and what is it that is making them leave your brand and for what reasons? Such findings are the most fascinating part of this measure.

BIBLIOGRAPHY

1. Geoffrey Randall: "Branding – A Practical Guide to Planning your Strategy".

2. Jean-Noel Kapferer: Strategic Brand Management – Creating and Sustaining Brand Equity Long Term.

3. Philip Kotler: "Marketing Management – Analysis, Planning, Implementation, and Control"; Ninth Edition, Prentice Hall.

4. Roger J. Best: "Market-Based Management – Strategies for Growing Customer Value and Profitability".

5. Scot M. Davis: "Brand Asset Management – Driving Profitable Growth through Your Brands"; Jossey-Bass, A Wiley Imprint.

6. Thompson Strickland: "Strategic Management - Concepts and Cases"; McGraw Hill.