THOUGHT LEADERSHIP SERIES

Providing insights on business issues that influence how you manage your brand

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brandlogic

Improving financial performance through brand portfolio optimization

Faced with unrelenting scrutiny of marketing and brand expenditures, Chief Marketing Officers (CMOs) are looking to create economic value wherever they can. The rationalization of internal functions and processes is naturally a prime candidate. However, there is another source of value creation equally worthy of consideration: the financial returns potentially available from optimizing a company's brand portfolio.

By "optimization" we mean selecting the best mix of brands to support and advance the overall business strategy. In many cases, this means streamlining the brand architecture, but it can also involve the creation of new brands to more effectively capture new market opportunities.

We have seen many catalysts over the years for undertaking brand portfolio reviews including:

- Multiple mergers and acquisitions
- Divestitures to refocus on core activities/competencies
- Seizing identified new market opportunities
- Managing legal risks (union/merit shop conflicts)
- A drive toward cost reductions
- Fear of product and brand cannibalization
- Realizing the scale economies and market clout of a master brand

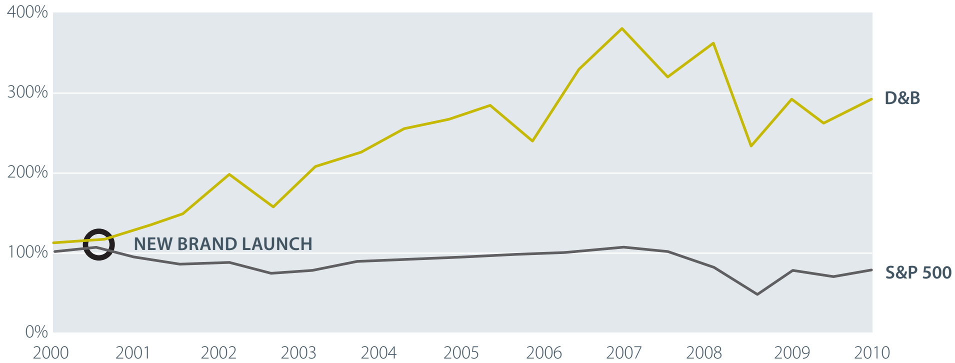
Today, the one that may be most forward in the minds of CMOs is their need to direct limited marketing budgets to their highest and best use to increase marketing ROI.

The primary source of untapped value: tackling brand proliferation

In many midsize to large organizations, there is a natural tendency towards brand proliferation – the creation of new brand identities. These organizations are often complex, hierarchical and siloed, and address multiple markets and customer segments.

Sometimes this brand proliferation occurs when a contracted name comes into common usage. For example, over time "EA" has become interchangeable with Electronic Arts, "D&B" with Dun & Bradstreet, "PwC" with PricewaterhouseCoopers, "UPS" with United Parcel Service" and "WSJ" with The Wall Street Journal.

D&B STOCK PERFORMANCE VS. THE S&P 500 INDEX



These situations typically occur at the very top of the brand hierarchy – at the company name level, rather than at the sub-brand level – and cascade downward through the brand hierarchy with inconsistent application at the product/service level. One part of the business may be using the formal name, while another may be using the shorthand alternative, leading to disorganization, confusion and dilution of brand value.

Most often however, unwanted brand proliferation arises from two, sometimes intertwined, activities related to the pursuit of growth:

Optimization can involve corporate-wide portfolio issues or discrete choices about alternative branding approaches.

- The minting of new brands/sub-brands by teams trying to quickly create differentiation in the market. This is often seen as easier than translating and extending an existing brand to that market for any of a variety of reasons – internal, external, or both
- The acquisition of new brands that may overlap with existing brands in terms of market coverage and/or value proposition (and the associated brand attributes)

The longer companies wait to establish clear, internal criteria governing brand creation and retention, the greater the complexity of problems that will ultimately require fixing. Proliferation is normal, natural and even well intentioned, but is a major source of brand investment inefficiency. As such, it promises the greatest gains for portfolio optimization.

Streamlining the portfolio can yield impressive results
The creation of additional brands – even unintentionally – is not necessarily a bad thing (think "Coke" for Coca Cola). However, to avoid inefficiency and unintended consequences, careful consideration must be given to the utility of brands to determine if they warrant continued investment. Often, simplification is the best course.

Optimization can involve corporate-wide portfolio issues or discrete choices about alternative branding approaches. In the case of D&B Corporation, the solution involved:
- Agreeing to a single D&B corporate brand (transitioning away from Dun & Bradstreet as a brand name) repositioned around the concept of helping clients "Decide with Confidence."
- Rationalizing the brand portfolio from literally over a thousand names and brands at the product/service level to four competency-led sub-brands aligned with discrete customer markets.

The financial impact of this portfolio optimization has been impressive, as seen above.

In the case of RBC Financial Group, the challenge was to align the brand portfolio strategy with their U.S. acquisition-led growth strategy while not damaging their Canadian franchise.

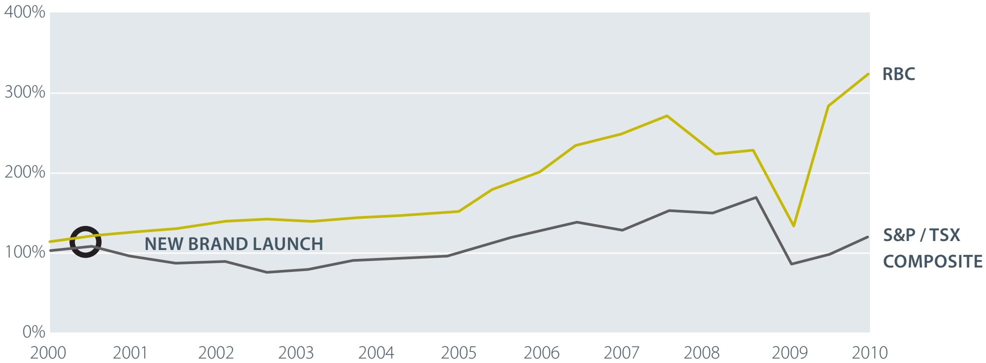
Years of internal brand creation combined with recent acquisitions had led to broad brand proliferation. The fragmented branding that resulted was holding them back from building a single master brand that could be deployed not only in Canada, but also in the U.S. and other growth markets.

The RBC brand portfolio optimization strategy established:
- A new RBC Financial Group, parenting all business units.
- An "RBC" brand for deployment in a well-defined system built around five core sub-brands. These five were closely aligned to customer markets and were applied across national boundaries.

As was the case with D&B, the stock consistently outperformed the market since the brand launch:

There are similar examples of successful portfolio optimization programs in all industries, from healthcare (e.g., Johns Hopkins) to appliances (e.g., Kenmore) to automotive (e.g., Hyundai Kia) to consumer products (e.g., J&J) to manufacturing (e.g., IBM), infocom (e.g., Optimum) and more. Systematically developed brand portfolio strategies and brand architectures have become fundamental components of market success and ability to generate shareholder value improvement. The proximate benefits are many, including revenue enhancement, cost efficiencies and greater clarity of strategic intent.

RBC STOCK PERFORMANCE VS. THE S&P / TCX COMPOSITE INDEX



Intentional portfolio diversity can be warranted
Truncating the brand portfolio is not always the right answer. In some cases, achieving potential and/or targeted financial results from individual businesses or markets requires the creation of a new brand, or the retention of existing additional brands.

For instance, a recent client with a national food services brand serving large corporations saw a significant opportunity in extending its services to much smaller businesses via a lower-cost, web-based platform. The brand portfolio question was whether it would be more effective to extend the corporate brand to small business segments or to create a segment-focused brand. The answer was to launch a specialized brand for small businesses with an endorsement from the corporate brand.

In this case the economic returns are to be found in the company's ability to tap into a whole new market segment with a unique value proposition and business model – without cannibalizing the existing business.

In another recent case, a European multinational client in the electrical components manufacturing business had acquired seven businesses and brands in North America over ten years.

All businesses primarily serving the construction sector went to market largely independently. The portfolio question here was whether or not deploying the corporate brand in a dominant manner would set the stage for increasing revenues per customer through cross-selling and if it could replace all or some of the existing business brands over time. The answer was to absorb five of the brands into the corporate brand over time, while maintaining and re-invigorating the other two brands to address specific niche markets.

This has paid off financially through a combination of brand-spend cost efficiencies and revenue gains from enhanced cross-selling of integrated solutions (versus individual product lines).

Is there a proven approach?
As we've seen, the challenges of brand optimization are wide-ranging and varied. However, despite this variability, the key to unlocking untapped financial value lies in a consistent approach to assessing brands and markets.

It is important to assess the role and value of each brand within the portfolio as a whole, including the corporate brand. By mapping the brands' equities and/or value propositions against the basic factors of demand (selection/loyalty drivers) and supply (available range of features, including those of competitors), informed, fact-based decisions can be made regarding the best course of action.

The basic approach is quite similar, whether solving brand-pair, simple multiple-brand, or more complex multi-business, multi-brand portfolio problems. The two charts above illustrate the approach to a typical multiple-brand portfolio. This sort of mapping is crucial to identifying both brand overlaps and market opportunity gaps for complex portfolios.

There is no "one size fits all" view of this topic. Each situation is unique, and it is essential to thoroughly understand the implications of your portfolio strategy.

In conclusion
The power of good brand portfolio optimization strategy to contribute to shareholder value and defend against competitors lies in its ability to identify optimal brand architecture solutions that are unique to a company's situation. This means determining the reach and role of each brand worth investing in and, when warranted, identifying those redundant ones that should be retired or sold.

The overview of issues and the dimensions of the optimization challenge given here can serve as a good starting point for your own consideration of the state of your brand portfolio. There is no "one size fits all" view of this topic. Each situation is unique, and it is essential to thoroughly understand the implications of your portfolio strategy.

Ultimately, the most important aspect of brand portfolio optimization is its ability to drive financial performance. As we've shown, the potential is real and significant, making a close examination and analysis of your brand portfolio well worth the time and effort.

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James has over 20 years of experience in leading strategy, marketing and brand consulting engagements in North America and worldwide. His consulting career includes executive posts as the president of Vivaldi Partners, a New York City-based marketing and brand consultancy; as one of the founding partners of FutureBrand; and as a director with Coopers & Lybrand.

James has been a pioneering thinker and practitioner in corporate, consumer and B2B brand strategies. Prior to his career as a consultant, James worked for BankAmerica, advancing through a number of key strategic planning, marketing and product development positions to become vice president of Strategy and Marketing for the bank's Latin American Division. James holds an M.B.A. in International Business from the Monterey Institute and a B.A. in Greek Archaeology from Antioch University.

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