SWP 3/94 RE-ENGINEERING THE BRAND

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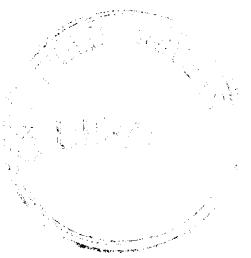
ABSTRACT

The erosion in the authority of brands within consumer markets brings in to question the orthodoxy of traditional marketing practices across all markets. By adopting an if-we-were-to-start-again policy, elementary questions about value delivery are currently being addressed in a number of major corporations. Using this approach, the notion of redefining branding policy and practice emerges as a fundamental and, arguably, the dominant core process in business redesign. In this paper, the skills required to manage this new process are delineated as value chain activities. The Integrated Brand, as this core process has been termed here, requires a multifunctional management cohesion if the new doctrine of customer retention is to be realised. Whilst these retention strategies may vary in execution across the stakeholder groups, they each serve to reduce the significant cost of customer replacement as defections become less frequent. By also managing systems costs and building primary customer share for revenue, the Integrated Branding organization can emerge with a balanced financial performance and brand equity managed as an asset. Amongst successful re-engineered organizations, price premiums would be an acknowledgement of a superior offer but not a necessary requirement for sustaining this balanced financial performance.



BIOGRAPHY

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Simon Knox is a Senior Lecturer in Marketing at the Cranfield School of Management, Cranfield University, in the UK. Upon graduating, he followed a career in the marketing of international brands with Unilever plc. After an initial spell in detergents, Simon moved to convenience foods as marketing manager for instant soups. As lead country manager in Europe, Cup-a-Soup Special was launched with a beverage positioning which was subsequently adopted by country management across Europe.

Since joining Cranfield, he has published over 40 papers on branding and consumer purchasing behaviour. Simon is the Co-Director of the Institute for Advanced Research in Marketing in the School and is a brand consultant to a number of multinationals including Rank Hovis McDougall and Shell.

The Case For Re-Engineering

In their book, "Re-engineering the Corporation", Mike Hammer and Jim Champy set out an agenda for corporate change that has been described as the compass and maps for the twenty-first century business world. Their deceptively simple advice to corporations, whether market leaders or failing enterprises, is fundamentally to reassess key procedures and processes of business development and exchange (Hammer and Champy 1993). By adopting an if-we-were-to-start-again policy, a number of major corporates have been able to shake off conventional orthodoxies to rediscover the benefits of customer satisfaction through timeliness and responsiveness. To date, two core processes have received most management attention. The first is order fulfilment, the task of converting a customer's order into cash after it has been delivered. For example, an American life assurance company, Mutual Benefit Life, has reduced turn around time of individual insurance applications to two or three days from, typically, over twenty under the previous protocol. The company can now handle more than twice the volume of new applications with a significantly reduced, but empowered, management team. Christopher (1993) cites other examples of this 'end-to-end' order fulfilment process and argues that this new approach to customer service is becoming a necessary condition for continuing competitiveness and customer retention.

The time-to-market for new products has also become a necessary condition for sustaining competitiveness and is the second process that has been re-defined through concurrent engineering. The launch of Land Rover Discovery, from concept to market presence, was achieved in under three years by the management team (Peck 1991). The team chose to redefine the traditional sequential process by paralleling key activities and multifunctional tasking, enabling them to compress the conventional launch timetable by three or four years. Likewise, Kodak's old product development process, partly sequential and partly parallel, but entirely slow, was revolutionized using CAD/CAM and concurrency across functional

management. The time to move the 35 mm., single-use camera from concept to production was halved to well under a year as competitive pressure intensified.

Whilst both these process re-engineering initiatives have yielded substantial and recurring benefits to management, they should only be regarded as signposts in the journey to redefining the entire company offering or brand portfolio. In essence, through shifts in competitive pressure and collapsing response times (Handy 1991), the ascendency of powerful intermediates and single sourcing (Booz.Allen and Hamilton 1991) combined with a post-modern customer and consumer disaggregation (King 1994), corporations most certainly need to redefine what they are bringing to the global village fête in order to raise money.

The certainty lies in the need to embrace a demand-side approach that entrusts the equity* of the brand to an integrated management structure so as to be truly responsive to these equity stakeholders. The benefits of building brand equity across stakeholder groups is argued in a later section. However, the more immediate concern here must be to underline the inadequacies of the traditional brand management system and to propose a blueprint for the Integrated Brand as a core company process.

The Building Blocks Of Traditional Brands

Many of the traditional brands, such as Mars, Lux Toilet Soap, Cup-a-Soup, Ariel etc. have been built and sustained around consistent and ever-evolving functional and emotional value propositions (King 1991). For instance, the value proposition for Mars bars during the 1950s (figure 1) is, to all intents and purposes, identical to today's TV executions.

Figure 1: Mars Advertisement circa 1955

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* Brand equity is the latent capacity to favourably influence stakeholder behaviour, particularly amongst customers who routinize their purchases.

Figure 1: Mars Advertisement Circa 1955

King argues, "given adequate tender loving care, these classic brand leaders should prosper more or less indefinitely". Their equity has been built over the years according to the doctrine of the four Ps and an end-customer that subscribes to the values of heritage, functional delivery and ubiquity; about thirty of the UK's top fifty brands were borne of this era and have built brand loyalty on this basis (Brady and Davis 1993). The process is, however, largely anachronistic since it represents the output of a marketing-as-a-function mindset; an atomistic exchange process that is dependent upon consumer "pull" and loyalty building through repeat purchasing.

In the past, this process has enabled marketing management to price lead brands at a premium and to enjoy above-average earnings (Clifford and Cavanagh 1985). During the early nineties, these price premia have been largely eroded as very competitive own-label offerings have been reevaluated by consumers (de Chernatony, Knox and Chedgey 1992). In fact, an analysis of the top ten brands across two leading UK grocery accounts, shows that only three are able to sustain an acceptable price premium over the retailer's own-label and outsell it (Coopers and Lybrand 1992).

With regard to promotion, advertising research from Millward Brown (Allan 1992) shows that consumers are now decoupling the advertising style and content from the brand itself and evaluating the advertisement in parallel to the offer rather than as a component. With media costs significantly outpacing inflation during the eighties, advertising budgets for most traditional brands that depend on dedicated expenditure have become a blackhole and the advertisements themselves of questionable authority amongst their discerning target audiences.

Finally, the task of maintenance or achieving incremental gains in distribution through intermediaries, traditionally the domain of the sales team, is tackled with a level of management commitment broadly in proportion to the degree of channel concentration across the category (Diller 1992). Increasingly,

intermediaries within the channel are taking a proactive approach in the management of their downstream activities with suppliers to reduce system costs and build greater interdependencies (Buchanan and Gillies 1990). In a later section (p.7/8), it is argued that such relationship-building cannot be achieved whilst account management remains ringfenced by sales management.

It is evident that the traditional brand as a functional marketing assignment is meeting with demand-side resistance in all but a few exceptional cases. Even here, amongst the most powerful branding companies in the world, fundamental questions about brand equity are being asked by their senior management.

The Shift Towards An Integrated Brand Process

Management in Procter and Gamble, the profitable US brands giant, are currently asking themselves "if P & G did not exist today, how would we recreate it?" (Hammer 1993). The company was also amongst the first of a number of major corporations to acknowledge that consumers are no longer willing to pay the premium for brands as a matter of routine (PaineWebber 1992). Other multi-national consumer goods companies are questioning the duality of sales and marketing by moving towards integration. For instance, Colgate-Palmolive in the UK have drastically rationalized their brand portfolio from over four hundred lines to under two hundred in order to focus on managing their major retail accounts as well as these retailer's customer. By improving their customer service levels and hence Direct Product Profitability in major accounts, whilst at the same time increasing consumer advertising across their flagship brands, the Corporation has moved back into profitability. In global business communications, A.T. & T.: N.C.R. have redefined functional responsibilities in support of the process of "providing business solutions to meet customer needs". This has also involved integrating sales and service to provide a customer-facing organizational structure.

Each of the re-engineered processes mentioned so far has involved company

restructuring in recognition of the demise of stove pipe structures, with command and control budgeting, towards cross-functional management teams that introduce greater flexibility and coordination within organisations. It is these teams which define and refine the management of these core processes to build the organization's competitive advantage.

Whilst the P & G study of their brands and perceived consumer value remains proprietary, there are enough straws in the wind to predict likely outcomes in the redesign of their brand management function. Indeed, some corporations have already set out on the journey of building an Integrated Brand where the equity is managed across functional territories.

It seems very likely that the re-engineering of brands will become commonplace during the nineties and will emerge as a dominant core process in which order fulfilment and new product development are managed as synergistic support processes. It seems less likely, as Kaplan and Murdock (1991) have suggested, that brand development can sit alongside these other processes without becoming the catalyst and template for business process redesign.

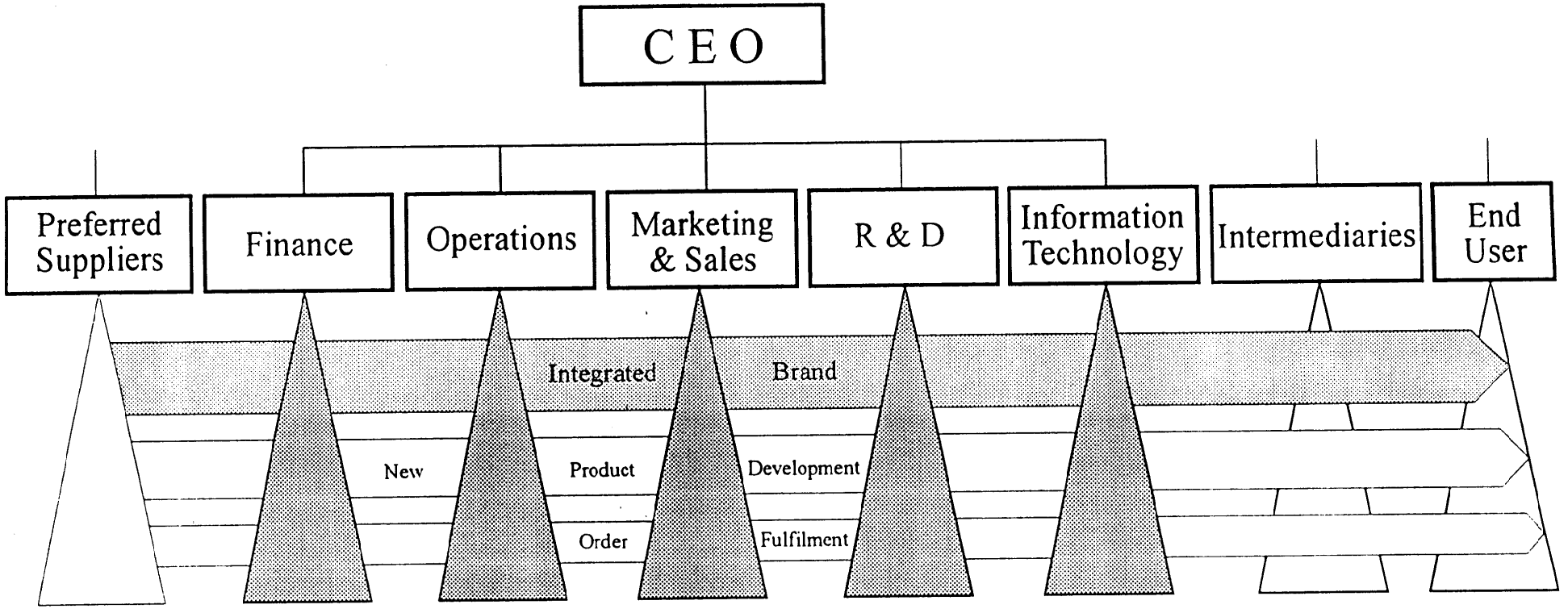
A blueprint for this Integrated Brand Process is shown in figure two and delineated as value chain activities (Bower and Garda 1986) in the next section.

Figure 2: The Integrated Brand as A Dominant Core Process

The Integrated Brand as a Dominant Core Process

What is really exciting about the Integrated Brand idea is that it has wide applicability; it is within the grasp of management in business-to-business markets, just as much as it is for those in service or consumer goods industries. For the process to become effective as a dominant activity in any of these industries, it will require management skills drawn from each sector: the provision of a consumable product; an integrated service and corporate-values surround and relationship

Figure 2 : The Integrated Brand as a Dominant Core Process



management practices. The Integrated Brand value chain (figure 3) identifies how these simultaneous management tasks can build a brand presence and reinforce loyalty across four zones of activities.

Figure 3: The Integrated Brand Value Chain

Zones One and Two: The Company Brand

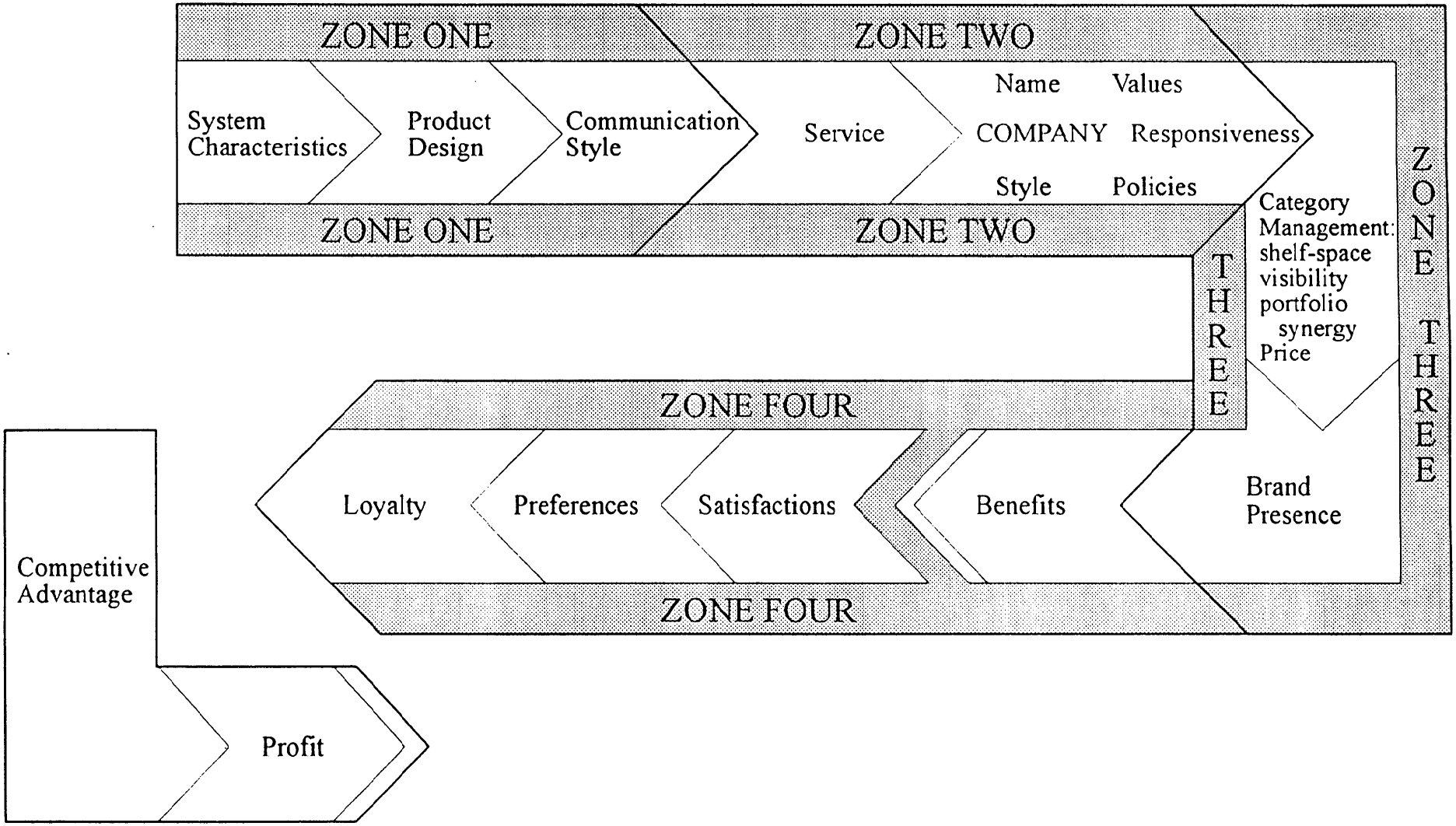
The emergence of an integrated approach towards the consumable product offering and its service and corporate surround (zones one and two in figure three), has been described in some detail by Stephen King in his articles referred to earlier. In these seminal papers, he recognizes the limitations of traditional brand typologies and points towards the idea of a company brand.

The company brand, which is becoming increasingly evident in the market place, offers consumers values that extend beyond the identity and function of individual brands in the company portfolio. Companies such as Nestlé and Wella are moving in this direction by redesigning their brand ranges to give a much stronger corporate identity and presence. In other words, company brands can come to reflect wider values by acting as the glass door of the company through schemes that lock in additional benefits - such as corporate quality guarantees, free-phone advice lines and no-quibble replacement policies - in conjunction with a much higher level of visible corporate responsiveness. For instance, management responsiveness to environmental concerns and local community developments are de rigueur and have to be pursued with integrity, since consumers and other important constituents hold informed views, against which company commitments are likely to be critically evaluated.

So, in addition to the consumable product, the company brand offers a corporate underpinning that Stephen King refers to as values, styles and behaviours, which enrich the offering.

A good example of this component of the company brand comes from

Figure 3 : The Integrated Brand Value Chain



Schering Agriculture. In the trade press to the farming community, they claim "to spend over fifty percent of our budget on product safety, to ensure our product's effectiveness is not achieved at the expense of the user, the environment or the consumer of the crop". As a consequence, their brands, complete with the corporate identity, now compete at parity with their main competitors on functional product performance, but are perceived by the farming community to outperform these competitors in "caring for the environment". This perceived benefit is likely to give them a strong added advantage at point-of-sale.

The remaining component of the company brand that King describes is service, or the "servitization" of the consumable product, such as the home-delivery pizza or the rescheduling of credit and debt to stimulate purchase viz. the recent launch of General Motor's credit card scheme (Mitchell 1993). Vandermerwe and Rada (1988) describe this "servitization" component as building new links in the buying system, such as the move by SAS from being in the airline business to being a businessperson's "total travel package" with their own direct enquiries and hotel bookings, "sleepclass" and "workclass" tickets and a door-to-door limousine service.

It probably needs to be restated at this point, that without functional parity with competition, no amount of service or corporate gesturing can prop up an inferior product offering in the medium term. The emphasis must still be placed on continuous product improvement and new product development as a synergistic company process to ensure a consistent evolution of the consumable product (figure two).

Zone Three: Category Management

The third building block in the Integrated Brand process (zone three of figure three), is the explicit management of intermediaries to enable them to serve their end-customer more effectively. Marketers may have been quick to recognize the increasing power and influence of channel intermediaries in their planning, but

they have been slow in practice to diffuse the build-up of adversarial trading conditions. Whilst the sales-related account management mentioned earlier helps build bridges in organizational relationships, it falls short of the multifunctional, multi-tiered approach advocated in this paper. The account management style which currently comes closest to this is Category Management, as practised by some consumer goods companies in Europe and the USA. For instance, the French retailer Carrefour takes the view that, as an intermediary, it is in the business of providing scarce shelf-space for suppliers to sell to end-customers. So, across certain product categories, they ask their suppliers to manage the space directly and to maximise shelf and pipeline profitability which the company then monitors on a weekly basis. Winners and loosers emerge over time but, in either instance, relationship management skills are imperative. End-to-end order fulfilment must become a core process under these conditions, together with an integrated sales and marketing, I.T. and manufacturing team to service this account profitably.

The strategic importance of managing intermediaries is paralleled in service and industrial markets. During the eighties, Saatchi and Saatchi were one of the first communications agencies to offer a "boutique" of company services ranging from management consultancy and marketing research to advertising and direct selling, a portfolio approach that effectively allowed clients to out-source skills critical in building their customer relationships and business. The success of the Saatchi venture was dependent upon their management team understanding their client's customers better than the clients themselves! Perhaps an over-ambitious mission for a company with a completely heterogeneous client base. It was, none the less, an early attempt to manage the offering in partnership with a direct customer.

Diversey Corporation, the Canadian industrial cleaning group, organize globally around key industry categories to provide their multinational customers with complete cleansing solutions on a country by country basis. In delivering this service to their customers, it is imperative that the very strict hygiene specifications

are met, particularly in food processing and catering since these specifications are often determined and monitored by customers downstream in the food chain.

Each of these examples describe different stages of the intricate layering procedures involved in making the consumable product part of the final brand presence that is evaluated by the end-customer. If purchased and deemed preferable to competition, repeat purchase and loyalty may then follow. Successful brands achieve higher customer loyalty (Doyle 1989) and are more profitable directly as a result (Reichheld and Sasser 1990). Thus, managing customer loyalty is the fourth and final zone of the Integrated Brand.

Zone Four: Customer Loyalty Management

In the past, marketing management have rather taken loyalty amongst existing customers as given and have focused on getting new customers "to fill the leaking bucket". It is most unusual to find a company that devotes a significant proportion of its marketing budget to "customer loyalty". However, all this could soon very well change if Reichheld and Sasser's results are found to be of general application. Using Bain and Company data, they observed that a five percent increase in customer retention (loyalty without commitment) can boost profits anywhere between twenty-five to an astonishing eighty-five percent across service and manufacturing industries. Customer loyalty should be viewed as a corporate responsibility and a component of the Integrated Brand process since it can be managed across corporate brands on a portfolio or category basis. An increasing number of corporations are mounting loyalty programmes across their brands, such as British Airway's Air Miles, or as inter-company tie-ups between non-competing retailers, restaurants and hotels (Summers 1993).

Arguably, the auditing and development of such schemes, to present end-customers with a coherence that is of individualistic appeal, should be a functional marketing activity. Marketing should also retain other functional responsibilities and tasks drawn from each of the four zones, such as database marketing, brand

positioning and portfolio synergy, price and value assessment, as well as corporate communications across stakeholder groups.

In the next section, a number of specific goals have been identified for the Integrated Brand management team to achieve amongst stakeholders, which also includes the internal management and staff themselves. Using a derivation of the Christopher, Payne and Ballantyne six-markets model (1991), it is argued that by delivering against these goals, which correspond closely with Doyle's notion of "excellence through balance" (1992), management should achieve a balanced financial performance for the brand. A financial performance that can, in fact, withstand a continued erosion in the brand's price premium as the process of brand equity management becomes an organizational priority.

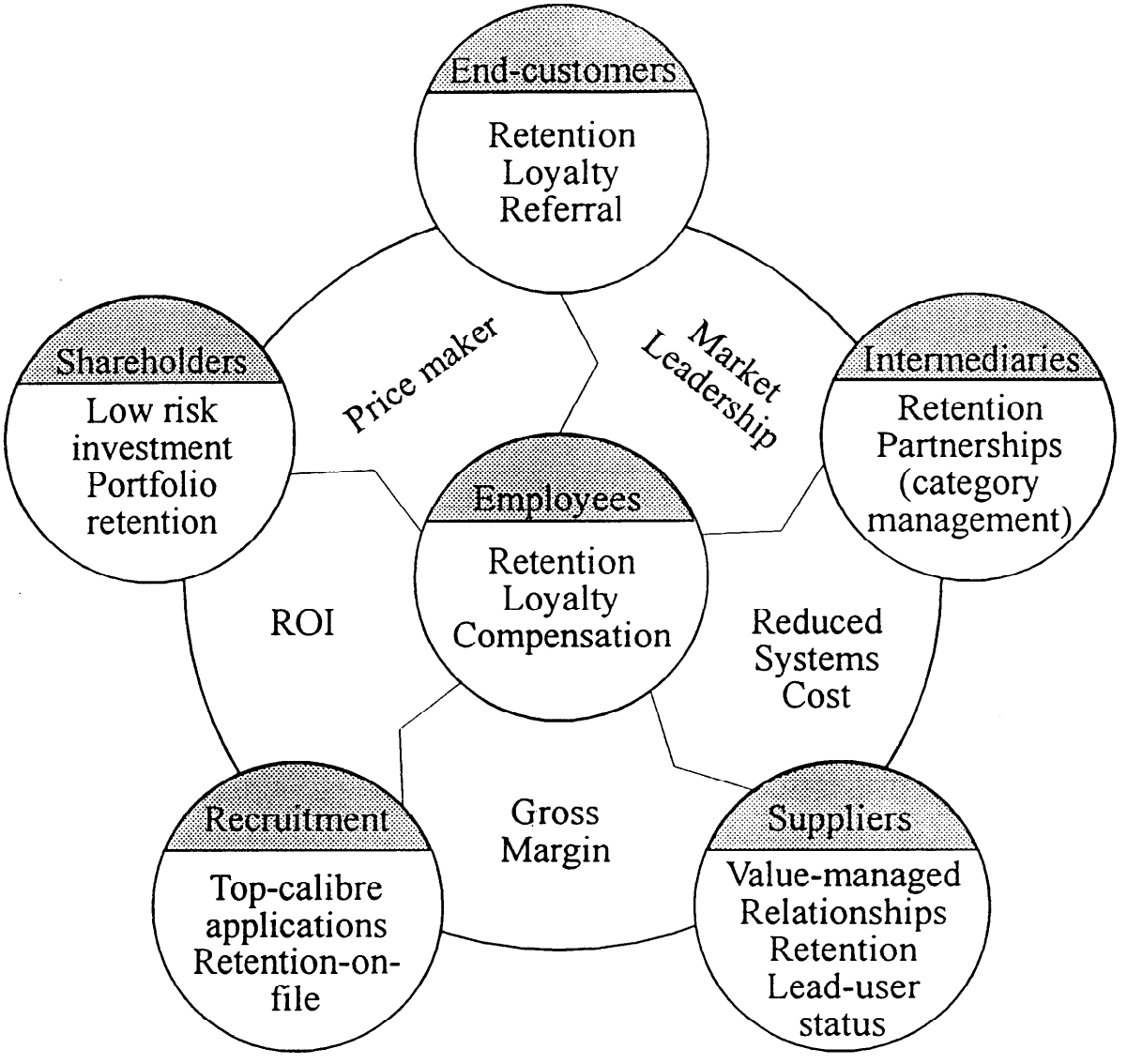
The Integrated Brand and Primary Stakeholder Groups

Whilst there are differences in the management goals and aspirations for each stakeholder group (figure four), a common theme is the imperative to retain their interest, commitment and, consequently, their continued investment. Clark et al. (1993) point out that these retention strategies will vary in execution according to constituency requirements. However, the common denominator between strategies is that each serves to reduce the significant cost of "new for old" customer replacement as defections become less frequent.

Figure 4: Integrated Brand and Primary Stakeholder Groups

Looking briefly at each group in turn, retention amongst *end-customers* involves maintaining the brand as a routine and top-of-mind purchase, an end-result of the integration process described in the previous section. As with traditional brands, retention implies that derived satisfactions from usage of the brand enables the customer to simplify their decision-making process on subsequent occasions by reducing the purchasing risk and the need for a wide purchasing repertoire.

Figure 4: Integrated Brand and Primary Stakeholder Groups



Loyalty, on the other hand, implies a customer commitment that is explicit and which may lead to the referral of other customers through word-of-mouth to the organization and a particular brand offering. Referral, which is the lowest cost and most powerful form of advertising, brings in new customers, increases category penetration and builds market share over time. Christopher et al (1991) term this referral mechanism as the "ladder of loyalty" and regard it as critically important in the organization's relationship with end-customers, particularly amongst primary** purchasers as they are usually the most profitable segment (Knox and Denison 1994).

The management of *intermediaries*, referred to as category management in this paper (p.7), implies a partnershipping approach towards building up their business so that they achieve category leadership amongst their primary end-customers who, in turn, then become primary to the organization. To facilitate this process of building brand preferences through availability and superior presence at point-of-sale, requires selective targeting of primary and major accounts. Successful partnerships also aim to reduce systems costs by inter-organizational communications and collaboration, as well as through scale and experience effects.

Likewise, *suppliers* to the organization should be rationalized and Value Managed Relationships created in areas that critically affect the quality of the consumable product. Japanese automobile manufacturers have done just this. They retain only one-tenth the number of suppliers that their American counterparts have. Each supplier, as a consequence, contributes twenty four times more value per vehicle; they each enjoy much more business from the manufacturer and are very anxious to retain it through the cycle of contract renewal. Besides the commensurate cost reduction benefits that scale and experience effects can bring, these suppliers will be responsive to other initiatives that reduce systems costs, similar to the organization's relationships with its up-stream intermediaries. If the

** A primary purchaser, customer or account spends more on a particular organization's brand or brands than many of its competitors in a period, i.e. the organization enjoys the largest "market share" of the primary purchaser's spend.

organization is a market leader, suppliers can also benefit from the lead-user relationship (von Hippel 1988) that confers with it an involvement with the organization's new product development process (figure two) in advance of competition.

Successful Integrated Branding organizations will attract top-calibre applicants from the *recruitment* market, as much by referral as through more formal channels. Responsive, informed Human Resource management can leave a lasting impression amongst interested potential employees, who should automatically be retained on file, if there are no suitable current vacancies. Directly and indirectly, the cost of recruitment has recently surfaced as a significant operational cost (Schlesinger and Heskett 1991). Data from the Sears Group suggests that this cost could represent as much as seventeen percent of group sales value to recruit shop assistants alone.

Within the organization, *employee* retention and loyalty should itself be an explicit goal of the Integrated Brand Management team. Loyalty amongst employees not only lowers recruitment costs but, more importantly, enables the culture of customer responsiveness to be inculcated through a learned sense of company values and participation in core processing. In fact, the efficacy of core and support processes is very dependent upon retaining experienced participants in the team to work comfortably in a system of iterative learning.

Re-engineering also forces organizations to reconsider basic assumptions about compensations. Contribution and performance become the primary bases for salary and bonus. Perhaps customer retention will become a benchmarking activity and a part-measure of performance for those directly working in marketing.

The Integrated Brand organization should be perceived as a low risk investment by *shareholders*. By balancing the diverse interests of stakeholders and seeking to socialize each group in specific medium-term goals, management should not be aiming to maximize profit or any other single financial measure. Clearly, shareholders are an important group and they are looking for an acceptable return

through dividends, cash repayments and share value. "Acceptable" means, however, consistent year on year performances which cannot be achieved through a myopic financial orientation, as Doyle has termed it. That said, market leadership through the Integrated Brand process throws up a number of very specific opportunities to systems cost-reduce through relationship management and retention priorities. Also, amongst intermediaries and end-customers, successful retention strategies are very likely to grow revenue and margins as existing customer spend increases.

It is a central thesis of this paper that acceptable financial measures (ROI, ROCE etc.) should be a consequence and not a goal for the management of re-engineered branding organizations.

With regard to the future prospects of premium pricing, a central tenet of conventional brand management wisdom, one would predict that this may be earned as a bonus, but cannot be taken as given. Category leaders will always remain price makers and may occasionally create premium prices, if their central value proposition is perceived to be superior. Even at price parity, effective systems cost management may facilitate the release of additional investment to reinforce these values without margin hikes. At its most competitive, the Integrated Brand can compete and produce acceptable returns at below market price parity, provided retention and cost goals are being achieved.

In the future, brand and category managers (if the convention is retained within the function) will be ambassadors of pricing for value, whilst managing systems for quality and costs.

Implications for Management

Most stakeholders, particularly those involved with consumer goods organizations, wish to see the equity of brands survive and prosper. However, in today's tough trading conditions, brand virility is on the wane. Some sceptics claim

their imminent demise, as intermediaries build their own-brands and end-customers challenge traditional pricing conventions. To paraphrase the words of Mark Twain, these death reports could be greatly exaggerated, since new paths are emerging that can lead to brand renewal, strengthening and, for industrial marketers, the dawning of a new age.

With very few exceptions, business-to-business exchanges are not concluded with a feeling that the brand is building the loyalty bridge for future purchases. However, through business process redesign and acknowledgement by industrial management that brand equity does exist in their organizations, it is entirely possible to start the process of Integrated Branding in this sector. The same applies in services and consumer goods, where there is a more pressing urgency to blow away conventional orthodoxies, particularly amongst secondary and tertiary market performers.

The challenge for management is to take action by radically rethinking their customer-facing activities from first principles. It is almost certainly true that this would be the first time for marketing management and a fairly novel experience amongst other management functions!

How can it be achieved?

The starting point involves working together as project teams and putting the fundamentals first: end-customer retention through preference for the organizational offering. This must embrace, along the way, a will to explore and interpret what other brand equity stakeholders require from the organization and to develop appropriate retention strategies. This can really only be achieved through multifunctional teams, with relevant functional management in leadership rôles, according to the mind-set of the particular stakeholder group e.g. the procurement director with suppliers, the finance director with city fund managers. However, to work as a team, these functional hats and mind-sets will have to be challenged and augmented, otherwise conventional wisdom will rule the day.

To be responsive and time-based, management integration will have to be

effective both across the seam (vertical) and along the seam (horizontal) of the core process. Hierarchies will become flatter as authority is delegated and brand equity managed as a cross-functional asset and an organizational priority. The instruments for placing a net present value on this equity are accessible and easy-to-interpret through a do-it-yourself audit (Stobart 1991). The purpose of such an audit would be to provide a metric for management to measure the impact of brand investment directly through cash and indirectly via the other corporate intangibles, such as relationship-building and technological skills. It emphasises the differing components and sources of brand power across functions and helps build management integration as a result.

If management act now, customers will still be buying brands in the next century, fund managers still investing and employees committed to working for the corporations with branding policies that they have successfully adapted.

Conclusions

It has become popular to criticise the performance of traditional brands in many of today's markets. In some instances, this criticism is justifiable, as marketing management seem to prefer rearranging deckchairs as the Titanic sinks. The orthodoxy of brand building using the 4 Ps and marketing-as-a-functional doctrine is anachronistic; in most organizations the approach to branding needs to be re-engineered as a dominant, core process. This core process, termed the Integrated Brand, has four zones of simultaneous management activities along its value chain.

The skills needed to be successful at managing this process include: the provision of a consumable product; a service and corporate-values surround and wide-ranging relationship management practices. Since these management skills are drawn from consumer goods, services as well as industrial markets, the Integrated Brand proposition is within the grasp of all management. The new doctrine

associated with this integrated approach must be customer retention through preference. This applies across each stakeholder grouping, including current management and employees. The financial emphasis can then shift away from the pursuit of any one particular measure towards achieving a balanced financial performance that is a consequence of managing a diversity of stakeholder expectations and not a front-line objective in itself.

By adhering to the strategies of customer retention, systems cost reductions and building primary customer share, organizations can emerge (or re-emerge) with brand equity shared cross-functionally and managed as an asset. Some functional marketing tasks should still be retained, such as corporate communications, customer value assessment and pricing. Amongst successful re-engineered organizations, price premiums would be an acknowledgement of a superior offer, but not a necessary requirement for sustaining a balanced financial performance of the Integrated Brand.

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