Brand strategy that shifts demand: Less buzz, more economics

Should you spend on *making* your brand promise through advertising, or on *keeping* the promise by ensuring that your products deliver what customers want?

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In many industries, it has become routine for companies to spend vast sums on advertising and marketing their brands. But with copious product information now available to consumers through digital channels, it's worth challenging the routine. Should you spend your next dollar on *making* your brand promise through advertising or other marketing tactics, or on *keeping* your brand promise by ensuring that your products and company deliver what customers want? It doesn't pay to invest in the brand if the business model is flawed or the product lacks customer appeal.

That's because the *ultimate* point of a brand is not to create emotional appeal or to generate buzz. The point is to shift customer demand.

Well-managed brands shift demand in several ways: by commanding a higher price, generating more volume or some of both. Too high a price will dampen demand and reduce revenues, but the stronger a company's brand, the further out it can push this intersection of volume and price in order to maximize revenues and profits.

Bain & Company's analysis of 21 product categories quantifies the power of brands. In the MP3 player category, for instance, the leading player captured 2.9 times the market share of the second-ranked competitor as a function of its brand alone—holding price and other product features equal. Put another way, the leading brand was so strong that the company could double its price and still have a market share equivalent to the second brand. We found a similar dynamic in most other categories, even in business-to-business industries (see sidebar, "The science of calculating how much a brand can shift demand," on page 2).

The power of a brand to shift demand applies whether a company pursues a low-price or a premium-price strategy. At the low end, for instance, discount retailer and grocer Wal-Mart excels by constantly wringing out costs and passing on the savings to consumers, earn-

ing operating margins of 5.3% in its express stores and 3.1% in neighborhood stores in the process. At the other end of the strategy spectrum, US grocer Whole Foods earns most of its profits in prepared foods, where it commands a substantial price premium. Whole Foods recently generated operating margins of some 6.9%, five times the US grocery average. For both companies, the brand plays an essential role in moving the business toward the point of maximum revenues. Wal-Mart's brand reinforces the company's "great value" strategy to increase volume while Whole Foods' brand—rooted in its sophisticated in-store presentation, knowledgeable staff and an emphasis on organic food—convinces customers to pay a higher price on prepared food (*see Figure 1*).

It doesn't pay to invest in advertising if the product or business model is flawed.

This dynamic casts advertising and marketing in a different light. For a new product—or one that's not yet distinctive in the minds of consumers—advertising to promote awareness can have substantial value. Consumers have heard of insurer Aflac by now mainly because of its squawking duck commercials.

For mature brands, however, awareness advertising often devolves into an expensive arms race. In contrast, call-to-action advertising, such as a limited promotion for a fast-food chain, can help generate traffic for a short period. And if you're buying awareness for a lousy product or customer experience, resources would be better spent improving that experience. In fact, some consumer-oriented companies manage to thrive virtually ad-free.

Consider one brand-obsessed industry: clothing manufacturing and retail. Generating buzz through adver-

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The science of calculating how much a brand can shift demand

A brand's equity—its power to shift demand—can be measured through discrete choice modeling, a technique for revealing the relative strength that brands have when customers make choices among competing products or services. Discrete choice analysis presents customers with trade-offs in product features, price and other attributes, then asks them to make choices. The table shows the relative strength of 21 pairs of brands determined through discrete choice studies that Bain conducted over the past decade. One key measure is "choice share," which measures the power of each category's top and second-ranked brand to shift demand, holding price and product features equal.

In MP3 players, for example, the leading brand captures 38.5% of consumer choice versus 13.2% for the second-best brand at the time of that study. In other words, the leading MP3 player has a 2.9 times share multiple as a function of its brand alone. The company could raise its price by a factor of 2.01—double the existing price—and still have a share equivalent to the second brand.

One interesting finding of our discrete choice analyses: Companies have built strong brands even in business-to-business (B2B) categories such as construction tools and medical devices. On construction sites, the loyalty to tool brands runs as deep as the passion that fashionistas demonstrate for their favorite jeans. In about two-thirds of the categories, brand leaders have emerged with share multiples of 1.4 or greater; that translates into a price advantage of 5% or more for equal share. Some of the top brands derive their brand equity from higher product quality (office products), from emotional affinity (handbags) or dependency (tobacco products).
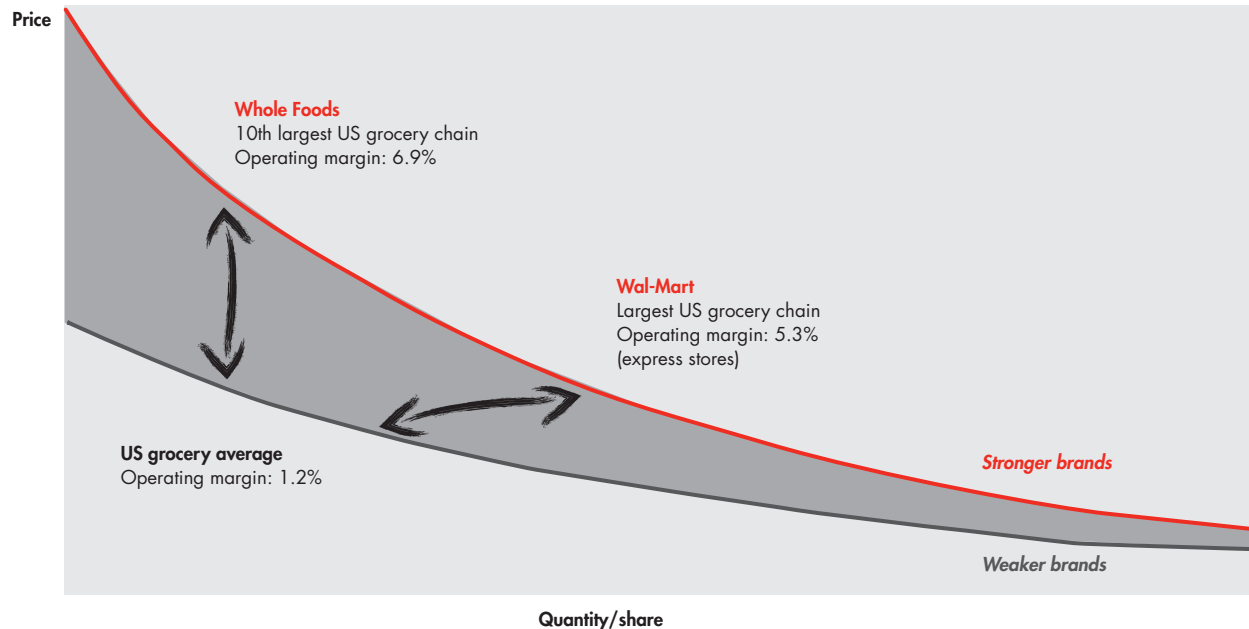
Measuring brand strength for 21 product categories

	Choice share, % (all else equal)		Share multiple (all else equal)	Top brand price multiplier to equalize share of top and second brands
	Top brand	Second brand	Top brand/ second brand	
MP3 players	38.5	13.2	2.9	2.01
Construction tool 2	49.6	17.6	2.8	1.26
Office product 2	61.0	22.8	2.7	1.06
Mobile telephone service (prepaid)	17.8	7.1	2.5	1.38
Office product 1	53.7	21.7	2.5	1.15
Luxury handbags	42.8	19.4	2.2	1.55
Construction tool 1	43.2	23.4	1.8	1.27
Loyalty program	23.9	14.9	1.6	1.05
Employee medical insurance	5.3	3.6	1.5	1.92
Mobile music plan	6.3	4.5	1.4	4.06
Flat screen TV	21.6	15.6	1.4	1.14
Office product 3	40.3	29.2	1.4	1.04
Airline	36.8	26.7	1.4	na
Medical device	33.8	25.1	1.3	1.02
Tobacco product 2	52.2	41.0	1.3	1.17
Tobacco product 1	47.8	39.3	1.2	1.12
Construction tool 3	33.5	28.3	1.2	1.06
Mobile telephone service (contract) 2	12.6	11.2	1.1	1.04
Mobile telephone service (contract) 1	7.8	7.0	1.1	1.03
Credit card	8.7	8.1	1.1	1.06
B2B electricity service	9.1	8.8	1.0	1.01

Source: Bain analysis

Figure 1: Brands shift demand to companies that manage them well

Note: Illustrative graph. Actual demand curves are industry or market specific with varying slope and other features
Sources: RMA Industry Norms; Whole Foods; Wal-Mart

tising, celebrity parties, product placement and other marketing tactics consumes significant resources at many clothiers. It's understandable, because the competitive field is so cluttered that companies can easily get caught up in the race to win share of voice.

American Apparel and Benetton, for instance, have invested heavily in provocative advertising that raised their brands' profiles. But their focus on advertising has not always led to superior business performance. At American Apparel, sales have stagnated since 2008, and operating income has been thin or negative. Benetton has also experienced stagnant revenues, and operating income has mostly declined since 2008. Some analysts think the companies' focus on generating buzz has meant that senior management spends too little time on actions required to build the business.

Now consider the alternative approaches taken by two other clothing companies. Patagonia spends less than 1% of sales on marketing and advertising. It has none-

theless built a powerful brand around its high-end outdoor clothing and gear through word of mouth, based partly on its commitment to green operations and profit sharing with environmental causes.

Zara, the fashion retailer owned by Spain-based Inditex, does not advertise at all. Instead, Zara relies on smart store locations, a powerful in-store experience and lightning-fast production that keeps shelves stocked with the hottest fashions.

Both Patagonia and Zara have pursued business strategies that have generated significant growth over time. At privately held Patagonia, sales have grown more than 6% annually over the past two decades, and the company had an operating margin of 8.9% in fiscal 2010, the latest data available. Zara's parent company, Inditex, has posted a strong 17% compound annual growth rate (CAGR) in revenues and a 22% CAGR in operating income since 2003. The Patagonia and Zara brands strongly influence consumer choice, but they

were not built through advertising or traditional brand promotion.

The lesson: Brand strategy cannot be separated from business strategy. Most companies with effective brands and successful businesses, from Amazon.com to Zappos, have focused intensely on their customers and other elements of the business rather than brand building. No brand can be healthy when a product is not competitive or a company's share is declining, so addressing brand issues in a vacuum will do little to reverse poor performance.

How a brand makes its way in the world

A demand-led perspective on the purpose of a brand leads managers to spend their time differently. Instead of asking *brand* questions (such as, "Should we rebrand?" "What logo and tagline should we use?"), it's more useful to ask questions from the *customer* perspective (for example, "Do customers believe what we say?" "What occasions make them think of our brand?" "How should we deliver on our promise to them?").

The answers will likely dispel long-standing assumptions. Managers might think, for example, that the brand is lagging because of ineffective marketing practices. In reality, the brand may have high customer awareness, but the message does not speak to customers' key priorities, or it's not reinforced by customers' experiences with the company or the product may be flawed.

Effective brand strategy depends on managing three stages of interaction with customers to shift demand at a fourth, final stage. The first stage involves defining the brand's meaning—or how it should live in the minds of customers—and the signals chosen to convey that meaning. The signals then get transmitted to customers, employees, investors and other stakeholders. Signals can be amplified for better or distorted for worse by people along the way, so companies continually need to monitor and adjust their transmissions.

Finally, the sum of these interactions determines how the brand is received in the customer's mind and how it stimulates buying behavior (*see Figure 2*).

At each stage, management of the brand should be led by senior executives, not turned over to an agency or delegated solely to the marketing department. Any business function that affects the customer's interactions with the company or product plays a role in brand building. Even a function that seems distant from the brand, such as a support call center, should make sure that its employees understand the specifics of the brand promise and reinforce that promise as they work with customers and vendors.

Stage 1: Define the brand's meaning and signals

The brand's meaning consists of a core promise to a defined set of customers. Elements of the promise include which customer segments one is trying to reach, how the product is differentiated and how it addresses the target customers' priorities.

A brand can be well known yet not wholly effective in shifting demand if its meaning remains fuzzy in the customer's mind. Think of Sony, a brand that has tried to be all things to all people in consumer electronics, causing it to lose share to brands with a crisper definition, like Samsung. Brands with a strong meaning, such as IKEA (affordable, modern furniture) or FedEx (on-time delivery) convey well-defined benefits that address customers' needs and stand out clearly from competitors.

Managers will have to reexamine their brand's meaning whenever they try to penetrate a new customer segment, whether that involves moving up- or down-market, reaching younger or older people or moving from business customers to consumers. Successful brand repositioning or extension maintains the core promise as the brand moves into the new category without stretching the brand's meaning beyond its natural latitude. Arm & Hammer was able to move

Figure 2: An effective brand strategy manages three stages of customer interaction to shape customer response

Defined business strategy			Reception and response
Meaning and signals	Transmission	Amplification and distortion	
• What do we want to mean to consumers?	• How do we make our signals strong and consistent?	• How do we ensure our signals are amplified and not distorted?	• How do we ensure that our target market hears and believes our signals?
• What should our signals be?	• How should we transmit our signals?	• How should we respond to cross-talk from competitors?	• How can we influence customer behavior through our signals?
• Who should our signals reach and how far?	• How can we ensure consumers think of us for their specific needs?	• What should we do when our brand is threatened?	
• How many signals should we transmit? When?			

Source: Bain & Company

from baking soda to toothpaste and Porsche from high-performance cars to sunglasses and watches, because those brands could credibly deliver the same practical and emotional benefits in the new space.

Brand extensions run into trouble when they cannot provide benefits promised or stray from the core value proposition. US motorcycle maker Harley Davidson, a quintessential macho brand, stands for the myth of the open road. The company has capitalized on its brand to extend into a variety of merchandise, including T-shirts and cigarette lighters, but went a step too far by attaching its brand to a line of perfume, which never caught on.

Just as a theatrical script needs actors and a set to bring the words to life, brand meaning needs to be translated into specific signals, consisting of logos, taglines, mascots, events and other devices. Signals provide a shortcut to help customers navigate a world of choices. Thus, in car insurance, Geico's mascot, a friendly, low-key

gecko with a Cockney accent, personifies the product attributes of low cost and ease of use.

Stage 2: Manage transmission of the brand signals

To communicate brand meaning to everyone who matters, most companies think first of explicit marketing through advertising and in recent years through social networks. But transmission should extend beyond traditional marketing to include all the points where the customer touches the product and company, from installation to frontline customer service to packaging to website navigation. Such *implicit* marketing, conveyed through every interaction the customer has with the brand, can be equally powerful.

While most managers acknowledge that the customer's overall experience with the brand does matter, execution often falls short because a great experience requires coordination of many moving parts owned by different branches of the organization. A retail bank can

provoke interest through ads that describe the bank's great service, and convert that interest into a new account through the website or at a branch. However, if a customer then slams into a dissonant experience— she uses an ATM and incurs an out-of-network fee, or sees unexpected transfer fees on a bill or contacts the call center and gets an indifferent representative— those negative interactions can cause the customer to leave, undoing the bank's marketing investment.

That's why the brand promise must be clear and bright at all levels and in all parts of the organization. Incentives for frontline employees and managers should be aligned with that brand promise, so that their behavior delivers on the promise.

Externally, brand signals need to reach the right customer segment with the right message at the right moment.

Stage 3: Amplify the signals and battle distortion

If only it were as simple as telling the consumer what to think. When national television networks and magazines ruled the roost, branding could be broadcast through just a few channels to reach a broad audience. Word of mouth was limited to a relatively small circle of people at the dinner table, social events or the workplace.

Today anyone in the online ecosystem can change the signals to suit his or her needs, and the roar of the crowd rises with alarming speed. Fans can amplify messages, detractors can distort them and competitors can inject cross-talk that shifts the consumer's attention away from the original message. Interest groups can turn on a company quickly and accuse it of misdeeds, garnering media coverage. Customers or ex-employees can trash its products on social networks, where the volume of traffic itself can become newsworthy.

Experienced brand managers have learned this the hard way. In 2010, Procter & Gamble (P&G) released a

new Pampers diaper with Dry Max technology. Some mothers then claimed it gave their babies diaper rash, and a few thousand people joined a conversation about it on Facebook, sparking wide media coverage and considerable consumer backlash. P&G proved the product was safe, but the brand was tarnished and Dry Max product sales continued to decline.

Even Apple, which has built one of the strongest brands in business history, has a group of detractors who use social networks to complain about Apple product features or prices. One savage spoof of Apple's loyal buyers pitted the iPhone4 against HTC's Evo smartphone, and has attracted almost 16 million views on YouTube.

Repairing the harm done by distortion after the fact can take a major effort. Conversely, on the upside, brand amplification can translate into a significant share gain in customer spending. Leading brand managers put in place a disciplined process to encourage amplification and mitigate distortion and cross-talk:

- They *plan* by incorporating opportunities to amplify the brand message into traditional marketing and public relations as well as social media tactics.

- They *listen* by regularly soliciting feedback from customers. Some companies are developing a comprehensive capability of listening to a broader group as well by using "social analytic" software tools.

- Pragmatic managers *act* by responding to detractors of the brand quickly and genuinely, empowering employees to solve customers' problems. They also act quickly to encourage brand promoters, by showing appreciation for positive word of mouth.

Social media can serve to amplify a brand for relatively little investment compared with traditional media during moments of truth in the customer's experience. For the past couple of years, JetBlue has used

Twitter to address customer concerns in real time, like rebooking flights canceled due to bad weather. Here's how one tweet expressed the outcome during a blizzard in December 2010: "@JetBlue rebooked my snow-cancelled flight via Twitter in less than 20min. (Phone lines are out.) I LOVE JetBlue so very much!"

Stage 4: Message received? Closely manage customer reception and response

Ultimately, the brand lives in the mind of the consumer. How someone receives and interprets what's been transmitted can lead that person to change behavior by being willing to pay more for the brand, recommend-

Astute brand managers pursue "salience"—they always give consumers a reason to buy.

ing it or denouncing it. Knowing how the brand is being perceived enables companies to make midcourse adjustments in an offering or a campaign, so that the brand gets better aligned with business objectives.

As managers look to shift demand through brand equity, they should cover all the dimensions of reception. The best known dimension is *awareness*, or whether a particular brand comes to mind when the customer is thinking about the product category. A closely related dimension, *congruence*, concerns the ability of customers to describe that brand accurately.

Credibility is the third aspect of reception, as customers should trust and believe the brand promise. Credibility often takes time to build, especially in high-stakes areas such as health or finance. Danone, for instance, was well known for dairy products, but when it diversified into baby nutrition, the company established close relationships with healthcare authorities and

medical professionals, and performed related clinical studies. Taking care to establish credibility first allowed Danone to grow products such as Bebelac infant formula in China and Indonesia.

Finally, astute brand managers pursue *salience*—they always give consumers a reason to buy, either in the course of promoting general awareness, during a specific call to action at a point of purchase or by making the brand more visible as consumers shop. Here again, it's important to look beyond explicit advertising to the implicit marketing conveyed by the overall customer experience.

Amazon's "price check" mobile application lets users scan the bar code of any product on a store shelf, compare prices with providers featured on Amazon and make a purchase on the Amazon mobile website. By making Amazon available wherever a customer is shopping, the price-check application creates tremendous brand salience across retail categories—it reminds people that they can always shop Amazon, even in a competitor's store. Brand-enhancing innovations such as the price check are among the many factors that have contributed to Amazon's 10% CAGR in annual revenue per active customer since 2003.

A discipline for both sides of the brain

Brand strategy that shifts demand and advances the business is both an emotional and scientific exercise. The creative aspects of advertising and other marketing techniques have tended to dominate the world of branding, but increasingly powerful analytical tools are available that can confirm or refute managers' intuition and thus inform smarter brand decisions.

As just one example, perceptual mapping takes senior executive interviews and customer research and plots the brand in question, plus all of its competitors, on a map according to how the brands are perceived by the company's executives and its customers. The closer management perception is to customer perception, the greater the brand's congruence and

credibility. But there's often a large gap between what management intends the brand to mean and how it's actually perceived by customers. Presenting that data with an array of competitors conveys the size of the gap and its relation to the rest of the industry universe.

Going a step further in determining how to shift demand, managers can use econometric techniques to tease out exactly how customers will make choices among alternative products. As they evaluate alternatives, consumers use multiple criteria, which they have to trade off. As complexity grows, brand can take on greater weight in the decision. ("I'm not sure I need all that, but from X company it's bound to be good. And the price is good enough.")

One of the most important, time-tested tools that brand managers have is discrete choice analysis, which presents target customers with trade-offs in product features, price, brand and other attributes for competitive alternatives, then asks them to make choices. One can vary the attributes systematically so that all the possibilities can be statistically simulated without actually having to test a huge number of combinations. Discrete choice modeling can quantify the demand shift, while comprehensive brand perception data allow a company to quantify which aspects of brand image create the demand shift.

An information services company that we will call Trout-Net used discrete choice analysis as a guide to which initiatives it should pursue to tap new streams of revenue. A series of acquisitions had led to integration of several brands under the unified TroutNet brand, but the company was serving many market segments that were not familiar with the brand. The executive team had defined a new brand promise around honest and fair pricing plus strong customer service, but team members were not sure which elements of the promise resonated with customers or which parts of the customer experience needed to change in order to raise customer loyalty and strengthen financial returns.

Using discrete choice analysis, TroutNet narrowed a long list of possible price, product feature and service initiatives to four key initiatives with the greatest potential to shift share. This small set of initiatives, such as a five-year price guarantee, indicated the company could achieve incremental, profitable revenue growth of $500 million, plus a reduction in customer turnover and other benefits.

Conclusion

Like business strategy, brand strategy should be anchored in economic metrics and informed by analytics, not just by creative marketing processes. So to keep on course, start with customers' priorities, and then determine how the brand can mesh with other elements of the business model to boost customers' loyalty and willingness to advocate for the brand. That's the kind of buzz you can take to the bank. ◔

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