

Bringing Discipline to Brand Consolidation – the right choice for capturing value in the face of ballooning portfolios and brand dilution

Brand valuation “Understanding, exploiting
and communicating brand values” – FT Retail
& Consumer Publishing

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BRAND CONSOLIDATION — THE RIGHT CHOICE FOR CAPTURING VALUE IN THE FACE OF BALLOONING PORTFOLIOS AND BRAND DILUTION

By Lars Finskudⁱ

Facts reveal large benefits of a successful brand consolidation. Clear and distinctive value propositions with few focused brands benefit all parties, and may create more value for brand owners. However, brand consolidation attempts have a high failure rate.

BRAND CONSOLIDATION – AN UNAVOIDABLE STRATEGIC CHALLENGE

Accelerating M&A and alliance activity continues in many sectors of developed economies, and the branding environment becomes increasingly demanding. Brand consolidation – the discontinuation of one or several brands in a portfolio, to focus on and grow remaining or new brands – therefore becomes more and more an unavoidable strategic challenge.

Two features of the business landscape highlight this challenge. The first is the explosion in M&A activity in the last decade notably in the consumer goods and financial industries. In the former, mergers and acquisitions soared from 1,700 in 1985 to 12,000 in 1996. In the latter, the figure rose from 270 to almost 2,000 in the same period. The second feature is the fact that intangible assets make up most of the value of M&A deals. Exhibit 1 shows that intangibles constituted 70 percent of the value of M&A deals in the UK in 1990, up from just 18 percent in 1980. In most cases brands account for a considerable portion of these intangible assets.

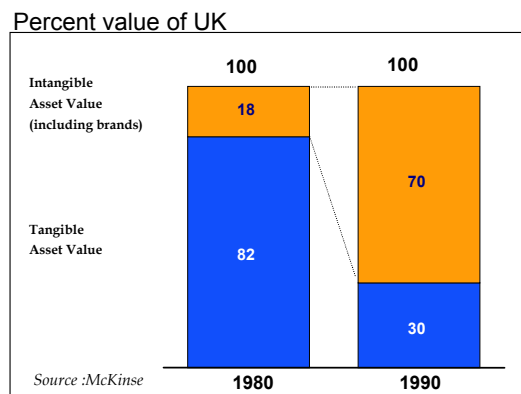


Exhibit 1

The result is highly valuable, but ballooning portfolios frequently lack in strategic rationale and distinctiveness to the consumers.

Ample benefits from consolidating

Of course, brand consolidation does not necessarily follow from a merger or acquisition, but when it does, it can be a powerful and high value lever. A successful consolidation might, for example, transform two brands each with a 15 percent market share into a single brand with a 32 percent share. This is illustrated in Exhibit 2, where the effects of a reduction in the cost of goods sold (due to assortment streamlining and more focused advertising and promotion) could bring the operating margin up from between 5 and 7 percent to 16 percent – approaching a tripling effect on the bottom line.

Realising value through consolidation

Percent	Pre-consolidation P&L		Post-consolidation P&L
	Brand 1	Brand 2	New brand
Market share	15	15	32
Cost of goods sold	50	52	45
Gross margin	50	48	55
Advertising and promotion	25	25	18
Operating margin	7	5	16

McKinsey
Exhibit 2

Colgate-Palmolive demonstrated what can be achieved when, in the early 1990s, it consolidated its global brand portfolio, cutting the number of product sizes and types of toothpaste, detergents and other items by 25 percent. The company saved almost \$20 million a year, while strengthening its market positions.

Procter & Gamble, in a similar drive, eliminated almost a quarter of the different varieties of its brands between 1991 and 1994 under the tenure of former CEO Edwin Artzt (who is on record as having said that in 25 percent of the companies, 2,300 brand varieties contribute only 2 percent to total sales). The current chairman John E. Pepper continues this strategy to reduce complexity not only for retailers and the company itself, but also to make it crystal clear what the best choices are for the consumer. In the United States, P&G's product roster is about a third shorter than it was at the beginning of the decade. In hair care alone, it slashed the number of items almost in half, and grew its share by five points to 36.5 percent over the past five years.

Philips and Whirlpool joined in a remarkable marriage in 1989 to produce a successful brand consolidation. Through the merger Philips shed its stale image and Whirlpool overcame its lack of reliable history in Europe, to create a dynamic brand with a rich heritage, in which solidity was combined with vigour and innovation and was backed up by reliability to project a stylish new image under the Philips-Whirlpool co-brand. It was the sort of synergy of which medieval alchemists dreamed. Market share increased by 10 percent from 11.5 to 13 percent in five years, leaving Whirlpool ready to stand on its own in Europe.

In summary, the result of a well-conceived brand consolidation positively affects all the components of successful branding, ranging from corporate

culture, over improved profitability, operations, and customer interface, to the actual distinctiveness of the value proposition.

MUCH SCOPE – BUT ACHIEVING SUCCESSES IS DIFFICULT

If brand consolidation can yield substantial value, and if failing to consolidate risks leaving a company with a proliferating brand portfolio and sub-optimal performance, why not consolidate?

Unfortunately, experience shows a high failure rate. Of 23 case examples ranging from complex mergers of several brands present in same markets to seemingly straightforward changeovers from a local brand to a global or regional brand, we found that market share was maintained in less than 50 percent of the cases. For pure brand mergers where two or more brands in a market are combined into one, the success rate fell to 13 percent.

Examples are plentiful. For every Philips there is a Whiskas. In the late 1980s, three brands dominated the US cat food market: Kal Kan, Crave and, Sheba. Kal Kan and Crave, one of them dry cat food the other moist, were both in the 'plain' segment of the market whereas Sheba was in the 'gourmet' segment. The first two merged, despite their differences, to form the new Whiskas. Five years on, as Whiskas had failed to achieve the combined market share of Kal Kan and Crave, the Kal Kan brand was reintroduced – on Whiskas packaging – but only to limited effect.

A similar outcome befell GT and Kvällsposten, two Swedish newspapers, each with a strong local profile, when they merged in 1998 into iDag, in a bid for national stature. iDag struggled through six years of continuous 'personality' conflicts and never achieved more than a regional identity. In 1995, GT-iDag and Kvällsposten-iDag were reintroduced in a dual-branding solution. The merger was subsequently described as one of the biggest newspaper failures.

GETTING IT RIGHT

The main reason for failure seems to be that the complexity of the task paralyses management, leading them to one of two fatal mistakes. Some refrain from doing anything, discouraged by the complexity and risks involved – potentially exposing the company to a later reactive move. Others jump unprepared into an ill-conceived consolidation without proper analysis and preparation in the organisation, leaving customers puzzled and business relations confused.

Skills and experience together with a well-structured approach appear to increase the rate of success. Large and well-established 'branders' seem to have more success than companies in which real branding is a relatively 'new' managerial discipline.

However, work in this area suggest that assessing the challenge, choosing the right branding ‘end-game’, and managing the transition-steps, are at the heart of a successful brand consolidation process.

Forces at work

Whether opting for a brand consolidation based on a proactive or a reactive rationale, the forces at work and the process should be the same. However, a proactive move, resulting from a strategic brand portfolio and industry review, with clear long term objectives may be easier to complete successfully than a reactive response where management is forced to act quickly in response to competitive moves, expensive brand maintenance, or rapidly diminishing share.

In consolidations, at least two powerful forces appear to be at work, as illustrated in Exhibit 3.

Consolidation among markets — is driven by globalisation, or the convergence of lifestyles and taste between populations in different countries, the world-wide reach of the media, and global economies of scale.

Consolidation within markets

— is driven by the momentum acquired by dominant brands, whereby the leading brand in any local market tends to have a return on sales so much better than that of competitors, suggesting that the very fact of dominance itself sets in motion the dynamics of increasing returns.

Two distinctly different brand consolidation challenges

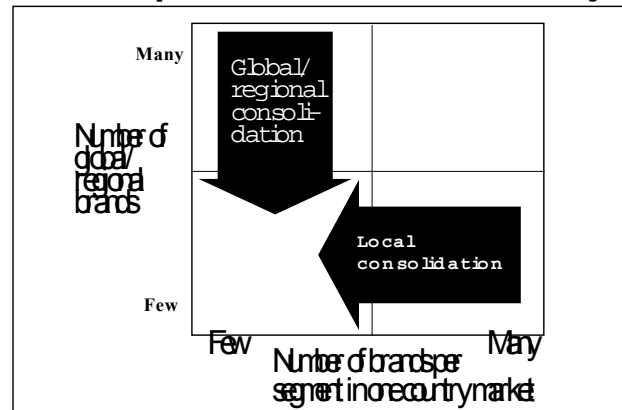


Exhibit 3

A structured approach

To help in the consolidation analysis and process there are four important steps to take from deciding to implementing:

- Conduct a fact-based product category and brand analysis
- Determine the desired branding end-game
- Diagnose brand alignment feasibility and process
- Manage the transition process.

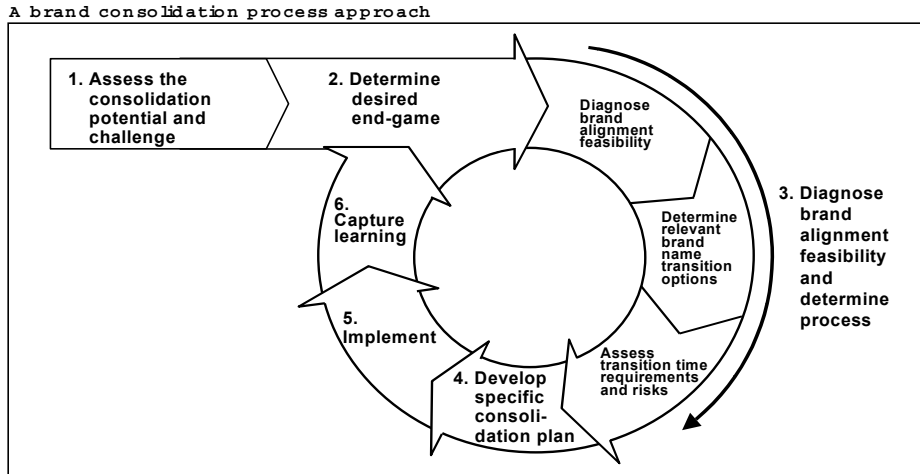


Exhibit 4

A simplified frame-work for a brand consolidation approach is illustrated in Exhibit 4

Conduct a fact-based product category and brand analysis

Successful brand consolidations start with a classic fact-based category analysis combined with qualitative and quantitative market, brand, and cultural analyses. Particularly relevant is to clarify whether a brand consolidation can add value on a category level – i.e. whether the segment would naturally feature a higher or lower number of brands. A simplified framework to help in this deliberation is illustrated in Exhibit 5.

Whether to consolidate depends on product category

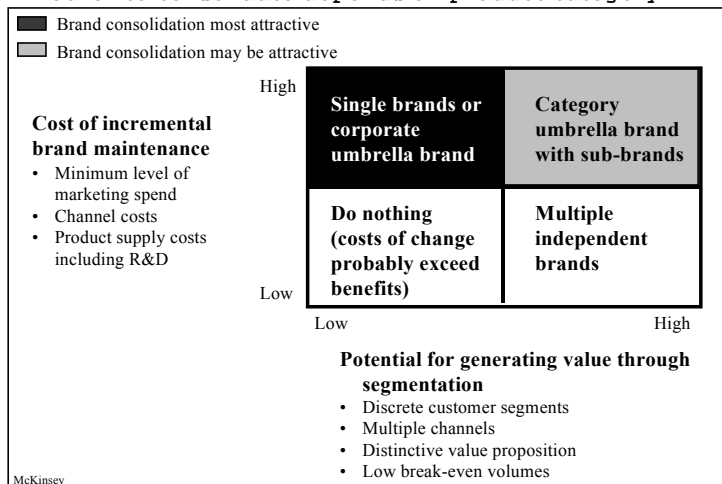


Exhibit 5

Determine the desired branding end-game

The Philips-Whirlpool merger was one of a series of brand consolidations through which Whirlpool has pursued a vision of a

Determining the feasibility of brand consolidation

Analyses required	Less complex	More complex
Segments served	Similar	Distinctly different
Brand attributes	Few and small gaps	Many and large gaps
Brand equity	One strong	Both strong
Perceived positioning	Similar	Different
Brand cultural heritage	Low for one	High for both
Consumer loyalty	Low for one	High for both
Distribution channels	Similar	Different
Relative market share	Much higher for one	Both equal

McKinsey

Exhibit 6

strong global brand in white goods.

Moving to a single brand however, is not the only answer, particularly when the value that may be captured from segmentation is higher than the cost of maintaining more than one brand.

Some companies choose to consolidate to fewer, more distinct brands. Others establish an umbrella brand that supports sub-brands targeted at specific market segments, thereby lowering the cost of brand maintenance.

Diagnose brand alignment feasibility and process

Consolidation spans in its simplest form from a mere discontinuation, to the complex form involving a transfer of elements of the discontinued brand, for example the value proposition, image or consumer populations, into the new brand proposition.

The task is to ascertain the complexity and risks involved in the consolidation – given the starting points of the brands. Exhibit 6 lists some key analyses in this process, and indicates a relative level of complexity for each situation.

The brand attribute analysis is a key exercise, which serves to acquire a detailed understanding of how consumers perceive the brands. By making a brand attributes map for the loyal customers of a brand, key attributes which are important to those consumers and which contribute significantly in the make-up of the brand can be identified and mapped. In superimposing two such maps for the two brands that are to be merged it is possible to identify the attribute gaps between the two brands. Therefore, to successfully merge two customer populations into one population loyal to one brand, the gaps must be 'closed' in the most efficient manner. This process helps to assess if the

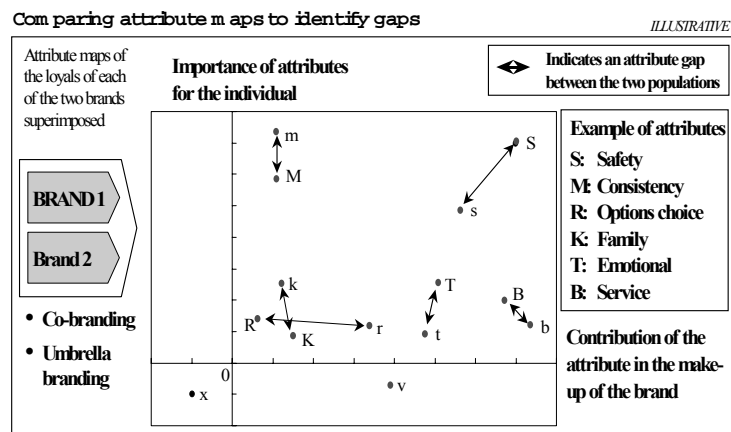


Exhibit 7

gaps can be closed, what attribute gaps are the most important, what means should be employed to close the gaps and how long it is likely to take to close the gaps. Exhibit 7 shows a simplified illustration of such a superimposed map for two auto brands (capital letters for brand 1 and small letters for brand 2).

Having identified potential benefits of a consolidation, there are essentially four routes for the consolidation process:

- Quickly changing to one brand
- Phase out of one brand

- Combine brands in co-branding or umbrella brands
- Do nothing – i.e., maintain the portfolio for the time being.

Quickly changing to one brand — is a demanding strategy that few companies execute successfully. It is appropriate when companies need to move urgently because competitors are rapidly building global power, increasing their advertising and promotion intensity, or when facing quickly diminishing market shares and cost of brand maintenance. As such this strategy is often more reactive than proactive for sustaining an existing value proposition.

Importantly though, it should be considered only when a relatively high degree of control can be maintained over consumers or trade – either through existing distribution rights and channels, or extensive public relations, advertising, and promotion.

Procter & Gamble successfully pulled off this feat in the United States in 1993, when it shifted overnight from selling two brands of toilet paper, White Cloud and Charmin, selling the full product line under the Charmin brand alone. This quick name-change strategy was successful because Procter & Gamble combined control over distribution with a period of heavy additional spending on advertising and promotion during the transition.

Phasing out a brand — works well when one of the company's alternative brands has a large group of loyal consumers.

The Norwegian company SCA Mölnlycke, for example, now focuses all new product development and advertising in the feminine sanitary protection market on supporting its strong pan-European Libresse brand. At the same time, it retains its older Saba brand, which carries less innovative products but which, even after more than a decade of harvesting, is still profitable and still possesses a significant market share, and there is no rationale for discontinuing it abruptly.

Co-branding or umbrella-branding — is the most frequently employed transition strategy. Building, as it does, on the inherent brand equity of all brands, brand names are kept for a period of time, giving both consumers and trade time to adjust to the new situation.

Philips-Whirlpool provides a good example of such a strategy with their five-year co-branding transition.

Do nothing — is the right solution when, despite a potential rosy end-game scenario, the actual process of changing employees', retailers' and consumers' attitudes, habits, and systems requires exceedingly high investment and efforts, or involves too many unknowns, and therefore outweighs the potential profits and synergy identified. The consolidation should thus be postponed for the time being.

Managing the transition process

A compelling vision of the end-game, and how to reach it, is not enough on its own to guarantee a satisfactory result. Execution of the transition is just as important. Sound design and planning of the transition process can make the difference between success and failure in a brand consolidation.

Research indicates that there appear to be three key steps. Depending on the magnitude and urgency of the task, these steps can be implemented one-by-one or in parallel.

- Streamline ranges and harmonise products
- Harmonise identity and design
- Merge the brand's positioning.

Streamline ranges and harmonise products — two separate moves that are closely linked and must be balanced. Moving too fast to a streamlined product portfolio without consolidating the brand names will dilute the distinctiveness of the value proposition. One large European maker of consumer durables maintained a large number of brands, but sharply streamlined the ranges. In the end, there was no longer any meaningful distinction between the brands' product offerings, and retailers declined to stock the full line.

Harmonise identity and design — entice loyal consumers to brands that are to be discontinued, gradually to appreciate the visual language of the brand that will be maintained and developed.

Merge the brand's positioning — develop a joint strategic brand positioning and harmonising of all communication. This is to achieve a gradual transition of the brand proposition in consumers' minds and directs loyalty toward the new single brand.

Moving on

Regardless of industry, companies with a brand portfolio will benefit from the consolidation assessment process. This does not mean they have to consolidate now – or even later. It does, however, mean that the decision is fact-based to evaluate and identify the strategy that creates most value for shareholders.

Avoiding or postponing consolidation may be the easy way out – but will eventually lead future management to be faced with situations where a consolidation is a necessary reactive move, setting the stage for a possibly ill-prepared consolidation.

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Clearly, in applying a brand value perspective to a portfolio, it often becomes apparent that investing in building a solid resource system, and hence brand strength, will create more long-term value that will 'drip-feed' smaller, unfocused or less distinctive brands.

Bibliography

ⁱ This article incorporates excerpts and elements from the article titled '*Brand consolidation makes a lot of economic sense*' published in the McKinsey Quarterly, 1997 Number 4, which was co-authored by: Lars Finskud, Trond Riiber-Knudsen, Richard Tornblom, and Egil Hogna.