The Increasing Importance of A Portfolio Perspective In A World Of Decreasing Brand Loyalty

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Everywhere you turn there are signs that the brand marketing approaches developed in the 20th century are becoming less useful in today's environment. It used to be that monolithic brands could generate a tremendous degree of loyalty from large, homogenous consumer segments. Coca-Cola could count on a won-over consumer loyally ordering Coke virtually every time he wanted a soda. Anheuser-Busch could count on a twenty-something beer drinker reaching for Budweiser whenever he wanted a beer. Today, consumers are far less brand loyal. Rather than relying on one mega-brand to deliver on all their needs in a category, they are looking for a personal *portfolio* of brands that can serve different needs at different times.

Roper Starch reported that "having one brand is increasingly the exception" in a recent trend report. They looked at 23 categories and found that in categories as diverse as toothpaste and soft drinks, the percentage of people having just one favorite brand was dropping significantly. In fact, only 34% of people report being loyal to one brand across the categories studied. That means that fully 2/3 of consumers rotate through a personal portfolio of brands in a particular category. So where a young beer drinker might have been loyal to just one brand 20 years ago, now he may consider one brand to be his "cool night club beer", another brand to be his "watching the game on TV beer" and another his "just cut the grass, refreshing beer".

To deal with a new world where consumers are in effect, choosing from a personal portfolio of brands, marketers need to consider two changes to the 20th century marketing canon. First, the role of the brand manager should be re-thought as companies need more than one brand to surround a customer and capture significant share. Perhaps companies need to create *portfolio managers* that are focused on orchestrating a group of brands (or a brand family) to address a variety of consumer-stratified need-states rather than hoping to gain share with a number of independent brand managers, all trying in vain to "own" a consumer segment.

Secondly, in this environment a brand can only hope for a reduced role as one of several options in the consumer's personal portfolio. In fact, we might want to re-think the way markets are segmented when one consumer is using multiple brands to fulfill a variety of need-states. Let's look deeper at the implications for segmentation and targeting.

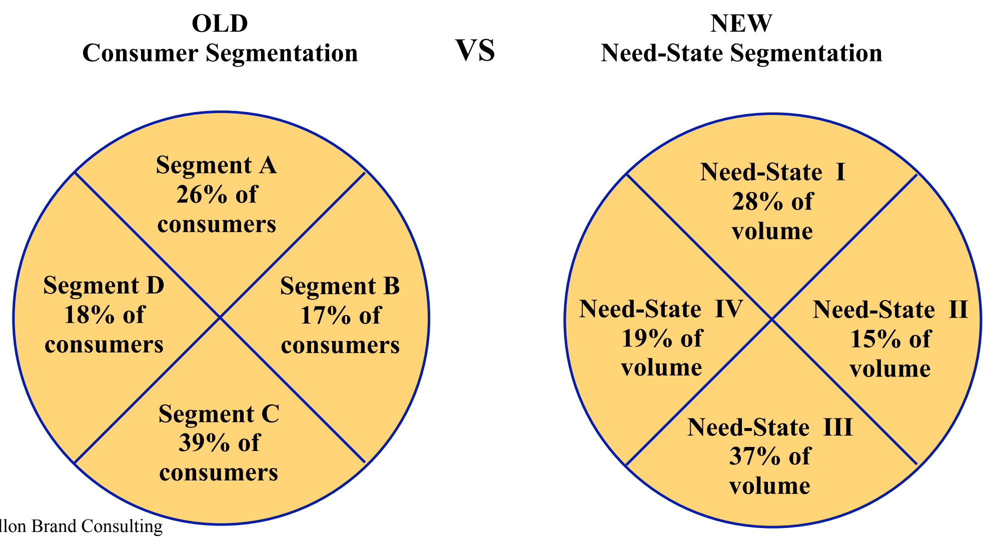
Market Segmentation

In the old world, most brand managers segmented markets by segmenting *consumers*. The underlying question was, "*who* do we want to be a Bud (or Coke, or Kit Kat) loyalist?" Research companies developed more and more sophisticated psychographic segmentation so that a brand could align itself with the values and lifestyle aspirations of its target. In the 90's many companies prided themselves on a much more consumer-centric approach that celebrated their target segment.

However, for many categories, segmenting consumers was never the most productive way to segment the market. These categories faced a world more like the one many of us find ourselves in today. They found that each consumer could have a personal portfolio of brands that served different need-states. For example, restaurants find that one type of consumer will frequent different restaurant brands to serve different needs/occasions, e.g., consumers choose one brand for a "romantic evening" and another for "food in a hurry".

Recently, marketers have addressed need-states rather than consumer-types in a variety of categories with good success. For instance, Kit Kat seems to have defined a need-state (when you need a little break in the day) that they could offer to any consumer. Indeed, the "little break" need-state can transcend consumer segments and fit into the portfolios of consumers in a variety of segments. Corona seems to have quickly discovered the shifting dynamics of beer brand loyalty and targeted the "relaxing refreshment" need-state rather than a consumer group. They cleverly shy away from showing us too much about their user group in their advertising (shot only from the back) as this need-state *transcends* consumer segments. Corona has enjoyed steady growth with this approach.

A need-state segmentation can identify the key need-states in the category and measure the relative volume that each satisfies (across all consumer segments). This type of market segmentation does not necessarily have to break out consumer segments at all. In the most extreme case, it may be more instructive for the brand portfolio manager to understand which need-states exist and which are most attractive from a volume perspective. Then she can align the right brand with the right need-state without ever really considering consumer segments.



Of course, the old and new approaches might best be combined so that psychographic, life stage or other consumer segments can be cross-tabbed across need-states to define the need-state portfolio of each consumer segment.

Consumer Segment A	Consumer Segment B	Consumer Segment C	Consumer Segment D
Need State I (10% of volume)	Need State I (26% of volume)	Need State I (40% of volume)	Need State I (12% of volume)
Need State II (25% of volume)	Need State II (19% of volume)	Need State II (20% of volume)	Need State II (10% of volume)
Need State III (30% of volume)	Need State III (30% of volume)	Need State III (19% of volume)	Need State III (26% of volume)
Need State IV (35% of volume)	Need State IV (25% of volume)	Need State IV (21% of volume)	Need State IV (52% of volume)
100%	100%	100%	100%

With this type of information a portfolio manager may identify that a specific brand should target "need-state I", but that "consumer segment C" should perhaps be the focus of media dollars. We find that while consumer segmentation may still be useful, it seems that segmenting the need-states in your category and creating a portfolio of brands to match up against them is more efficient and instructive than simply matching brands with segments of people.

The Role of The Portfolio Manager

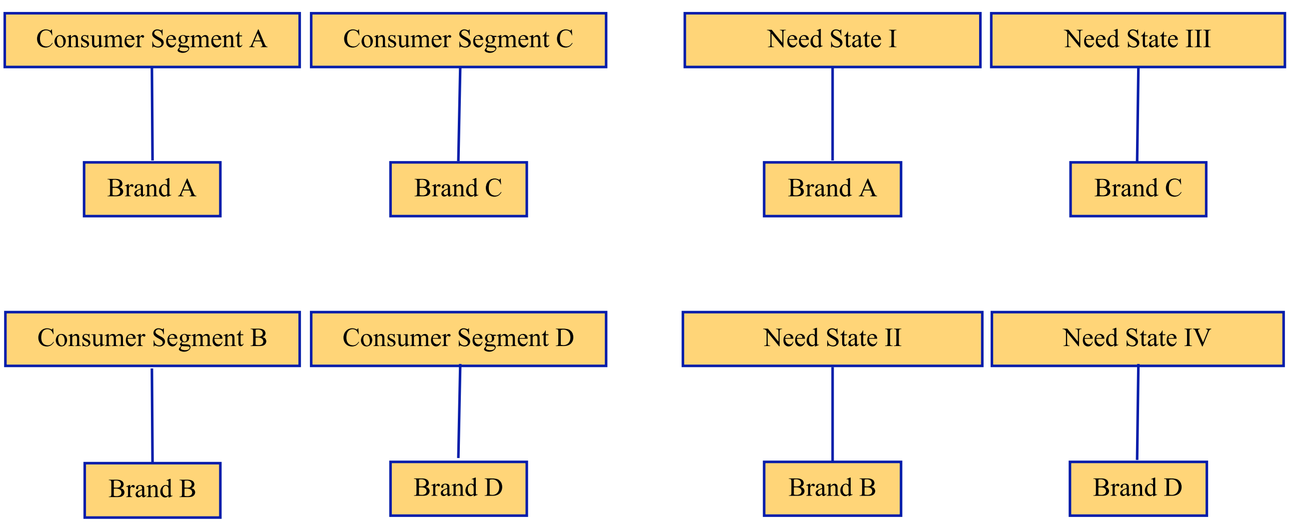
In order to increase "share of throat", "share of wallet", etc., a portfolio of offerings needs to be aligned to specific need-states more than it does to specific consumer types. In most cases, one brand cannot hope to be elastic enough to serve all these need-states so marketers need to manage a *portfolio of brands* to serve a *portfolio of needs*. Brand managers might evolve into need-state managers and they would need to be orchestrated to ensure that they were focused on one need-state each. Further, a portfolio manager would need to look at the big picture to ensure that the right need-states were being targeted and that multiple brands/products were not unnecessarily fighting with each other to serve the same need-state.

Now imagine the advantage that a company would have if it were to consciously organize its portfolio around a set of high-volume need-states. It would focus product development and positioning work tremendously. Moreover, it would ensure that all of the key need-states were being targeted by the brand best able to serve them. Brands could then be aligned in a new way against need-state segments rather than consumer segments.

<u>Old Model</u>
<u>Align Brands with Consumer Segments</u>

VS.

<u>New Model</u>
<u>Align Brands with Need-State Segments</u>



The world has changed and marketing practice needs to keep up. Consumers have more choices than ever before and in most cases, marketers cannot hope to hold on to the complete loyalty of a particular consumer. For marketers who find themselves in this situation, we recommend aligning a portfolio of brands/products with the consumer's portfolio of need-states. Doing this well could mean a different form of brand management organization. Brand managers would focus on delivering against a particular consumer need-state and a portfolio manager would be tasked specifically with increasing overall share – by managing a portfolio of brands, each playing a defined role on the "team".