A Strategic Approach Toward Optimizing a Brand Portfolio

By: Mitch Duckler

Brands represent a company’s most valuable intangible assets. Yet the way many companies manage or, rather, mismanage their portfolio of brands suggests otherwise. Too often, critical decisions about brand portfolios are not made within a context of sound strategic considerations. Along with managing a portfolio of brands comes complexity, boundary challenges, and organizational tensions leading to some brands receiving too many resources and, more importantly, others not receiving enough to fully exploit their markets or domains of competition. To extract more value out of the portfolio, it is important to understand exactly what brand portfolio strategy and its key elements are, and apply guiding principles to manage the portfolio over time.

What is Brand Portfolio Strategy?

Simply stated, brand portfolio strategy is an approach toward establishing (future) and managing (current) a portfolio of brands in a coordinated way, such that they maximize returns and build equity in chosen markets. Brand portfolio strategies are typically created by establishing a “game board” of a company’s industry composed of dimensions that are most foundational and enduring to that company’s business. When combined with “brand footprints”, these dimensions frame relative scopes of brands while showing areas of distinction and overlap. Examples of these dimensions include: customer segments, price points or value tiers, offer types, geographies, channels, and value propositions.
What are the Key Elements of a “Brand Portfolio Strategy?”

There are three essential elements that make up a brand portfolio strategy:

- Roles of brands, or why each brand exists in the portfolio (e.g. to penetrate a new market, challenge an incumbent, expand the frame of reference of a parent brand)
- Scopes of each brand relative to others, as previously mentioned (distinction among scopes of brand footprints is preferable, but often blurred as portfolios grow complex)
- Relationships among brands in the portfolio, or how each brand should be related to the parent, if at all – often referred to as brand architecture (e.g. close....sub-brand; further ....endorsed brand; or separate ....stand alone brand)

As these elements are articulated for each brand, “rationalization” of particularly complex portfolios (often an important activity to maximize resource allocation), becomes more strategic and easier to implement. For brands that do not have clear and distinct roles or scopes, and/or don’t contribute significant financials to the organization, elimination and/or transferring their equity to brands better positioned for the future makes good business sense.

Guiding Principles of a “Brand Portfolio Strategy”

Several different principles can apply to a portfolio depending on business objectives and market dynamics. Following are some to consider with examples that bring them to life:

1) Define strategic objectives for brands

Great brands are easy to recognize with clearly defined positioning and value propositions aligned with segment target needs. Strategic objectives align to target segment needs or fulfill a strategic role to inform investment and resource allocation decisions. Strategic roles are identified for each brand within the
portfolio with definitive expectations for each role in terms of growth and margin contribution, and identified metrics to measure performance against.

Core Brands generate positive cash flows, are highly profitable, and account for the majority of an organization’s sales. Royal Bank of Canada (RBC) is Canada’s largest financial institution. They are one of the top 20 largest banks globally in terms of market capitalization; however, years of internal brand creation combined with numerous 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 built around five core customer markets: RBC Royal Bank, RBC Global Asset Management, RBC Insurance, RBC Wealth Management, and RBC Capital Markets. The RBC case is also a good example of principle 4: build and leverage a strong corporate brand.

Strategic Growth Brands target highly lucrative and high growth market segments. When economic conditions sour, sports cars fall first and farthest, but Porsche never suffered much until the early 1990s, when it almost died. Porsche needed a third model line, something with much broader sales appeal than the Porsche Boxster and Porsche 911, if it hoped to have the wherewithal to continue building more great sports cars. In the 1990s, two-thirds of Porsche buyers also owned two other vehicles, one likely an SUV, and America, Porsche’s largest market, was in the midst of its love affair with SUVs. The Porsche Cayenne was introduced to Europe in late 2001 and went on sale in North America for model-year 2003.

Defensive brands enhance a company’s position vis-à-vis competition. When thinking about brand’s utility, providers are not typically top-of-mind. Most of us
would be hard pressed to describe a provider’s brand, not to mention the characteristics and perceptions it invokes. Porsche’s net profit margin rose to 10.1% — best in the industry — and Business Week titled its story, “This SUV Can Tow An Entire Carmaker.” The Porsche Cayenne is also a good example of principle

2) Maximize the extendibility of brands (described later)

The classic example of a defensive or fighter brand is when Virgin Australia entered the Australian market in 2004 and began undercutting Qantas Airlines. Qantas countered by creating Jetstar, a low-cost brand that offers no-frills service and appeals to cost conscious travelers. Jetstar is also a good example of principle 3: Build relevance at different value tiers.

Accenture’s recent report, “The New Energy Consumer Handbook,” indicates a comparable scenario is playing out in competitive energy markets around the world. Today’s energy consumers expect a seamless experience across products, services, and touch points. However, consumer trust in energy providers fell nine points, from 33% in 2012 to 24% in 2013, and globally, energy providers’ customer satisfaction declined from 59% to 47%. Utilities are using alternative brands to appeal to specific consumer segments—whether they are focused on cost, conservation, quality, convenience or some other metric—all under the umbrella of the parent brand. This can be a useful tactic to engage consumers who have specific values and to encourage conservation. For example, Sydney Water, Australia’s largest water utility, built an alternative brand for tap, a Sydney Water product. The goal of the branding effort and marketing campaign was to show consumers that tap water is not only more economical and environmentally friendly than bottled water, but also healthier than other packaged drinks.

Channel-specific brands reduce channel conflict while allowing a company to reduce its cost structure. At the end of the 1990s Dow Corning discovered that many customers experienced in silicone application no longer needed their technical services. As the product matured, the priorities of customers shifted
from wanting help with innovation to wanting to keep costs low. This change in what some customers valued consequently decreased profit margins. Dow needed a radically lower cost structure that would allow it to profit solely from selling products. At the time, Dow had had no online sales component so in 2002 they created a Web-based offering called Xiameter to help enable customers to purchase its silicon-based products in bulk, directly off the Internet. In its first year of operation Xiameter experienced double-digit growth, and now 30% of Dow’s sales originate online — nearly three times the industry average.

3) Maximize the extendibility of brands
Maximize brand extendibility by selecting those that can extend across multiple dimensions. This entails fewer, stronger brands leveraged across multiple dimensions (e.g. geographies, industries, sectors, applications, channels) and new growth platforms to achieve synergies, capitalize on economies of scale, and penetrate new markets.

Spanish brand Inditex Group has built a multi-brand portfolio, which has allowed them to target various market segments more effectively. Zara, Inditex’s flagship brand and the world’s largest fashion retailer, is all about instant “runway” fashion made accessible for everyone. The brand is consistently delivered by controlling most of supply chain and the customer experience. Zara has several basic product lines. Women and men’s clothing are Zara’s most important product line; additionally there are perfume, shoes, belts, and cosmetics lines. In 2003, Zara also developed a new extended brand, Zara Home. Zara is a successful and strong brand, so it was extended to the new product class. The Zara Home brand includes a Zara Home Kids collection, offering bedding, nursery accessories, sleepwear, plush toys, etc. Awareness of the brand name Zara Home is higher as consumers already know Zara, its parent brand. In addition, Zara evokes feelings of familiarity (positive association) within consumers, which perhaps results in a greater probability of purchasing Zara Home.
4) Build relevance across value tiers

The deliberate alignment of individual brands targets segments within each value tier to maximize the company’s reach. Leverage distinct brands to target all relevant value tiers and provide a clear delineation of appropriate benefits (levels of quality, service, expertise, etc.) for each offering relative to its value tier positioning. Consistently applied pricing strategy that reflects intended value tiering for relevant brands (i.e. across industries, applications, sectors, channels, etc.). Premium brands are maintained at premium price levels and protected against brand dilution.

Guess, Inc. operates in 6 different store concepts in an attempt to appeal to a variety of different markets. The original GUESS retail stores carry a full assortment of full-priced Guess products, including men’s and women’s merchandise and licensed products. GUESS factory outlet stores are primarily located in outlet malls and sell a select assortment of apparel and licensed products at lower price points. GUESS by MARCIANO stores, offering apparel and accessories that are sexy yet sophisticated, were introduced in 2004 in an attempt to recapture the company’s glamorous image. The target market for these stores is a slightly older customer interested in higher-end clothing and accessories such as ritzy evening dresses and fancy jeans. G by GUESS stores offers Guess products at a lower price point than Guess retail stores, in order to target a wider demographic. Products in this line provide a more fun, youthful image; fashion-forward, yet not cutting edge fashion. GUESS accessories stores sell GUESS and GUESS by Marciano labeled accessory products.

5) Build and leverage a strong corporate brand where it makes sense

While customer segments should be the ultimate arbiter of how much or little product brands should be linked to their parent, building a strong corporate brand with a clear and broad-reaching frame of reference can provide equities to other
brands in the portfolio. Most companies build their businesses through multiple brands. A brand’s role is determined by its ability to contribute equity to an offering. Understanding brand roles and relationships ultimately guides brand architecture decisions. A corporate brand acts as an “umbrella” for the corporation’s activities and captures its vision, image, values and positioning along with many other aspects.

A corporate brand is a valuable resource – one that provides the business with a sustainable, competitive advantage. According to the Interbrand ‘Best Global Brands 2013’ ranking, IBM, GE, and Intel (largely B2B-focused brands targeting sophisticated enterprises and ‘technical buyers’) are among the most valuable brands (all ranking in the 2013 Top 10). Their intangible asset of ‘goodwill’ drives billions of dollars in value and market capitalization. IBM’s 2013 brand value is US$78,808 billion (GE $46,947 billion, Intel $37,257 billion). Their brands, not their products, are the differentiators that lead to competitive advantage.

Leveraging the corporate brand is most effective if the brand is perceived as a valuable strategic and financial asset to key stakeholders (internal & external). Accordingly, it is the primary point of reference for customers, employees, investors, and other stakeholders. A corporate brand strategy should provide leverage for a company to extend its brands vertically and horizontally to capture new customer segments and markets.

Microsoft lends its brand authority to Microsoft Office, Microsoft Word, Microsoft Excel, Microsoft PowerPoint, etc. Windows, the operating system, is what has made Microsoft the company it is today. With Windows shipping pre-installed on over 90% of all personal computers, Windows is by far the dominant brand and the driving force of the company. It also has the most recognizable visual device the company has—the window—so Microsoft capitalized on that brand equity by putting its most recognizable visual asset at the top alongside the company name,
pared down to its simplest form. In other markets, such as gaming and mobile devices, Microsoft made the strategic choice to distance Xbox and Surface from the parent brand. While most everyone knows Microsoft is behind those brands (often called a “shadow endorser”), its extendibility into those domains was deemed insufficient as compared to software, where the equity of Microsoft lies.

Samsung (valued at $39,610 billion, 8th on Interbrand’s Best Global Brands ranking) is one of the few brands that has seen success across multiple consumer and business sectors (TVs, hand held products, cameras, digital appliances, and semiconductors). According to CMO, Sue Shin, one of the company’s three top priorities is building and enhancing a single Samsung master brand with their proposition, “With our Brand Ideal in place, we have the foundation we need to consistently express our brand across all categories and touchpoints...The Brand Ideal informs everything we do. It has helped to move our brand one huge step forward and enable us to be closer to our consumer.” The goal is one overarching brand narrative that encompasses Samsung’s various business units, and ensures it is central to customers’ experience of Samsung across product categories.

6) Employ simple and clear brand architecture

This is characterized by a hierarchy of brands with explicit guidelines that define the appropriate linkages, nomenclature, and visual identity for brands in the portfolio. Utilizing fewer levels in the brand hierarchy to achieve organizational and investment efficiencies and simplify customer offerings. Offerings are clearly organized and facilitate customer navigation. There is consistent execution and application of linkages, nomenclature, and visual identity systems for each brand. Perhaps the best illustration of this is BMW. The BMW brand has the 300 series (small), the 500 series (medium), the 700 series (large), the M series (high performance), Z4 (roadster) and the X3/X5 (SUVs). This form of line extension from the core brand involves sub-brands that vary in price, quality, and features, and has provided leverage and clarity to BMW who has maintained its tagline “The
Ultimate Driving Machine” for over 35 years.

The end goal of a brand portfolio strategy is to efficiently manage branded offerings to create greater value and uncover new opportunities for growth. Brands are assets that must be monitored regularly to assess their contribution and role in the overall portfolio. When well conceived, developed, and clarified, the roles, scopes, and relationships among brands can help to optimize a portfolio to achieve business objectives.

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