



Part 3: Building Strong Brands

Chapter 6

Identifying Market Segments and Targets

In this chapter, we will address the following questions:

1. In what ways can a company divide a consumer or business market into segments? (Page 93)
2. How should a company choose the most attractive target markets? (Page 100)
3. What are the different levels of market segmentation? (Page 101)

Marketing Management at LinkedIn

LinkedIn began operations in 2003, targeting a different audience than most other social networks, with a vision “...to create economic opportunity for every professional in the world.” Also separating LinkedIn from other social networks is the fact that it has diverse revenue streams, driven by three customer segments: job seekers who buy premium subscriptions for access to special services; advertisers who rely on its marketing solutions unit; and corporate recruiters who buy special search tools from its talent solutions unit. Today, LinkedIn has more than 300 million users worldwide—including 5 million in China, one of its newer markets—and sees much growth from its mobile users, who in 2013 accounted for more than 30 percent of unique visits to the site. Now LinkedIn’s well-targeted and positioned brand faces competition from other online giants, such as Facebook, and from established professional network services overseas, such as Viadeo SA in Europe and elsewhere.¹

To compete more effectively, many companies are now embracing target marketing. Effective target marketing requires that marketers (1) identify and profile distinct groups of buyers who differ in their needs and wants (market segmentation), (2) select one or more market segments to enter (market targeting), and (3) establish, communicate, and deliver the right benefit(s) to each target segment (market positioning). This chapter focuses on the first two steps; Chapter 7 discusses the third step.

Bases for Segmenting Consumer Markets

Market segmentation divides a market into well-defined slices. A *market segment* consists of a group of customers who share a similar set of needs and wants. The marketer's task is to identify the appropriate number and nature of market segments and decide which one(s) to target.

We use two broad groups of variables to segment consumer markets. Some researchers define segments by looking at descriptive characteristics—geographic, demographic, and psychographic—and asking whether these segments exhibit different needs or product responses. Other researchers define segments by looking at behavioral considerations, such as consumer responses to benefits, usage occasions, or brands, then seeing whether different characteristics are associated with each consumer-response segment.

Regardless of which type of segmentation scheme we use, the key is adjusting the marketing program to recognize customer differences. The major segmentation variables—geographic, demographic, psychographic, and behavioral segmentation—are summarized in Table 6.1.

Geographic Segmentation

Geographic segmentation divides the market into geographical units such as nations, states, regions, counties, cities, or neighborhoods. The company can operate in one or a few areas, or it can operate in all but pay attention to local variations. In that way it can tailor marketing programs to the needs and wants of local customer groups in trading areas, neighborhoods, even individual stores. In a growing trend called *grassroots marketing*, marketers concentrate on making such activities as personally relevant to individual customers as possible.

More and more, regional marketing means marketing right down to a specific zip code. Some approaches combine geographic data with demographic data to yield even richer descriptions of consumers and neighborhoods. Nielsen Claritas has developed a geoclustering approach called PRIZM (Potential Rating Index by Zip Markets) NE that classifies more than half a million U.S. residential neighborhoods into 14 distinct groups and 66 distinct lifestyle segments called PRIZM Clusters.² The groupings take into consideration 39 factors in five broad categories: (1) education and affluence, (2) family life cycle, (3) urbanization, (4) race and ethnicity, and (5) mobility. The clusters have descriptive titles such as *Blue Blood Estates*, *Winner's Circle*, *Hometown Retired*, and *Back Country Folks*. The inhabitants in a cluster tend to lead similar lives, drive similar cars, have similar jobs, and read similar magazines.

Marketing to microsegments has become possible even for small organizations as database costs decline, software becomes easier to use, and data integration increases. Those who favor such localized marketing see national advertising as wasteful because it is too “arm's length” and fails to address local needs. Those opposed argue that it drives up costs by reducing economies of scale and magnifying logistical problems. A brand's overall image might be diluted if the product and message are too different in different localities.

Demographic Segmentation

One reason demographic variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class are so popular with marketers is that they're often associated with consumer needs and wants. Another is that they're easy to measure. Even when we describe the target market in nondemographic terms (say, by personality type), we may need the link back to demographic characteristics in order to estimate the size of the market and the media we should use to reach it efficiently.

Here's how marketers have used certain demographic variables to segment markets.

TABLE 6.1 Major Segmentation Variables for Consumer Markets

Geographic region	Pacific Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England
City or metro size	Under 5,000; 5,000–20,000; 20,000–50,000; 50,000–100,000; 100,000–250,000; 250,000–500,000; 500,000–1,000,000; 1,000,000–4,000,000; 4,000,000+
Density	Urban, suburban, rural
Climate	Northern, southern
Demographic age	Under 6, 6–11, 12–17, 18–34, 35–49, 50–64, 65+
Family size	1–2, 3–4, 5+
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 6; young; married, youngest child 6 or older; older, married, with children; older, married, no children under 18; older, single; other
Gender	Male, female
Income	Under \$10,000; \$10,000–\$15,000; \$15,000–\$20,000; \$20,000–\$30,000; \$30,000–\$50,000; \$50,000–\$100,000; \$100,000+
Occupation	Professional and technical; managers, officials, and proprietors; clerical sales; craftspeople; forepersons; operatives; farmers; retired; students; homemakers; unemployed
Education	Grade school or less; some high school; high school graduate; some college; college graduate; post college
Religion	Catholic, Protestant, Jewish, Muslim, Hindu, other
Race	White, Black, Asian, Hispanic, Other
Generation	Silent Generation, Baby Boomers, Gen X, Millennials (Gen Y)
Nationality	North American, Latin American, British, French, German, Italian, Chinese, Indian, Japanese
Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers
Psychographic lifestyle	Culture-oriented, sports-oriented, outdoor-oriented
Personality	Compulsive, gregarious, authoritarian, ambitious
Behavioral occasions	Regular occasion, special occasion
Benefits	Quality, service, economy, speed
User status	Nonuser, ex-user, potential user, first-time user, regular user
Usage rate	Light user, medium user, heavy user
Loyalty status	None, medium, strong, absolute
Readiness stage	Unaware, aware, informed, interested, desirous, intending to buy
Attitude toward product	Enthusiastic, positive, indifferent, negative, hostile

Age and Life-Cycle Stage Consumer wants and abilities change with age. Toothpaste brands such as Crest offer three main lines of products to target kids, adults, and older consumers. Age segmentation can be even more refined. Pampers divides its market into prenatal, new baby (0–5 months), baby (6–12 months), toddler (13–23 months), and preschooler (24 months+). However, age and life cycle can be tricky variables. The target market for some products may be the *psychologically* young.

Life Stage People in the same part of the life cycle may still differ in their life stage. **Life stage** defines a person's major concern, such as going through a divorce, going into a second marriage,

taking care of an older parent, buying a home, and so on. These life stages present opportunities for marketers who can help people cope with the accompanying decisions. But not everyone goes through that life stage at a certain time—or at all, for that matter. More than a quarter of all U.S. households now consist of only one person—a record high. It’s no surprise this \$1.9 trillion market is attracting interest from marketers such as Lowe’s and DeBeers.

Gender Men and women have different attitudes and behave differently, based partly on genetic makeup and partly on socialization.³ A research study of shopping found that men often need to be invited to touch a product, whereas women are likely to pick it up without prompting. Men often like to read product information; women may relate to a product on a more personal level. Gender differences are shrinking in some areas as men and women expand their roles. One survey found that more than half of men identified themselves as the primary grocery shoppers in their households, which is why Procter & Gamble now designs some ads with men in mind.

Income Income segmentation is a long-standing practice in such categories as automobiles, clothing, cosmetics, financial services, and travel. However, income does not always predict the best customers for a given product. Many marketers are deliberately going after lower-income groups, in some cases discovering fewer competitive pressures or greater consumer loyalty. Increasingly, companies are finding their markets are hourglass-shaped, as middle-market U.S. consumers migrate toward both discount *and* premium products. Recognizing that its channel strategy emphasized retailers selling primarily to the middle class, Levi-Strauss introduced premium lines such as Levi’s Made & Crafted to upscale retailers and the less-expensive Signature line to mass market retailers.

Generation Each generation or *cohort* is profoundly influenced by the times in which it grows up—the music, movies, politics, and defining events of that period. The four main U.S. generation cohorts, from youngest to oldest, are Millennials (Gen Y), Gen X, Baby Boomers, and the Silent Generation.⁴ Members of each cohort share the same major cultural, political, and economic experiences and often have similar outlooks and values. Marketers may choose to advertise to a cohort by using the icons and images prominent in its experiences. They can also try to develop products and services that uniquely meet the particular interests or needs of a generational target.

- **Millennials (or Gen Y).** Born from 1977 through 1994, the 78 million Millennials are also known as Gen Y or Echo Boomers. Members of this cohort have been wired almost from birth. They may have a sense of entitlement and abundance from growing up during the economic boom, but they are also often socially conscious and concerned about the environment. This cohort may be turned off by overt marketing practices.
- **Generation X.** Born from 1964 through 1978, the 50 million Gen Xers were raised during a period when social diversity and racial diversity were more widely accepted and technology changed the way people lived and worked. This cohort has raised standards in educational achievement, but its members were also the first generation to find surpassing their parents’ standard of living a serious challenge. They are pragmatic and individualist, prize self-sufficiency, and view technology as an enabler, not a barrier.
- **Baby Boomers.** Born from 1946 through 1964, the 76 million members of this cohort are interested in products that turn back the hands of time. One study of boomers ages 55 to 64 found a significant number are willing to change brands, spend on technology, use social networking sites, and purchase online.⁵

- **Silent Generation.** Born from 1925 through 1945, the 42 million members of this cohort are defying their advancing age and leading very active lives. Strategies emphasizing seniors' roles as grandparents are well received. They are demanding customers but are also more willing than younger cohorts to pay full price for offerings they value.

Race and Culture *Multicultural marketing* is an approach recognizing that different ethnic and cultural segments have sufficiently different needs and wants to require targeted marketing activities and that a mass market approach is not refined enough for the diversity of the marketplace. Consider that McDonald's now does 40 percent of its U.S. business with ethnic minorities. Its highly successful "I'm Lovin' It" campaign was rooted in hip-hop culture, but its appeal transcended race and ethnicity.⁶ Marketers need to factor the norms, language nuances, buying habits, and business practices of multicultural markets into the initial formulation of their marketing strategy. Diversity also has implications for planning and conducting marketing research.

Psychographic Segmentation

Psychographics is the science of using psychology and demographics to better understand consumers. In *psychographic segmentation*, buyers are divided into groups on the basis of psychological/personality traits, lifestyle, or values. People within the same demographic group can exhibit very different psychographic profiles.

One of the most popular commercially available classification systems based on psychographic measurements is Strategic Business Insight's (SBI) VALS™ framework. VALS is based on psychological traits for people and classifies U.S. adults into eight primary groups based on responses to a questionnaire featuring four demographic and 35 attitudinal questions. The VALS system is continually updated with new data from more than 80,000 surveys per year (see Figure 6.1).⁷

The main dimensions of the VALS segmentation framework are consumer motivation (the horizontal dimension) and consumer resources (the vertical dimension). Consumers are inspired by one of three primary motivations: ideals, achievement, and self-expression. Different levels of resources enhance or constrain a person's expression of his or her primary motivation.

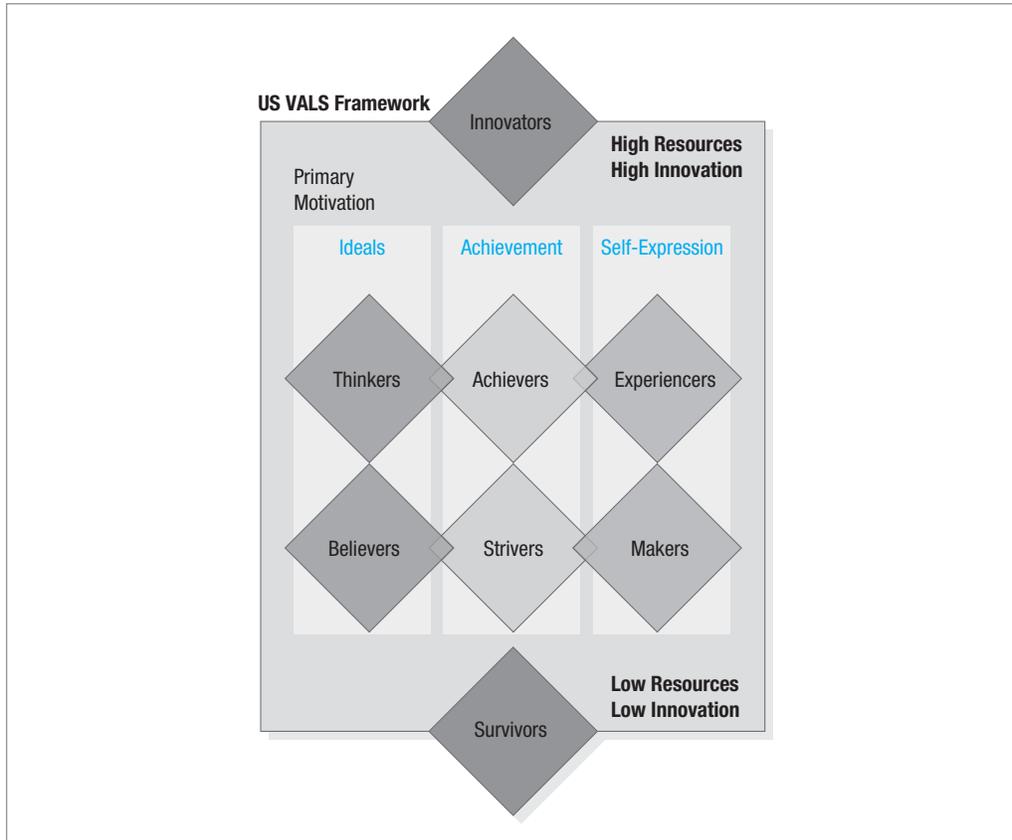
Behavioral Segmentation

In *behavioral segmentation*, marketers divide buyers into groups on the basis of their knowledge of, attitude toward, use of, or response to a product. Behavior variables can include needs or benefits, decision roles, and user and usage.

Needs and Benefits Not everyone who buys a product has the same needs or wants the same benefits from it. Needs-based or benefit-based segmentation identifies distinct market segments with clear marketing implications.

Decision Roles People can play five roles in a buying decision: *Initiator*, *Influencer*, *Decider*, *Buyer*, and *User*. For example, assume a wife initiates a purchase by requesting a new treadmill for her birthday. The husband may seek information from many sources, including a friend who has a treadmill and is a key influencer in what models to consider. After presenting the alternative choices to his wife, he purchases her preferred model, which ends up being used by the entire family. Different people are playing different roles, but all are crucial in the decision process and ultimate consumer satisfaction.

FIGURE 6.1 The VALS Segmentation System: An Eight-Part Typology



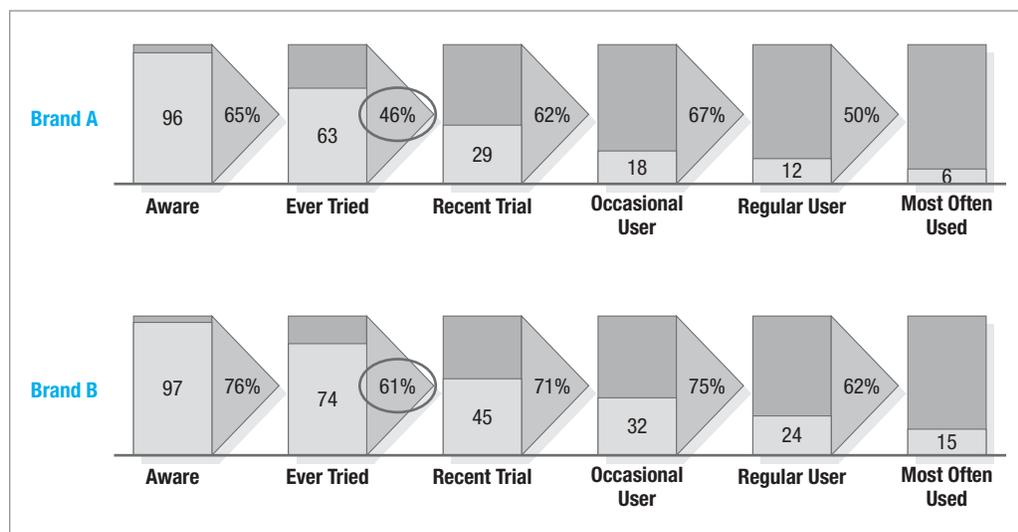
Source: www.strategicbusinessinsights.com/vals © 2014 by Strategic Business Insights. All rights reserved.

User and Usage-Related Variables Many marketers believe variables related to users or their usage—occasions, user status, usage rate, buyer-readiness stage, and loyalty status—are good starting points for constructing market segments.

- **Occasions.** Occasions mark a time of day, week, month, year, or other well-defined temporal aspects of a consumer’s life. We can distinguish buyers according to the occasions when they develop a need, purchase a product, or use a product. For example, air travel is triggered by occasions related to business, vacation, or family. Occasion segmentation can help expand product usage.
- **User status.** Every product has its nonusers, ex-users, potential users, first-time users, and regular users. The key to attracting potential users, or even possibly nonusers, is understanding the reasons they are not using. Do they have deeply held attitudes, beliefs, or behaviors or just lack knowledge of the product or benefits? Included in the potential-user group are consumers who will become users in connection with some life stage or event. Market-share leaders tend to focus on attracting potential users because they have the most to gain from them. Smaller firms focus on trying to attract current users away from the market leader.

- Usage rate.** We can segment markets into light, medium, and heavy product users. Heavy users are often a small slice but account for a high percentage of total consumption. Marketers would rather attract one heavy user than several light users. A potential problem is that heavy users are often either extremely loyal to one brand or never loyal to any brand and always looking for the lowest price.
- Buyer-readiness stage.** Some people are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. Recall from Chapter 4 that marketers can employ a *marketing funnel* to break the market into buyer-readiness stages. Figure 6.2 displays a funnel for two hypothetical brands. Compared with Brand B, Brand A performs poorly at converting one-time users to more recent users (only 46 percent convert for Brand A compared with 61 percent for Brand B). A marketing campaign could introduce more relevant products, find more accessible retail outlets, or dispel rumors or incorrect brand beliefs.
- Loyalty status.** Marketers usually envision four groups based on brand loyalty status: hard-core loyals (always buy one brand), split loyals (loyal to two or three brands), shifting loyals (shift from one brand to another), and switchers (not loyal to any brand).⁸ A company can study hard-core loyals to help identify the products' strengths; study split loyals to see which brands are most competitive with its own; and study shifting loyals and switchers to identify marketing weaknesses that can be corrected. One caution: What appear to be brand-loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost, or the unavailability of other brands.
- Attitude.** Five consumer attitudes about products are enthusiastic, positive, indifferent, negative, and hostile. Workers in a political campaign use attitude to determine how much time and effort to spend with each voter. They thank enthusiastic voters and remind them to vote, reinforce those who are positively disposed, try to win the votes of indifferent voters, and spend no time trying to change the attitudes of negative and hostile voters.

FIGURE 6.2 Example of Marketing Funnel



Bases for Segmenting Business Markets

We can segment business markets with some of the same variables we use in consumer markets, such as geography, benefits sought, and usage rate, but business marketers also use other variables (see Table 6.2). The demographic variables are the most important, followed by the operating variables—down to the personal characteristics of the buyer. Within a chosen target industry, a business market can further segment by company size and set up separate operations for selling to large and small customers. A company can segment further by purchase criteria.

Business marketers generally identify segments through a sequential process. Consider an aluminum company: The company first undertook macrosegmentation. It looked at which end-use market to serve: automobile, residential, or beverage containers. It chose the residential market, and it needed to determine the most attractive product application: semifinished material, building components, or aluminum mobile homes. Deciding to focus on building components, it considered the best customer size and chose large. The second stage consisted of microsegmentation. The company distinguished among customers buying on price, service, and quality. Because it had a high-service profile, the firm decided to concentrate on the service-motivated segment of the market.

Business-to-business marketing experts James C. Anderson and James A. Narus have urged marketers to present flexible market offerings to all members of a segment.⁹ A *flexible market*

TABLE 6.2 Major Segmentation Variables for Business Markets

Demographic

1. *Industry*: Which industries should we serve?
2. *Company size*: What size companies should we serve?
3. *Location*: What geographical areas should we serve?

Operating Variables

4. *Technology*: What customer technologies should we focus on?
5. *User or nonuser status*: Should we serve heavy users, medium users, light users, or nonusers?
6. *Customer capabilities*: Should we serve customers needing many or few services?

Purchasing Approaches

7. *Purchasing-function organization*: Should we serve companies with a highly centralized or decentralized purchasing organization?
8. *Power structure*: Should we serve companies that are engineering dominated, financially dominated, and so on?
9. *Nature of existing relationship*: Should we serve companies with which we have strong relationships or simply go after the most desirable companies?
10. *General purchasing policies*: Should we serve companies that prefer leasing? Service contract? Systems purchases? Sealed bidding?
11. *Purchasing criteria*: Should we serve companies that are seeking quality? Service? Price?

Situational Factors

12. *Urgency*: Should we serve companies that need quick and sudden delivery or service?
13. *Specific application*: Should we focus on a certain application of our product rather than all applications?
14. *Size or order*: Should we focus on large or small orders?

Personal Characteristics

15. *Buyer-seller similarity*: Should we serve companies whose people and values are similar to ours?
16. *Attitude toward risk*: Should we serve risk-taking or risk-avoiding customers?
17. *Loyalty*: Should we serve companies that show high loyalty to their suppliers?

Source: Adapted from Thomas V. Bonoma and Benson P. Shapiro, *Segmenting the Industrial Market* (Lexington, MA: Lexington Books, 1983).

offering consists of two parts: a *naked solution* containing the product and service elements that all segment members value and *discretionary options* that some segment members value. Each option might carry an additional charge.

Market Targeting

There are many statistical techniques for developing market segments.¹⁰ Once the firm has identified its market-segment opportunities, it must decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups. Thus, a bank may not only identify a group of wealthy retired adults but within that group distinguish several segments depending on current income, assets, savings, and risk preferences. This has led some market researchers to advocate a *needs-based market segmentation approach*. Roger Best proposed the seven-step approach shown in Table 6.3.

Effective Segmentation Criteria

Not all segmentation schemes are useful. We could divide buyers of table salt into blond and brunette customers, but hair color is irrelevant to the purchase of salt. Furthermore, if all salt buyers buy the same amount of salt each month, believe all salt is the same, and would pay only one price for salt, this market is minimally segmentable from a marketing point of view.

Rating Segments To be useful, market segments must rate favorably on five key criteria:

- **Measurable.** The size, purchasing power, and characteristics of the segments can be measured.
- **Substantial.** The segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing program.

TABLE 6.3 Steps in the Segmentation Process

	Description
1. Needs-Based Segmentation	Group customers into segments based on similar needs and benefits sought by customers in solving a particular consumption problem.
2. Segment Identification	For each needs-based segment, determine which demographics, lifestyles, and usage behaviors make the segment distinct and identifiable (actionable).
3. Segment Attractiveness	Using predetermined segment attractiveness criteria (such as market growth, competitive intensity, and market access), determine the overall attractiveness of each segment.
4. Segment Profitability	Determine segment profitability.
5. Segment Positioning	For each segment, create a “value proposition” and product-price positioning strategy based on that segment’s unique customer needs and characteristics.
6. Segment “Acid Test”	Create “segment storyboard” to test the attractiveness of each segment’s positioning strategy.
7. Marketing-Mix Strategy	Expand segment positioning strategy to include all aspects of the marketing mix: product, price, promotion, and place.

Source: Adapted from Roger J. Best, *Market-Based Management*, 6th ed. (Upper Saddle River NJ: Prentice Hall, 2013). ©2013. Printed and electronically reproduced by permission of Pearson Education, Inc. Upper Saddle River, New Jersey.

- **Accessible.** The segments can be effectively reached and served.
- **Differentiable.** The segments are conceptually distinguishable and respond differently to different marketing-mix elements and programs. If married and single women respond similarly to a sale on perfume, they do not constitute separate segments.
- **Actionable.** Effective programs can be formulated for attracting and serving the segments.

Long-Term Segment Attractiveness Michael Porter has identified five forces that determine the intrinsic long-run attractiveness of a market or market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers.¹¹ The first is the *threat of intense segment rivalry*. A segment is unattractive if it already contains numerous, strong, or aggressive competitors. It's even more unattractive if it's stable or declining, if plant capacity must be added in large increments, if fixed costs or exit barriers are high, or if competitors have high stakes in staying in the segment.

The second is the *threat of potential entrants*. The most attractive segment is one in which entry barriers are high and exit barriers are low. Few new firms can enter the industry, and poorly performing firms can easily exit. When entry and exit barriers are high, profit potential is high, but firms face more risk because poorer-performing firms stay in and fight it out. When entry and exit barriers are low, firms easily enter and leave the industry, and returns are stable but low. The worst case occurs when entry barriers are low and exit barriers are high: Firms enter during good times but find it hard to leave during bad times.

The third is the *threat of substitutes*. A segment is unattractive when there are actual or potential substitutes for the product. Substitutes place a limit on prices and on profits. If technology advances or competition increases in these substitute industries, prices and profits are likely to fall.

The fourth is the *threat of buyers' growing bargaining power*. A segment is unattractive if buyers possess strong or growing bargaining power. Buyers' bargaining power grows when they become more concentrated or organized, when the product represents a significant fraction of their costs, when the product is undifferentiated, when buyers' switching costs are low, or when they can integrate upstream. To protect themselves, sellers might select buyers who have the least power to negotiate or switch suppliers. A better defense is developing superior offers that strong buyers cannot refuse.

The fifth force is the *threat of suppliers' growing bargaining power*. A segment is unattractive if suppliers are able to raise prices or reduce quantity supplied. Suppliers tend to be powerful when they are concentrated or organized, when they can integrate downstream, when there are few substitutes, when the supplied product is an important input, and when the costs of switching suppliers are high. The best defenses are to build win-win relationships with suppliers or use multiple supply sources.

Evaluating and Selecting Market Segments

In evaluating market segments, the firm must look at two factors: the segment's overall attractiveness and the company's objectives and resources. How well does a potential segment score on the five criteria? Does it have characteristics that make it generally attractive, such as size, growth, profitability, scale economies, and low risk? Does investing in it make sense given the firm's objectives, competencies, and resources? Some attractive segments may not mesh with the company's long-run objectives, or the company may lack one or more competencies necessary to offer superior value.

Marketers have a range or continuum of possible levels of segmentation that can guide their target market decisions. At one extreme is a mass market of essentially one segment; at the other extreme are individuals or segments of one person each. In between are multiple segments and single segments. We describe approaches to each of the four levels next.

Full Market Coverage Here a firm attempts to serve all customer groups with all the products they might need. Only very large firms such as Microsoft (software market) and Coca-Cola (nonalcoholic beverage market) can undertake a full market coverage strategy, through either differentiated or undifferentiated marketing.

In *undifferentiated* or *mass marketing*, the firm ignores segment differences and goes after the whole market with one offer. It designs a marketing program for a product with a superior image that can be sold to the broadest number of buyers via mass distribution and mass communications. Undifferentiated marketing is appropriate when all consumers have roughly the same preferences and the market shows no natural segments. The narrow product line keeps down the costs of research and development, production, inventory, transportation, marketing communication, and product management. However, many critics point to the increasing splintering of the market and the proliferation of marketing channels and communication, which make it difficult and increasingly expensive to reach a mass audience.

In *differentiated marketing*, the firm sells different products to all the different segments of the market. Differentiated marketing typically creates more total sales than undifferentiated marketing. However, it also increases the costs of doing business. Because differentiated marketing leads to both higher sales and higher costs, no generalizations about its profitability are valid.

Multiple Segment Specialization With *selective specialization*, a firm selects a subset of all the possible segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each promises to be a moneymaker. The multisegment strategy also has the advantage of diversifying the firm's risk. Keeping synergies in mind, companies can try to operate in supersegments rather than in isolated segments. A **supersegment** is a set of segments sharing some exploitable similarity. A firm can also attempt to achieve some synergy with product or market specialization.

- With *product specialization*, the firm sells a certain product to several different market segments. A microscope manufacturer, for instance, sells to university, government, and commercial laboratories, making different instruments for each and building a strong reputation in the specific product area. The risk is that the product may be supplanted by an entirely new technology.
- With *market specialization*, the firm concentrates on serving many needs of a particular customer group, such as by selling an assortment of products only to university laboratories. The firm gains a strong reputation among this customer group and becomes a channel for additional products its members can use. The risk is that the customer group may suffer budget cuts or shrink in size.

Single-Segment Concentration With single-segment concentration, the firm markets to only one particular segment. Through concentrated marketing, the firm gains deep knowledge of the segment's needs and achieves a strong market presence. It also enjoys operating economies by specializing its production, distribution, and promotion. If it captures segment leadership, the firm can earn a high return on its investment.

A *niche* is a more narrowly defined customer group seeking a distinctive mix of benefits within a segment. Marketers usually identify niches by dividing a segment into subsegments. What does an attractive niche look like? Niche customers have a distinct set of needs; they will pay a premium to the firm that best satisfies them; the niche is fairly small but has size, profit, and growth potential and is unlikely to attract many competitors; and it gains certain economies through specialization. As marketing efficiency increases, niches that seemed too small may become more profitable. See "Marketing Insight: Chasing the Long Tail."

marketing insight

Chasing the Long Tail

The advent of online commerce, made possible by technology and epitomized by Amazon.com, eBay, iTunes, and Netflix, has led to a shift in consumer buying patterns, according to Chris Anderson, author of *The Long Tail*. In most markets, the distribution of product sales conforms to a curve weighted heavily to one side—the “head”—where the bulk of sales are generated by a few products. The curve falls rapidly toward zero and hovers just above it far along the X-axis—the “long tail”—where the vast majority of products generate very little sales. The mass market traditionally focused on generating “hit” products that occupy the head.

Anderson says the Internet is shifting demand “down the tail, from hits to niches” in a number of product categories including music, books, clothing, and movies. His theory is based on three premises: (1) Lower distribution costs make it economically easier to sell products without precise demand predictions; (2) the more products available for sale, the greater the likelihood of tapping into latent demand for niche tastes unreachable through

traditional retail channels; and (3) if enough niche tastes are aggregated, a big new market can result. Although some research supports this theory, other research finds very low share products may be so obscure that they disappear before they can be purchased frequently enough to justify their existence. For companies selling physical products, inventory, stocking, and handling costs can outweigh any financial benefits of such products.

Sources: Chris Anderson, *The Long Tail* (New York: Hyperion, 2006); “Reading the Tail,” interview with Chris Anderson, *Wired*, July 8, 2006, p. 30; “Wag the Dog: What the Long Tail Will Do,” *The Economist*, July 8, 2006, p. 77; John Cassidy, “Going Long,” *New Yorker*, July 10, 2006; Erik Brynjolfsson, Yu “Jeffrey” Hu, and Michael D. Smith, “From Niches to Riches: Anatomy of a Long Tail,” *MIT Sloan Management Review* (Summer 2006), p. 67; Anita Elberse, “Should You Invest in the Long Tail,” *Harvard Business Review*, July–August 2008, pp. 88–96 (with online commentary); Lee Gomes, “Study Refutes Niche Theory Spawned by Web,” *Wall Street Journal*, July 2, 2008; Erick Schonfeld, “Poking Holes in the Long Tail Theory,” www.techcrunch.com, July 2, 2008; “Rethinking the Long Tail Theory: How to Define ‘Hits’ and ‘Niches,’” *Knowledge@Wharton*, September 16, 2009.

Individual Marketing The ultimate level of segmentation leads to “segments of one,” “customized marketing,” or “one-to-one marketing.”¹² As companies have grown proficient at gathering information about individual customers and business partners and as their factories are being designed more flexibly, they have increased their ability to individualize market offerings, messages, and media. **Mass customization** is the ability of a company to meet each customer’s requirements—to prepare on a mass basis individually designed products, services, programs, and communications.¹³

One-to-one marketing is not for every company. It works best for firms that normally collect a great deal of individual customer information and carry a lot of products that can be cross-sold, need periodic replacement or upgrading, and offer high value. For others, the required investment in information collection, hardware, and software may exceed the payout. The cost of goods is raised beyond what the customer is willing to pay.

Legal and Ethical Issues with Market Targets Marketers must target carefully to avoid consumer backlash. Some consumers resist being labeled.¹⁴ Market targeting also can generate public controversy when marketers take unfair advantage of vulnerable groups (such as children) or disadvantaged groups (such as inner-city residents) or when they promote potentially harmful products. A key area of concern for many consumer protection advocates today is the millions of kids who are online.

Not all attempts to target children, minorities, or other special segments draw criticism. Colgate-Palmolive's Colgate Junior toothpaste has special features designed to get children to brush longer and more often. Thus, the issue is not who is targeted, but how and for what purpose. Socially responsible marketing calls for targeting that serves not only the company's interests but also the interests of those targeted.

Executive Summary

Target marketing includes three activities: market segmentation, market targeting, and market positioning. Market segments are large, identifiable, distinct groups within a market who share a similar set of needs and wants. The major segmentation variables for consumer markets are geographic, demographic, psychographic, and behavioral, used singly or in combination. Business marketers use all these variables along with operating variables, purchasing approaches, and situational factors. To be useful, market segments must be measurable, substantial, accessible, differentiable, and actionable.

We can target markets at four main levels: mass, multiple segments, single (or niche) segment, and individuals. A mass market approach, with full market coverage, is adopted only by the biggest firms. A niche is a more narrowly defined group within a segment. More companies now practice individual and mass customization. In evaluating market segments, the firm must look at two factors: the segment's overall attractiveness and the company's objectives and resources. Finally, marketers must choose target markets in a legal and ethical manner.

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Chapter 7

Crafting the Brand Positioning and Competing Effectively

In this chapter, we will address the following questions:

1. How can a firm develop and establish an effective positioning? (Page 107)
2. How are brands successfully differentiated? (Page 111)
3. How do marketers identify and analyze competition? (Page 112)
4. How can market leaders, challengers, followers, and nichers compete effectively? (Page 116)

Marketing Management at DirecTV

The direct-broadcast satellite service provider DirecTV faces competition from classic cable companies (Comcast), from other direct broadcast satellite service providers (Dish), and from providers of alternate ways to watch television digitally (Hulu, Netflix, and Amazon). DirecTV's positioning reflects its combination of features not easily matched by any competitor. Three pillars of that positioning are captured by its claims to "state-of-the-art technology, unmatched programming, and industry leading customer service." The company puts much emphasis on its sports packages, its wide array of HD channels, and its broadcast platform for enabling customers to access programming on home TVs, laptops, tablets, and cell phones. DirecTV has made a strategic targeting shift to focus on "high quality" subscribers: loyal customers who purchase premium services, pay their bills on time, and rarely call to complain.¹

Creating a compelling, well-differentiated brand position, as DirecTV has done, requires a keen understanding of consumer needs and wants, company capabilities, and competitive actions. In this chapter, we outline a process by which marketers can uncover the most powerful

brand positioning. We also examine the role of competition and how to manage brands based on market position.

Developing and Establishing a Brand Positioning

All marketing strategy is built on segmentation, targeting, and positioning. A company discovers different needs and groups of consumers in the marketplace, targets those it can satisfy in a superior way, and then positions its offerings so the target market recognizes its distinctive offerings. By building customer advantages, companies can deliver high customer value and satisfaction, which lead to high repeat purchases and ultimately to high company profitability.

Understanding Positioning and Value Propositions

Positioning is the act of designing a company’s offering and image to occupy a distinctive place in the minds of the target market.² The goal is to locate the brand in the minds of consumers to maximize the potential benefit to the firm. A good brand positioning helps guide marketing strategy by clarifying the brand’s essence, identifying the goals it helps consumers achieve, and showing how it does so in a unique way.

One result of positioning is the successful creation of a customer-focused *value proposition*, a cogent reason why the target market should buy a product or service. Table 7.1 shows how three companies have defined their value proposition through the years with their target customers.³

Deciding on a positioning requires: (1) choosing a frame of reference by identifying the target market and relevant competition, (2) identifying the optimal points-of-parity and points-of-difference brand associations given that frame of reference, including emotional branding, and (3) creating a brand mantra summarizing the brand’s positioning and essence.

Choosing a Competitive Frame of Reference

The **competitive frame of reference** defines which other brands a brand competes with and which should thus be the focus of competitive analysis. A good starting point in defining a competitive frame of reference for brand positioning is **category membership**, the products or sets of products with which a brand competes and that function as close substitutes. It would seem a simple task for a company to identify its competitors. PepsiCo knows Coca-Cola’s Dasani is a major bottled-water competitor for its Aquafina brand; Wells Fargo knows Bank of America is a major banking competitor.

The range of a company’s actual and potential competitors, however, can be much broader. To enter new markets, a brand with growth intentions may need a broader or more aspirational

TABLE 7.1 Examples of Value Propositions

Company and Product	Target Customers	Value Proposition
Hertz (car rental)	Busy professionals	Fast, convenient way to rent the right type of car at an airport
Volvo (station wagon)	Safety-conscious upscale families	The safest, most durable wagon in which your family can ride
Domino’s (pizza)	Convenience-minded pizza lovers	A delicious hot pizza, delivered promptly to your door

competitive frame. And it may be more likely to be hurt by emerging competitors or new technologies than by current competitors.

We can examine competition from both an industry and a market point of view.⁴ An **industry** is a group of firms offering a product or class of products that are close substitutes for one another. Using the market approach, we define *competitors* as companies that satisfy the same customer need. For example, a customer who buys word-processing software really wants “writing ability”—a need that can also be satisfied by pencils, pens, or, in the past, typewriters. Marketers must overcome “marketing myopia” and stop defining competition in traditional category and industry terms.⁵

Once a company has identified its main competitors, and their strengths and weaknesses, it must ask: What is each competitor seeking in the marketplace? What drives each competitor’s behavior? Many factors shape a competitor’s objectives, including size, history, current management, and financial situation. If the competitor is part of a larger company, it’s important to know whether the parent company is running it for growth or for profits or milking it. Based on all this analysis, marketers formally define the competitive frame of reference to guide positioning. In stable markets where little short-term change is likely, it may be fairly easy to define one, two, or perhaps three key competitors. In dynamic categories where competition may exist or arise in different forms, multiple frames of reference may be present.

Marketers should monitor these three variables when analyzing competitors:

1. *Share of market*—The competitor’s share of the target market.
2. *Share of mind*—The percentage of customers who named the competitor in responding to the statement “Name the first company that comes to mind in this industry.”
3. *Share of heart*—The percentage of customers who named the competitor in responding to the statement “Name the company from which you would prefer to buy the product.”

In general, companies that make steady gains in mind share and heart share will inevitably make gains in market share and profitability. Firms such as Timberland, Jordan’s Furniture, and Wegmans are all reaping the benefits of providing emotional, experiential, social, and financial value to satisfy customers and all their constituents.⁶

Identifying Potential Points-of-Difference and Points-of-Parity

Once marketers have fixed the competitive frame of reference for positioning by defining the customer target market and the nature of the competition, they can define the appropriate points-of-difference and points-of-parity associations.⁷ **Points-of-difference (PODs)** are attributes or benefits that consumers strongly associate with a brand, positively evaluate, and believe they could not find to the same extent with a competitive brand. Strong brands often have multiple points-of-difference. Two examples are Nike (*performance, innovative technology, and winning*) and Southwest Airlines (*value, reliability, and fun personality*).

Three criteria determine whether a brand association can truly function as a point-of-difference: desirability, deliverability, and differentiability.

1. *Desirable to consumer*. Consumers must see the brand association as personally relevant to them.
2. *Deliverable by the company*. The company must have the resources and commitment to feasibly and profitably create and maintain the brand association in the minds of consumers. The ideal brand association is preemptive, defensible, and difficult to attack.
3. *Differentiating from competitors*. Consumers must see the brand association as distinctive and superior to relevant competitors.

Points-of-parity (POPs) are attribute or benefit associations that are not necessarily unique to the brand but may in fact be shared with other brands.⁸ These types of associations come in three basic forms: category, correlational, and competitive.

Category points-of-parity are attributes or benefits that consumers view as essential to a legitimate and credible offering within a certain category, although not necessarily sufficient conditions for brand choice. Category points-of-parity may change over time due to technological advances, legal developments, or consumer trends.

Correlational points-of-parity are potentially negative associations that arise from the existence of positive associations for the brand. One challenge for marketers is that many attributes or benefits that make up their POPs or PODs are inversely related. In other words, if your brand is good at one thing, such as being inexpensive, consumers can't see it as also good at something else, like being "of the highest quality."

Competitive points-of-parity are associations designed to overcome perceived weaknesses of the brand in light of *competitors'* points-of-difference. One good way to uncover key competitive points-of-parity is to role-play competitors' positioning and infer their intended points-of-difference. Competitor's PODs will, in turn, suggest the brand's POPs. For an offering to achieve a point-of-parity on a particular attribute or benefit, a sufficient number of consumers must believe the brand is "good enough" on that dimension.

It is not uncommon for a brand to identify more than one actual or potential competitive frame of reference, if competition widens or the firm plans to expand into new categories. There are two main options with multiple frames of reference. One is to first develop the best possible positioning for each type or class of competitors and then create one combined positioning robust enough to effectively address all. If competition is too diverse, however, it may be necessary to prioritize competitors and choose the most important set as the competitive frame. Try not to be all things to all people—that leads to lowest-common-denominator positioning, which is typically ineffective.

Occasionally, a company will be able to straddle two frames of reference with one set of points-of-difference and points-of-parity. Here the points-of-difference for one category become points-of-parity for the other and vice versa. Subway restaurants are positioned as offering healthy, good-tasting sandwiches. This positioning allows the brand to create a POP on taste and a POD on health with respect to quick-serve restaurants such as McDonald's and Burger King and, at the same time, a POP on health and a POD on taste with respect to health food restaurants and cafés. Straddle positions allow brands to expand their market coverage and potential customer base. If the points-of-parity and points-of-difference are not credible, however, the brand may not be viewed as a legitimate player in either category.

Choosing Specific POPs and PODs

To build a strong brand and avoid the commodity trap, marketers must start with the belief that you can differentiate anything. Michael Porter urged companies to build a sustainable competitive advantage.⁹ **Competitive advantage** is a company's ability to perform in one or more ways that competitors cannot or will not match.

Marketers typically focus on brand benefits in choosing the points-of-parity and points-of-difference that make up their brand positioning. Brand attributes generally play more of a supporting role by providing "reasons to believe" or "proof points" as to why a brand can credibly claim it offers certain benefits. Multiple attributes may support a certain benefit, and they may change over time. The obvious, and often the most compelling, means of differentiation for consumers are benefits related to performance. To identify possible means of

differentiation, marketers have to match consumers' desire for a benefit with their company's ability to deliver it.

For choosing specific benefits as POPs and PODs to position a brand, perceptual maps may be useful. *Perceptual maps* are visual representations of consumer perceptions and preferences. They provide quantitative pictures of market situations and the way consumers view different products, services, and brands along various dimensions. By overlaying consumer preferences with brand perceptions, marketers can reveal "openings" that suggest unmet consumer needs and marketing opportunities.¹⁰

For example, Figure 7.1 shows a hypothetical perceptual map for a beverage category. The four brands—A, B, C, and D—vary in terms of how consumers view their taste profile (light versus strong) and personality and imagery (contemporary versus traditional). Also displayed on the map are ideal point "configurations" for three market segments (1, 2, and 3). The ideal points represent each segment's most preferred ("ideal") combination of taste and imagery. Brand A is seen as more balanced in terms of both taste and imagery.

On Figure 7.1 are two possible repositioning strategies for Brand A. By making its image more contemporary, Brand A could move to A' to target consumers in Segment 1 and achieve a point-of-parity on imagery and maintain its point-of-difference on taste profile with respect to Brand B. By changing its taste profile to make it lighter, Brand A could move to A'' to target consumers in Segment 2 and achieve a point-of-parity on taste profile and maintain its point-of-difference on imagery with respect to Brand C. Deciding which repositioning is most promising, A' or A'', would require detailed consumer and competitive analysis.

FIGURE 7.1 Hypothetical Beverage Perceptual Map



Emotional Branding

Many marketing experts believe a brand positioning should have both rational and emotional components. In other words, it should contain points-of-difference and points-of-parity that appeal to both the head and the heart.¹¹ A person's emotional response to a brand and its marketing will depend on many factors. An increasingly important one is the brand's authenticity.¹² Brands such as Hershey's, Kraft, Crayola, Kellogg's, and Johnson & Johnson that are seen as authentic and genuine can evoke trust, affection, and strong loyalty.¹³

Authenticity also has functional value. Welch's, owned by 1,150 grape farmers, is seen by consumers as "wholesome, authentic, and real." The brand reinforces those credentials by focusing on its local sourcing of ingredients, increasingly important for consumers who want to know where their foods come from.¹⁴

Brand Mantras

To further focus brand positioning and guide the way their marketers help consumers think about the brand, firms can define a brand mantra.¹⁵ A *brand mantra* is a three- to five-word articulation of the brand's heart and soul, closely related to other branding concepts like "brand essence" and "core brand promise." Brand mantras must economically communicate what the brand is and what it is *not*. What makes a good brand mantra? McDonald's "Food, Folks, and Fun" captures its brand essence and core brand promise.

A good brand mantra should communicate the category and clarify what is unique about the brand. It should also be vivid and memorable and stake out ground that is personally meaningful and relevant. For brands anticipating rapid growth, it is helpful to define the product or benefit space in which the brand would like to compete, as Nike did with "athletic performance" and Disney with "family entertainment." But for it to be effective, no other brand should singularly excel on all dimensions.

Establishing a Brand Positioning

Often a good positioning will have several PODs and POPs. Of those, often two or three really define the competitive battlefield and should be analyzed and developed carefully. The typical approach to positioning is to inform consumers of a brand's membership before stating its point-of-difference. Presumably, consumers need to know what a product is and what function it serves before deciding whether it is superior to the brands against which it competes. For new products, initial advertising often concentrates on creating brand awareness, and subsequent advertising attempts to create the brand image.

There are three main ways to convey a brand's category membership:

1. *Announcing category benefits*—To reassure consumers that a brand will deliver on the fundamental reason for using a category, marketers frequently use benefits to announce category membership. Thus, industrial tools might claim to have durability.
2. *Comparing to exemplars*—Well-known, noteworthy brands in a category can also help a brand specify its category membership. When Tommy Hilfiger was an unknown, advertising announced his status as a great U.S. designer by associating him with recognized category members like Calvin Klein.
3. *Relying on the product descriptor*—The product descriptor that follows the brand name is often a concise means of conveying category origin.

One common challenge in positioning, as noted above, is that many of the benefits that make up points-of-parity and points-of-difference are negatively correlated. Moreover,

individual attributes and benefits often have positive *and* negative aspects. Consider a long-lived brand such as Burberry. The brand's heritage could suggest experience, wisdom, and expertise as well as authenticity, or it could suggest being old-fashioned. Unfortunately, consumers typically want to maximize *both* the negatively correlated attributes or benefits. The best approach clearly is to develop a product or service that performs well on both dimensions.

To address attribute or benefit trade-offs, marketers can: launch two different marketing campaigns, each devoted to a different brand attribute or benefit; link the brand to a person, place, or thing that possesses the right kind of equity to establish an attribute or benefit as a POP or POD; or convince consumers that the negative relationship between attributes and benefits, if they consider it differently, is in fact positive.

Clearly defined POPs and PODs are particularly important to small businesses. See “Marketing Insight: Positioning and Branding for a Small Business” for more on positioning and branding for a small business.

Alternative Approaches to Positioning

Some marketers have proposed other, less-structured approaches in recent years that offer provocative ideas on how to position a brand. These include brand narratives, storytelling, and cultural branding.

Brand Narratives and Storytelling Rather than outlining specific attributes or benefits, some marketing experts describe positioning a brand as telling a narrative or story. Companies like the richness and imagination they can derive from thinking of the story behind a product or service. Randall Ringer and Michael Thibodeau see *narrative branding* as based on deep metaphors that connect to people's memories, associations, and stories.¹⁶ They identify five elements of narrative branding: (1) the brand story in terms of words and metaphors, (2) the consumer journey or the way consumers engage with the brand over time and touch points where they come into contact with it, (3) the visual language or expression for the brand, (4) the manner in which the narrative is expressed experientially or the brand engages the senses, and (5) the role the brand plays in the lives of consumers.

Patrick Hanlon developed the related concept of “primal branding” that views brands as complex belief systems. According to Hanlon, diverse brands such as Google, MINI Cooper, the U.S. Marine Corps, Starbucks, Apple, UPS, and Aveda all have a “primal code” that resonates with their customers and generates their passion and fervor. Seven assets make up this belief system or primal code: a creation story, creed, icon, rituals, sacred words, a way of dealing with nonbelievers, and a good leader.¹⁷

Cultural Branding Douglas Holt believes that for companies to build iconic, leadership brands, they must assemble cultural knowledge, strategize according to cultural branding principles, and hire and train cultural experts.¹⁸ The University of Wisconsin's Craig Thompson views brands as sociocultural templates, citing research investigating brands as cultural resources. For example, American Girl dolls tap into mother–daughter relationships and the cross-generational transfer of femininity.¹⁹ Experts who see consumers actively cocreating brand meaning and positioning refer to this as “Brand Wikification,” given that wikis are written by contributors from all walks of life and points of view.²⁰

Competitive Strategies for Market Leaders

Suppose a market is occupied by the firms shown in Figure 7.2 (on page 114). Forty percent is in the hands of a *market leader*, another 30 percent belongs to a *market challenger*, and 20 percent is

marketing insight

Positioning and Branding for a Small Business

Here are some branding guidelines for small businesses with limited resources.

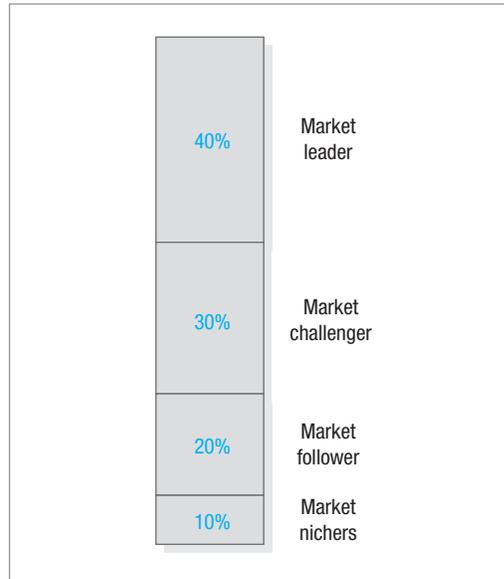
- **Find a compelling performance advantage.** Meaningful differences in product or service performance can be the key to success. The online storage firm Dropbox.com carved out a strong competitive position at the start, partly by virtue of its single-folder approach to accommodate a user's multiple devices.
- **Focus on building one or two strong brands based on one or two key associations.** Small businesses often rely on one or two brands and key associations as points-of-difference, to be reinforced across the marketing program and over time. For example, Volcom has successfully adopted a "Youth Against Establishment" credo to market its music, athletic apparel, and jewelry.
- **Encourage trial in any way possible.** Use sampling, demonstrations, or other methods to engage consumers and encourage trial. See's Candies allows in-store customers to sample the candy of their choice. As one senior executive noted, "That's the best marketing we have, if people try it, they love it."
- **Develop a digital strategy to make the brand "bigger and better."** The Internet and mobile marketing allow small firms to have a big profile. Sales for Rider Shack surf shop in Los Angeles increased when the firm began using Facebook's special features to keep the brand in front of people.
- **Create buzz and a loyal brand community.** Word of mouth is important, as are cost-effective public relations, social networking, promotions, and sponsorships. Evernote has several dozen "power users" who spread the word about the brand.
- **Employ a well-integrated set of brand elements.** Small businesses should develop a distinctive, well-integrated set of brand elements—brand names, logos, packaging—that enhances both awareness and image.
- **Leverage secondary associations.** Secondary associations—any persons, places, or things with potentially relevant associations—are often a cost-effective, shortcut means to build brand equity.
- **Creatively conduct marketing research.** A variety of low-cost marketing research methods can help small businesses connect with customers and study competitors, such as working with students and professors at local colleges and universities.

Sources: Ashlee Vance, "It's a Doc in a Box," *Bloomberg Businessweek*, May 7, 2012, pp. 45–47; Victoria Barret, "Software's Boy Wonder," *Forbes*, March 4, 2013; Daniel Roberts, "The Secrets of See's Candies," *Fortune*, September 3, 2012, pp. 67–72; Jefferson Graham, "How to Ride Facebook's Giant Wave," *USA Today*, May 30, 2013, p. 5B; Rob Walker, "The Cult of Evernote," *Bloomberg Businessweek*, February 28, 2013.

claimed by a *market follower* willing to maintain its share and not rock the boat. *Market nichers*, serving small segments larger firms don't reach, hold the remaining 10 percent.

A market leader such as McDonald's has the largest market share and usually leads in price changes, new-product introductions, distribution coverage, and promotional intensity. Although marketers assume well-known brands are distinctive in consumers' minds, unless a dominant firm enjoys a legal monopoly, it must maintain constant vigilance. A powerful product innovation may come along, a competitor might find a fresh marketing angle or commit to a major marketing investment, or the leader's cost structure might spiral upward.

FIGURE 7.2 Hypothetical Market Structure



To stay number one, the firm must find ways to expand total market demand, protect its current share through good defensive and offensive actions, and increase market share, even if market size remains constant.

Expanding Total Market Demand

When the total market expands, the dominant firm usually gains the most. If Heinz can convince more people to use ketchup, or to use ketchup with more meals, or to use more ketchup on each occasion, the firm will benefit considerably because it already sells almost two-thirds of the country's ketchup. In general, the market leader should look for new customers or more usage from existing customers. A company can search for new users among three groups: those who might use it but do not (*market-penetration strategy*), those who have never used it (*new-market segment strategy*), or those who live elsewhere (*geographical-expansion strategy*).

Marketers can try to increase the amount, level, or frequency of consumption. They can sometimes boost the *amount* through packaging or product redesign. Larger package sizes increase the amount of product consumers use at one time.²¹ Consumers use more of impulse products such as soft drinks and snacks when the product is made more available. Ironically, some food firms such as Hershey's have developed smaller packaging sizes that have actually increased sales volume through more frequent usage.²² In general, increasing *frequency* of consumption requires either (1) identifying additional opportunities to use the brand in the same basic way or (2) identifying completely new and different ways to use the brand.

Protecting Market Share

While trying to expand total market size, the dominant firm must actively defend its current business: Boeing against Airbus, and Google against Microsoft.²³ How can the leader do so? The most constructive response is *continuous innovation*. The front-runner should lead the

industry in developing new products and customer services, distribution effectiveness, and cost cutting. Comprehensive solutions increase competitive strength and value to customers so they feel appreciative or even privileged to be a customer as opposed to feeling trapped or taken advantage of.²⁴

Proactive Marketing In satisfying customer needs, we can draw a distinction between responsive marketing, anticipative marketing, and creative marketing. A *responsive* marketer finds a stated need and fills it. An *anticipative* marketer looks ahead to needs customers may have in the near future. A *creative* marketer discovers solutions customers did not ask for but to which they enthusiastically respond. Creative marketers are proactive *market-driving* firms, not just market-driven ones.²⁵

A company needs two proactive skills: (1) *responsive anticipation* to see the writing on the wall, as when IBM changed from a hardware producer to a service business, and (2) *creative anticipation* to devise innovative solutions. Note that *responsive anticipation* is performed before a given change, while *reactive response* happens after the change takes place. Accenture maintains that 10 consumer trends covering areas like e-commerce, social media, and a desire to express individuality will yield market opportunities worth more than \$2 trillion between 2013 and 2016.²⁶

Defensive Marketing Even when it does not launch offensives, the market leader must not leave any major flanks exposed. The aim of defensive strategy is to reduce the probability of attack, divert attacks to less-threatened areas, and lessen their intensity. A leading firm can use one of six defense strategies.

- **Position defense.** This means occupying the most desirable position in consumers' minds, making the brand almost impregnable. Procter & Gamble "owns" the key functional benefit in many product categories, such as Pampers diapers for dryness.
- **Flank defense.** The market leader should erect outposts to protect a weak front or support a possible counterattack. Procter & Gamble brands such as Gain and Cheer laundry detergent have played strategic offensive and defensive roles in support of Tide.
- **Preemptive defense.** A more aggressive maneuver is to attack first, perhaps with guerrilla action across the market—hitting one competitor here, another there—to keep everyone off balance. Another is to achieve broad market envelopment that signals competitors not to attack.²⁷ Yet another preemptive defense is to introduce a stream of new products and announce them in advance.
- **Counteroffensive defense.** The market leader can meet the attacker frontally so the rival will have to pull back to defend itself. Another form of counteroffensive is the exercise of economic or political clout. The leader may try to crush a competitor by subsidizing lower prices for a vulnerable product with revenue from its more profitable products, or it may lobby legislators to take political action to inhibit the competition.
- **Mobile defense.** Here the leader stretches its domain over new territories through market broadening and market diversification. *Market broadening* shifts the company's focus from the current product to the underlying generic need, the way "petroleum" companies recast themselves as "energy" companies. *Market diversification* shifts the company's focus into unrelated industries.
- **Contraction defense.** Sometimes large companies can no longer defend all their territory. In *planned contraction* (also called *strategic withdrawal*), they give up weaker markets and reassign resources to stronger ones. P&G sold Pringles to Kellogg for almost \$2.7 billion when it decided to focus on its core household and consumer products.²⁸

Increasing Market Share

In some markets, one share point can be worth tens of millions of dollars, which is why competition is so fierce. Because the cost of buying higher market share through acquisition may far exceed its revenue value, a company should consider four factors first:

1. *The possibility of provoking antitrust action.* Frustrated competitors are likely to cry “monopoly” and seek legal action if a dominant firm makes further inroads. Microsoft and Intel have had to fend off numerous lawsuits and legal challenges around the world as a result of what some feel are inappropriate or illegal business practices and abuse of market power.
2. *Economic cost.* Figure 7.3 shows that profitability might *fall* with market share gains after some level. In the illustration, the firm’s *optimal market share* is 50 percent. The cost of gaining further market share might exceed the value if holdout customers dislike the firm, are loyal to competitors, have unique needs, or prefer dealing with smaller firms. Pushing for higher share is less justifiable when there are unattractive market segments, buyers who want multiple sources of supply, high exit barriers, and few economies of scale.
3. *Pursuing the wrong marketing activities.* Companies successfully gaining share typically outperform competitors in three areas: new-product activity, relative product quality, and marketing expenditures.²⁹ Companies that attempt to increase market share by cutting prices more deeply than competitors typically don’t achieve significant gains because rivals meet the price cuts or offer other values so buyers don’t switch.
4. *The effect of increased market share on actual and perceived quality.* Too many customers can put a strain on the firm’s resources, hurting product value and service delivery.

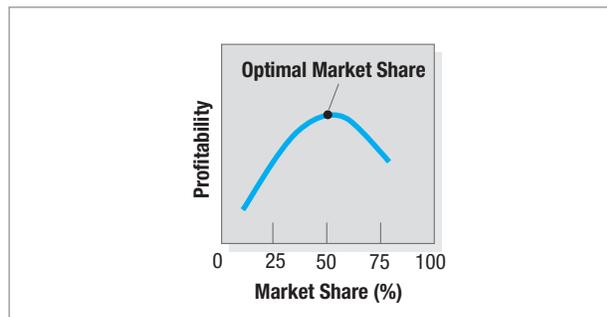
Other Competitive Strategies

Firms that are not industry leaders are often called runner-up or trailing firms. Some, such as PepsiCo and Ford, are quite large in their own right. These firms can either attack the leader and other competitors in an aggressive bid for further market share as *market challengers*, or they can choose to not “rock the boat” as *market followers*.

Market-Challenger Strategies

Many market challengers have gained ground or even overtaken the leader. A challenger must first determine a strategic objective (such as to increase market share) and then decide whom to attack. Attacking the market leader is a high-risk but potentially high-payoff strategy if the leader is not serving the market well. The challenger can attack firms its own size that are

FIGURE 7.3 The Concept of Optimal Market Share



underperforming and underfinanced, have aging products, are charging excessive prices, or are not satisfying customers in other ways. Another option is to attack small local and regional firms. Or a challenger might attack an industry as a whole or a pervasive way of thinking that doesn't adequately address customer needs.

Given clear opponents and objectives, five attack strategies for challengers are:

1. *Frontal attack.* The attacker matches its opponent's product, advertising, price, and distribution. A modified frontal attack, such as cutting price, can work if the market leader doesn't retaliate and if the competitor convinces the market its product is equal to the leader's.
2. *Flank attack.* A flanking strategy is another name for identifying shifts that cause gaps to develop in the market, then rushing to fill the gaps. Flanking is particularly attractive to a challenger with fewer resources and can be more likely to succeed than frontal attacks. With a geographic attack, the challenger spots areas where the opponent is underperforming. Another idea is to serve uncovered market needs.
3. *Encirclement attack.* Encirclement attempts to capture a wide slice of territory by launching a grand offensive on several fronts. It makes sense when the challenger commands superior resources.
4. *Bypass attack.* Bypassing the enemy to attack easier markets offers three lines of approach: diversifying into unrelated products, diversifying into new geographical markets, and leapfrogging into new technologies. In *technological leapfrogging*, the challenger patiently researches and develops the next technology, shifting the battleground to its own territory where it has an advantage.
5. *Guerrilla attack.* Guerrilla attacks consist of small, intermittent attacks, conventional and unconventional, including selective price cuts, intense promotional blitzes, and occasional legal action, to harass the opponent and eventually secure permanent footholds. A guerrilla campaign can be expensive and typically must be backed by a stronger attack to beat the opponent.

Market-Follower Strategies

Theodore Levitt argues that a strategy of *product imitation* might be as profitable as a strategy of *product innovation*.³⁰ The innovator bears the expense of developing the new product, getting it into distribution, and informing and educating the market. The reward for all this work and risk is normally market leadership. However, another firm can come along and copy or improve on the new product. Although it may not overtake the leader, the follower can achieve high profits because it did not bear any of the innovation expense.

Many companies prefer to follow rather than challenge the market leader, especially in capital-intensive, homogeneous-product industries such as steel, fertilizers, and chemicals. The opportunities for product differentiation and image differentiation are low, service quality is comparable, and price sensitivity runs high. Short-run grabs for market share only provoke retaliation in such situations, so most firms present similar offers to buyers, usually by copying the leader, which keeps market shares stable.

Some followers are cloners, emulating the leader's products, name, and packaging with slight variations. Some are imitators, copying a few things from the leader but differentiating themselves on packaging, advertising, pricing, or location. The leader doesn't mind as long as the imitator doesn't attack aggressively. Some followers become adapters, taking the leader's products and adapting or improving them, perhaps selling them to different markets. Note that these three follower strategies are very different from the illegal and unethical follower strategy of counterfeiting. Counterfeiters duplicate the leader's product and packages and sell them on the black market or through disreputable dealers.

What does a follower earn? Normally, less than the leader. Some follower firms have found success, but in another industry.

TABLE 7.2 Niche Specialist Roles

- **End-user specialist.** The firm specializes in one type of end-use customer.
- **Vertical-level specialist.** The firm specializes at some vertical level of the production-distribution value chain.
- **Customer-size specialist.** The firm concentrates on either small, medium-sized, or large customers.
- **Specific-customer specialist.** The firm limits its selling to one or a few customers.
- **Geographic specialist.** The firm sells only in a certain locality, region, or area of the world.
- **Product or product line specialist.** The firm carries or produces only one product line or product.
- **Product-feature specialist.** The firm specializes in a certain type of product or product feature.
- **Job-shop specialist.** The firm customizes its products for individual customers.
- **Quality-price specialist.** The firm operates at the low- or high-quality end of the market.
- **Service specialist.** The firm offers one or more services not available from other firms.
- **Channel specialist.** The firm specializes in serving only one channel of distribution.

Market-Nicher Strategies

An alternative to being a follower in a large market is to be a leader in a small market, or niche. Smaller firms normally avoid competing with larger firms by targeting small markets of little or no interest to the larger firms. Over time, those markets can sometimes end up being sizable in their own right. The nicher achieves *high margin*, whereas the mass marketer achieves *high volume*. The risk is that the niche might dry up or be attacked, so nichers must seek to create new niches, expand existing niches, and protect their niches. *Multiple niching* can be preferable to *single niching* because strength in two or more niches increases the chances for survival. Table 7.2 shows the specialist roles open to nichers.

Executive Summary

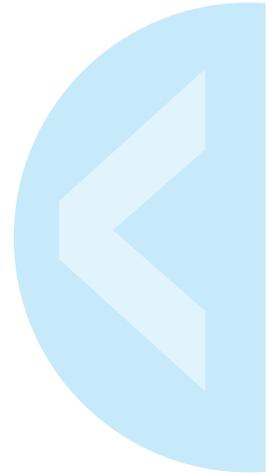
To develop an effective positioning, a company must study competitors as well as actual and potential customers. Developing a positioning requires identifying a frame of reference—by locating the target market and the nature of the competition—and the optimal points-of-parity and points-of-difference brand associations. Industry- and market-based analyses both help uncover competitors and latent competitors. Points-of-difference are those associations unique to the brand that are also strongly held and favorably evaluated by consumers. Points-of-parity are associations not necessarily unique to the brand but perhaps shared with other brands.

Several approaches exist to position a product or service. Less structured, more qualitative approaches are based on concepts such as brand narratives, storytelling, and cultural branding. Market leaders stay number one by expanding total market demand, protecting current share, and increasing market share, even if market size remains constant. Firms that are not leaders can be challengers by attacking the leader and other competitors, or they can be market followers. An alternative to being a follower in a large market is to be a leader in a small market or niche.

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Chapter 8

Creating Brand Equity and Driving Growth

In this chapter, we will address the following questions:

1. What is a brand, and how does branding work? (Page 122)
2. What is brand equity, and how is it built, measured, and managed? (Page 123)
3. What are the important decisions in developing a branding strategy? (Page 129)
4. Why is it important for companies to grow the core of their business? (Page 133)

Marketing Management at Gatorade

Gatorade was first developed by researchers at the University of Florida to help the school's athletes cope with the hot, humid climate. Its success in pioneering the sports drink category led PepsiCo to acquire its parent company in 2001 and invest in further growth. But when sales declined by \$1 billion from 2007 to 2010, PepsiCo decided a change was needed. Gatorade's marketers returned the brand to its roots to focus more on athletes. They repackaged and reformulated three product lines for pre-, during-, and post-workout consumption, targeting three different markets. The G Series line aimed at "performance" athletes active in school or recreational sports; the G Series Fit line targeted 18- to 34-year-olds who exercised three to four times a week; and the G Series Pro line targeted professional athletes. Gatorade's advertising tagline, "Win From Within," reflected the new brand strategy, and the communication budget included a 30 percent digital component.¹

Strategic brand management combines the design and implementation of marketing activities and programs to build, measure, and manage brands to maximize their value. It has four main steps: (1) identifying and establishing brand positioning, (2) planning and implementing brand marketing, (3) measuring and interpreting brand performance, and (4) growing and

sustaining brand value.² In this chapter, we discuss branding, brand equity, brand strategy, and growing the core business.

How Does Branding Work?

The American Marketing Association defines a **brand** as “a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.” A brand is thus a product or service whose dimensions differentiate it in some way from other offerings designed to satisfy the same need. These differences may be functional, rational, or tangible—related to product performance of the brand. They may also be more symbolic, emotional, or intangible—related to what the brand represents in a more abstract sense.

The Role of Brands

A brand identifies the maker of a product and allows consumers to assign responsibility for its performance to that maker or distributor. Consumers may evaluate the identical product differently depending on how it is branded.³ They learn about brands through past experiences with the product and its marketing, finding out which brands satisfy their needs and which do not. As consumers’ lives become more rushed and complicated, a brand’s ability to simplify decision making and reduce risk becomes invaluable.⁴ Brands can also take on personal meaning to consumers and become an important part of their identity.⁵ For some consumers, brands can even take on human-like characteristics.⁶

Brands also perform valuable functions for firms.⁷ First, they simplify product handling by helping organize inventory and accounting records. In addition, a brand allows the firm legal protection for unique product features.⁸ The brand name can be protected through registered trademarks, manufacturing processes can be protected through patents, and packaging can be protected through copyrights and proprietary designs. These intellectual property rights ensure that the firm can safely invest in the brand and reap the benefits. In fact, brands represent enormously valuable pieces of legal property that can influence consumer behavior, be bought and sold, and yield sustained future revenues.⁹

Brand loyalty provides predictability and security of demand for the firm, and it creates barriers to entry that make it difficult for other firms to enter the market. Loyalty also can translate into customer willingness to pay a higher price—often even 20 percent to 25 percent more than competing brands.¹⁰ Although competitors may duplicate manufacturing processes and product designs, they cannot easily match lasting impressions left in the minds of customers by years of favorable product experiences and marketing activity. Thus, branding can be a powerful means to secure a competitive advantage.¹¹

The Scope of Branding

Branding is the process of endowing products and services with the power of a brand. It’s all about creating differences between products. Marketers need to teach consumers “who” the product is—by giving it a name and other brand elements to identify it—as well as what the product does and why consumers should care. Branding creates mental structures that help consumers organize their knowledge about offerings in a way that clarifies their decision making and, in the process, provides value to the firm.

For branding strategies to be successful and brand value to be created, consumers must be convinced there are meaningful differences among brands in the category. Successful brands are

seen as genuine, real, and authentic in what they sell as well as who they are. It's possible to brand a physical good (Ford Focus automobile), a service (Singapore Airlines), a store (Dick's Sporting Goods), a person (actress Angelina Jolie), a place (the country of Iceland), an organization (American Automobile Association), or an idea (free trade).¹²

Defining Brand Equity

Brand equity is the added value endowed to products and services with consumers. It may be reflected in the way consumers think, feel, and act with respect to the brand as well as in the prices, market share, and profitability it commands. Marketers and researchers use various perspectives to study brand equity.¹³ Customer-based approaches recognize that the power of a brand lies in what customers have seen, read, heard, learned, thought, and felt about the brand over time.¹⁴

Customer-Based Brand Equity

Customer-based brand equity is the differential effect brand knowledge has on consumer response to the marketing of that brand.¹⁵ A brand has positive customer-based brand equity when consumers react more favorably to a product and the way it is marketed when the brand is identified than when it is not identified. A brand has negative customer-based brand equity if consumers react less favorably to marketing activity for the brand under the same circumstances.

There are three key ingredients of customer-based brand equity. First, brand equity arises from differences in consumer response. If no differences occur, the brand-name product is essentially a commodity, and competition will probably be based on price. Second, differences in response are a result of consumers' **brand knowledge**, all the thoughts, feelings, images, experiences, and beliefs associated with the brand. Brands must create strong, favorable, and unique brand associations with customers. Third, brand equity is reflected in perceptions, preferences, and behavior related to all aspects of the brand's marketing. Stronger brands earn greater revenue.¹⁶ Table 8.1 summarizes some key benefits of brand equity.

Customers' brand knowledge dictates appropriate future directions for the brand. Consumers will decide, based on what they think and feel about the brand, where (and how) they believe the brand should go and grant permission (or not) to any marketing action. New-product ventures such as Cracker Jack cereal failed because consumers found them inappropriate brand extensions. A **brand promise** is the marketer's vision of what the brand must be and do for consumers.

TABLE 8.1 Marketing Advantages of Strong Brands

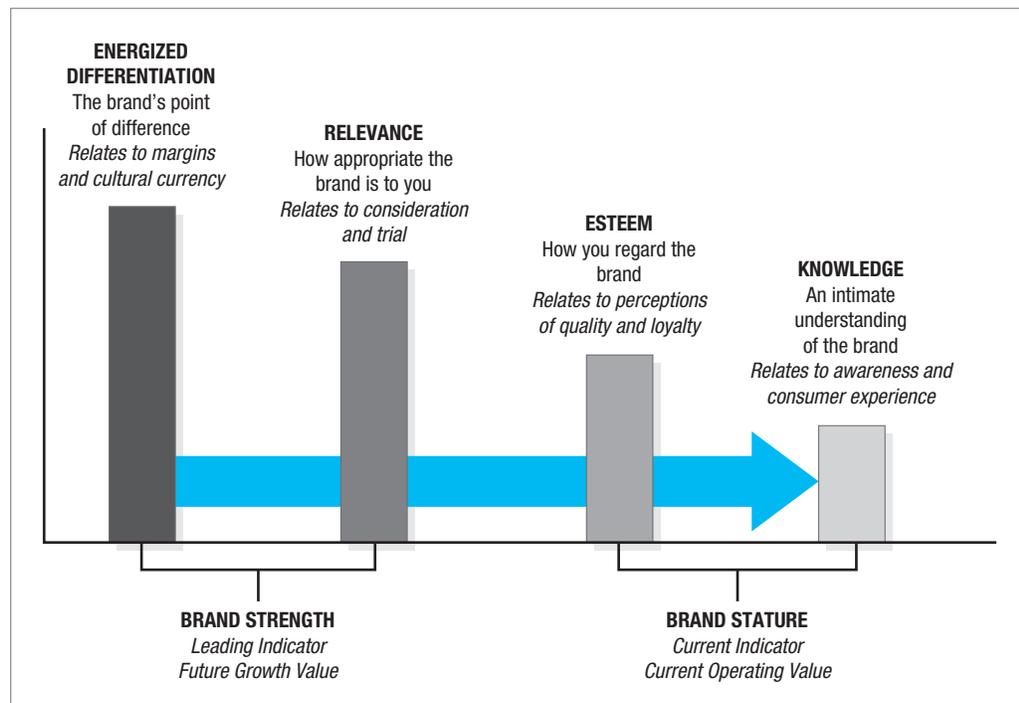
Improved perceptions of product performance	Greater trade cooperation and support
Greater loyalty	Increased marketing communications effectiveness
Less vulnerability to competitive marketing actions	Possible licensing opportunities
Less vulnerability to marketing crises	Additional brand extension opportunities
Larger margins	Improved employee recruiting and retention
More inelastic consumer response to price increases	Greater financial market returns
More elastic consumer response to price decreases	

Brand Equity Models

Models of brand equity offer some differing perspectives on branding. Here we highlight three more established ones.

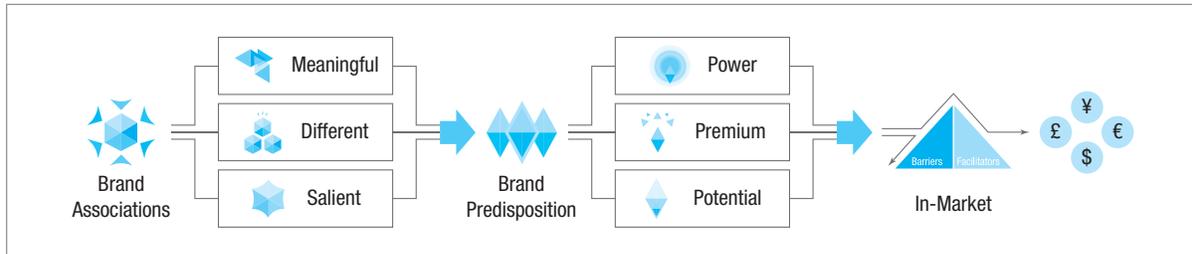
- **BrandAsset Valuator.** Advertising agency Young and Rubicam (Y&R)'s model of brand equity, the BrandAsset® Valuator (BAV), covers four pillars of brand equity (see Figure 8.1). Strong new brands show higher levels of energized differentiation and energy than relevance, whereas both esteem and knowledge are lower still. Leadership brands show high levels on all pillars, with strength greater than stature. Declining brands show high knowledge, a lower level of esteem, and even lower relevance and energized differentiation.
- **BrandZ and BrandDynamics™.** Marketing research consultants Millward Brown and WPP have developed the BrandZ model of brand strength, at the heart of which is the BrandDynamics model (see Figure 8.2). This model is based on a system of brand associations—meaningful, different, and salient—that builds customer predisposition to buy a brand. The associations have three important outcome measures: power (a prediction of brand volume share), premium (ability to command a price premium), and potential (the probability that a brand will grow value share).
- **Brand Resonance Model.** The brand resonance model views brand building as an ascending series of steps. Enacting these four steps means establishing a pyramid of six “brand building blocks” as illustrated in Figure 8.3. The model emphasizes the duality of brands—the rational route to brand building is on the left side of the pyramid, and the emotional route is on the right side.¹⁷

FIGURE 8.1 BrandAsset® Valuator Model



Source: Courtesy of BrandAsset® Consulting, a division of Young & Rubicam.

FIGURE 8.2 BrandDynamics™ Model



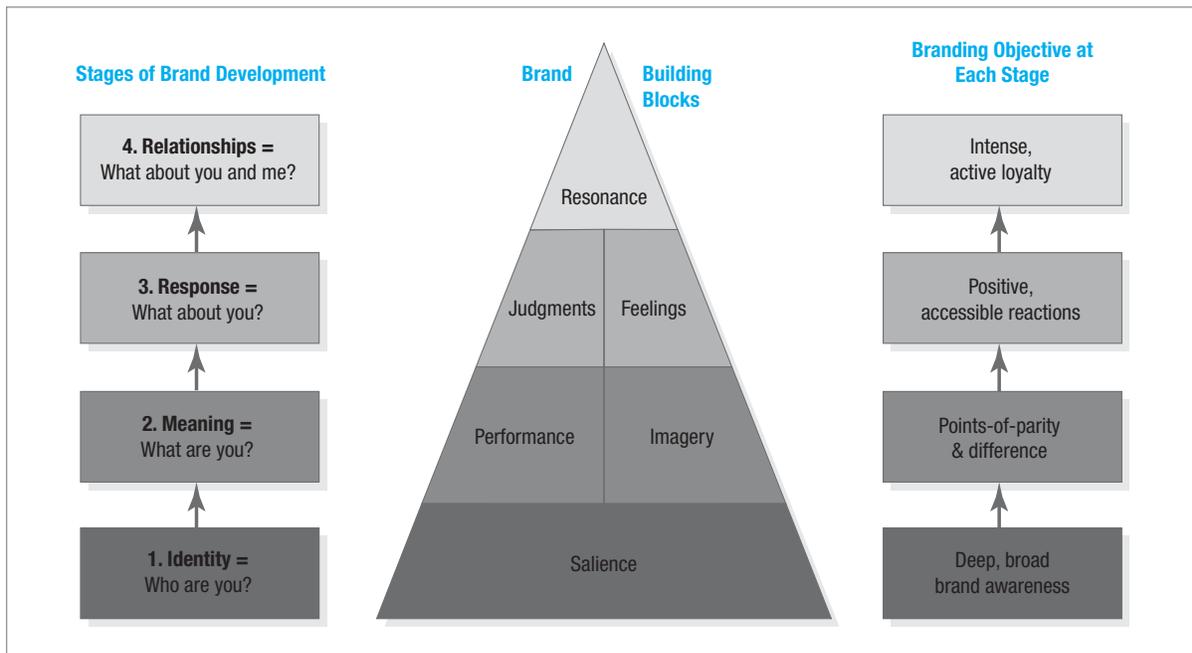
Source: BrandDynamics™ Model. Reprinted with permission of Millward Brown.

Building Brand Equity

Marketers build brand equity by creating the right brand knowledge structures with the right consumers. The success of this process depends on *all* brand-related contacts—whether marketer-initiated or not.¹⁸ From a marketing management perspective, however, there are three main sets of *brand equity drivers*:

1. *The initial choices for the brand elements or identities making up the brand (brand names, URLs, logos, symbols, characters, spokespeople, slogans, jingles, packages, and signage)*—Microsoft chose the name Bing for its new search engine because it felt it unambiguously conveyed search and the “aha” moment of finding what you are looking for. It is also short, appealing, memorable, active, and effective multiculturally.¹⁹

FIGURE 8.3 Brand Resonance Pyramid



2. **The product and service and all accompanying marketing activities and supporting programs**—General Mills is employing a number of new marketing activities to sell cereals, cake mixes, and yogurt. The company is exploring how to best use smart phones with consumers via QR codes, apps, and augmented reality, developing new packaging strategies in the process.²⁰
3. **Other associations indirectly transferred to the brand by linking it to some other entity (a person, place, or thing)**—The brand name of New Zealand vodka 42BELOW refers to both a latitude that runs through New Zealand and the percentage of the drink's alcohol content. The packaging and other visual cues are designed to leverage the perceived purity of the country to communicate the brand's positioning.²¹

Choosing Brand Elements

Brand elements are trademarkable devices that identify and differentiate the brand. Nike has the distinctive “swoosh” logo, the empowering “Just Do It” slogan, and the “Nike” name from the Greek winged goddess of victory. The test of brand building is what consumers would think or feel about the product if the brand element were all they knew. Based on its name alone, for instance, a consumer might expect Panasonic Toughbook laptops to be durable and reliable.

As shown in Table 8.2, there are six criteria for choosing brand elements. The first three—memorable, meaningful, and likable—are brand building. The latter three—transferable, adaptable, and protectable—are defensive and help leverage and preserve brand equity against challenges.

Brand elements can play a number of brand-building roles.²² If consumers don't examine much information in making product decisions, brand elements should be easy to recall and inherently descriptive and persuasive. The likability of brand elements can increase awareness and associations.²³ Often, the less concrete brand benefits are, the more important that brand elements capture intangible characteristics. Many insurance firms use symbols of strength for their brands (the Rock of Gibraltar for Prudential). Like brand names, slogans are an extremely efficient means to build brand equity.²⁴ They can help consumers grasp what the brand is and what makes it special, as in “Like a Good Neighbor, State Farm Is There.”

Designing Holistic Marketing Activities

Customers come to know a brand through a range of contacts and touch points: personal observation and use, word of mouth, interactions with company personnel, online or telephone experiences, and payment transactions. A **brand contact** is any information-bearing experience, whether positive or negative, a customer or prospect has with the brand, its product category,

TABLE 8.2 Criteria for Choosing Brand Elements

For Building the Brand	For Defending the Brand
<i>Memorable:</i> Is the element easily recalled and recognized at purchase and consumption? Example: Tide	<i>Transferable:</i> Can the element introduce new products in the same or different categories? Does it add to brand equity across geographic boundaries and market segments? Example: Amazon.com
<i>Meaningful:</i> Is the element credible and suggestive of the category? Does it suggest something about a product ingredient or a brand user? Example: DieHard	<i>Adaptable:</i> Can the element be adapted and updated? Example: Shell logo
<i>Likable:</i> Is the element appealing or playful? Example: Pinterest	<i>Protectable:</i> Is the element legally and competitively protectable? Can the firm retain trademark rights? Example: Yahoo!

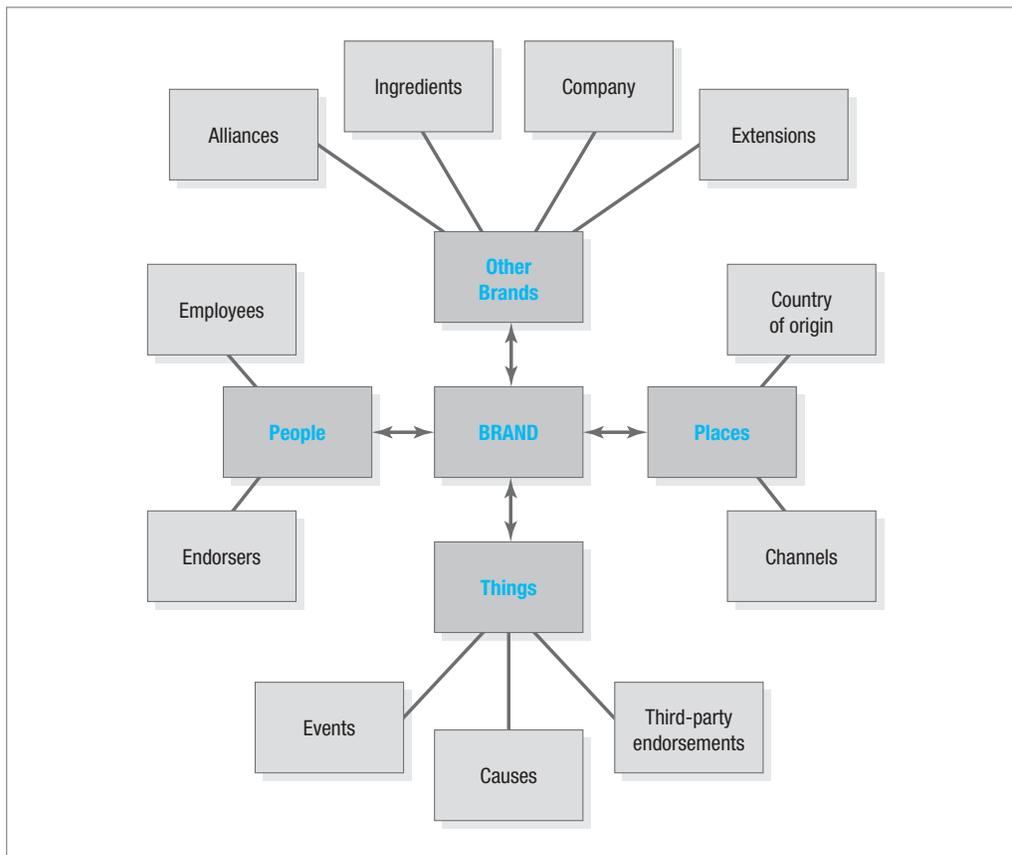
or its market.²⁵ The company must put as much effort into managing these experiences as into producing its ads because any brand contact can affect consumers' brand knowledge and the way they think, feel, or act toward the brand.

Integrated marketing is about mixing and matching marketing activities to maximize their individual and collective effects.²⁶ Marketers need a variety of different marketing activities that consistently reinforce the brand promise, working singularly and in combination. We can evaluate integrated marketing activities in terms of the effectiveness and efficiency with which they affect brand awareness and create, maintain, or strengthen brand associations and image.

Leveraging Secondary Associations

The third and final way to build brand equity is to “borrow” it by linking the brand to other information in memory that conveys meaning to consumers (see Figure 8.4). These “secondary” brand associations can link to sources such as the company itself, countries or other geographical regions, and channels of distribution as well as to other brands, characters (through licensing), spokespeople (through endorsements), sporting or cultural events (through sponsorship), or other third-party sources (through awards or reviews). Leveraging secondary associations can be an efficient and effective way to strengthen a brand. But linking a brand to someone or

FIGURE 8.4 Secondary Sources of Brand Knowledge



something else can be risky because anything bad that happens to that other entity (such as scandal involving an endorser) can also be linked to the brand.

Internal Branding

Marketers must adopt an *internal* perspective to be sure employees and marketing partners appreciate and understand basic branding notions and how they can help—or hurt—brand equity.²⁷ *Internal branding* consists of activities and processes that help inform and inspire employees about brands.²⁸ Holistic marketers go even further and train and encourage distributors and dealers to serve their customers well.

Measuring and Managing Brand Equity

How do we measure brand equity? An *indirect* approach assesses potential sources of brand equity by identifying and tracking consumer brand knowledge structures.²⁹ A *direct* approach assesses the actual impact of brand knowledge on consumer response to different aspects of the marketing. For brand equity to guide strategy and decisions, marketers need to fully understand (1) the sources of brand equity and how they affect outcomes of interest and (2) how these sources and outcomes change, if at all, over time. Brand audits are important for the former; brand tracking for the latter.

Brand Audits and Brand Tracking

A **brand audit** is a focused series of procedures to assess the health of the brand, uncover its sources of brand equity, and suggest ways to improve and leverage its equity. Conducting brand audits on a regular basis allows marketers to manage brands more proactively and responsively. A good brand audit provides keen insights into consumers, brands, and the relationship between the two. *Brand-tracking studies* use the brand audit as input to collect quantitative data from consumers over time, providing consistent, baseline information about how brands and marketing programs are performing. Tracking studies help us understand where, how much, and in what ways brand value is being created to facilitate day-to-day decision making

Brand Valuation

Marketers should distinguish brand equity from **brand valuation**, which is the job of estimating the total financial value of the brand. In some well-known companies, brand value is typically more than half the total company market capitalization. Top brand-management firm Interbrand has developed a five-step model to estimate the dollar value of a brand and help firms maximize return on brand investment.³⁰ The first step is market segmentation to determine variations among the brand's different customer groups. The second step is financial analysis to assess purchase price, volume, and frequency and help calculate accurate forecasts of future brand sales and revenues. This step also requires deducting all associated operating costs to derive earnings before interest and tax (EBIT) and deducting taxes and a charge for the capital employed to operate the underlying business. The result is Economic Earnings, the earnings attributed to the branded business.

The third step is market research to assess the role of branding and calculate the percentage of Economic Earnings generated by the brand, which yields Brand Earnings. The fourth step is to assess the brand's strength and determine the likelihood that the forecasted Brand Earnings will be realized. For each segment, Interbrand determines a risk premium for the brand and adds it to the risk-free rate, represented by the yield on government bonds. The Brand Discount Rate, applied to the forecasted Brand Earnings forecast, yields the net present value of the Brand Earnings. The final step is to calculate Brand Value, the net present value (NPV) of the forecasted Brand Earnings, discounted by the Brand Discount Rate.³¹

Managing Brand Equity

Because consumer responses to marketing activity depend on what they know and remember about a brand, short-term marketing actions, by changing brand knowledge, necessarily increase or decrease the long-term success of future marketing actions.

Brand Reinforcement Marketers can reinforce brand equity by consistently conveying the brand's meaning in terms of (1) what products it represents, what core benefits it supplies, and what needs it satisfies; and (2) how the brand makes products superior and which strong, favorable, and unique brand associations should exist in consumers' minds. Reinforcing brand equity requires that the brand always be moving forward—in the right direction and with new and compelling offerings and ways to market them. While there is little need to deviate from a successful position, many tactical changes may be necessary to maintain the strategic thrust and direction of the brand. When change *is* necessary, marketers should vigorously preserve and defend sources of brand equity.

Brand Revitalization Any new development in the marketing environment can affect a brand's fortunes. Nevertheless, a number of brands have managed to make impressive comebacks in recent years.³² After some hard times in the automotive market, Cadillac, Fiat, and Volkswagen have all turned their brand fortunes around to varying degrees. The first step is to understand what the sources of brand equity were to begin with. Are positive associations losing their strength or uniqueness? Have negative associations become linked to the brand? Then decide whether to retain the same positioning or create a new one and, if so, which new one.³³ Sometimes the actual marketing program is the source of the problem because it fails to deliver on the brand promise. Then a “back to basics” strategy may make sense.

In other cases, the old positioning is just no longer viable and a reinvention strategy is necessary. There is obviously a continuum of revitalization strategies, with pure “back to basics” at one end, pure “reinvention” at the other, and many combinations in between. The challenge is to change enough to attract some new customers, but not enough to alienate old customers. Brand revitalization of almost any kind starts with the product.³⁴

Devising a Branding Strategy

A firm's **branding strategy**—often called its *brand architecture*—reflects the number and nature of both common and distinctive brand elements. Deciding how to brand new products is especially critical. A firm has three main choices: (1) develop new brand elements for the new product, (2) apply some existing brand elements, or (3) use a combination of new and existing brand elements (see definitions in Table 8.3).

Branding Decisions

Today, hardly anything goes unbranded. Assuming a firm decides to brand its products or services, it must choose which brand names to use. Three general strategies are popular:

- **Individual or separate family brand names.** Companies often use different brand names for different quality lines within the same product class. A major advantage is that if a product fails or appears low quality, the company has not tied its reputation to it.³⁵
- **Corporate umbrella or company brand name.** Many firms, such as GE, use their corporate brand as an umbrella brand across their entire range of products.³⁶ Development costs are lower, and sales of the new product are likely to be strong if the manufacturer's name is good. Corporate-image associations of innovativeness, expertise, and trustworthiness have been shown to directly influence consumer evaluations.³⁷

TABLE 8.3 Branding New Products

Concept	Definition
Brand extension	Using an established brand to launch a new product
Sub-brand	Combining a new brand with an existing brand
Parent brand	An existing brand that gives birth to a brand extension or sub-brand
Master (or family) brand	A parent brand that is already associated with multiple products through brand extensions
Line extension	Using a parent brand on a new product within a category it currently serves (such as new flavors or colors)
Category extension	Using a parent brand on a new product to enter a new category, different from the one it currently serves
Brand line	All the products (including line and category extensions) sold under a particular brand
Brand mix	The set of all brand lines sold by a particular seller
Branded variants	Specific brand lines supplied to specific retailers or distribution channels
Licensed product	Using the brand name licensed from one firm on a product made by another firm

- **Sub-brand name.** Sub-brands combine two or more of the corporate brand, family brand, or individual product brand names. Kellogg does this by combining the corporate brand with individual product brands as with Kellogg's Rice Krispies. The company name legitimizes, and the individual name individualizes, the new product.

The use of individual or separate family brand names has been referred to as a “house of brands” strategy, whereas the use of an umbrella corporate or company brand name has been referred to as a “branded house” strategy. These represent two ends of a brand relationship continuum, with the sub-brand strategy falling somewhere between. With a branded house strategy, it is often useful to have a well-defined *flagship product*, one that best represents or embodies the brand as a whole to consumers. It often is the first product by which the brand gained fame, a widely accepted best-seller, or a highly admired or award-winning product.³⁸

Brand Portfolios

The **brand portfolio** is the set of all brands and brand lines a particular firm offers for sale in a particular category or market segment. The basic principle is to maximize market coverage so no potential customers are being ignored, but minimize brand overlap so brands are not competing for customer approval. Each brand should be clearly differentiated and appealing to a sizable enough marketing segment to justify its marketing and production costs. Marketers carefully monitor brand portfolios over time to identify weak brands and kill unprofitable ones.³⁹

Brands can also play a number of specific roles as part of a portfolio.

- **Flankers.** Flanker or fighter brands are positioned with respect to competitors' brands so that more important (and more profitable) flagship brands can retain their desired positioning. Fighter brands must be neither so attractive that they take sales away from their higher-priced comparison brands nor designed so cheaply that they reflect poorly on them.

- **Cash cows.** Some brands may be kept around despite dwindling sales because they manage to maintain their profitability with virtually no marketing support. Companies can effectively milk these “cash cow” brands by capitalizing on their reservoir of brand equity.
- **Low-end entry level.** The role of a relatively low-priced brand in the portfolio often may be to attract customers to the brand franchise. Retailers like to feature these “traffic builders” because they are able to trade up customers to a higher-priced brand.
- **High-end prestige.** The role of a relatively high-priced brand often is to add prestige and credibility to the entire portfolio.

Brand Extensions

Many firms leverage their most valuable asset by introducing a host of new products under their strongest brand names. Most new products are in fact brand extensions—typically 80 percent to 90 percent in any one year. Moreover, many of the most successful new products, as rated by various sources, are brand extensions.

Advantages of Brand Extensions Two main advantages of brand extensions are that they can facilitate new-product acceptance and provide positive feedback to the parent brand and company. Consumers form expectations about a new product based on what they know about the parent brand and the extent to which they feel this information is relevant. By setting up positive expectations, extensions reduce risk. It also may be easier to convince retailers to stock and promote a brand extension because of anticipated increased customer demand. An introductory campaign for an extension doesn’t need to create awareness of both the brand *and* the new product; it can concentrate on the new product itself.⁴⁰

Extensions can reduce launch costs, important given that establishing a major new brand name for a consumer packaged good in the U.S. marketplace can cost more than \$100 million! Extensions also can avoid the difficulty—and expense—of coming up with a new name and allow for packaging and labeling efficiencies. With a portfolio of brand variants within a product category, consumers who want a change can switch to a different product type without having to leave the brand family.

A second advantage is that brand extensions can provide feedback benefits.⁴¹ They can help to clarify the meaning of a brand and its core values or improve consumer loyalty to the company behind the extension.⁴² Also, they can renew interest and liking for the brand and benefit the parent brand by expanding market coverage. In fact, a successful category extension may not only reinforce the parent brand and open up a new market but also facilitate even more new category extensions.⁴³

Disadvantages of Brand Extensions On the downside, line extensions may cause the brand name to be less strongly identified with any one product. **Brand dilution** occurs when consumers no longer associate a brand with a specific or highly similar set of products and start thinking less of the brand. If a firm launches extensions consumers deem inappropriate, they may question the integrity of the brand or become confused or even frustrated: Which version of the product is the “right one” for them? Do they know the brand as well as they thought they did? Retailers reject many new products and brands because they don’t have the shelf or display space for them. And the firm itself may become overwhelmed. One more disadvantage is that the firm forgoes the chance to create a new brand with its own unique image and equity.

The worst possible scenario is for an extension not only to fail, but to harm the parent brand in the process. Fortunately, such events are rare. “Marketing failures,” in which too few consumers are attracted to a brand, are typically much less damaging than “product failures,” in which the brand fundamentally fails to live up to its promise. Product failures dilute brand equity only when the extension is seen as very similar to the parent brand. Even if sales of a

brand extension meet high targets, the revenue may be coming from consumers switching from existing parent-brand offerings—in effect cannibalizing the parent brand. Yet intrabrand shifts in sales may not be undesirable if they're a form of preemptive cannibalization.

Success Characteristics Marketers must judge each potential brand extension by how effectively it leverages existing brand equity from the parent brand as well as how effectively, in turn, it contributes to the parent brand's equity. One major mistake in evaluating extension opportunities is failing to take *all* consumers' brand knowledge structures into account and focusing instead on one or a few brand associations as a potential basis of fit.⁴⁴

Customer Equity

We can relate brand equity to one other important marketing concept: *customer equity*. The aim of customer relationship management (CRM) is to produce high customer equity.⁴⁵ Although we can calculate it in different ways, one definition is “the sum of lifetime values of all customers.”⁴⁶ Customer lifetime value is affected by revenue and by the costs of customer acquisition, retention, and cross-selling.⁴⁷

The brand equity and customer equity perspectives share many common themes.⁴⁸ Both emphasize the importance of customer loyalty and the notion that we create value by having as many customers as possible pay as high a price as possible. The customer equity perspective focuses on bottom-line financial value. Its clear benefit is its quantifiable measures of financial performance. But it offers limited guidance for go-to-market strategies and ignores some of the important advantages of creating a strong brand. Also, it does not always fully account for competitive moves and counter-moves or for social network effects, word of mouth, and customer-to-customer recommendations.

Brand equity, on the other hand, emphasizes strategic issues in managing brands and creating and leveraging brand awareness and image, providing practical guidance for marketing activities. With a focus on brands, however, managers don't always develop detailed customer analyses in terms of the brand equity they achieve or the resulting long-term profitability they create.⁴⁹ Brand equity approaches could benefit from sharper segmentation schemes afforded by customer-level analyses and more consideration of how to develop personalized, customized marketing programs. Nevertheless, both brand equity and customer equity matter. Brands serve as the “bait” that retailers and other channel intermediaries use to attract customers from whom they extract value. Customers are the tangible profit engine for brands to monetize their brand value.

Driving Growth

An important function of marketing is to drive sales and revenue growth. Marketing is especially adept at doing so for a new product with many competitive advantages and much potential. Good marketing can encourage trial and promote word of mouth and diffusion. Marketing in more mature markets can be more challenging.

Growth Strategies

Phil and Milton Kotler stress the following eight growth strategies.⁵⁰ Companies can grow by (1) building market share, (2) developing committed customers and stakeholders, (3) building a powerful brand, (4) innovating new offerings and experiences, (5) expanding internationally, (6) arranging acquisitions, mergers, and alliances, (7) building an outstanding reputation for social responsibility, and (8) partnering with government and nongovernmental organizations.

Growing the Core

Some of the best opportunities come from growing the core—focusing on the most successful existing products and markets. Growing the core can be a less risky alternative than expansion into new product categories. It strengthens a brand’s credentials as a source of authority and credibility and can yield economies of scale. Through improved revenues and lower costs, growing the core can also lead to greater profits.

UK marketing guru David Taylor advocates three main strategies for growing the core, citing these examples:⁵¹

1. *Make the core of the brand as distinctive as possible.* Galaxy chocolate has successfully competed with Cadbury by positioning itself as “your partner in chocolate indulgence” and featuring more refined taste and sleeker packaging.
2. *Drive distribution through both existing and new channels.* Costa Coffee, the number-one UK coffee shop chain, has found new distribution routes using drive-through outlets, vending machines, and in-school locations.
3. *Offer the core product in new formats or versions.* WD40 offers a Smart Straw version of its popular multipurpose lubricant with a built-in straw that pops up for use.

A focus on core businesses does not mean foregoing new market opportunities, especially if the core business is not expandable. However, marketers must avoid overestimating the upside of new ventures that stretch the company into uncharted territory. “Marketing Insight: Understanding Double Jeopardy” describes how market leaders can benefit from brand loyalty due to their size.

marketing insight

Understanding Double Jeopardy

Double jeopardy was popularized in marketing by the British academic Andrew Ehrenberg. It boils down to the fact that a small-share brand is penalized twice—it has fewer buyers than a large-share brand, and they buy less frequently. As a consequence, most of a brand’s market share is explained by its market penetration and the size of its customer base, rather than by customers’ repeat purchases. Implicit is the assumption that brands are substitutable and have target segments in common. It is, in fact, most often observed with weakly differentiated brands targeting the same group of people. Exceptions are highly differentiated niche brands that thrive on small shares and high loyalty and seasonal brands that offer unique value and tally cluster purchases in short periods of time.

One implication drawn by double jeopardy proponents is that marketers seeking growth should focus on increasing the size of the customer base rather than on deepening the loyalty of existing customers. Critics of double jeopardy question how inevitable it is and see other implications for marketers. For example, they view new or established brands with a new positioning or message as differentiated enough to avoid double jeopardy’s predicted results.

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Executive Summary

A brand is a name, term, sign, symbol, or design, or some combination of these elements, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors. Brands are valuable intangible assets that offer a number of benefits to customers and firms. Brand equity should be defined in terms of marketing effects uniquely attributable to a brand. Building brand equity depends on three main factors: (1) The initial choices for the brand elements or identities making up the brand; (2) the way the brand is integrated into the supporting marketing program; and (3) the associations indirectly transferred to the brand by links to some other entity. Brand audits measure “where the brand has been,” and tracking studies measure “where the brand is now.”

A branding strategy identifies which brand elements a firm chooses to apply across its various products. In a brand extension, a firm uses an established brand name to introduce a new product. Potential extensions must be judged by how effectively they leverage existing brand equity as well as how effectively they contribute to the equity of the parent brand. Each brand-name product must have a well-defined positioning to maximize coverage, minimize overlap, and thus optimize the portfolio. Customer equity is a concept that is complementary to brand equity and reflects the sum of lifetime values of all customers for a brand. Growing the core—focusing on opportunities with existing products and markets—is often a prudent way to increase sales and profits, less risky than expansion into new product categories.

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