

Building Strong Brands Better, Faster, and Cheaper

Brands

Overview

Senior executives increasingly recognize the importance of their companies' brands in driving customer loyalty, price premiums, revenue growth and, consequently, enhanced shareholder value. But because building and maintaining brands can be a costly, risky, and time-consuming process, many CEOs are seeking new approaches that achieve brand goals more quickly and more efficiently.

Through our work with clients, we have identified a number of key elements of brand building that distinguish successful companies from their competitors. Ultimately, in both the planning and execution of brand strategy, the successful integration of these elements is essential for achieving growth targets.

An integrated multi-functional approach to brand planning must include superior customer insights, clear understanding of future economics, and reinforcing organizational capability to deliver on the brand promise.

Such an integrated approach must aim to deliver:

- Actionable customer segments that thrive as future industry economics evolve.
- Propositions with the required “antes” and distinctive “drivers” that win target customers.
- Operational capabilities that consistently overdeliver on a few critical “triggers.”

A focus on this approach to brand building and maintenance can mean the difference between success and failure in today's tough markets.

Growth is the top priority for most companies today. With this in mind, many CEOs are turning to their brands as important elements to jumpstart growth and profitability. They are taking this path because they recognize that strong brands have historically been associated with accelerated revenue growth and improved returns to shareholders. They know that stronger brands are rewarded with higher degrees of customer loyalty and higher price premiums and that the ability to leverage strong brands is a key success factor enabling companies to launch new businesses. But CEOs are not only pushing for strong brands, they are also demanding that they be built and maintained better, faster, and cheaper.

But this demand for strong brands better, faster, and cheaper presents a real challenge, since the environment for building strong, distinctive brands has never been more difficult. The bar has risen because of an increasing convergence in both product and service levels in most categories, making it harder to sustain distinctive brands. In tandem, as brands are exposed across increasing numbers of “touchpoints,” customers are more aware of positive and negative brand experiences, and these experiences are then broadcast quickly by word of mouth. In this environment, some stellar brands have flourished – like Starbucks and Saturn – but many more – such as United Airlines and Kmart – have fallen on harder times.

And, just as the pressures from Wall Street require companies to deliver results faster, the costs of brand building have been escalating quickly. Media budgets have often become colossal in order to rise above the clutter, challenge audience skepticism, and break

into customers' consciousness. Further, the requirement for substantial near-term investments and results means that many companies face significant resource and timing constraints. The upshot is that many efforts are starved before they deliver.

Still, we believe the demand from CEOs to build brands better, faster, and cheaper makes a lot of sense. Indeed, the economics of their businesses usually dictate that they have little choice. But the approach to building brands and to developing brand strategy must change to thrive in this new environment. Historically, a company's marketing department could virtually create the brand strategy in isolation from other functions. In today's environment, brand strategy can no longer be managed solely by marketers because responsibility for a brand's touchpoints is divided among multiple functions of the organization. As a result, the whole organization must collaborate in both brand strategy development and in its consistent delivery across these multiple touchpoints. Without this alignment at the brand planning stage, go-it-alone marketing efforts will often fail to drive the brand to where it can maximize shareholder value. Worse, unaligned initiatives can create advertising messages that step out ahead of the capability of an organization to deliver on the brand promise, leading to customer disappointment and ultimately brand devaluation.

We believe that companies must take a fundamentally new route to building the brand in this evolving environment. What is required is a more integrated, multi-functional approach to brand planning that fuses superior customer insights, future economic potential, and reinforcing organizational capability. This fusion, in turn, delivers three key requirements of the new brand strategy: a rigorous focus on customer segments and how they will behave as the future economics of the business evolve; distinctive propositions comprising both "antes" and "drivers" that win target customers; and operational capabilities that overdeliver on a few crucial dimensions to delight the customer. Companies need to direct major efforts to these initiatives to win in tough markets.

Focus on customer segments with an eye to evolving economics

Most companies have segmented their customers at one stage or another as part of their brand effort. But even when the segmentations have been statistically pure or creatively rich, they often fail to stick, mainly because they are uneconomic or unactionable. Increasingly, marketers are demanding clearer direction from their research; however, even among the best, most actionable segmentations, few take into account the underlying future profitability of the targeted customers. In failing to consider the emerging economics, marketers run the risk of investing millions to build a brand for a segment where the fundamental profitability could deteriorate significantly.

We have found that the best way to thrive is to augment customer-needs-driven segmentation with an in-depth perspective on the future economics of the industry. This approach makes the segmentation more actionable by combining a pragmatic customer view of where a company could take the brand in the future, together with a rigorous analysis of where the future industry profits lie, to ensure investments in brand building will truly deliver shareholder value.

Take the hospitality sector, for example. For decades, the industry clearly recognized two different segments – service-oriented business customers and price-driven leisure customers – and reinforced relationships through frequent-traveler programs. However, in recent years new forces at work have driven other emerging segments. Rising cost pressures on certain customers have led to a “value-driven business traveler” segment. At the same time, for a different set of customers, the merging of work and play has created a “luxury-driven business traveler” segment (see Exhibit 1). The implication of these changes was that these two segments would grow at the expense of the traditional, service-oriented business travelers and therefore would threaten stalwart brands such as Marriott, Sheraton, and Hilton. With these new segments, hotel corporations had two issues to resolve.

Exhibit 1 Forward-Looking Hotel Segmentation

■ Share ■ Profit

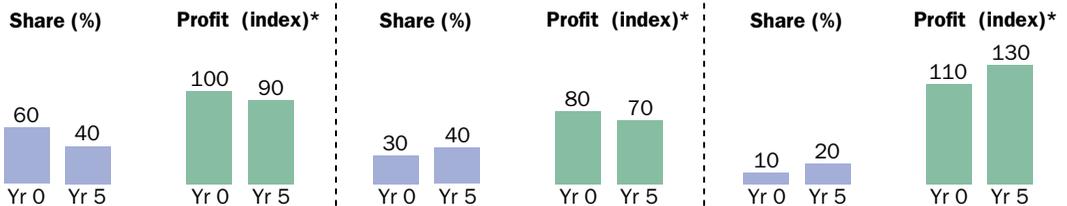
Customer needs

Regular-service business traveler	Value-driven business traveler	Luxury-driven business traveler
<ul style="list-style-type: none"> Looks for superior functional and process benefits <ul style="list-style-type: none"> Hotel understands and remembers preferences Easy check-in/check-out Comfortable room with basic business amenities Tends not to be very price conscious 	<ul style="list-style-type: none"> Seeks a comfortable basic room at a low price Tends to have a group of acceptable brands – makes decisions on price and location Is very conscious of office travel policies and restrictions 	<ul style="list-style-type: none"> Is very brand conscious Is more likely to use the same hotels for leisure Tends to book directly with hotel or specifies the choice of hotel when booking through an agent Is not very price conscious

Implications for brand

<ul style="list-style-type: none"> Differentiate on functional benefits (e.g., Westin’s “Heavenly Bed”) Differentiate on process benefits (e.g., Starwood’s “Preferred guest” priority check-in) Maintain traveler profiles on preferences (e.g., smoking/non-smoking room, floor preference, newspaper) 	<ul style="list-style-type: none"> Ensure competitive price versus local budget alternatives Tie-up corporate accounts with deals and discounts Create a simple experience that offers all the essentials, but none of the frills 	<ul style="list-style-type: none"> Develop compelling brand propositions with tangible and intangibles (e.g., Four Seasons’ “customer at the center” philosophy, W Hotels’ “hip and cool”) Offer premium services (e.g., highly trained concierge, high-end restaurant, venue bar, hotel limo service) Develop special leisure packages for regular business travelers
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Future economics



*Profit index per stay relative to the regular service business traveler in Yr 0

Source: McKinsey Brand Health Research; hypothetical industry economic analysis

First, could their existing brands be stretched to target these segments, or would new brands be required? Second, how attractive were these segments likely to be over time as future industry economics evolve?

The first issue demanded that companies gain rich insights from their segmentations, understand the exact nature of the segment needs, and then figure out whether or not their existing brands could be stretched to target these customers. So, for example, existing brands were deemed appropriate for the “value business” segment – either by offering value rates within existing hotels or by developing value subbrands such as Four Points by Sheraton (part of the Starwood group of hotels) or Courtyard by Marriott. In contrast, the “luxury business” segment typically demanded specifically targeted brands such as Ritz-Carlton, W Hotels, or Four Seasons.

The second issue required companies to look into the future to understand the evolution of the target segments’ economics – not only looking at segment growth, but also at likely changes in profitability. For hotels, future profitability is estimated by projecting changes in pricing, service requirements, and competitive intensity. Some projections suggest that for the “regular-service business traveler” segment, both traffic and profitability will continue to fall, as customers increasingly divide into the other two segments, and there is an overcapacity of room inventory to serve the remaining “regular business” travelers. Meanwhile, although traffic is growing for each of the other segments, profitability projections are different. For value business travelers, profitability is set to fall as a stream of new inventory becomes available and competitive intensity reduces price per stay. For luxury business travelers, conversely, profitability is much more likely to grow. Luxury hotels are much more capital-intensive than other hotels and therefore with gradual capacity expansion, room inventory will remain tight and pricing levels will hold. In addition, revenue from added-value services – such as restaurant and bar – will continue to increase. Given these developments, the trick, therefore, is to decide whether going after the most

profitable segments is the right way to go and whether the brand can meet the needs of these segments long term.

Starwood provides a good example of taking actions that have been consistent with these future economic projections. First, they have been converting selected properties to the Four Points brand concept to quickly meet demand from the growing value segment. Second, they have taken steps to drive differentiation of their Westin brand compared to other regular business hotels. For example, they have improved the sleeping experience with the “Heavenly Bed” concept and they have simplified in-room service with “Service Express.” Third, they have been selectively rolling out new properties in their W and Luxury Collection chains, which will specifically capture the concentration of luxury travelers in major urban centers.

Of course, any time a company analyzes future economics, there will be uncertainty about assumptions and projections. Nevertheless, our experience has shown that even projections with up to 20 percent error ranges can improve the quality of brand strategy far beyond the approach of not projecting the future economics at all.

Getting close to the right answer, therefore, demands the combination of brand and segment fit, with future segment attractiveness. Once equipped with this knowledge, a brand owner can truly appreciate where profits can be made and therefore which segments to swarm. The next challenge then is to deliver distinctive brands to these customers.

Win target customers by mixing “antes” with distinctive “drivers”

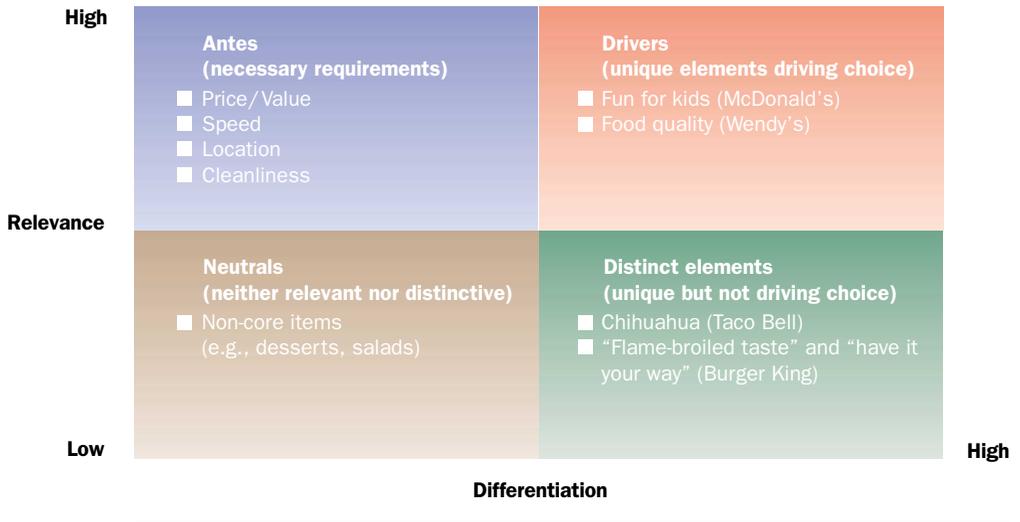
Many new or relaunched brands encounter disappointing trial and loyalty because their value proposition fails to simultaneously satisfy the most important key buying factors and provide a point of distinctiveness in customers’ minds. This dual requirement in brand strategy – the need for what we call “antes” and “drivers” – is critical to building brand equity quickly.

By “antes” we mean those features and benefits that keep a brand in the game, and which are likely to be the top key buying factors in a category. They are all-important to the customer, although these antes do not distinguish the brand from its competitors. For example, in fast food, the antes are fast service, location, and cleanliness. In situations where brands do not deliver the appropriate antes, the failure rate is high. Many e-businesses found this out when – swamped with excessive orders driven by low prices – they failed to provide the ante of meeting holiday delivery deadlines, and hence were unable to maintain future customer loyalty.

However, antes are not enough to create the brand-driven growth that CEOs demand. What is required are “drivers” that are the source of distinctiveness for the brand. They are the brand features that are important to the target customer and distinguish a brand from competitors’ brands, and they can be either tangible or intangible characteristics. As companies search for their drivers, we typically find that these will fall outside the top buying factors of the category. In fast food, for example, while McDonald’s has met the competition on many antes, it is the “fun for kids” driver that has been the real key to the success of the business. In contrast, Burger King has not been able to build a compelling driver that can grow and sustain its business. Even though the brand has points of distinctiveness – “flame-broiled taste” and “have it your way” – these features are not compelling enough for sufficient numbers of people to be truly powerful brand drivers (see Exhibit 2).

This approach – get into the game with antes and differentiate via drivers – has resulted in newly emerging success stories in several categories. For example, think about how both USAA and Target have crept up on more established competitors. USAA has built a strong franchise among military personnel and their families by delivering the antes of price and insurance coverage, and differentiating on the driver of “trustworthy service.” And Target has expanded its reach towards upscale customers by delivering the antes of price and value, and differentiating on the driver of “contemporary style.” Imbalanced delivery of antes and drivers,

Exhibit 2 **Antes and Drivers in Fast Food**



or worse yet, focus on items that were not relevant to brand choice would have slowed the success of these brands or prevented them from getting off the launch pad at all.

Deliver on “triggers” that matter to customers

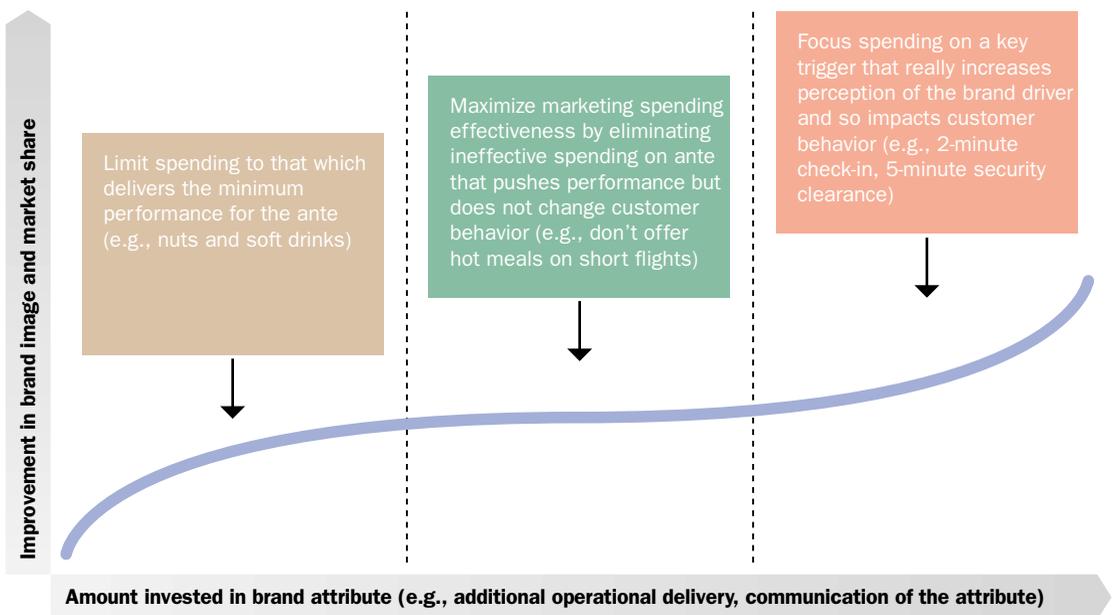
Once the brand driver(s) has been identified, the challenge many companies face is to ensure distinctive delivery across multiple touchpoints. In trying to provide superior performance for the brand across all the touchpoints, some efforts become diffused, and customers fail to see a strong value proposition. Such diffusion can be caused by brand owners either putting too much effort against overdelivering the antes, or dissipating efforts by trying to demonstrate the drivers at every touchpoint. The solution, we believe, is to provide the antes at minimum cost, and then focus spending on a few brand “triggers.” By brand triggers, we mean the two or three things that most effectively ensure favorable customer perceptions around delivering the brand value proposition.

The critical first step is to deliver the antes at the minimum cost required to meet customer standards without raising performance issues. An ante for airlines, for example, would be in-flight catering,

and the minimum requirement for an average flight might be provision of soft drinks and a snack. Airlines reducing their service below this threshold would probably receive significant customer complaints. Correspondingly, there is little pay-off from moving to more lavish service – say multiple menu options and hot meal alternatives – because the revenue impact would not offset incremental costs and complexity. In other words, companies will often hit diminishing returns when executing the antes, and therefore it is prudent that they do not overspend on performance antes that will not sustainably build brand strength (see Exhibit 3).

Once antes are at an acceptable level of performance, the priority is then to overdeliver on the two or three triggers that matter. Such triggers must pass three tests. First, they must signal the most important brand drivers within the value proposition; second, they must be economic to deliver; and third, they must be something that the organization is delivering today or can expect to deliver within a reasonable timeframe. With these tests

Exhibit 3 **Typical Performance for Antes and Drivers**



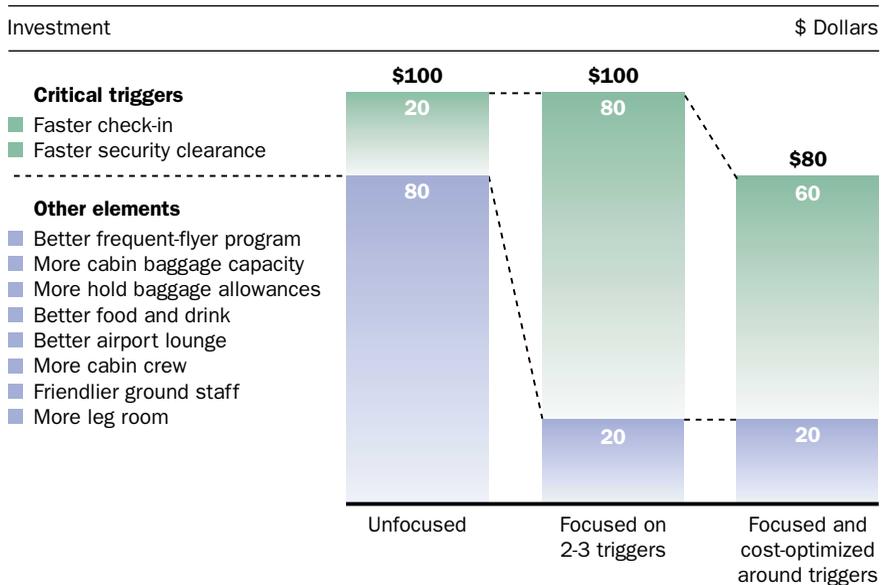
in mind, triggers then need to be defined as precisely as possible and evaluated in terms of their cost and feasibility. Of course, some potential triggers will be uneconomic, and these should either be avoided or significantly cost-optimized. Further, to build loyalty, brands must deliver on their promise consistently. Therefore, it is better to identify important triggers that the organization can deliver all the time rather than the absolute best triggers that get executed only half the time. Selection of triggers, therefore, requires a careful optimization of customer preference, economic implications, and organizational capabilities.

In our airline example, for a critical profit-generating segment such as frequent business flyers, the actual driver might be that the airline is more considerate than other airlines. Given this, the airline would face as many as twenty possible touchpoints where it could deliver enhanced customer care. Among the options, it could offer faster check-in, higher checked baggage allowances, more upgrades, more extras on board, and more frequent-flyer miles. The real risks are that the airline could either spend too much and lose profits, or spend too little and miss making the brand distinctive.

Today, an airline keen to demonstrate that it is more considerate of frequent business flyers should focus on the critical triggers, which might be faster check-in and faster security clearance. In turn, these triggers have to be turned into operational standards that significantly break out ahead of competitive performance – for example, 2-minute check-in time and 5-minute security clearance. Once an organization understands these goals, it can then reengineer its system to deliver these as cost effectively as possible. For instance, an airline could reduce check-in time through online or kiosk check-in, and could minimize time waiting for security clearance by arranging frequent-flyer priority lines (see Exhibit 4).

As an organization defines its triggers, it is also important to consider the durability of those triggers. There is often a trade-off between the sustainability of triggers and the cost of building

Exhibit 4 **Trigger Points in Airlines – Incremental Amount Invested in Brand Attribute**



Source: Dollar amounts are only for illustration

them. When developing a trigger, an organization can take an incremental or fundamental approach. The incremental approach often costs less, but typically does not provide as much competitive insulation as incremental triggers can be more easily duplicated in the marketplace. For example, most international airlines focus resources on the higher-yielding business traveler and target the important driver of “superior long-haul comfort.” Some triggers are quickly and easily implemented, but are quickly and easily copied – for example, better food and wine, or portable DVD players. Some particularly durable triggers have, however, recently been implemented by the U.K. carriers. British Airways redesigned its cabins to offer the first truly flat beds in business class at a time when other airlines merely increased leg room or seat width. Taking a different approach, Virgin Atlantic reinforced its famous “doing things differently” brand personality with a restyled “Upper Class” service that features “designer-styled” cabins, a sit-down bar area, and an in-flight massage service. Other airlines, fresh from recent cabin upgrades, would now face significant capital

expenditure and implementation timing issues to match these triggers on their transatlantic routes.

As in developing superior segmentations and defining antes and drivers, it is the fusion of customer insights, future economic potential, and reinforced organizational capability that enables a company to overdeliver on the triggers. All of these elements must be critically interconnected as the company develops the right approach for its brand. There is no point having an attractive target segment that requires an unfeasible or uneconomic set of triggers. Similarly, there is no value in focusing on a set of triggers that does not create a distinctive brand for the selected segment.

The fact that these three concepts – segments anchored in future economics, propositions with antes and drivers, and delivery triggers – are all completely interconnected means that companies need to be able to iterate backwards and forwards until the “best fit” answer emerges. Once understood, the powerful combination of these three concepts creates stronger brands better, faster, and cheaper.

CEOs are increasingly seeking to strengthen their brands to achieve higher shareholder value. But that’s hard to do as customers are more resistant to traditional approaches, organizations are slow to build capability to deliver on the value proposition, and costs are escalating daily.

To build strong brands better, faster, and cheaper, companies need to pursue a fundamentally different approach to brand building that is effective and efficient. The cornerstone of the new brand strategy is the fusion of customer insights, future economics, and organizational capabilities. This, in turn, will enable companies to focus on segments that will thrive as industry economics evolve, develop propositions with distinctive antes and drivers, and deliver on triggers that matter.

Organizations that get this powerful combination right will build strong brands better, faster, and cheaper. And their companies will grow and deliver significantly higher shareholder value.

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