

# Competing for Choice

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# COMPETING FOR CHOICE

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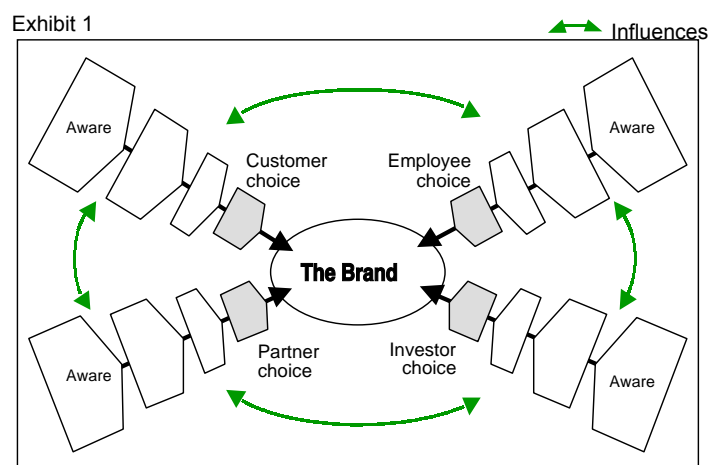
**Nobody today doubts that brands are valuable. But few appreciate that the value lies in their ability to command presence in the minds of a company's stakeholders – customers, employees, partners and investors – influencing preferences and earning their loyalty. Once this is recognised, branding moves to the centre of any company's competitive strategy. Understanding the forces that affect brands and how to manage them then becomes a core competence of the organisation.**

**Brands** are nothing less than the identity of an organisation. It is what differentiates it from the pack and what influences people to make choices in favour of its products and services rather than someone else's. As such, brands are one of the few parts of a corporation that cannot be outsourced to third party management. The value of the brand lies in the impact that it has on generating preferential choice from all stakeholders, not just consumers – but also present and future employees, investors, and potential partners, illustrated in Exhibit 1.

People like to be able to say that they work for a company or brand that they know will be instantly recognisable and whom they trust will deliver superior professional benefits. They benefit from the prestige of working for Procter & Gamble or McKinsey or Harvard University. Because of this, the well-branded employer is better able to attract choices in their favour from the top talent – one form of 'brand premium'. In particular, brands

wield a powerful influence over consumer choice. Consumers are influenced in their purchasing by a number of factors, including real and perceived quality and price – but increasingly the most powerful factor is the brand.

**Not** only are well-managed brands able to justify a higher price differential, but they are also able to acquire and retain stakeholders more effectively. The stakeholders are part of the set of interdependent resources that are required to realise brand value. With careful management of these resources, there are scenarios where success breeds success which will accelerate the accumulation of the most important resources to value creation. The result is an improvement



*Brand and company performance is driven by ability to optimise choice by all stakeholders*

in not only the current business, but also future opportunities through creating growth options.

Recognition of the benefits of generating preferential choice recently led Unilever to focus on strong key brands and continuously upgrade their brand portfolio. Unilever recently sold off a slew of less well-known brands, purchased Ben & Jerrys, Slimfast, and Bestfoods, an American company with outstanding brands including Knorr and Hellmann's. With fewer and more focused brands Unilever will be able to achieve operational improvements in marketing spend and managerial attention.

## TAKING STEPS TO MANAGE BRANDS

To manage brands well is notoriously difficult. Part of the problem lies in the fact that they include many intangible components, and managers tend to lose heart when asked to manage something that they cannot kick. But intangible assets account for an increasingly significant part of the value of today's most successful companies. Some 98% of Microsoft's market value now lies in intangible assets, and Coca-Cola has moved from a situation 15 years ago where almost half its market value could be attributed to tangible assets, to a situation today where its tangible assets represent only 3% of its market value. It has become almost as intangible as Microsoft.

Up and coming corporate role models like Amazon want to follow the same path. In April 2000, Amazon's chief executive Jeff Bezos said that he wanted to sell all the company's tangible assets and to concentrate on its brand. He announced that he wants Amazon to become "the Coca-Cola of the Web".

The difficulty in managing brands begins with the difficulty in measuring them. They are not measurable in the same way as inventory or plant, so we have to find different ways to do it, but ways that are still meaningful. As the saying goes, we cannot manage what we cannot measure.

Ironically, however, the dynamic nature of brands means that any static financial measure of a brand's value is often misleading. There is no one, single brand value. It is continually changing, influenced by all the resources of the corporation and by its every single action – plus, those of its competitors. It is the combined resources of this system working together in a dynamic way that create the value of the brand.

The problem of brand measurement applies across the industrial spectrum, in finance as much as in foodstuffs. Many argue that branding is more important in the virtual world than it is in the real one. In the sectors of the "New Economy", however, there is an added dimension to the problem. The general industry data and the analysis of consumer behaviour that is standard background information for most industries – and a starting point for brand measurement – is simply not yet available in the field of e-commerce. There is a dearth of detail about the on-line world, and about how people behave in it.

That does not mean, however, that firms in the New Economy have to abandon all attempts at brand management. In the absence of real data, firms have to make assumptions about how stakeholders will behave rather than relying on 'real' market research. This in itself, however, can often be a useful exercise. It brings into the open, for example, underlying assumptions about what percentage of visitors to a site will become purchasers of the product or service that is on offer. It also makes the organisation think more deeply about what are the drivers of stakeholder choice.

## THE BRAND IS A RESOURCE SYSTEM

The first step that managers must take in order to escape from the traditional view of branding is to think of brands not just as another asset. Rather, they must view them as resource systems, as a widespread collection of useful assets, both tangible and intangible, and both on and off the balance sheet. Such 'resources' include, for example, the product's quality, the organisation's marketing skills, and its customers' loyalty to its brands.

The classic static analysis of branding can never take full account of the impact of actions over time because it has no way of absorbing feedback. It cannot, for instance, cope with the fact that spending on advertising may have an effect stretching out over several months or even years. Nor can it take into account less obvious causal relationships – like the fact, for example, that customer loyalty is influenced by the intensity of a brand's presence. When people see Harrods shopping bags everywhere, it influences their perceptions of the Knightsbridge store.

To chart the workings of the brand resource system requires the use of sophisticated techniques. System Dynamics, a concept that emerged in the 1950s and which is now applied for strategy development, is ideally suited to the task. It applies the same principles as are used in the management of complex processes like a petrochemical plant. Just as the levels and temperatures of products in a chemicals plant rise and fall over time, and must be controlled, so too do the numbers of people committed to a brand, and the strength and nature of their feelings about it, rise and fall over time. They too can and must be controlled.

System Dynamics is gradually being adopted by mainstream industry to help it understand the impact of events in a world where change is rapid and everything is inter-related. The corporate equivalent of the flapping of a butterfly's wing in Patagonia can rapidly cause the bankruptcy of a company in Europe. Only sophisticated dynamic modelling can hope to take account of all the variables and inter-relationships in a complex resource system.

Some of the resources in a brand's system are internal to the corporation – the employees' skills at marketing, for instance, or the cash to spend on advertising. Some, on the other hand, are external to the corporation – the location of the product on the retailers' shelves, for one, or the loyalty of the brand's consumers for another.

The relative significance of these resources for creating value varies over time. So each brand has a sort of hierarchy of resources, at the top of which are those that are most critical for creating value. A few years ago the most critical resource was usually finance. Now a lack of cash is less frequently a constraint. Today it is more likely to be a scarcity of the right sort of skills. With many high-tech Internet-based start-ups this is the make-or-break resource.

Near the top of today's hierarchy of resources comes preferential consumer choice, or loyal consumers. In the recent past this was not viewed as such a key resource. In general, consumers stayed far more loyal to a product, in part simply because they did not have so many choices, and in part because it was not so easy to "shop around". As consumers' choices have become wider, brands have become more important. "When choices become vast," Disney's CEO Michael Eisner once said, "the only things that will matter are brand names". All the resources in the hierarchy, however, are necessary. Cash is still required to pay for skills, knowledge and brand communication, without which loyal consumers might become far less loyal

Things have changed to such an extent that customer loyalty today could be said to be the quintessential "scarce resource". Competition for this scarce resource is conducted basically through branding.

This gives a slightly different twist on the nature of competition between firms. The more traditional view is to look at companies as competing for something called market share. But what does that mean in the real world? It is not very helpful if it does not tell you what you need to do in order to increase it.

What you need to do, of course, is to persuade more consumers to purchase your product or service as opposed to those of your competitors, and for them to remain loyal to your product. Effectively, this opens up a way of looking at competition from outside the firm rather than from inside. It introduces a stakeholder-focused approach to competition that concentrates on generating preferential choices rather than on outsmarting rivals to gain a larger market share.

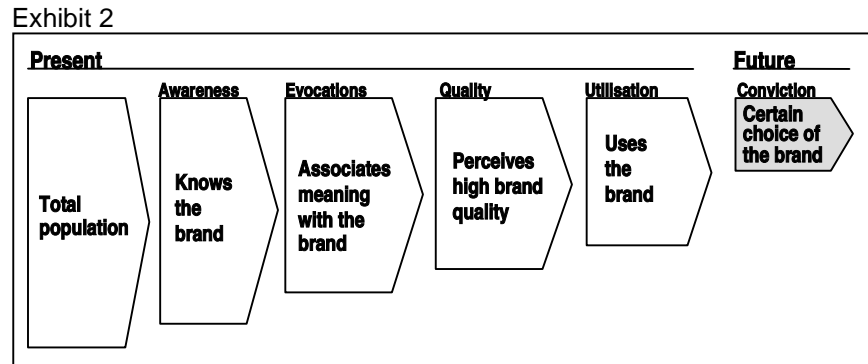
## THE NATURE OF CHOICE

To understand the dynamics of such a model of competition it is essential to look closely at the nature of choice. How do people make choices, and what influences them, and when? For the purposes of this article we will consider only consumer choices. But similar principles can be applied to the choices made by all of the organisation's key stakeholders. The role of the brand is common to them all.

The chances that a consumer will choose one brand rather than another vary from zero (for a brand of which the consumer is totally unaware) to near-certainty for a brand, which the consumer 'swears by', and which they buy again and again without fail. Between these two extremes lie a number of intermediate stages through which the consumer passes as they move towards making a purchasing

decision in favour of one brand rather than another. These stages are illustrated in Exhibit 2.

The first step is for a consumer to become aware of the



Vanguard. fact-based consumer choice model

brand. Of those who are aware, there will be some who are totally indifferent to it, and there will be others for whom it conjures up various associations in their mind. Teenagers around the world buy Nike, Adidas or Reebok largely because of their brands, the set of values that best fits their image of themselves. Most importantly, for that 'values fit' they are prepared to pay a premium. However, the grandparents of the teenage devotees of Nike, for instance, may well be aware of the Nike brand. But it is unlikely to evoke the powerful feelings that it arouses in their offspring's' offspring.

Out of those consumers for whom the brand has the power to evoke associations, some will perceive it as being of good quality, and others will not. Some think of Coca-Cola as cool and refreshing; others are reminded of what it can do to a dirty penny.

Those consumers who perceive the brand to be of good quality can again be subdivided. Some of them will be persuaded to purchase the brand and others will not.

Then there is a final subdivision, which separates those consumers who become first-time buyers. They are split into those who think so positively about the brand that they are able to say with a degree of conviction that they will definitely choose it on the next occasion that they make another purchase of the same type. These are the 'loyals'. There are those, the 'disloyals', who do not have that conviction.

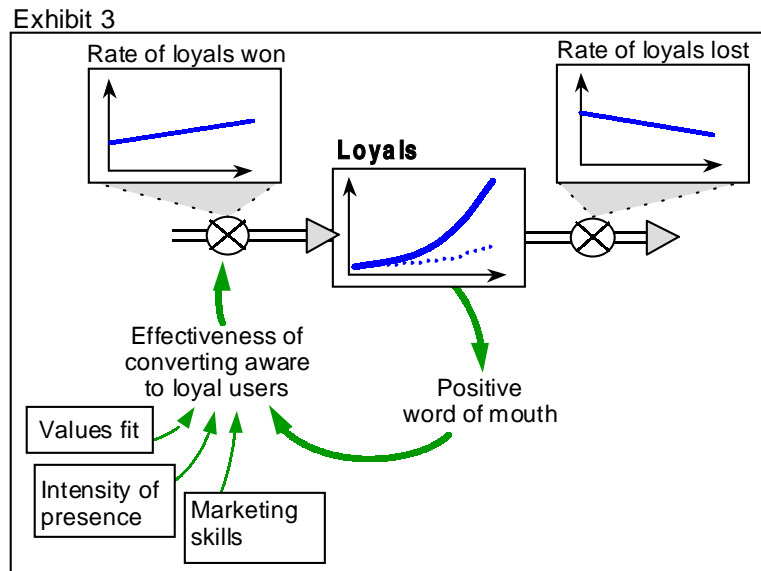
This gradual whittling down from those consumers who are aware of a brand to those users of it who have a 'conviction' about their future purchases creates a sort of 'pipeline' of experiences of the brand. The pipeline narrows, the further you move along it. The separate parts of the pipeline are each of them a resource and a valuable part of the brand's ability to command space in the minds of stakeholders.

## MANAGE THE FLOW RATES – NOT THE AWARENESS LEVELS

A simple way to think dynamically about this model of consumer choice is to think of it as a series of tanks connected by pipes. The flows between the tanks

are controlled by levers, these are 'pumps' which managers can turn on or off in order to increase or decrease the flow of, for example, consumers along the pipeline.

Each tank has an inflow pipe, but each one also has an outflow pipe. Exhibit 3 illustrates the loyal users resource of a brand and the in-flow rates as well as the out-flow rates. Arguably, it is more important for management to understand the flow-rates and changes in flow-rates than the absolute levels of any resource. Consumers can slide back, for example, from being users to being 'evokees' if the system is not acted on continuously to achieve a high level of 'order'. If a company does nothing about a brand, all consumers will eventually become unaware of it. They will all flow back to the first tank in the system.



Example of how management levers and external factors such as positive word of mouth favourably influences the flow-rates leading to accelerated accumulation of loyal users

There are a number of levers that managers can use to act on this system and to keep driving consumers towards the conviction end of it. They include advertising and public relations, special promotions, improving the skills of the workforce and, of course, price itself. By modelling the impact of these various levers, System Dynamics can help managers to identify those initiatives that offer them the greatest long-term returns. It can also help them to decide on the sequence in which initiatives are to be taken. It makes a great deal of difference, for example, if a company upgrades its retail outlets first and then launches an advertising campaign, or if it does it the other way round.

One of the most important levers available to managers is the "values fit", the extent to which the values identified with their brand correspond to the values of the brand's chosen market. This is a key determinant of the consumer's readiness to pay a premium for any one particular product or service. Our research consistently shows that values fit is more important even than the price point.

For many years, for example, Levi's jeans represented a range of values that fitted their market faithfully. But then their market's values changed, and Levi's was slow to follow and unable to achieve preferential choice of the younger generation. As a result, the company's financial results deteriorated sharply.

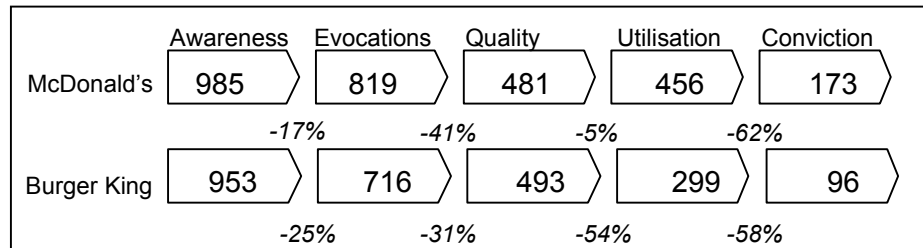
The stronger the brand, the broader is its pipeline at the beginning, and the less it narrows in moving from one end to the other. That is to say, the challenge for corporations is to encourage as many consumers as possible to move along the

pipelines for their brands, up from awareness and towards conviction. To do that requires the use of very different levers depending on where along the pipeline the company wants to have an effect. Broadening it at an early stage tends to broaden it the whole way along. Increasing awareness of a brand tends to lift consumers' convictions about it. But raising awareness requires different tools from, say, increasing utilisation. The former is likely to call for broader and more impressive advertising; the latter for better distribution and more prominent retail display.

When we recently measured the pipelines for Burger King and McDonald's in Canada we found that they had very different shapes as is illustrated in Exhibit 4. Awareness of McDonald's was, not surprisingly, considerably higher than it was for Burger King.

However, the percentage of consumers who thought of the two brands as being of high quality was not that different.

Exhibit 4



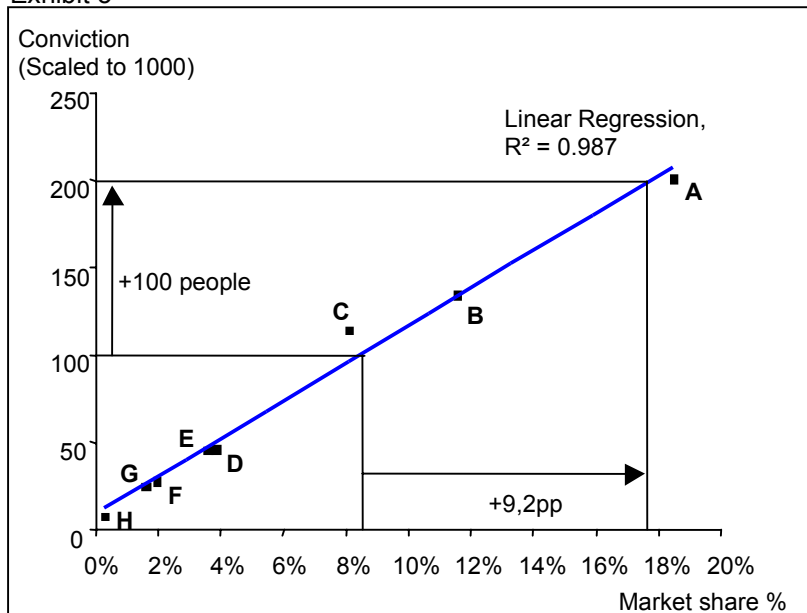
Source: PMB 10/99, n = 7473, Numbers are scaled to 1000. Italics indicate % drop out

The big distinction came just after. Whereas only 20% of those who saw McDonald's as being a quality brand did not actually buy it, 61% of Burger King's fans chose not to buy it.

McDonald's in Canada clearly needs to use tools that will increase the number of 'evokees' who see its products as being of high quality. Burger King, on the other hand, needs to use tools that will raise the number of those people who see it as a quality brand into purchasers.

Powerful brands tend to have a relatively high percentage of consumers who are aware of them and also a relatively high percentage who are "convinced" that they will buy the brand again the next time they are making a similar purchase. Such brands score highly on both awareness and conviction, two measures that are not in themselves correlated. Hence

Exhibit 5



Source: INRA, 8/99 n=3000, Volumes 8/99

brand awareness alone is not enough to create superior brand value. It has to be accompanied by brand conviction if value is to be maximised.

Most importantly, as our research shows time and again, brand conviction is closely correlated to market share. When conviction was plotted against market share for eight German companies in one industry, for example, the graph was virtually a straight-line see Exhibit 5. And, when a major cigarette brand in France increased its consumers' level of conviction over a three-year period, its market share increased proportionately.

This links our consumer choice model to the traditional analysis of competition in terms of market share. Increasing consumers' convictions about its brands becomes a major strategic priority for any company aiming to increase its market share.

And every company has within itself the power to do just that, to manage its own brands. They are not a "black box" whose workings are invisible and unfathomable. Each is a dynamic resource system that can be acted upon and controlled by a range of management tools. But each system is also unique and requires the use of those tools in a unique way. There is no "one-size-fits-all" solution for brand managers. When they find the right solution for their brands, however, the rewards are widespread and they can accelerate rapidly – as well-managed brands have consistently demonstrated over the years.

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<sup>i</sup> This article incorporates elements and excerpts from an article titled '*The end of voodoo brand management*' published in the McKinsey Quarterly, 1998 number 2, co-authored by Lars Finskud, Driek Desmet, Maurice Glucksman, Norman Marchal, Michael Reyner, and professor Kim Warren. Lars Finskud was until recently the brand specialist at McKinsey & Company, and now leads Vanguard Brand Management.