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Developing winning brand strategy

Most organisations can boost their performance by exploiting under-utilised resources and discovering how to target their investments especially marketing spend – at the points of greatest leverage. Lars Finskud introduces a new framework, the customer choice chain.

It has long been recognised that robust strategy plays a crucial role in the success of any enterprise. Over the past fifty years or so, business leaders and academics have produced a vast literature on the subject. Yet despite all this, there are two key observations about strategy that hold true: it is complex and many still get it wrong.

Why is this so? There are several reasons. For one thing, the different people involved in strategy development seldom share a common set of objectives, or a detailed understanding of the dynamics of their business and brand. For another, strategy decisions are often based on historical accounting data or on intuition, rather than on solid facts about how a company is performing today and what steps can be taken to improve that performance in the future.

Many companies think strategy is about beating the competition. With this aim in mind, they launch a series of fragmented initiatives: cost reduction, process reengineering, total quality management, customer relationship management … the list goes on. No one would deny that seeking to differentiate your company from rivals is a sound objective. But the purpose that lies behind it is rarely examined. What are we competing *for*?

This is probably the most fundamental question a business can ask. Chances are, most managers won't hesitate for too long before answering "Competitive advantage" or "Market share". But these answers don't actually get us very far. Competitive advantage doesn't mean anything in itself if a company doesn't know what it is competing for, and market share is just a number (and an aggregate metric at that).

So what's the right answer? Quite simply: choice. Companies are competing for customers to choose their brand today and tomorrow and the day after that.

Competing for choice

Business is driven by choice. Hotels have to get guests to walk through the door. Airlines need passengers. Without customers, consumers or clients, no business can justify its existence. For sure, business is about competition. But more precisely, it is about competing for your target customers to choose, again and again, the value proposition that your company is offering from among all the rival propositions in an increasingly competitive world.

Phil Knight, CEO of Nike, put it like this: "Basically, when you go to buy a pair of shoes you're not buying one from each company. You're going to buy one pair and we are going to try as hard as we can to make that shoe Nike."

That makes a lot of sense, because when consumers set out to buy anything from toothpaste to trainers, few will buy several different brands at the same time. So from a brand perspective, there are only a finite number of choices to be made in favour of either your brand or your competitor's. Customers who are loyal to your brand are not abundant. Indeed, for most companies they are a scarce resource because they are difficult to accumulate.

But customers are not the only people who get to choose one brand or another. Choice is also exercised by all the other stakeholders in a business, including employees, partners and investors. In fact, a company has to compete for the preferential choice of *all* its valuable stakeholders.

This puts a different spin on the nature of competition between firms, and, by implication, on the formulation of strategy. It's just not good enough to fall back on accounting measures such as year-on-year revenue growth targets. Strategy must become *actionable*. Companies need to work out exactly where their future growth will come from and how much growth they can realistically expect.

To do this, they need to get down to detail. Where are they going to find "choosers" of their brand? How many there will be? And what do they have to do to earn these customers' choices?

The secrets of customer choice

The challenges a company needs to overcome in order to earn choice have been recognised for decades, as the 1958 "Man in the chair" advertisement from McGraw-Hill attests (Exhibit 1). Unfortunately, that doesn't mean these challenges are always tackled effectively.

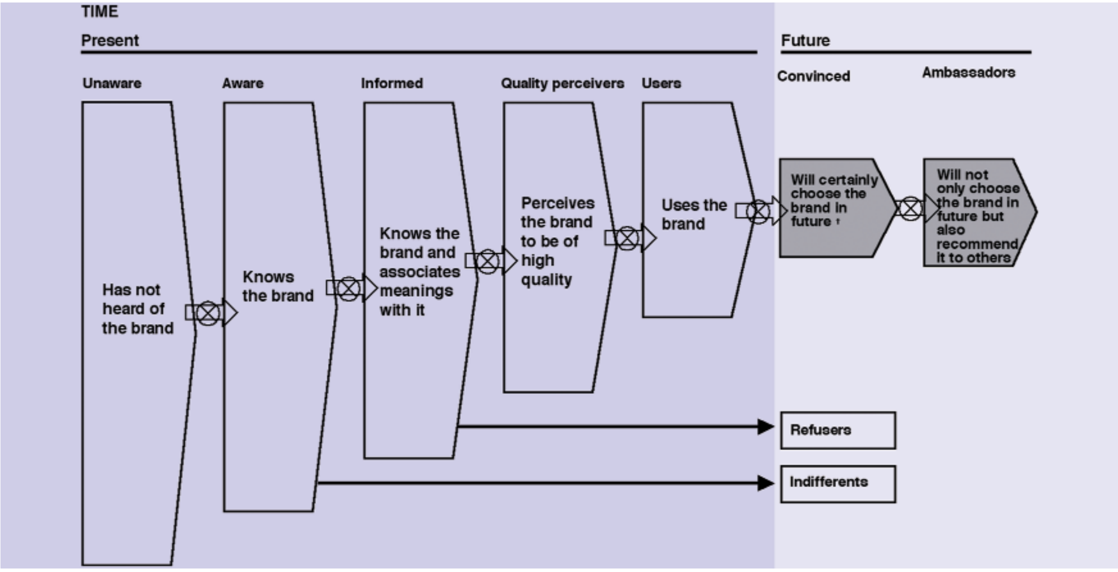
Through extensive research and work with companies from a range of different industries,

Exhibit 1: Issues in earning customer choice

I don't know who you are.
I don't know your company.
I don't know your company's products.
I don't know your company's customers.
I don't know your company's record.
I don't know your company's reputation.
I don't know what your company stands for.
Now – what was it that you wanted to sell me?

Source: McGraw-Hill's "Man in the chair" advertisement

Exhibit 2: The customer choice chain*
The chain is made up of people grouped according to their relationship with the brand



* This framework was first identified in 1994 following extensive research in France involving 300 brands, 3,000 consumers, and 78 key brand and population parameters. *See* Patrick Duquesne and Lars Finskud, "Légitimer la prime de marques," *La Revue des Marques*, 1995, Number 9, pp. 31–3.

† "Convinced" customers break down further into "exclusive convinced" (those who will certainly choose this brand and this brand only in the future), "disloyal convinced" (those who will certainly choose this brand in the future, but will also choose competing brands), and "virtual convinced" (those who haven't yet used the brand but will certainly do so in the future).

we have developed a number of insights that form the basis for a more structured approach to earning customer choice. We believe it will help managers understand *which* initiatives should be applied *where* to achieve the greatest impact on performance, and so help them develop more robust and powerful brand and business strategy.

1. There is a quantifiable customer choice chain for every brand.

The chances that people will choose a particular consumer brand range from near-zero for a brand of which they are unaware to near-certainty for a brand that they purchase again and again without fail. Between these two extremes lie a series of intermediate stages through which consumers may pass on their way to making a purchasing decision. The idea of grouping people according to the stage they have reached in their relationship with a brand can be represented visually in the form of a "customer choice chain" like that illustrated in Exhibit 2.

This customer choice chain structure has been validated through our experience with hundreds of brands and thousands of consumers, in several countries and industry sectors, over a number of years. Once it has been populated with data, it acts like a snapshot showing how many people reside at each successive stage at a given point in time. Managers can use it to assess their brand's absolute and relative performance and help them analyse *why* individuals reside at any given stage in the choice chain and what motivates them to move along it in either direction.

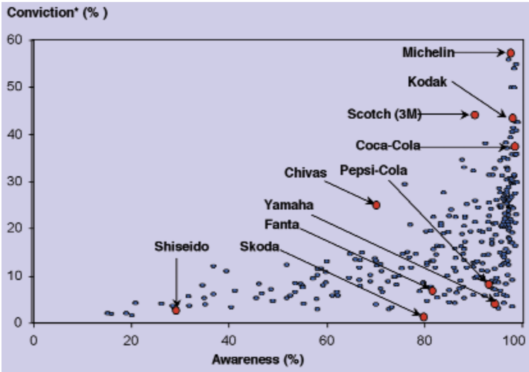
But snapshots don't give us a moving picture. In reality, choice chains are dynamic, and the choice chain is in constant flux. People move along the chain as they become "convinced" – especially if management applies the right levers – but there is also a natural tendency for consumers to flow back along the chain: for instance, from "convinced" to "users". To counteract this tendency, even the best-known consumer brands have to keep up their marketing and promotional activities. If Coca-Cola stopped advertising (unthinkable though that might seem), its huge reservoirs of "convinced" consumers would gradually deplete. So companies have to put in a lot of effort simply to retain the status quo; they have to run just to stand still.

Incidentally, we were intrigued to discover that more than half of the brands we examined generate more "refusers" – people who will certainly *not* choose the brand – than convinced choosers. Quite a few of these brands are likely to have poor returns on their brand-building investments. Although it may not be possible to avoid generating refusers altogether, managers should take steps to keep the numbers as low as possible to minimise negative word of mouth and enable investments to be focused on more receptive segments.

2. Awareness does *not* correlate with brand choice.

The next insight overturns a common misconception. Managers often judge a brand's success by the level of awareness that it enjoys, whether prompted or spontaneous. But it turns out that awareness isn't a

Exhibit 3: Awareness versus conviction



* Certain future choice of the brand ("If I should purchase this type of product I would definitely choose this brand") Source: Megabrand, France, 1994

Exhibit 4: Comparing customer choice chains in fast foods
Canada, general population, 1999, scaled to 1,000
Drop-out rates shown in *italics*

	Aware		Informed		Quality perceivers		Users		Convinced	Retention ratio*
Burger King	953	*–25%*	719	*–31%*	493	*–54%*	229	*–58%*	96	10%
Harvey's	886	*–28%*	639	*–19%*	516	*–54%*	237	*–56%*	105	12%
KFC	909	*–18%*	746	*–37%*	472	*–36%*	303	*–65%*	107	12%
McDonald's	985	*–17%*	819	*–41%*	481	*–5%*	456	*–62%*	173	18%
Wendy's	884	*–25%*	662	*–13%*	578	*–53%*	269	*–47%*	142	16%

* "Convinced" as a percentage of "aware"
Source: Print Measurement Bureau, n = 7,473

valid measure of either brand or business performance. Although the average consumer will be aware of a brand before making a conscious decision to choose it, there is no correlation between the number of "aware" consumers and market share. Far from being an end in itself, awareness is only the first step along the choice chain.

As Exhibit 3 shows, many brands with high levels of awareness, such as Pepsi-Cola, Fanta, and Skoda, nevertheless score low on the scale of certain future choice, or conviction.

High awareness coupled with low market share is far from unusual. Consider the dot-coms that in their heyday lavished millions of dollars on advertising campaigns. Most of these campaigns generated temporary awareness, but failed to produce actual customers. The companies didn't pay enough attention to understanding how to earn customers' choices; nor did they appreciate the time it takes not only to build awareness, but to move consumers through successive stages to become users and regular choosers of a brand.

3. Conviction is the key performance metric.

Future cash flows are driven by the number of customers who will choose and pay for a company's brand tomorrow and on into the future – the "convinced" consumers. Not surprisingly, our research shows that a strong correlation exists between convinced users of a brand and its market share.

Unfortunately, the fact that market share is the manifestation of consumer choice is not yet widely acknowledged. The implications for business are profound. Many managers talk about market share and competitive advantage in the abstract, without any clear idea of how to compete for consumers' choices in reality. They don't understand how the choice process works for their brand, which external factors influence it, and what management initiatives can be brought to bear to turn potential purchasers into convinced customers. Until they make an explicit causal link between market share and consumer choice, the factors that drive the performance of their business will remain a "black box" to them.

Troubleshooting performance

So how can the customer choice chain help managers get a better grip on brand performance, and work out how to improve it?

At a basic level, a company's individual choice chain can be analysed in detail across demographic segments, regions, and so on. In addition, it can be used as a benchmark to measure performance against competing brands, as illustrated in Exhibit 4, which reveals, for instance, that McDonald's has the highest retention ratio among the five fast-food companies examined in the Canadian market.

More important, the choice chain enables managers to monitor brand performance and set objectives and aspirations over time. Although comparisons with rival brands rank as "nice to have" information, it is managers' understanding of the workings of the system and the choice processes within it that yields the most valuable and productive insights.

The customer choice chain for Harvey's from Exhibit 4, for instance, might prompt management to ask: Why does the brand start with a reasonably high awareness level – 886 out of 1,000 people – yet end up with just 105 convinced customers? What are the hurdles preventing people from moving along the choice chain?

On a more positive note, Harvey's enjoys a relatively high ratio of quality perceivers. If we look at McDonald's, we can see that it suffers from a high drop-out rate between "informed" and "quality perceivers": 41% as against 19% for Harvey's. However, McDonald's performs much more strongly at the next stage in the chain: once people become quality perceivers, the vast majority (all but 5%) move on to become users. Harvey's, by contrast, suffers big losses at this transition: more than half of its quality perceivers don't become users.

So what could a company like Harvey's do with this kind of information? The organisation had been debating whether it needed to open more outlets to increase its reach. But closer analysis revealed that distribution wasn't the problem. Rather, Harvey's needed to improve "values fit" in the young adult segment to stimulate greater usage.

Identifying untapped growth potential

When we helped a $450 million US personal care brand use the choice chain framework to reassess its performance, it discovered that unsuspected growth potential could be found even in unpromising market conditions.

The company had retained the same market share for a decade in a stagnant market. Though it had launched a number of initiatives to reinvigorate growth, none had had much impact. A detailed analysis of how consumers chose brands and churned between them revealed a market that below the surface was highly dynamic. Most consumers in this category stayed with one brand for between four and six years before switching to another. The main reason for switching was a perceived change in consumers' needs, although some high-volume users were changing to private labels.

Having established a clearer picture of consumer behaviour, we then focused on three aspects of the choice process: attracting new customers (and hence increasing penetration in the market), boosting usage among existing customers (and hence increasing the relative share of requirement) and retaining customers (keeping them in the franchise and discouraging them from switching). To identify where growth potential might lie, we analysed the likely effect of achieving marginal improvements in each of these three areas within a few well-defined customer segments.

Our main finding was that the company was paying too little attention to outswitching. Most management efforts were devoted to getting consumers into the franchise and boosting penetration. No one had looked at which customers were churning, or how many, or why, or where they were going. Through benchmarking, we established that reducing outflows to match the "best in class" achieved by competitors would generate millions of dollars in incremental sales.

However, improving retention was only one of the opportunities open to the company; there was also scope to make substantial gains in penetration and share of requirement. All in all, the customer choice chain analysis revealed that the company possessed untapped growth potential worth a total of more than $100 million over four years.

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To manage brand and business performance effectively, executives need a robust framework that takes into account the dynamics of customer choice in a rapidly changing environment.

The choice chain enables management to identify the drivers of their company's performance and to develop their own best practices rooted in the specifics of their business and market conditions.

We believe that a deep understanding of choice processes can yield unexpected new insights and identify previously neglected sources of value.

Above all, it provides a secure platform for making better-informed strategic decisions.

This article is an edited extract from *Competing for Choice* by Lars Finskud, published by Vola Press in autumn 2003. Lars Finskud is managing director of Vanguard Strategy, a specialist brand strategy consulting firm. For more details, visit *www.competingforchoice.com.*