

Brand Policy and Brand Equity

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Section 5, “Valuing Brand Equity” is only available in printed form in the periodical Symphonya, Emerging Issues in Management. (See “Subscription” in the Symphonya menu.)

1. Brand Equity and Intangible Assets

1.1 Intangible Assets in Business Economics

In today's economies, companies do battle in global markets characterized by highly intense competition and an abundance of offerings. In saturated over-supplied markets, basic product use characteristics are being constantly improved and offered at ever lower prices and in quantities over and above the capacity for market absorption. Physical product characteristics tend to become standardized under such conditions and consequently lose the part they play in competitive product differentiation. The success of company strategy in highly competitive socio-economic systems is influenced by company intangible assets, that is, by sophisticated management factors that involve, according to a well-known definition, "the sum of accumulated company knowledge and the channels used to acquire information that is important to the company".

Intangible assets in business economics are thus of a double nature: as *input*, that is as the flow of information from the environment, and as *output*, the flow of information from companies outwards into the environment. Specifically, the *input* potential of intangible assets allows for the acquisition of knowledge not previously available, that is, knowledge that is necessary for subsequent improvements to company business operations. Intangible asset *input* follows from company operations designed and implemented to acquire continuous flows of data and information. Such flows are similar to what modern business information systems, which are designed for highly competitive environments, produce as a matter of course. Intangible assets that can be used by companies as *output* can involve the development of a specific company function within an organization (internal affairs), and also the creation and management of specific brand equity, which the external environment associates with certain offerings or with a company as a whole.

The intangible assets thus defined allow us to observe that "information flow exists in all developmental stages", and furthermore, that knowledge assets constitute a competitive differential wherever decisions or observations are made. From a "market driven management" perspective, intangible assets are related to information flows that exhibit important synergistic potential when they are used to improve *business culture*, *company information systems* and *brand equity*. These flows can be categorized as *internal*, *environmental* and *corporate* information flows. From a system perspective, intangible company assets can be as follows:

- *Internal information flows*: they initiate and terminate within a company and reinforce organizational culture over time. Such culture could be defined as the state of workforce motivation, management skill, the ability to manage, transfer and use information, etc. For example, the ability of a channel to process information using particular organizational structures and management skills is also an important intangible asset and has the same critical importance as a company's information system database.

- *Environmental information flows*: they flow from the environment to a company and generate intangible assets related to operations. These flows are targeted at and organized within a company's information system, and include production knowledge and skills, information about demand and information acquisition channels. It should be noted that both the information and the ability of the channels to acquire it are important intangible assets.
- *Company information flows*: these flow from a company into the environment and generate real and perceived value that certain demand segments attribute to a given company or to a particular offering. This intangible asset category is manifested in brand equity and comprises various qualities, such as company reputation, brand and company image, etc. This group also includes all accumulated knowledge and the ability of information channels to create and manage it.

In essence, intangible brand equity assets are part of a company's larger system of intangible corporate assets that influence company management success.

1.2 Intangible Assets System: Brand Equity, Information System and Company Culture

Brand equity is a critical factor in management of instability with respect to the company-demand-competition equation, and hence interacts with other intangible assets such as:

1. Company information system where its information inflows and outflows determine the knowledge-base for brand equity management.
2. Company culture, from which the guidelines for structuring information systems are defined in line with the workforce harmony and participation characteristics, which are specific for each and every company.

The critical importance of the synergistic relationship between brand equity, information systems and company culture becomes particularly evident in the ever more frequently occurring agreements and alliances that large corporations form in the interests of increasing competitiveness specifically to reduce excess supply. Examples of these agreements and alliances can be found involving VW, SEAT and Skoda; BMW, Rover and Rolls Royce; Daimler and Chrysler; Peugeot and Citroen, etc. Indeed, it is clear how the valuing of brand equity does not reduce down to simply quantifying a labeling value in large international agreements. These face values reflect highly volatile micro-indicators such as market share, the number of exclusive POS's, etc. that are valued independently of the structural characteristics of the organizations that generate them and have power over them. On the other hand, the experiences of recent years have shown that neither agreements nor mergers and acquisitions can be carried out on the basis of predominantly financial objectives without previously assessing the real potential for integrating intangible assets from the involved organizations, for example, as happened in the KLM-Alitalia alliance. Specifically, these assets are the respective cultures and information systems.

□ *On 27 November 1998, KLM Airways and Alitalia formed an alliance with the goal of creating a group capable of competing with Lufthansa, British Airways and Air France (with 260 planes, three hub cities, 39 million passengers and 3771 connections throughout the world). The agreement included the planned privatization of Alitalia by June 2000 and the barring of new alliances without the mutual consent of both sides. Additionally, KLM was to put 200 billion liras towards the new Milan-Malpensa airport hub. The merger was expected to be completed in 2002. In reality, KLM broke off negotiations on 29 April 2000 with the following statement, that "... the alliance is not feasible due to continued uncertainty concerning the future of Malpensa and the Alitalia privatization The absence of clear decisions constitutes a risk that could jeopardize KLM's financial position, profitability and the potential for finding a future partner". Italian newspapers summed it up as follows: "... the agreement between Alitalia and KLM made excellent business sense in theory. One airline is very strong on the domestic market but weak abroad and makes a good complement to the other airline which is global but without a home base In practice things turned out to be much more complicated than had been expected".*

2. Brand and Brand Equity

2.1 Trade Marks

Brands used to be defined as a "name, term, insignia, symbol, drawing or combination of the above that sought to identify a producer's, or producers', goods or services and distinguish them from the competition" (American Marketing Association). This concept particularly focused on the *identifying function* of brands as the basis that allowed purchasers to associate a particular company with certain goods or services.

The identifying function of a brand has always been of fundamental importance in the market economy. This is the most important information element in the product choice process and above all protects products and producers from similar products offered by the competition.

In reality, however, brands are only limited to the identifying function in markets distinguished by product scarcity (i.e. when the demand for goods greatly exceeds supply), where there is significant unsatisfied demand. Indeed, unsatisfied demand conditions generate not only real competitors (intending to compete in and grow a given market, and remain there for some time), but also numerous imitators. This last group is merely imitative and often their goal is simply to create confusion in the market regarding available product brand names.

A brand's identifying function amounts to the legal foundation for the protection of a product from copying. In the context of legal protection, moreover, the distinctive element of a particular product (name, term, insignia, symbol, drawing or all of the above) does not refer to brand-name but rather to brand, or to be even

more precise, *trademark*. The identifying function therefore represents only one aspect of brand equity. In complex supply-demand markets, the mere association of product with brand-name ignores many qualities (both functional and symbolic) that demand can attribute to a product through a brand-name. In a highly competitive environment, however, these qualities become decisive factors in choice-making, and constitute the basis for *brand-name policy* management.

2.2 The Brand Concept in Business Economics

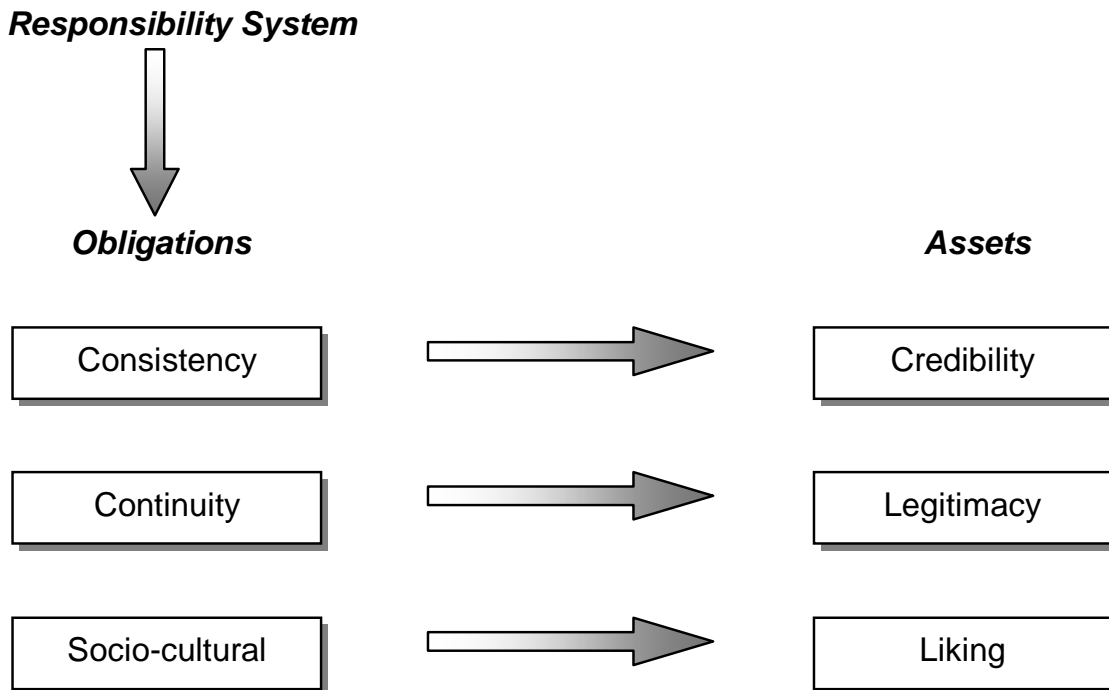
Under limited competition conditions, that is when products are differentiated by tangible factors and characteristics of non-trivial value, brand function can be limited to identification.

As competitive pressure intensifies (i.e. numerous well-differentiated products featuring mostly intangible attributes), brands tend to take on more complex functions. A brand's distinguishing role (i.e. the identifying function performed by its trademark) is, indeed, only the first part of that particular link that a brand establishes between a given supply and demand situation.

Under highly competitive conditions, a brand represents the awareness and image that a product has managed to establish with a defined segment of the population. Seen in business economic terms, it can be defined as "*a specific relationship created within a given market for the promotion of a particular product*". The specific existing relationship between a brand and a given market indicates the functional and symbolic values that product demand attributes to the product through the brand. These values make up "product or service recognition".

A brand signifies the history of a product both in terms of real growth and experience gained through demand. Seen in this way, a brand is the sum of assets allocated by an enterprise to the competitive market process and, in particular, the investments dedicated to developing knowledge of and relationship with the market. A brand ties a given product to the specific expectations of defined demand segments. Therefore, along with identifying a product, it delivers on a promise. More specifically, a brand expresses a set of demand expectations while at the same time defining a *responsibility system* with respect to the public from the supply standpoint (Figure 1).

Figure 1: Brand as a relationship link: the responsibility system.



Source: S.M. Brondoni, A. Di Gregorio, *Brand Equity e politiche di marca* (1996)

From a producer's point of view, a brand imposes a multiplicity of obligations. The fulfillment of these obligations defines the nature and intensity of the relationship with a given demand. In other words, the brand tends to express a set of assets (credibility, legitimacy and liking) that in practice support a supply and demand relationship. The assets require action directed at fulfilling specific obligations: consistency, continuity as well as socio-cultural. These obligations are manifested by first, the technical characteristics and performance of a product (tangible aspects of a given offering) and second, business communication activities (intangible aspects of a given offering - of primary importance under excess supply conditions).

■ *Consistency obligations* refer to company actions designed to establish and preserve a given brand's distinctive characteristics and are aimed at developing a specific brand relationship *resource* consisting of the *credibility* of special product characteristics. Saturated and highly competitive markets feature a large number of products that are available in quantities in excess of the potential for demand absorption. Hence, every product looks for its own competitive growth space and tends to uniquely characterize itself. Under these conditions, qualifying a certain product (or establishing that specific relationship defined by the brand) is the *result* company decisions and competitive action. Indeed, companies and their direct competitors, generate actions and reactions that reflect upon a product's distinguishing traits and credibility. Consequently, consistency obligations pursue

brand relationships through supply and demand over space and time. Hence, they tend to support a consistency profile that is suited to fighting competitors' attacks.

Within an operating profile, brand credibility results from uniform targeting by all sales/marketing, institutional and organizational communication tools (integrated company communication) aimed at highlighting a product's distinguishing features. Taking company communications as an example, the role of advertising (often crucial for some product types) requires precise planning through the consistent use of face-to-face selling, sales promotions, sponsorships, publicity, fairs, shows as well as direct marketing.

In a more general sense, brand consistency obligations refer to the harmonious use of marketing mix action parameters. Actually, consistency cannot limit itself to the communications mix and must be extended to pricing, distribution and product policies. Indeed, an offering's intangible elements derive ever more frequently from communications and marketing factor synergies. Taking the distribution channel as an example, franchised stores located in different cities use logos as tools that directly convey a brand claim, and therefore also the consistency obligation of the relationship between supply and demand.

■ Continuity obligations refer to the necessary conditions in order to maintain a brand's relationship with a specific market, both qualitatively and quantitatively. With respect to the latter (quantity), continuity obligations are connected to the number of companies able to offer substitute goods in highly developed economic systems. The availability of alternative products forces a brand to seek constant market presence in order to counter a weakening in the relationship caused by competition and preserve the identity which has been built. In short, this means developing a specific brand relationship *resource* represented by the *legitimacy* of brand presence. With respect to the former (quality) especially for established brands, continuity obligations concern the need to adapt brand values over time and space to demand expectations. This avoids radical and sudden changes to a product claim that cause confusion and disorientation in the market.

Continuity of the supply and demand relationship is the basis for ensuring a brand's *legitimacy* (i.e. rationalizing a population's habits and product selection behavior), and contributes heavily to building brand loyalty. This is understood as showing preference from amongst a number of existing products. In other words, *continuity obligations* create the conditions whereby a given brand maintains positive acceptance (regarding relationships developed with final demand or with intermediate demand represented by sales or financial middlemen).

■ Lastly, the responsibility system represented by a brand takes the form of *socio-cultural obligations*. These influence the way in which a given brand ties itself to a defined market and, more generally, to the environment. As economic systems evolve, choices are less and less determined by the satisfaction of basic needs and more determined by complex and multi-faceted expectations (requirements). Moreover, demand is less and less a passive part of business strategy and tends to play an active role on the basis of the convictions and values it embodies.

Today, brand responsibility is, therefore, characterized by specific *socio-cultural obligations*. These obligations are the interpretation of the values contained in a specific socio-cultural context, and consequently lead to the development of suitable *emotive resources* that are the basis for rational and unconscious motivation in determining brand preference.

* * *

In summary, marketing and communication policies put demand expectations into focus and define the lines of action to take in order to build a relationship with the objective market and face competing products.

The qualification of a brand as the relationship between a product and a given demand, highlights the fact that intangible product attributes are now dominant with respect to tangible product attributes in the decision and choice-determining process.

Lastly, a company must describe a brand responsibility system in order to build a lasting relationship in the sense of determining the loyalty conditions to a particular brand. This means singling out the specific obligations that affirm product credibility, legitimacy and liking.

2.3 Identity, Perception and Brand Equity

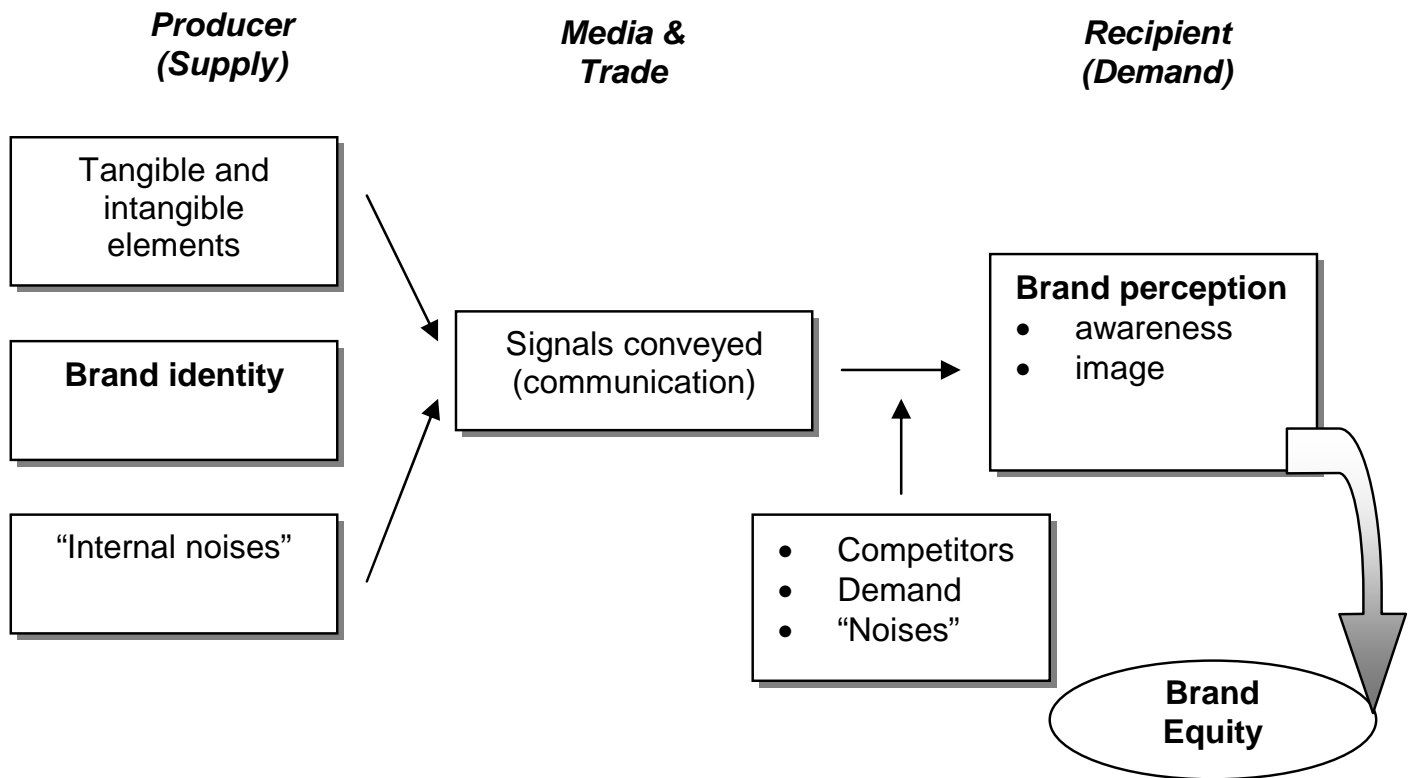
The definition of a brand as a specific relationship leads us to consider it as a time-limited result of the *responsibility system* achieved by a company through the application of certain *obligations* aimed at developing specific *resources*. In relation to demand, brand embodies the level of perception (awareness) and type of acceptance (image) of a product with respect to the competition. A brand satisfies demand expectations (in accordance with the depth of the supply-demand relationship) that come from companies, their competitors, customers and environmental factors (noise).

As described previously, the development of a *relationship with a given market* expresses the concept of brand in a business-economics context. It also assumes a precise definition for the concepts of *brand identity*, *brand perception* and *brand equity* (Figure 2). No specific relationship with a defined market exists in a new brand-name launch phase. However, market introduction means that distinctive relationship factors become more specific and fixed while losing freedom and flexibility: in other words, the brand relationship begins to define itself.

Brand-building assumes above all that a precise identity is defined in relation to the determined qualification characteristics for a product, and that the product can become successful due to various factors. These factors include product characteristics, the evocative effectiveness of the brand name and corporate name, a product's geographic and historic roots and advertising messages, etc. The planned qualification qualities shape brand identity in every way, i.e. "*the distinctive product characteristics that a company sets out to communicate to a given population*" and maximize the expected benefits (in terms of awareness and image) with respect to implementation costs. As we can see in Figure 2, setting a brand identity profile objective comes before brand perception on the market.

Indeed, reaching a certain brand perception – associated with defined levels of credibility, legitimacy and liking – requires precise definitions of what brand identity should be and the actions that contribute to achieving that identity.

Figure 2: *Brand identity, perception and equity.*



Source: Adapted from J.N. Kapferer, *Strategic Brand Management* (1992)

A product tends to take on its own distinctive profile for a given market location. As a consequence of the degree to which a company guides this plan, a product profile takes on "a specific form in terms of both quality and quantity in relation to demand". This is the definition of *brand perception*. It can even differ considerably from the desired brand identity (in terms of both quantity elements regarding awareness and quality elements regarding image). In other words, brand identity planning and the implementation of programs aimed at maintaining the planned development of that identity over time and space lead to particular results in terms of brand perception and constitute the foundation of brand policies. A brand's perception profile also comes from tangible product attributes, even if these attributes (especially when product supply exceeds demand) tend to be less important than intangible product attributes in the demand choice process.

Furthermore, three factors are forcing companies in advanced socio-economic systems to place greater focus on communication signals transmitted by the media, trade and finance providers: the rising complexity of product usage, interrelationships that characterize value and choice. Inconsistent messages make

actions aimed at maintaining brand image and awareness useless. Finally, brand profile is also qualified by behavior that is external to the company (Figure 2).

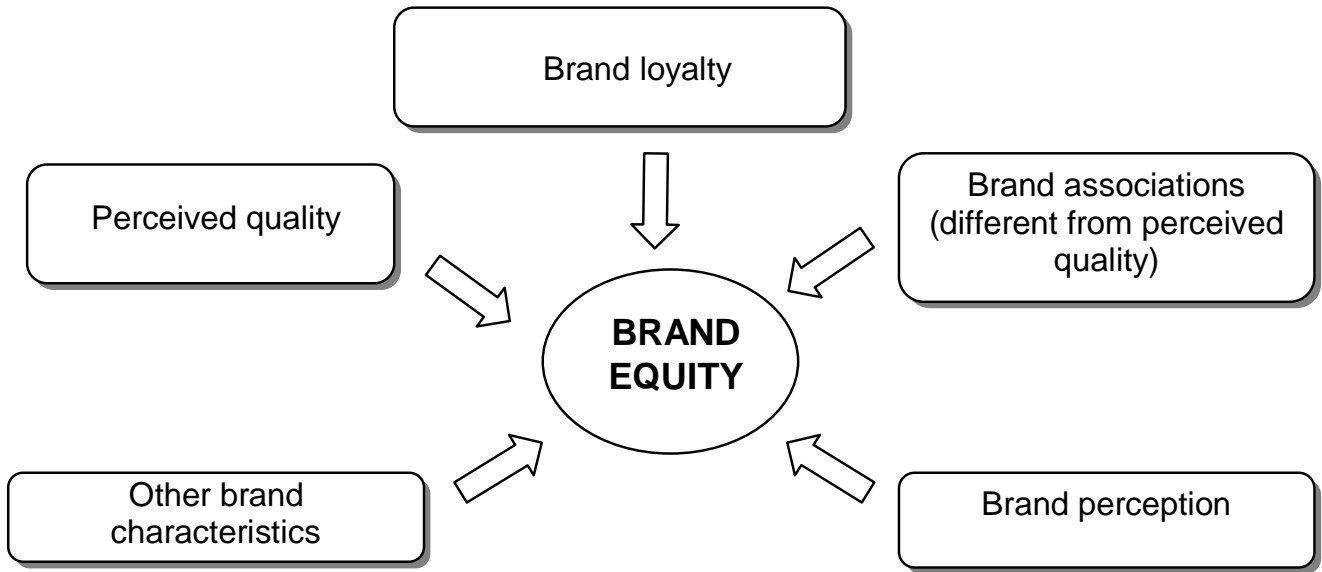
The following are amongst these external players:

- In particular, *competing companies* that send antagonistic signals in order to establish their own product identities.
- *End-user demand* is often considered as a passive block. However, economies generating high levels of information tend to influence brand identity qualification and constitute a source of qualification regarding other potential demand.
- Lastly, decoding brand identity can be influenced by noises that come from the socio-economic environment. Irreversible trends in the environment and contingent situations reflect on demand and contribute to shaping the keys used to understand the various aspects.

In short, a specific relationship with a given market assumes consistent brand identity aimed at beating the competition and combating environmental noise. (Consistency means avoiding the sending of signals influenced by what the competition does or in response to chance opportunities). Brand perception as seen through the fundamental elements of awareness and image, reaches a specific steady-state relationship with a particular market and shapes *intangible assets* that hark back to the concept of *brand equity*.

Brand equity can be defined in a business-economics context as “*the state, at a given moment “t”, of the relationship between a defined offering and a given market*”. In other words, brand equity expresses brand value *under operating conditions*. Brand equity shapes the value, at a certain time, of brand perception (awareness and image) that has been established given a specific demand value (see Figure 2). Hence brand equity assigns a value to complex intangible assets. They are made up of many contributing factors that differ in each specific situation. Such factors may be determined as: brand loyalty, brand perception, perceived quality, different associations from those making up the perceived quality evoked by a brand and, lastly, other brand-specific factors (e.g. patents, relationship with distributors, etc.) - see Figure 3.

Figure 3: *The determining factors in Brand Equity*



Source: Adapted from D.A. Aaker, *Managing Brand Equity* (1991).

Individual determining factors can help increase brand equity or they can influence it negatively, as happens with products with low perceived quality. Determining factors are also heavily interrelated, for example, brand perception is an assumed precursor to effectiveness in other determining factors. A well-known brand encourages the perception of high quality (long-term brand survival brings us to conclude that the product must be well made, just as we would assume for services). Consequently, perceived quality significantly influences brand loyalty.

In highly competitive situations, high brand equity represents a positive differential that ensures a certain stability in a company's product strategies *over time*. A brand's protective shield allows products to be constantly reinvented within an environment providing credibility, legitimacy and affection for the product - thus helping to reduce risk and uncertainty for the company. Furthermore, the presence of brands with strong personalities means that benefits (to the purchaser/user as well) go well beyond the simple values communicated by the brand. These benefits are essentially seen as the simplification of information processing, greater confidence in product selection and as brand satisfaction. In highly competitive systems, therefore, demand analysis expressed for a given market becomes essential in order to define the brand identity to pursue through suitable brand policies aimed at developing solid brand equity.

2.4 Brand Value and Brand Equity

Markets featuring excess supply are also where competitive strategies centered on intangible assets are the norm. Here the economic value of brand equity – that is to say, the value (state), at a given moment ‘t’, of a specific supply-demand relationship (brand) - exceeds the functional purpose of strategic and operating marketing and appears as a rather key element in company management. In such an environment, brand equity rationale and supporting assessment procedures take on predictable qualities. These cannot be confused with procedures and techniques used in the event of the discontinuation of well-known brands resulting from agreements, joint ventures or extraordinary action (cessation, amalgamation, takeovers or splitting out business areas or whole companies). The *Brand Value* concept is of particular importance with respect to agreements and mergers & acquisitions. In this case brand value concerns the financial *value of the transaction* in relation to the loss of control over the brand. This is, to a greater extent, representative of events that are outside a brand's competitive dynamics. The brand value concept tends to attribute value to past company events (e.g. advertising spend over previous years or historical movements in particularly positive/negative share prices) that are felt to be of particular importance in order to establish a real value to start or conclude a market transaction.

□ *“Corning’s transformation from glassmaker to high-technology concern continued yesterday when the US group confirmed it had acquired the Italian Pirelli group's fiber-optic telecommunications business unit for nearly \$3.6 billion. If the full amount were paid in cash, the subsidiary would be valued at 165 times this year’s turnover – high even by optical components industry standards”.*

Brand value quantifying methods gave rise to considerable practical and theoretical interest in Italy, especially from the end of the seventies to the end of the nineties. More recently, the emphasis on *hypothetical brand value* has tended to diminish in our country as the national jewels have disappeared from the market. These jewels comprised the medium to large sized companies that made up the backbone of Italian business and were easily identified through strong brand leadership (witness the sale of famous brands like Motta, Alemagna, Fonti Levissima, Vismara and others). In other words, companies that often had a significant lack of good management but were nonetheless attractive because they had:

1. Built noteworthy market shares with specific products
2. Been successful in sales terms in Italy
3. Other well-known brands that were sometimes over-valued in company sale valuations and hid serious problems regarding management control, marketing, information systems, logistics, etc.

Estimates of so-called hypothetical Brand Value are usually based on the assessment of events and trends external to the company (e.g. average capitalization on the Stock Exchange). They may also be based on the use of

rationalization procedures applied to an increase or decrease in value in order to determine the value of the transaction better. These brand value estimates can be used for negotiations, short-term assessments (like short-term incentive plans) or as a contribution to company or specific brand purchase/sale negotiations. However, the financial quantification of brand value does not serve any purpose when measuring a brand's competitive position, providing indications as to value continuity to company owners and company management, and to interested third parties (minority stockholders, public regulatory authorities, national and international supervisory bodies, etc.).

In modern economies characterized by excess supply and limited comparable competition, companies must nevertheless develop brand value awareness that goes beyond any potential company/brand sale. Selling a company/brand is a special situation in which brand value depends mainly on the identity of the parties involved in the transaction and their separate reasons behind the purchase/sale. Actually, brand assessment as part of *brand equity* is closely connected to the conditions regarding managerial continuity and takes on particular operating significance in a highly competitive environment.

In *brand equity*, the economic value of a brand can be taken back to a company economics concept of *Brand Equity*, that can be defined as the value (state) of the strength of the relationship that exists between a specific offering and a particular market. Brand equity is therefore connected to a whole series of *intangible* and *tangible* product attributes. Their importance for the brand can be measured in relation to various perceptions held by specific demand segments. Naturally, such quantification cannot only be measured in financial terms. The financial value of brand equity is connected to different analytical parameters, that are in turn linked to the extent of demand loyalty and customer satisfaction. Hence an estimate of Brand Equity is carried out by using indicators that relate to brand awareness and brand image strength. These indicators can, moreover, be expressed in financial terms through procedures that take into account the necessary financial resources for the various operating areas. This is carried out in order to decide on brand management policies on a quantitative basis, and more generally, to express comparative values (uniform in terms of time, space and product classes) for the cost/benefit impact of positioning a given brand against different levels of competition.

* * *

The assessment process for Brand Equity referred to a specific brand – as previously illustrated - expresses a much-simplified reality that only has a place in capitalist socio-economic environments. Here competitors confront one another with basic values and companies produce a single product and operate in a single market.

In today's world, where companies are characterized by multiple products (often from different commodity classes), Brand Equity value should be based on a complex management process where the following points need to be considered:

1. A selection of brands, with specific and different brand equities.

2. The different development profiles of the brands from the same company (with both positive and negative interactions), both at brand name level and in terms of the relationship between the corporate name of the company and the individual brand name of the product.

The full offering from a company (and even more so in groups of companies) means that the brand policy for a whole series of products needs to be examined. This is carried out in order to check the effects of complex brand management on the brand equity for each offering and on the Brand Equity of the company as a whole (corporate brand equity).

3. Brand Policies

Brand equity management requires the regular assessment of brand awareness and image. This assessment can be made with positioning perception *maps* to show the various features with respect to competitive offerings and is aimed at identifying:

- 1) Specific *attributes* associated with the various demand segments for the different brands.
- 2) The *target* for each individual brand.
- 3) The *circumstances* and *use* that differentiate the various offerings.
- 4) Similar *competitive offerings* in each market.

The specification of these four elements is at the heart of the brand policy and brand identity to be determined.

In reality, different brand policies can be formulated with reference to the *intensity* and the *nature* of the claims made by a brand, that is, the *responsibility* that binds an offering to specific demand. Three main brand policies can be identified, and they are respectively: *product-brand*, *range-brand* and *umbrella-brand*.

3.1 The Product-brand Policy

The product-brand policy sees a direct connection between a brand and a specific commodity. This is how a close connection is formed, whereby a brand name means a specific claim that can only be satisfied by a particular product or service. In European markets, typical examples are to be found in relation to household detergents, mineral water and oral hygiene products.

The adoption of specific brands for different offerings in multi-product companies means at least two important benefits:

- It allows for distinct positive/negative associations for individual products.
- Different market segments can be covered where it has been decided to make specifically targeted offerings.

The main limitation with this brand policy concerns the extent of the resources required to support different product-brands, especially given intense long-term

competition. In particular, the external communication expenditures needed for sales and institutional purposes (i.e. advertising, product publicity and PR) need to be very high to ensure continuity and consistency. The expenditure level for each specific offering is set so as to remain above the effectiveness threshold, that is, the minimum level below which any communication would be useless. Consequently, a product-brand policy assumes a total demand spread that is sufficiently wide to permit extremely fine segmentation and, at the same time, allows for suitable segment sizes to justify the investments required.

3.2 The Range-brand Policy

Product-brand policy refers to a single offering, whilst range-brand policy refers to a group of products that together make the same claims. We are therefore in reality talking about a series of offerings that come together to form a specific relationship. Individual goods can therefore be given a name that comes from their product class and that allows them to be identified. When a company manages many different product lines, the range-brand policy is often on several levels. For example, this often occurs in the cosmetics world, where different products are offered within a single range-brand (therefore, with a single claim) that corresponds to different lines, that are in turn divided into specific classes of product.

The range-brand policy has specific benefits:

- A company is freed from the creation of a *specific relationship* by the life of a given commodity. This is very useful when product life cycles are fairly brief. A brand thus becomes one of the main factors supporting new offerings that still need to be in line with the basic claim made by the range-brand.
- The achievement of significant synergies at a sales communication level and especially for advertising and sales promotion directed at the trade and the end consumer (because of the potential to repeat respective basic claims over a period of time).

The adoption of a range-brand policy has the following limitations:

- Most importantly given a very wide product range, a brand may lose initial appeal and weaken those associations that determine buyer choice in the potential demand.
- A product that belongs to a range but is of inferior quality can generate a negative image over the entire offering.
- Contrary to the above, a particularly innovative product may not find the right place in the market due to influence from qualifying factors from other products in the range.

3.3 The Umbrella-brand Policy

The umbrella-brand policy is different from the range-brand in so far as the kinds of products associated with it belong to very heterogeneous types of commodities. The umbrella-brand sets out to support a general claim related to a high level of awareness and a strong image that is independent of the ideas associated with specific product classes. An umbrella-brand policy therefore requires suitable activities in order to create and make the specific claims for each product clear. The umbrella-brand policy, for example, has been a key factor in the international success of Japanese corporations. The big Japanese multinationals often concentrate on giving a strong and unique range claim to very heterogeneous products that are spread over many national markets (normally heavily oriented towards import-export and accompanied by massive information penetration).

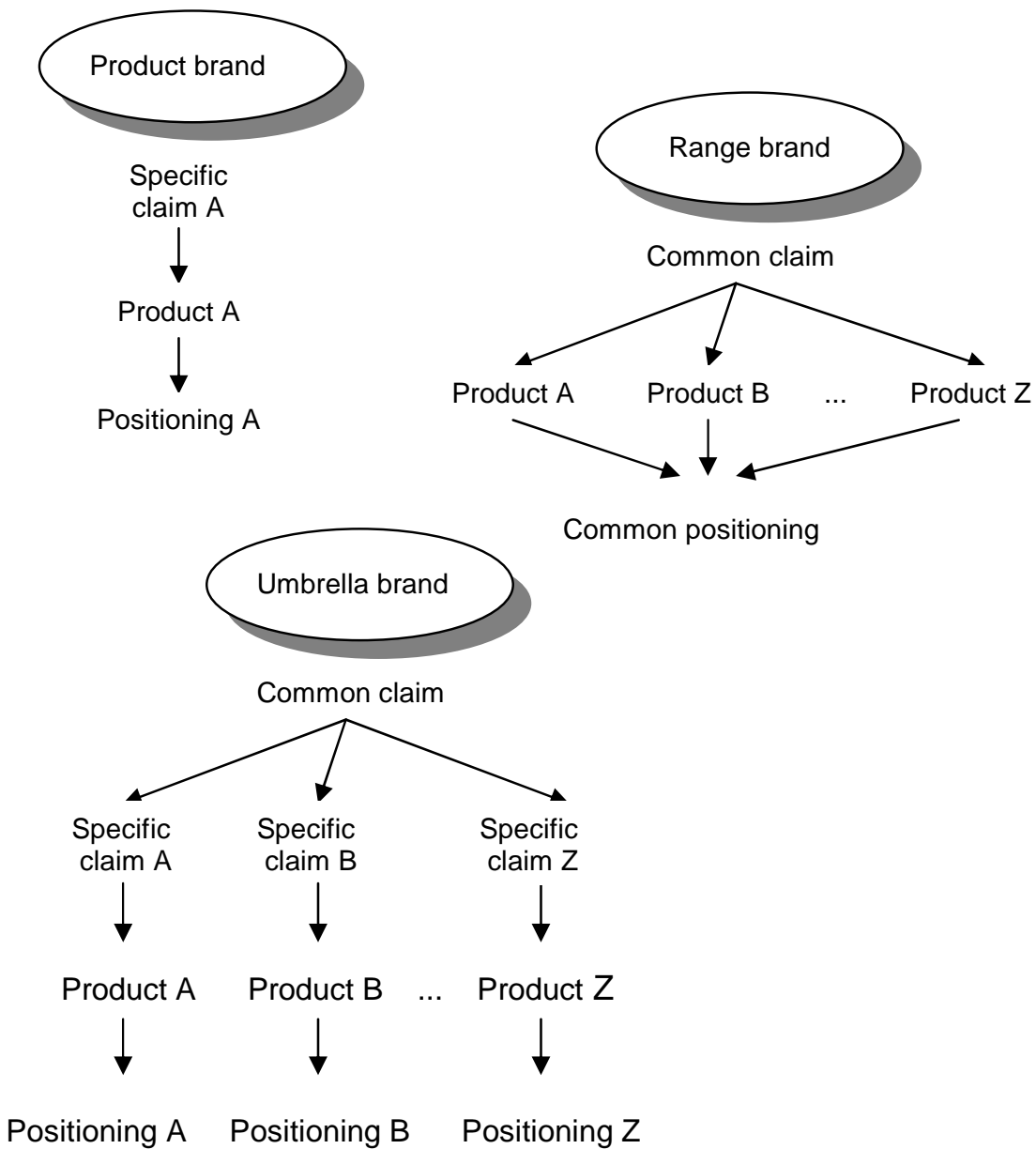
The main benefit of adopting an umbrella-brand policy lies in the bias towards marketing policies supported by diversification processes in the business. Awareness of the umbrella-brand considerably reduces new product launch costs even if a specific claim for a new product is still needed, especially when such products belong to new commodity types for the company. Multinational companies derive specific benefits from an umbrella-brand policy: first, the launch of a new product in a new national market is made all the easier by virtue of awareness in other markets, and second, the expenditure required for brand promotion can be charged over a wide product umbrella (that is, the part that regards a given product and a specific market).

When an offering is very diversified, a well-known umbrella-brand is particularly beneficial, even if there is a risk of making the distinctive features of the brand appear banal. Excessively extending the umbrella-brand concept may weaken those distinctive features that ensure brand assertions through consistency and credibility. An umbrella-brand is often accompanied by other range-brands and/or product-brands. In this case, it would therefore be more appropriate to consider it as a kind of *brand policy-guarantee* as brand identity can be separate but nevertheless ensures cohesion and credibility for the different offerings it is associated with.

□ *An example of brand policy-guarantee and range-brand is to be found in the Kinder and Ferrero brands. Kinder represents a typical range-brand extended to a range of products that nevertheless are assured of a guarantee of a corporate nature when associated with the Ferrero brand.*

* * *

Figure 4: Brand policy: claim-positioning structure



Source: S.M. Brondoni, A. Di Gregorio: *Brand Equity Management. Brand leveraging.* (1998)

Figure 4 shows the brand policies described above. All of them have the aim of developing a brand in order to form and maintain a *relationship* with a given market – a definite final demand, specific intermediary demands and specific competitors – or simultaneously over several markets as for umbrella brands.

Brand policy in highly competitive markets cannot be aimed at pursuing a solid brand loyalty goal (as if it were a *static goal*, to focus on in the relationships between supply and demand). In such markets, where sales and financial intermediaries play active, independent roles, brand policy is typically identified

with a company's management of *dynamic stability* within the market (where the relationship is based on a series of loyal and "disloyal" behavior types). This is a relationship that is, by definition, anything but static, since the structure and intensity of competition generate strength and force a certain direction to be taken. This direction then determines the dynamism and instability conditions in the relationship between supply-demand.

The dynamic stability of relationships with specific markets is a distinctive feature of brand policy in highly competitive economic systems. In such markets, a brand with a strong image is a fundamental continuity factor for company business. Companies need to face competitive conditions based on time as a factor (*time-based competition*) and on increasingly shorter new product development and introduction cycles. Competitive conditions tend to considerably destabilize choice processes and hence substitute loyalty (repetitive identical behavior) with attracting loyalty (repetitive non-identical behavior, that is, loyal and disloyal) with respect to the brand. On the other hand, a product associated with a claim that undergoes frequent changes does not allow for the complete demand learning process to take place. This is a process that is needed in order to clearly define the responsibility system that brand identity "wants" to assert. In other words, dynamic stability with a market is the essence of modern brand policy. It is also the basis for supporting Brand Equity that acts as the connection with continuous innovation policies for a tangible product, supply as a whole or the production-commercialization process.

4. The Brand Portfolio Policy

Many factors contribute to increasing the number of brands managed by a company. These factors include the development of the operating coverage area, company growth, amalgamation and purchasing processes, agreements, alliances and joint ventures, and lastly, the increasingly active, direct role of intermediary demand (trade and financial intermediaries) and final demand. Demand in the more sophisticated economic systems is generally split into functional and symbolic demand that cannot be satisfied by a single claim, that is, the responsibility system represented by a single brand. In an environment split amongst supply-demand relationships, there is a need to use different brands to match competitive offerings.

□ *The L'Oréal group, founded in 1907, today has an extensive portfolio of brands, including Garnier, Lancome, Vichy, Helena Rubinstein, Biotherm and Cacharel.*

There are many multinational companies with extensive brand portfolios, for example, 3M (*Scotch, Scotch Brite, Post-it*), Lever, Procter & Gamble and Philip Morris. Philip Morris in particular can be looked on as a prime example as it controls companies (such as Kraft, General Foods, Jacobs Suchard, Miller Brewing Company) that in turn operate with a similarly wide number of brands.

Figure 5: Philip Morris Companies Inc. - Brand Portfolio – 1999

Tobacco			
<ul style="list-style-type: none"> ▪ Marlboro ▪ Benson & Hedges ▪ Virginia Slims ▪ Merit ▪ Parliament ▪ L&M ▪ Chesterfield 	<ul style="list-style-type: none"> ▪ Lark ▪ Cambridge ▪ Basic <p>Selected Int. Brands</p> <ul style="list-style-type: none"> ▪ Apollo Soyuz 	<ul style="list-style-type: none"> ▪ Bond Street ▪ Caro ▪ Diana ▪ F6 ▪ Kazakstan ▪ Klubowe ▪ Longbeach 	<ul style="list-style-type: none"> ▪ Multifilter ▪ Muratti Peter Jackson ▪ Petra ▪ Philip Morris ▪ SG ▪ Vatra
Food			
<p>Grocery Aisles</p> <p>Beverages/Coffee</p> <ul style="list-style-type: none"> ▪ General Foods International Coffees ▪ Maxim ▪ Maxwell House ▪ Sanka ▪ Starbucks ▪ Yuban <p>Soft Drinks</p> <ul style="list-style-type: none"> ▪ Capri Sun ▪ Country Time ▪ Crystal Light ▪ Kool-Aid ▪ Tang <p>Post Cereals</p> <ul style="list-style-type: none"> ▪ Alpha-Bits ▪ Banana Nut Crunch ▪ Blueberry Morning ▪ Cinna-Crunch Pebbles ▪ Cranberry Almond Crunch ▪ Frosted Shredded Wheat ▪ Fruit & Fibre ▪ Golden Crisp ▪ Grape-Nuts ▪ Grape-Nuts O's ▪ Great Grains ▪ Honey Bunches of Oats ▪ Honeycomb ▪ Honey Nut Shredded Wheat 	<p>Dry Desserts</p> <ul style="list-style-type: none"> ▪ D-Zerta ▪ Jell-O ▪ Minute brand tapioca <p>Dry Grocery</p> <ul style="list-style-type: none"> ▪ Baker's chocolate and coconut ▪ Calumet baking powder ▪ Ever Fresh fruit preservative ▪ Oven Fry coatings ▪ Shake 'N Bake ▪ Sure-Jell, Certo, MCP and Slim Set fruit pectins <p>Ethnic Foods</p> <ul style="list-style-type: none"> ▪ Taco Bell dinner kits, salsa and meal components <p>Meals/Side Dishes</p> <ul style="list-style-type: none"> ▪ Kraft macaroni & cheese and other dinners ▪ Kraft pasta salad ▪ Minute rice ▪ Stove Top stuffing mix ▪ Stove Top Oven Classics ▪ Velveeta shells & cheese 	<p>Processed American Cheese</p> <ul style="list-style-type: none"> ▪ Kraft Cheez Whiz ▪ Kraft Deli Deluxe ▪ Kraft Singles Velveeta <p>Cream Cheese</p> <ul style="list-style-type: none"> ▪ Philadelphia ▪ Temp-Tee <p>Other Cheeses</p> <ul style="list-style-type: none"> ▪ Athenos ▪ Di Giorno ▪ Hoffman's ▪ Polly-O <p>Dairy Products</p> <ul style="list-style-type: none"> ▪ Breakstone's sour cream and cottage cheese ▪ Breyers yogurt ▪ Jell-O yogurt ▪ Knudsen sour cream and cottage cheese ▪ Kraft dips Light n'Lively low-fat cottage cheese, yogurt <p>Ready-to-Eat Desserts</p> <ul style="list-style-type: none"> ▪ Jell-O ▪ Kraft Handi-Snacks 	<p>Pizza</p> <ul style="list-style-type: none"> ▪ California Pizza Kitchen ▪ Di Giorno ▪ Jack's ▪ Tombstone <p>Selected International Brands</p> <p>Cheese</p> <ul style="list-style-type: none"> ▪ Dairylea ▪ Eden ▪ El Caserio ▪ Invernizzi ▪ Kraft Cracker Barrel ▪ Kraft Lindenberger ▪ Kraft Singles ▪ Kraft Sottilette ▪ Philadelphia P'tit Québec <p>Coffee</p> <ul style="list-style-type: none"> ▪ Blendy ▪ Carte Noire ▪ Gevalia ▪ Grand'Mère ▪ Kaffee HAG ▪ Jacobs ▪ Krönung ▪ Jacobs Monarch ▪ Jacques Vabre ▪ Kenco ▪ Maxwell ▪ Maxim ▪ Nabob

<ul style="list-style-type: none"> ▪ Natural Bran Flakes ▪ Oreo O 's ▪ Pebbles ▪ Raisin Bran ▪ Shredded Wheat ▪ Shredded Wheat 'n Bran ▪ Spoon Size Shredded Wheat ▪ Toasties ▪ Waffle Crisp ▪ 100%Bran <p>Condiments & Sauces</p> <ul style="list-style-type: none"> ▪ Bull's-Eye barbecue and grilling sauces ▪ Kraft barbecue sauces ▪ Kraft mayonnaise ▪ Miracle Whip ▪ Kraft Sauceworks horseradish and sandwich spread <p>Confectioneries</p> <ul style="list-style-type: none"> ▪ Altoids mints ▪ Callard & Bowser toffees ▪ Toblerone and Tobler chocolates 	<p>Salad Dressings</p> <ul style="list-style-type: none"> ▪ Good Seasons mixes ▪ Kraft ▪ Seven Seas <p>Snacks</p> <ul style="list-style-type: none"> ▪ Balance Bar* ▪ Kraft Handi-Snacks <p>Toppings</p> <ul style="list-style-type: none"> ▪ Dream Whip whipped topping mix <p>Refrigerated Case</p> <p>Cheese</p> <p>Parmesani Romano</p> <ul style="list-style-type: none"> ▪ Di Giorgio ▪ Kraft ▪ Kraft Free <p>Natural</p> <ul style="list-style-type: none"> ▪ Crackers Barrel ▪ Kraft 	<p>Fresh Pasta & Sauces</p> <ul style="list-style-type: none"> ▪ Di Giorno <p>Processed Meats</p> <ul style="list-style-type: none"> ▪ Louis Rich Carving Board sliced meats ▪ Louis Rich turkey products (hot dogs, cold cuts and bacon) ▪ Louis Rich hot dogs, cold cuts and bacon ▪ Oscar Mayer Lunchables <p>Picles & Sauerkraut</p> <ul style="list-style-type: none"> ▪ Claussen <p>Freezer Case</p> <p>Desserts</p> <ul style="list-style-type: none"> ▪ Cool Whip <p>Meat Alternative</p> <ul style="list-style-type: none"> ▪ Boca Burger 	<ul style="list-style-type: none"> ▪ Saimaza ▪ Splendid <p>Confectioneries</p> <ul style="list-style-type: none"> ▪ Alladin ▪ Cote d'Or ▪ Daim ▪ Figaro ▪ Freia ▪ Korona ▪ Lacta ▪ Marabou ▪ Milka ▪ Peanott ▪ Poiana ▪ Prince Polo ▪ Suchard ▪ Sugus ▪ Terry's ▪ Toblerone <p>Powdered Soft Drinks</p> <ul style="list-style-type: none"> ▪ Clight ▪ Frisco ▪ Q-Refresko ▪ Tang <p>Other</p> <ul style="list-style-type: none"> ▪ Estrella snacks ▪ Kraft Delissio Pizza ▪ Kraft ketchup ▪ Kraft peanut butter ▪ Magic Moments ▪ Miracle Whip ▪ Miracoli ▪ Simmenthal ▪ Vegemite
Beer			
<ul style="list-style-type: none"> ▪ Miller Lite ▪ Miller Lite Ice ▪ Miller Genuine Draft ▪ Miller Genuine Draft Light ▪ Miller High Life 	<ul style="list-style-type: none"> ▪ Miller High Life Light ▪ Red Dog ▪ Icehouse ▪ Hamm 's ▪ Henry Weinhard 	<ul style="list-style-type: none"> ▪ Mickey 's Malt Liquor ▪ Olde English 800 ▪ Milwaukee 's Best ▪ Milwaukee 's Best Light ▪ Meister Bräu 	<ul style="list-style-type: none"> ▪ Leinenkugel 's ▪ Southpaw Light ▪ Molson ▪ Foster 's ▪ Presidente ▪ Sharp 's non - alcohol brew ▪ Magnum malt liquor
<p>† International products available in some specialty stores and supermarkets *Acquisition pending.</p>			

Source: Philip Morris Companies Inc., 1999 Annual Report.

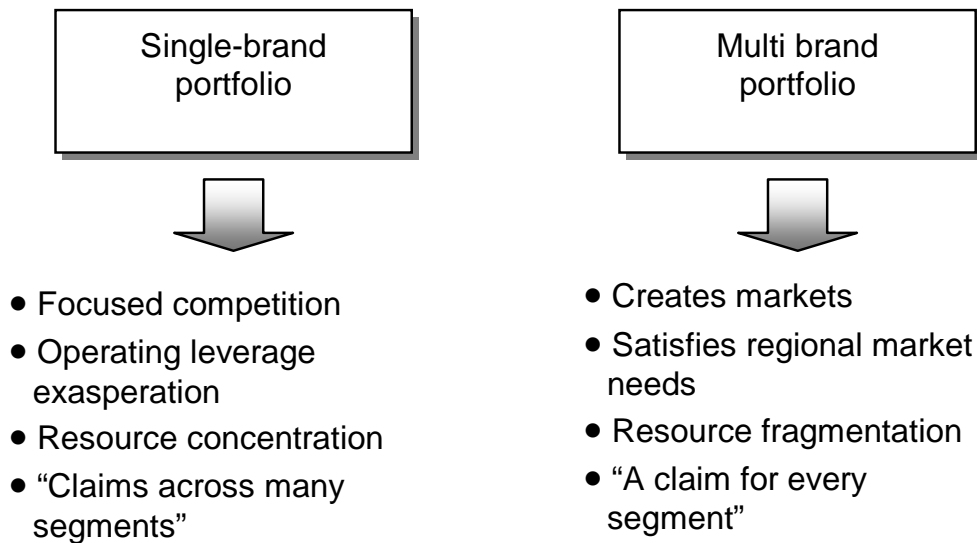
The existence of a complex brand portfolio is not just the prerogative of multinational companies that deal in fast-moving consumer goods as the phenomena also exists in the business to business and services sector. A brand portfolio should not be considered a feature of specific company cultures. Certain Japanese multinational companies, that have historically pursued a single corporate name policy, are interested in developing a portfolio of their own brands, as can be seen from developments at Toyota and the Sony Corporation.

□ *Toyota aligned itself with the famous brand “Lexus - The luxury brand of Toyota” for top range cars, set to compete with Mercedes and BMW. The Lexus Project was started by Toyota in 1983 with 24 production teams, 60 designers, 1400 engineers and 2300 specialist technicians.*

□ *Sony Corporation is a world leader in consumer electronics. The Sony brand in particular has been established in the world of video equipment, audio and television. It has maintained a claim based on innovation and mass specialization factors. The Sony Corporation began a diversification process at the beginning of the 1990's in the entertainment industry (cinema and the recording industry). It bought up consolidated brands like Columbia, Epic and Tristar. Then it went on to widen its brand portfolio by launching the brands Chaos and Tristar Music Group in the recording industry.*

Brand portfolio management is the central feature of brand management because of the high level of investment needed to allow for suitable visibility. More generally, the level of resources needed to maintain a good relationship with a given market are always very high. How can the number and strength of brand identities to establish in different markets and/or target segments be decided upon? There is no single answer. An initial idea for making a choice can be gained by analyzing the strengths and weaknesses that distinguish portfolio policies: the single-brand portfolio policy and the multi-brand portfolio policy (see Figure 6).

Figure 6: Brand portfolio limit policy



Source: S.M. Brondoni, A. Di Gregorio, *Brand Equity e politiche di marca* (1996).

4.1 Multi-brand Portfolio Policy

A multi-brand portfolio policy features *a specific brand for each demand segment*. Such a policy is consistent with a strategic focus aimed at diversification. A company sets out to characterize individual offerings and develop precise brand awareness for each of them. In other words, they target offerings to satisfy the demands of each market segment.

There are many advantages to this brand portfolio policy:

- A range of brands may be necessary in order to foster competition and create a market: a single offering does not normally satisfy broad, sophisticated demand. There are many examples of this: Philips for color TV's (the Italian market sees competition amongst group brands - Philips, Grundig and Phonola), Rossignol for sports equipment (especially with the *Rossignol*, *Dynastar*, *Kerma* and *Lange* brands) and even Philip Morris for modern fresh cheeses in Italy.

□ *Philip Morris is in the national modern fresh cheese market with the range-brand Philadelphia (Philadelphia, Philadelphia Light, Philadelphia Fantasie and Philadelphia Mousse), Jocca and Maman Louise (the last two are produced by Kraft General Foods). Direct competition includes Sitia-Yomo (with Belgioioso) and Galbani-BSN (with Fior di Certosa). Having Jocca and Maman Louise has allowed Philip Morris to improve competitiveness (Sitia-Yomo and Galbani-BSN). It has captured enough of the market to reach the minimum critical size in order to carry out suitable marketing to grow demand.*

- The multi-brand portfolio policy allows for competition involving several brands in the same market. It also allows for the commercialization of low-profile brands for tactical purposes (for example, to limit the potential for brand extension by competitors) or to defend the main brand from cut-priced attacks that could damage the image of brand leader.
- A multi-brand policy may be necessary in order to satisfy specific demands in regional markets - like Heineken in Italy.

A multi-brand portfolio also has some typical limitations:

- Individual brands need to be backed by specific promotional activity. A brand implies an awareness relationship for the specific brand demand. The claims that satisfy the need for a specific demand are important. Each brand therefore requires its own development path with specific promotional campaigns aimed at reaching set objectives in terms of brand awareness.
- The need to personalize promotional activity is offset against the need to keep costs down to amounts that are bearable, given brand profitability. In particular, a rigid brand differentiation policy reduces the potential for creating manufacturing synergies, sharing trade relations management and optimizing research and development. Furthermore, this brand portfolio policy requires enormous marketing resources for communications, and more importantly, it implies high advertising investments over the long term.
- The burden of a multi-brand portfolio policy is particularly obvious over the medium to long-term. Inadequate investment in the promotional support of diverse brands tends to cloud perception of specific brand identities, limits brand resources (credibility, legitimacy and liking) and, therefore, jeopardize the various Brand Equities involved.

4.2 Single-brand Policy

A single-brand policy is obviously in contrast to the above. Here company assets are dedicated to the growth of a single brand regardless of the number of potential demand segments. The brand could identify a product brand, a product-line brand or an umbrella-brand in this case. The advantages and limits of a single-brand policy are the mirror image of a multi-brand policy. With the potential to concentrate financial and managerial resources on a single brand identity to be transmitted to the related market, there is a limit to the focus permitted in competing across different areas with a single claim and a single system of responsibility.

□ *Coca-Cola is an emblematic case. The creation of wide-ranging, favorable brand familiarity spread over various demand areas allows for the achievement of massive management savings in relation to the vast and numerous penetrated markets. The extension over various demand areas resulted from communications consistency and constancy, the qualitative characteristics of tangible product factors and, above all, the crushing force of intangible supply factors. The marketing depth over a*

given market on a national basis and the expansion into different markets on an international basis naturally emphasize how critical the operational levers are with respect to consistency in brand mission.

In the end, an umbrella-brand policy does not completely eliminate the limits that are typical of a multi-brand portfolio policy. A single distinctive logo and a single general claim characterize an umbrella brand. However, individual products marketed under an umbrella brand can include a system of separate relationships that originated from the same brand.

□ *For example, the Japanese multinational Yamaha operates across various merchandising divisions under its corporate brand. Amongst them are the musical instrument and motorcycle divisions that compete in their markets with products of the highest technology. What perspective can render comparable the perceptions of a piano teacher and a motorcycle enthusiast? What level of awareness and brand image values can embrace such different products? What, in the final analysis, do the Yamaha-musician and Yamaha-motorcyclist relationships have in common given that their choices concern profoundly different products that nonetheless have identical brand identity profiles? In reality, there are two distinct claims, two different responsibility systems, and therefore two brands derived from a single brand, Yamaha.*

Evidently, the effects on a business that supplies resources in support and development of an umbrella-brand extending over numerous classes of products are substantially the same as for the management of a brand portfolio and present the same constraints on both financial and managerial resource allocation.

4.3 Strategic Foundations of Brand Portfolio Policy

The brand portfolio policies described above illustrate extreme conditions. Both tend to identify policy-limits that are pursuable by companies with well-characterized offerings. These are companies that aim at maintaining precise relations with demand and the competition so as to enhance the advantages of one approach or the other. The definition of brand portfolio policy strategies can be traced to a few main determinants, amongst which are competition intensity, demand complexity and the level of offering internationalization. Investments in marketing and, in more general terms, resources destined for the support of a series of brands tend to grow whenever there is highly *intense competition*. In contrast, the weaker the competition, the greater the need to create a market by concentrating company offerings over a diminished number of brands.

Consequently, it appears possible to establish a direct relationship between competitive intensity and the number of brands in a company's portfolio - within the financial limits to customer satisfaction. Furthermore, detailed demand expressing differentiated needs, both functional and symbolic, emphasizes the need to strengthen various claims to be satisfied through different brands. In this respect, a needs complexity indicator can be identified through the potential to

efficiently divide demand into segments. It is for this reason that a direct relationship can be claimed to exist between the number of recognizable segments in a specific demand and brand portfolio complexity.

Finally, the *internationalization* of offerings leads away from competition intensity and demand complexity. Product presence in numerous national markets leads to the search for significant differential advantages through intangible assets, which tend to capitalize specifically on the brand equity of international brands. Specifically, international brand policy standardization pushes for first, the concentration of resources on a few market leaders, and second, the setting of portfolio size to defend international leadership profiles. The combination of these two trends leads to the expansion of resources dedicated to offerings that compete globally, and progressively reduces the number of brands managed in a portfolio. This only leaves the potential to augment local brands for tactical purposes - such as carrying out limited sales campaigns through specific sales channels.