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Killing Me Softly...

Deleting a losing brand may be the best thing your company can do!

A recent article in the Harvard Business Review (HBR) caught my eye.[1] It discussed the need for and steps involved in deleting a brand from your company's portfolio. Here are some of the facts from the article:

- Most brands don't make money for companies. The old 80:20 rule is even more exaggerated in the consumer packaged goods (CPG) business. Many corporations generate 80 to 90 percent of their profits from less than 20 percent of their brands. For example, Nestle marketed more than 8,000 brands in 190 countries in 1996. The bulk of their profits, however, came from approximately 200 brands or only 2.5 percent of their portfolio.
- Most corporations actually lose money or barely break even on most of their less popular brands. Unilever, a company that had 1,600 brands in its portfolio in 1999, is a good example of this. Only 400 of its total 1,600 brands were profitable; the remaining 1,200 generated losses or were barely squeaking a profit.
- Many corporations don't even realize that they incur significant hidden costs when they place several brands in the same category. They actually suffer a *dis*-economy of scale. Some businesses have improved performance by deleting not only loss-generating brands but also those that are declining, weak or minimally profitable. The companies freed resources to make their profitable brands better and more attractive to customers. Thus, they were able to better serve their customers on the whole.

At this point, you may ask why more companies don't have systematic processes to comb losing brands and delete them from brand portfolios? Unfortunately, it is not as easy as simply discontinuing any investment in a brand and allowing it to die a natural death. If the brand deletion is done improperly, the company risks irritating its customers and possibly causing a desertion from its other brands – a ripple effect.

Brand killing is a difficult process for several reasons:

- Political reasons include brand managers whose status is reduced if their portfolio declines, brands that cannot be easily differentiated in terms of their positions in the global market, and merged or acquired companies struggling with their brand's turf.
- Then, there are emotional reasons. Sometimes it is as simple as the history of a brand. Many companies were founded on a flagship brand that, over the years, has unfortunately become faded or dated and is no longer profitable. It may be that the brand managers fear for their jobs with brand reductions. Therefore, they "obscure" the actual revenues and expenses of an unprofitable brand. In any case, emotions can run quite high when a discussion of brand deletion arises.
- Finally, there are the oh-so-prevalent problems with having the right information from which to make a well-informed decision.

The remainder of this column deals with this particularly thorny issue and the ways in which business intelligence (BI) can help solve it.

The HBR article provides substantial detail in terms of how companies can decide if they have too many brands and how to "prune" the underperformers. The author continues to say that this process is difficult because it is so subjective, open to differing interpretations and perspectives, and many times results in long and acrimonious debates. He recommends that these decision-makers "fill in their best guesses if the data on brand level profitability are not available...." This is where I started to get squeamish.

The difficulty he describes in the decision-making process is caused by a lack of reliable information. These corporations do not have good data about the revenues and costs of their individual brands. In addition, the quality of the data is questioned while the consistency of the numbers is AWOL. Sound familiar? These are the same songs we have been singing for years and are the very justification for BI.

First, let's make sure we understand what BI is – a consistent, reliable, integrated source (a data warehouse) of brand information including sales, revenues, expenses, costs, market share, etc., to be used in analytical applications (data marts). Now, let's look at where BI can help a company determine which brands it should kill off.

1. Rank each brand according to its profitability – a relatively straightforward process with the data in place. Is the brand a cash generator, cash-neutral or a cash user? This is a heavy BI function.
2. Conduct a brand audit (see the HBR article for additional detail on how to do this) that includes the brand's global market shares, annual sales, the brand's market position (dominant, strong, weak or nonexistent), the brand's value proposition (e.g., its value, upscale-ness, fun, etc.). Again, BI plays a significant role in this step.
3. Determine the brands to keep by using one of two methods: a portfolio approach in which the retained brands conform to certain parameters (e.g., only number one or two in the markets, those that display the potential to grow rapidly, those that draw shoppers into stores) or the segment approach in which brands are retained

because they cater to all consumer segments in markets (e.g., those that appeal to a new and desirable market). The results of the BI analyses help determine the strategies here.

4. Before killing off the proposed brands, you might want to take one last look at each of the proposed brands for deletion. Make sure you understand the relationships not only of the customers to these brands but also the relationship of the proposed deleted brand to the retained brands. There may be relationships that, if interrupted, could hurt the retained brand. Is there a loyalty effect that could influence purchases of the more profitable brands? A sophisticated BI environment captures not just economic information but also these more subtle relationships.
5. Once this second look is completed, the company must decide how to delete the brand: merge, sell, milk or kill it. Communications throughout the company are crucial at this point. The results of the analyses should be socialized in the company so that everyone can see the hard, cold, indisputable facts.

It is important to note that this is not just a marketing effort that may be based on guesswork – it involves finance, sales, customer support and IT representatives. It must also be sanctioned by top management because the political and emotional issues must be resolved. Finally, while the profit numbers may be immediately affected by a brand deletion, the company will undergo a contraction from which it may take several years to recover. This must be communicated to the interested external parties such as shareholders and other investors to ensure that they understand the ultimate financial goal – that of positioning the company for profitability and future growth.

Reference:

1. Kumar, Nirmalya. "Kill a Brand, Keep a Customer." HBR, December 2003.

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