# Kellogg on Branding

*The Marketing Faculty of The Kellogg School of Management*

**Edited by**
**Alice M. Tybout**
**and**
**Tim Calkins**

**Foreword by**
**Philip Kotler**

John Wiley & Sons, Inc.

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# Foreword by Philip Kotler

In an age of hypercompetition, commoditization, globalization, and rapid technological obsolescence, marketers are struggling to find new conceptual bases on which to design and deliver their marketing programs. The haunting truth is that traditional marketing is not working. Top management now sees many mass advertising campaigns as losing money. They see sales promotion campaigns as boosting sales temporarily but being largely unprofitable. They experience direct mail campaigns as barely delivering a 1 percent response rate. Their new products are failing at a disturbing rate.

There are two answers to the marketing challenge facing today's companies. One is to know your customers better and to get closer to them. The other is to differentiate your offering through your branding work so that the offering stands out as relevant and superior in value to a clear target market.

The power of creative branding is visible to all. We are drawn to Starbucks, Harley-Davidson, Coca-Cola, Apple Computer, Singapore Airlines, Heinz, Gillette, Porsche. These companies have learned how to make their brands live in customers' minds and hearts.

Branding is much more than attaching a name to an offering. Branding is about making a certain promise to customers about delivering a fulfilling experience and a level of performance. Therefore, branding requires that everyone in the supply chain—from product development to manufacturing to marketing to sales to distribution—works to carry out that promise. This is what is meant by "living the brand." The brand becomes the whole platform for planning, designing, and delivering superior value to the company's target customers.

The Kellogg School of Management enjoys its ranking as the number-one business school and the number-one marketing department due to its relentless research and teaching regarding what helps companies become superior performers in the marketplace. We have taught the principles and practices of marketing and branding to countless generations of MBA students who are now plying their craft in the world's leading companies.

In this book, we offer our version of what goes into brewing successful brands. We have invited our experts to describe the foundations of branding, the strategies for building and leveraging brands, and the task of moving from strategy to implementation. As a *coup de grâce*, we have asked market leaders to describe their actual experiences in developing and marketing their brands.

Most companies take the easy road to marketing their brands by buying a lot of expensive advertising, making cliché claims, and spending lavishly on sales promotion. We see branding instead as the foundation of deep market planning. We offer this book as a treasure trove of ideas for bringing new life to your brands.

# Preface

Prior to 2003, the Kellogg School of Management didn't offer any courses or executive education programs on the topic of branding. The issue wasn't that the faculty thought branding was unimportant. Rather, we thought branding was *so* important and encompassing that it was incorporated into almost every marketing class and executive education program offered by the school. So when people asked for a branding program, they were directed to consumer marketing, or business-to-business marketing, or another course based on their specific situation and need.

This changed in 2003, when the Kellogg School decided that the time was right to launch a program focused solely on issues related to branding. Interest in branding was high and growing, as companies recognized the critical role brands played in driving profitable, long-term growth. More important, it was clear that executives were looking for help on the specific topic of creating and managing brands. Many managers understood that brands were essential, but they didn't know where to turn for skills in this particular area. With this in mind, the Kellogg School introduced a new executive education program, Kellogg on Branding.

Response to the program was remarkably strong; the first sessions quickly sold out, and the participants were excited about the material. As we explored this response, we learned two things. First, branding is becoming a focus for more and more companies. The managers in our first sessions of Kellogg on Branding were remarkably diverse; they came from the pharmaceutical, financial services, apparel, building materials, and technology industries. Our participants included lawyers and doctors and teachers. Many of these individuals were being asked to think about brands for the first time. Second, while the world is full of branding agencies and branding books, there are few resources that combine academic theory and practical application. These two insights inspired us to develop this book.

## OVERVIEW

*Kellogg on Branding* is a book for managers who are responsible for creating and building brands. It is also a book for managers who are not directly responsible for branding decisions but want to deepen their understanding of and ability to support their firm's brand-building initiatives.

The book offers key theories and insights related to branding. It is unique because it combines theory and practice. The authors are both academic scholars from the Kellogg School of Management's marketing department and seasoned brand-builders from industry who are part of the larger Kellogg community. Together these authors present a diverse set of perspectives on branding—a rich conversation with multiple voices and views. The book is unified by a common belief in the power of brands.

*Kellogg on Branding* begins with an overview of the challenges confronting brand managers. The remainder of the book is organized into four sections. Section I, Key Branding Concepts, covers three topics. First, Alice Tybout and Brian Sternthal discuss the concept of brand positioning, which is the specific intended meaning for the brand in consumers' minds. Understanding a brand's positioning is the first task for most managers; it is difficult to make headway with a brand until you understand what you want the brand to be. Second, Bobby Calder presents brand design—the process of translating a positioning into a product—which includes important topics like name, colors, and graphics. Third, John Sherry reviews brand meaning and explains how brands begin to take on associations that are shaped partly by the company and partly by the consumer. These three chapters form a logical progression; a manager should first create a positioning, then design the brand, then track and monitor the brand's meaning in the market. Based on in-market learnings, the manager may then decide to revise the positioning or design.

Section II, Strategies for Building and Leveraging Brands, addresses issues related to managing brands in a dynamic environment. Greg Carpenter and Kent Nakamoto present the concept of customer learning and discuss how an understanding of learning processes can be leveraged when building either a pioneer brand or a later entrant. Bridgette Braig and Alice Tybout review approaches to leveraging an established brand through launching line and category extensions. Finally, Tim Calkins explores the challenges associated with managing a portfolio of brands over time.

Section III, From Strategy to Implementation, covers a diverse set of topics. The section starts with two chapters on brand communications. Brian Sternthal and Angela Lee provide an overview of developing effective brand

advertising, and Ed Malthouse and Bobby Calder explain how customer relationship management (CRM) can play a role in building relationship brands. The next three chapters cover branding in specific industries. James Anderson and Greg Carpenter review branding in the business-to-business environment. Amy Ostrum, Dawn Iacobucci, and Felicia Morgan look at branding in services industries. Mohanbir Sawhney discusses branding in high-tech organizations. Scott Davis then describes how managers can bring a brand to life inside a company. Finally, Don and Heidi Schultz highlight why measuring the value of brands is important but challenging and present three approaches for doing so.

Section IV, Branding Insights from Senior Managers, is a collection of insights from senior corporate executives, each with years of experience building and growing brands. The first four of these chapters focus on issues related to building brands in consumers' minds. Mark Goldston, chairman, CEO, and president of United Online, presents the story of building the NetZero brand, which successfully challenged much larger, better funded Internet service providers and established a strong market presence in a mere five years. Mark Shapiro, principal at the New England Consulting Group, discusses why frame of reference is such an important part of a brand's positioning and illustrates creative ways to leverage the frame of reference. Carol Bernick, chairman of the Alberto-Culver Company, describes the importance of brand names and offers illustrations of successful and unsuccessful naming efforts. Betsy Holden, president of global marketing and category development at Kraft Foods, discusses how to combine the best of global and the best of local marketing to create brands that thrive around the world.

The final three chapters focus on building the right brand culture within the organization. Gary Mecklenburg, president and CEO of Northwestern Memorial HealthCare, highlights the role of culture in building a hospital brand. David Coolidge, vice chairman of William Blair & Company, describes how his company built a financial services brand through its people. Ed Buckley, vice president of marketing at UPS, and Matt Williams, senior vice president at the Martin Agency, review how UPS used branding to drive organizational change.

## How to Use This Book

This book is designed so that it can be used in several ways. Someone new to the topic of branding will likely benefit from reading the foundational chap-

ters in Section I first and then moving on to more specialized topics. Those with a background in branding may approach the book with a specific topic or goal in mind. There are six themes that cut across the book.

The first theme is *brand positioning*. A reader interested in this topic should begin with Brand Positioning (Chapter 1) and Competitive Brand Strategies (Chapter 4). The concepts in these chapters are further developed with an emphasis on consumer goods in Marketing Leverage in the Frame of Reference (Chapter 15), Building Brands through Effective Advertising (Chapter 7), and Using Positioning to Build a Megabrand (Chapter 14). For those interested in brand positioning in a business-to-business context, Brand Strategy for Business Markets (Chapter 9) is an appropriate follow-up.

The second theme is *brand design*. Here, Designing Brands (Chapter 2) provides a foundation and Brand Portfolio Strategy (Chapter 6) elaborates on this topic. Finding the Right Brand Name (Chapter 16) complements these chapters.

The third theme is *brand meaning*. The chapter on Brand Meaning (Chapter 3) provides a broad overview of the range of meanings that may be associated with a brand. Building Global Brands (Chapter 17) then illustrates the challenge of understanding and adapting brands to cultural differences around the globe.

The fourth theme is that of *leveraging a brand*. This concept is introduced in Brand Positioning (Chapter 1) and is elaborated in Brand Extensions (Chapter 5) and Brand Portfolio Strategy (Chapter 6). Using Positioning to Build a Megabrand (Chapter 14) provides a detailed illustration of the growth of the NetZero brand.

The fifth theme is that of *creating a brand-driven organization*. Two chapters, Services Branding (Chapter 10) and Building a Brand-Driven Organization (Chapter 12), make a compelling case for the role that employees play in creating brands. The general points outlined in these chapters are further developed in Branding and Organizational Culture (Chapter 18), Branding and the Organization (Chapter 19), and Internal Branding (Chapter 20).

Finally, three chapters offer guidance on *measurement* issues. Designing Brands (Chapter 2) suggests ways to assess whether a brand design embodies the intended brand concept. Building Brands through Effective Advertising (Chapter 7) discusses the adequacy of various measures for evaluating the effectiveness of brand advertising. Finally, Measuring Brand Value (Chapter 13) presents three approaches to calculating the value of a brand.

Throughout the book, the authors offer frameworks, checklists, and other tools to assist the manager. We hope that these tools will be useful and that the perspectives will be thought-provoking to all who share our fascination with brands.

ALICE M. TYBOUT
TIM CALKINS

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Many individuals contributed to this book and warrant our thanks. It is impossible to mention everyone who helped, but a few people stand out.

This book is a product of the entire Kellogg School community. The faculty embraced the project and readily agreed to participate. Our executive contributors took time from their busy schedules to assemble thoughtful and insightful chapters. Kellogg School of Management Dean Dipak Jain was supportive of the project from the start. The marketing department administrative team provided invaluable assistance, as they do every day. James Ward and Subarna Ranjit deserve our special thanks. Judy Piper and Peggy Morrall kept the first Kellogg on Branding executive education programs on track. Perhaps most important, our students in the MBA and executive education programs gave us both insight and inspiration.

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The entire book benefited from the deft touch of Patty Dowd Schmitz, who reviewed and edited each chapter and provided invaluable feedback with directness and sensitivity.

Above all, we thank our families for their support and encouragement.

A.M.T.
T.C.

**INTRODUCTION**

# The Challenge of Branding

TIM CALKINS

In August 2003, more than 100,000 leather-clad bikers rumbled into Milwaukee, Wisconsin, to celebrate Harley-Davidson's one-hundredth birthday. For three days, the city was transformed into a massive biker–birthday party; there were concerts and festivals and celebrations, including a parade featuring more than 10,000 motorcycles. Harley-Davidson aficionados traveled from 47 different countries to attend the event.

The birthday celebration was a powerful demonstration of the strength of the Harley-Davidson brand. Harley-Davidson isn't unique because it makes good motorcycles; there are many companies in the world that make good motorcycles. Harley-Davidson is unique because it has a powerful brand that connects with its customers. The brand transcends the product.

More broadly, the Harley-Davidson birthday celebration was an example of the power of brands to create customer loyalty and insulate companies from competition. By building strong brands, companies can build strong businesses. Harley-Davidson, for example, has delivered exceptional financial results—2003 was the eighteenth consecutive year of revenue and earnings growth for the company.

A brand is a set of associations linked to a name, mark, or symbol associated with a product or service. The difference between a name and a brand is that a name doesn't have associations; it is simply a name. A name becomes a brand when people link it to other things. A brand is much like a reputation.

The Coca-Cola brand, for example, has associations including cola, refreshment, red, the Real Thing. The Dom Perignon brand brings to mind celebrations, luxury, champagne, France, and expensive. Las Vegas quickly conjures up gambling, fun, shows, and sin.

Brands are not always a positive; associations can be positive or negative.

One-time energy giant Enron, for example, has associations including financial mismanagement, fraud, and bankruptcy due to its 2001 implosion into financial scandal. Similarly, ValuJet, a discount airline, developed associations including dangerous, reckless, and poor maintenance after one of its planes crashed in the Florida Everglades.

Virtually any type of product or service can be branded; brands are not just for luxury goods or consumer packaged goods. Indeed, it is difficult to come up with a product or service where brands don't play a role. There are hundreds of brands of water, including Evian, Perrier, Dasani, and Aquafina. Medical device and pharmaceutical companies have built strong brands, developing associations in the minds of patients and health-care professionals—Viagra, Lipitor, Vioxx, and Claritin are all brands with clear associations, some positive and some negative. Business-to-business companies have developed exceptionally powerful brands such as McKinsey, Goldman Sachs, and Baker & McKenzie. Entertainers are brands; the Rolling Stones, Britney Spears, and Andrea Bocelli all bring clear sets of associations. Nonprofit organizations are brands, religious groups are brands, and every person is a brand.

## BRANDS AND PERCEPTION

Brands have a remarkable ability to impact the way people view products. Consumers rarely just see a product or service; they see the product together with the brand. As a result, how they perceive the product is shaped by the brand.

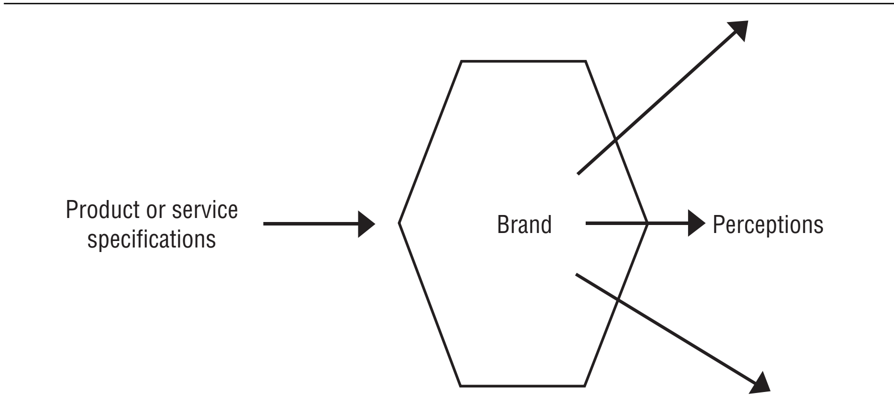
Perceptions, of course, matter most—how people perceive something matters far more than the absolute truth. The question generally isn't which product or service is best; the question is which product or service people *think* is best. Is Dom Perignon the best champagne in the world? Does Tiffany sell the finest diamonds in the world? Does McKinsey do the best strategic thinking? Perhaps so, perhaps not; however, many people think so, and perceptions matter most.

The presence of a well-known brand will dramatically affect how people view a product or service. If people see a premium brand name on a product, they will likely view the item as high quality, exclusive, and expensive. If people see a discount name on a product, they will probably perceive the item to be low quality and cheap.

Brands function like prisms (Figure I.1); how people regard a branded product is shaped both by the actual product, such as specific features and attributes, and by the brand. The brand can elevate or diminish the product.

To demonstrate the power of a brand to shape expectations, I conducted a

**Figure I.1**
**Brand Prism**




simple study with MBA students. I first asked a group of students what they would expect to pay for a pair of good-quality, 18-karat-gold earrings with two 0.3-carat diamonds. I asked a second group of students how much they would pay for the same earrings, only this time I added the words "From Tiffany." I asked a third group the same question, but this time changed "From Tiffany" to "From Wal-Mart."

The results were striking. The average price for the unbranded earrings was $550. With Tiffany branding, the average price increased to $873, a jump of almost 60 percent. This increase was solely due to the addition of the Tiffany brand. With the Wal-Mart branding, the price expectation fell to just $81, a decline of 85 percent from the unbranded earrings and a decline of 91 percent from the Tiffany-branded earrings.

The study highlights the power of the brand to shape perception. "Good quality," for example, means something entirely different when it comes from Tiffany rather than from Wal-Mart. In addition, the experience of wearing earrings from Tiffany is different from the experience of wearing earrings from Wal-Mart. The distinction between the brands is not just conspicuous consumption; you can't tell a Tiffany earring from a Wal-Mart earring from a distance.

## BRANDING CHALLENGES

Branding looks easy. Nike is a powerful brand. Starbucks and Pepsi and Goldman Sachs and Steinway are all distinctive and well known. Building a brand appears to be straightforward; a manager just needs to come up with a good name, an attractive logo, and a catchy slogan.

In reality, creating and building brands are two of the greatest challenges a manager will face. For every Starbucks or Nike, there are dozens and dozens of failed brands. Even well-known and respected brands stumble. The branding graveyard is full; it includes notables such as Oldsmobile, Pan Am, pets.com, ValuJet, Chiffon, Yugo, Chemical Bank, MarchFirst, PaineWebber, and many, many more.

In 2003, I did a study to understand the challenges of branding. I interviewed over 30 brand leaders from a range of industries, including consumer packaged goods, technology, health care, and financial services. Each executive I spoke with had at least five years of experience building brands. In total, the group had over 200 years of experience.

The executives all believed in the power of brands, and agreed that branding was exceptionally difficult. They highlighted very similar challenges. While the precise dynamics differed by industry, the core issues were the same. Three key challenges emerged from the study: *cash, consistency*, and *clutter*. These are the "three *C*'s" of branding.

## Challenge 1: Cash

The challenge of cash, or dealing with short-term financial concerns, is the biggest single challenge brand leaders face. It is driven by a very simple conundrum: Executives need to deliver short-term financial results, but brands are long-term assets. Executives who hit quarterly profit targets are rewarded, and those who exceed them are often rewarded handsomely. Although it is important to make headway on long-term initiatives such as building a strong brand, hitting the short-term financial targets matters most. As one of my former colleagues at Kraft Foods noted frequently, "Good numbers don't guarantee your success, but bad numbers will get you every time."

Brands are long-term assets. If managed properly, a brand can live for decades or centuries. For example, Harvard, Moet & Chandon, and Pepsi were created in 1636, 1743, and 1898, respectively. All of these brands continue to be vibrant and valuable today.

Virtually all of a brand's value resides in the future; the current-year financial returns are a very small part of the total. If a brand delivers a steady stream of cash flow in perpetuity, less than 5 percent of the value of the brand resides in the first year, assuming a discount rate of 5 percent.

However, if a manager is forced to choose between investing in a brand and missing short-term financial targets, most managers will choose to hit the short-term numbers. It's usually the career-optimizing decision. And in a supreme bit of irony of business, a manager who boosts short-term profits

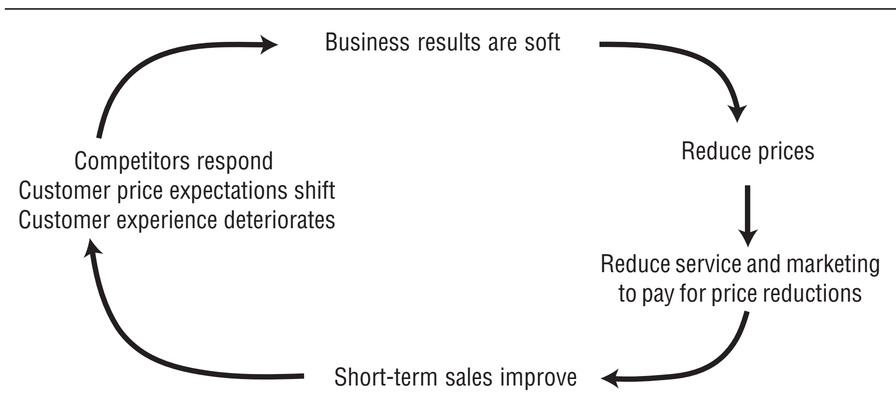
while damaging the long-term health of a brand is often rewarded, while a manager who invests in a brand at the expense of short-term results is often penalized. The cost-benefit analysis on a brand-building initiative highlights the tension. The benefits are difficult to quantify, uncertain, and in the future. The costs are quantifiable, certain, and immediate.

It is astonishingly easy for brands to get caught in a "branding doom loop." The doom loop begins with a manager struggling to deliver a short-term profit target. To boost sales and profits, the manager deploys programs that have a significant short-term impact, such as a price promotion. To fund these programs, the manager reduces spending on programs with smaller short-term returns, such as brand-building programs. These moves are usually successful in improving short-term results, and with better results, the manager survives to fight another day.

However, the plan that was so successful in the short run may well have created negative long-term issues. First, the plan might prompt a competitive response. Second, customer pricing expectations may shift, as customers are now accustomed to the promoted prices. A buy-one-get-one-free offer is motivating and exciting the first time, and perhaps the second time. But eventually customers come to expect it, so companies must cut prices further to create excitement and drive sales. And third, the brand may weaken because brand-building programs were cut. (See Figure I.2.)

Combined, these factors put the brand in a weak position, with disappointing sales. And this, of course, forces the manager to implement more short-term programs, continuing the doom loop and sending the brand into a dangerous downward spiral.

**Figure I.2**
**Price Promotion Doom Loop**



Dealing with short-term financial constraints, then, is one of the most critical challenges of branding. Managers must balance driving short-term numbers with building a long-term brand. Without understanding the challenge of cash, executives undertaking branding programs are certain to encounter trouble. They will invest in their brand without setting proper expectations, and if short-term results are weak, these managers may not survive in their position long enough to see the benefits of their investment.

### Challenge 2: Consistency

The second great challenge of branding is consistency, or getting an entire organization to embrace the brand and live up to the brand promise over time. Crafting the perfect brand positioning and developing the ideal brand portfolio are both noble tasks. However, if the organization doesn't understand, believe in, and *own* the brand—if the message, the brand, and the product are not consistent—the vision will remain unfulfilled.

Brands are created through a wide range of touch points; every time customers interact with a brand they form associations. This means that almost everyone in a company has an impact on the brand, from the receptionist to the advertising manager to the customer service representative.

One marketing executive put it this way:

> A brand is the feel of your business card, the way the company's phone is answered, the assistant coordinator who's had one too many after work yet has handed out her business card while at the bar, the disgruntled salesman who complains to his family and friends that the company he works for is really ripping people off for big profits on the products he sells, the tone of a letter, the employee who doesn't help the customer, the vice president who tells too rude a joke in an inappropriate setting, the package that's almost impossible to open, the receptionist at the corporate office who continues to chat with a fellow worker when a customer arrives, an over-long wait at the cash register, the instructions that are too hard to follow…I could go on and on. The brand is every touch point and every thought the customer has about the brand.

The Starbucks brand, for example, was not built through advertising. Indeed, the company did virtually no advertising for its first 30 years in the market. Starbucks was built through a series of outstanding experiences at store level. People developed a loyalty for the Starbucks brand, and this loyalty was created by dozens of positive interactions with Starbucks employees.

Conversely, the Lands' End brand was damaged after it failed to live up to its brand promise. Lands' End, a direct retailer with a reputation for outstanding customer service, was acquired by Sears in 2002 for $1.9 billion. Sears quickly began selling Lands' End products in Sears stores. However, the customer service provided by Sears was poor. This disappointed Lands' End customers and tarnished the once powerful Lands' End brand.

In short, Starbucks and many other great brands succeed by offering their customers a consistent experience with their brands at every customer touch point by engaging their entire organizations. Consistency matters, and it matters at every turn.

### Challenge 3: Clutter

The third great challenge facing brand managers is clutter. Simply put, consumers are bombarded every day by hundreds and sometimes thousands of advertisements and promotions. From the moment we awake until the second we drift off to sleep, we are the recipients of messages and marketing appeals. It makes the local flea market seem positively serene.

Consider the number of media outlets now available to consumers. With satellite or cable access, people can watch over 200 different television stations. XM Satellite radio alone offers over 120 channels. There are millions of web sites to browse at every hour of the day. An exceptionally popular primetime network television show may reach 15 million people, which is only 5 percent of the U.S. population.

Breaking through this cluttered environment is exceptionally difficult. It's hard to get anyone to pay attention to your brand, and harder still to form meaningful associations.

To stand out, brands need to be focused and unique; great brands mean something distinct for customers. This is why brand positioning is so important. Almost every great brand has a clear set of associations. Wal-Mart stands for low prices. Tiffany is synonymous with luxury and exclusivity. BMW defines performance driving. Vanguard offers low-price mutual funds, especially low-price index funds. Viagra is all about erectile dysfunction. Red Bull stands for energy and excitement.

Weak brands, however, are bland; they don't stand for anything in particular, and so they mean essentially nothing. Weak brands struggle because they have no focus and they don't stand out. Sears is a weak, diffuse brand, for example; it is not particularly cheap and not particularly high quality. It's not just about tools and it's not just about apparel. Ford's Lincoln brand of vehicles has no obvious associations; it is simply another brand. Charles Schwab,

once the leader in low-cost online trading, has lost its distinctiveness; it is neither high service nor low cost.

Having a clear positioning is a good start, but it is not sufficient; brands need to be creative in the market to attract attention. Great advertising is important, but advertising alone is no longer enough, due to the high levels of media fragmentation. Marketers must identify and execute creative ideas that are unique and attract attention. Red Bull enlisted influential college students to promote its drink. BMW's Mini attached one of its cars to the roof of a large SUV and drove around major cities.

Strategic focus and out-of-the-box creativity has become essential: without both a brand will be lost in the clutter.

## SUMMARY

Brands are sets of associations linked to a name or mark associated with a product or service. The associations can be positive or negative, and anything can be branded, even water, cities, and people. In addition, brands have the ability to shape how people perceive products—they can elevate a product or diminish a product. As a result, brands are critically important; a brand with negative associations will hurt a company, and a brand with positive associations will help.

While branding looks easy, creating and building brands is exceptionally challenging. Effective brand managers must understand the challenges of cash, consistency, and clutter and focus on overcoming the issues specific to their brand.

Above all, managers must believe in the power of brands. Ultimately, brands are built by people who passionately believe in their brands. Indeed, many of the world's best brands can be linked to a single person: Howard Schultz created Starbucks, Steve Jobs built Apple, Pleasant Roland formed American Girl, Richard Branson developed Virgin, and Phil Knight was the driving force behind Nike. Brand builders understand and believe in the power of brands.

*Tim Calkins is clinical associate professor of marketing at the Kellogg School of Management and co-director of the Kellogg on Branding program. He consults with companies around the world on marketing strategy and branding issues. Prior to joining the Kellogg faculty, Tim worked at Kraft Foods for 11 years, managing branding including A.1.® Steak Sauce, Miracle Whip, and Taco Bell. He received a BA from Yale University and an MBA from Harvard Business School.*

# SECTION I

# Key Branding Concepts