

6. A branding strategy identifies which brand elements a firm chooses to apply across the various products it sells. In a brand extension, a firm uses an established brand name to introduce a new product. Potential extensions must be judged by how effectively they leverage existing brand equity to a new product, as well as how effectively they contribute to the equity of the parent brand in turn.
7. Brands may expand coverage, provide protection, extend an image, or fulfill a variety of other roles for the firm. Each brand-name product must have a well-defined positioning to maximize coverage, minimize overlap, and thus optimize the portfolio.
8. Customer equity is a complementary concept to brand equity that reflects the sum of lifetime values of all customers for a brand.

Applications

Marketing Debate

Are Brand Extensions Good or Bad?

Some critics vigorously denounce the practice of brand extensions, because they feel that too often companies lose focus and consumers become confused. Other experts maintain that brand extensions are a critical growth strategy and source of revenue for the firm.

Take a position: Brand extensions can endanger brands *versus* Brand extensions are an important brand-growth strategy.

Marketing Discussion

Brand Equity Models

How can you relate the different models of brand equity in this chapter to each other? How are they similar? How are they different? Can you construct a brand-equity model that incorporates the best aspects of each model?

Marketing Excellence

>>Procter & Gamble



Procter & Gamble (P&G) began in 1837 when brothers-in-law William Procter and James Gamble, whose wives were sisters, formed a small candle and soap company. From there, P&G innovated and launched scores of revolutionary products of superior quality and value, including Ivory soap in 1882, Tide laundry detergent in 1946, Crest toothpaste with fluoride in 1955, and Pampers disposable diapers in 1961. P&G also acquired a number of companies to open

the doors to new product categories. Among these were Richardson-Vicks (makers of personal care products like Pantene, Olay, and Vicks), Norwich Eaton Pharmaceuticals (makers of Pepto-Bismol), Gillette, Noxell (makers of Noxzema), Shulton's Old Spice, Max Factor, and the Iams Company.

Today, P&G is one of the most skillful marketers of consumer packaged goods in the world and holds one of the most powerful portfolios of trusted brands. The company employs 138,000 people in more than 80 countries worldwide and has total worldwide sales of more than \$79 billion a year. It is the leader in 15 of the 21 product categories in which it competes, has 23 billion-dollar global brands, spends more than \$2 billion annually on R&D, and serves more than 4 billion people in 180 different countries. Its sustained market leadership rests on a number of capabilities and philosophies:

- *Customer knowledge.* P&G studies its customers—both end consumers and trade partners—through continuous marketing research and intelligence gathering. It spends more than \$100 million on over 10,000 formal consumer research projects every year and generates more than 3 million consumer contacts via its e-mail and phone center. It also emphasizes getting its marketers and researchers out into the field, where they can interact with consumers and retailers in their natural environment.

- *Long-term outlook.* P&G takes the time to analyze each opportunity carefully and prepare the best product, then commits itself to making this product a success. It struggled with Pringles potato chips for almost a decade before achieving market success. Recently, P&G has focused on increasing its presence in developing markets by concentrating on affordability, brand awareness, and distribution through e-commerce and high frequency stores.
- *Product innovation.* P&G is an active product innovator, devoting \$2 billion annually to research and development, an impressively high amount for a packaged-goods company. It employs more science PhDs than Harvard, Berkeley, and MIT combined and applies for roughly 3,800 patents each year. Part of its innovation process is to develop brands that offer new consumer benefits. Recent innovations that created entirely new categories include Febreze, an odor-eliminating fabric spray; Dryel, a product that helps “dry-clean” clothes at home in the dryer; and Swiffer, a cleaning system that more effectively removes dust, dirt, and hair from floors and other hard surfaces.
- *Quality strategy.* P&G designs products of above-average quality and continuously improves them in ways that matter to consumers, including Tide compact detergents, Pampers Rash Guard (a diaper that treats and prevents diaper rash), and improved two-in-one shampoo and conditioner products for Pantene, Vidal Sassoon, and Pert Plus.
- *Brand extension strategy.* P&G produces its brands in several sizes and forms. This strategy gains more shelf space and prevents competitors from moving in to satisfy unmet market needs. P&G also uses its strong brand names to launch new products with instant recognition and much less advertising outlay. The Mr. Clean brand has been extended from household cleaner to bathroom cleaner, and even to a carwash system. Old Spice extended its brand from men’s fragrances to deodorant. Crest successfully extended into a tooth-whitening system called Crest Whitestrips that removes surface stains from teeth in 14 days.
- *Multibrand strategy.* P&G markets several brands in the same product category, such as Luvs and Pampers diapers and Oral-B and Crest toothbrushes. Each brand meets a different consumer want and competes against specific competitors’ brands. At the same time, P&G is careful not to sell too many brands and has reduced its vast array of products, sizes, flavors, and varieties in recent years to assemble a stronger brand portfolio.
- *Communication pioneer.* With its acquisition of Gillette, P&G became the nation’s largest advertiser, spending over \$2.3 billion a year or nearly twice as much as the number two company, General Motors Corp. P&G pioneered the power of television to

create strong consumer awareness and preference. In recent years, the company has shifted more of its advertising budget to online marketing efforts and social media such as Facebook, Twitter, and blogs. These efforts help infuse stronger emotional appeals into its communications and create deeper consumer connections.

- *Aggressive sales force.* P&G’s sales force has been named one of the top 25 by *Sales & Marketing Management* magazine. A key to its success is the close ties its sales force forms with retailers, notably Walmart. The 150-person team that serves the retail giant works closely with Walmart to improve both the products that go to the stores and the process by which they get there.
- *Manufacturing efficiency and cost cutting.* P&G’s reputation as a great marketing company is matched by its excellence as a manufacturing company. P&G spends significant amounts developing and improving production operations to keep its costs among the lowest in the industry, allowing it to reduce the premium prices at which some of its goods sell.
- *Brand-management system.* P&G originated the brand-management system, in which one executive is responsible for each brand. The system has been copied by many competitors but not often with P&G’s success. Recently, P&G modified its general management structure so each brand category is now run by a category manager with volume and profit responsibility. Although this new organization does not replace the brand-management system, it helps to sharpen strategic focus on key consumer needs and competition in the category.

P&G’s accomplishments over the past 173 years have come from successfully orchestrating the myriad factors that contribute to market leadership.

Questions

1. P&G’s impressive portfolio includes some of the strongest brand names in the world. What are some of the challenges and risks associated with being the market leader in so many categories?
2. With social media becoming increasingly important and fewer people watching traditional commercials on television, what does P&G need to do to maintain its strong brand images?
3. What risks do you feel P&G will face going forward?

Sources: Robert Berner, “Detergent Can Be So Much More,” *BusinessWeek*, May 1, 2006, pp. 66–68; “A Post-Modern Proctoid,” *The Economist*, April 15, 2006, p. 68; *P&G Fact Sheet* (December 2006); John Galvin, “The World on a String,” *Point* (February 2005), pp. 13–24; Jack Neff, “P&G Kisses Up to the Boss: Consumers,” *Advertising Age*, May 2, 2005, p. 18; www.pg.com; “The Nielsen Company Issues Top Ten U.S. Lists for 2008,” *The Nielsen Company press release*, December 12, 2008.