<u>Does your brand *mean* enough to diversify?</u>

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Abstract

How far will consumers let brands stretch outside their existing categories? Are some brands more elastic than others, and if so, why? Answers to these key questions are provided based on data from the 2000 wave of WPP's Brandz study. It reveals that while consumers are more receptive to brands moving to similar categories to the brand's current offering, once this effect is removed, some brands are far more elastic than others. This degree of elasticity is not related to the strength of the brand in its existing category – in fact domination of a particular category may limit brand elasticity. Elasticity seems more influenced by the attractiveness of the brand's personality and the transferability of broader values it delivers. Marketers should not be asking 'is my brand strong enough to stretch?' but 'does my brand *mean* enough to stretch?'

1. Introduction

Brand diversification is a notoriously hit and miss affair. For every successful example, such as Gillette's transformation from a brand of razors to a broader, grooming brand, there are less successful cases, such as Coca-Cola's foray into apparel in the US in the 80s. However, as brands are increasingly seen as financial assets, so the business need to exploit them will grow – and diversification is a lucrative strategy to many businesses. This seems especially relevant in the hi tech and e-commerce industry, as brands seek to exploit the expansion in technology services (e.g. IBM e-business).

So how can businesses maximise their chances of success? Many factors will determine the ultimate success or failure of the foray into new territory, such as the organisation's ability to produce a viable product or service, or the strength of the existing competition in the new category. Perhaps most crucial is consumer permission – will the consumer find the brand an attractive proposition in the new category?

This paper sets out to investigate this latter area by looking at consumers' responses to a variety of potential brand 'stretches', to try to establish some general learning about elasticity. How far can brands stretch? Are some more 'elastic' than others, and if so, what is it that drives this? Answers to these questions will clarify the key issues for marketers to consider when attempting to stretch their brands.

2. The Study

This paper details some key findings from WPP's Brandz study for 2000, conducted by Millward Brown using their proven BrandDynamics™ methodology. The Brandz study, undertaken annually since 1998, now represents the biggest database of brand equity information in the world, covering 10,000 brands, 27 countries and over 70 categories.

The Brandz study 2000 included measures of brand elasticity for 40 global brands. We investigated if they could stretch into18 different categories, in 7 countries. The key metrics of elasticity were consumer ratings of appropriateness, likely leadership of the category, and personal consideration for individual brand/category combinations. Specifically, buyers of each of the 18 categories were read brand names from outside that category, and asked which of the brands in the set they thought:

- Would be appropriate to offer a product or service in the category under consideration
- Would be likely to become a leading brand if they did offer a product or service in that category
- They would consider if the brand offered that product or service

Thus we were able to ascertain how the key people – buyers of a particular category – would respond to offerings from brands currently outside that category. We were also able to compare these measures of brand elasticity to the brand equity measures for the same brands, collected from buyers of the category in which the brands currently exist.

This paper details findings from the 40 brands and 16 categories asked about in the US and the UK. This gives us information on 640 brand/category combinations (for reasons of questionnaire length, we collected data on a maximum of 20 brands stretching into each category, and each brand was asked to stretch into 8 new categories). The brands covered in this data are listed in Figure 1

Figure 1. Brands studied

Adidas	Camel	Johnnie Walker	Pantene
Amazon	Clairol	KFC	Pepsi
American Express	CNN	Levi's	Philips
AOL	Coca-cola	Macdonalds	Shell
AT&T	Dell	Marlboro	Smirnoff
BBC	Dove	Microsoft	Sony
Body Shop	Ford	Motorola	United Airlines
BP Amoco	Gap	Netscape	Virgin
British Telecom	Heineken	Nike	Visa
Budweiser	IBM	Nokia	Volkswagen

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The categories that we asked these brands to stretch to are shown in Figure 2. We included a diverse range of brands and categories to allow us to see the maximum range of consumer permission.

Categories studied

Airlines	Motor Fuel
Apparel	News channels
Beer	PCs
Cars	Skincare
Credit cards	Softdrinks
Fastfood	Spirits
Mobile phones	Sports goods
Home entertainment systems	Telecommunication service

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In practice the three measures of consumer permission - Appropriateness, Likely Leadership and Consideration - all correlated strongly, so for the bulk of the paper we will be focusing on consumers' ratings of the 'appropriateness' of each brand making offerings in new categories.

3. Findings

3.1 Functional credentials are a key influence

The most obvious finding was confirmation of what we all intuitively know: ‘far out’ diversification is much harder than ‘close in’ diversification. In other words, consumers responded much more positively to potential new offerings if the new category required similar functional competencies to the category the brand currently operates in.

For instance, in the US, 93% of consumers said that it was appropriate for AT&T to make mobile phone handsets, whereas only 5% said it was appropriate for Dell to make liquor. Likewise, few people thought that Kentucky Fried Chicken Skincare products were appropriate, or Johnnie Walker cars.

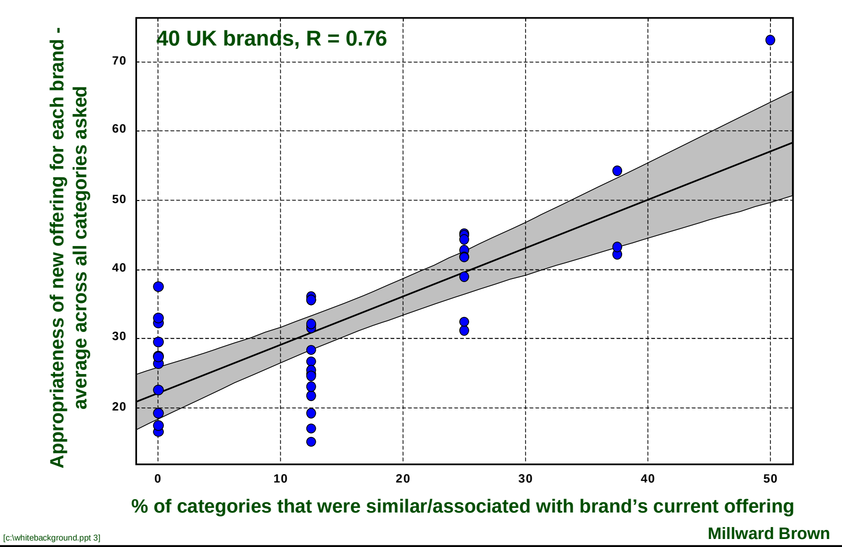
We were able to demonstrate this effect more systematically by averaging consumers’ appropriateness ratings across the 8 categories we asked each brand to stretch into. This gave us an average ‘appropriateness’ score for each brand.

We also knew how many categories we had asked each brand to stretch into that were *functionally* associated with the brand’s existing offerings, as prior to analysis, we classified each of the 640 brand/category combinations in one of three ways:

- *Similar* – cases where there is a clear functional similarity between the brand’s existing offering and the new category (e.g. Budweiser and spirits were classified as similar as they both involve the production of alcoholic drinks)
- *Associated* - cases where there is at least some existing association between the brand and the new category (e.g. AT&T and PC’s were classed as an associated combination as both involve competency with technology and data)
- *No relationship* – cases where there is no similarity or association between the brand and new category (e.g. Smirnoff and motor fuel, Levi’s and cars). These made up the majority of cases.

Figure 3 shows the relationship between the average appropriateness score for each of the brands studied in the UK, and the % of categories we asked each brand to stretch into which were functionally similar or at least associated. There is a clear and strong relationship between the two (r = 0.76), illustrating the effect of functional similarity on consumer permission. We also found a similar relationship in the US (r = 0.74)

Figure 3. Functional similarity has a strong effect on consumer permission



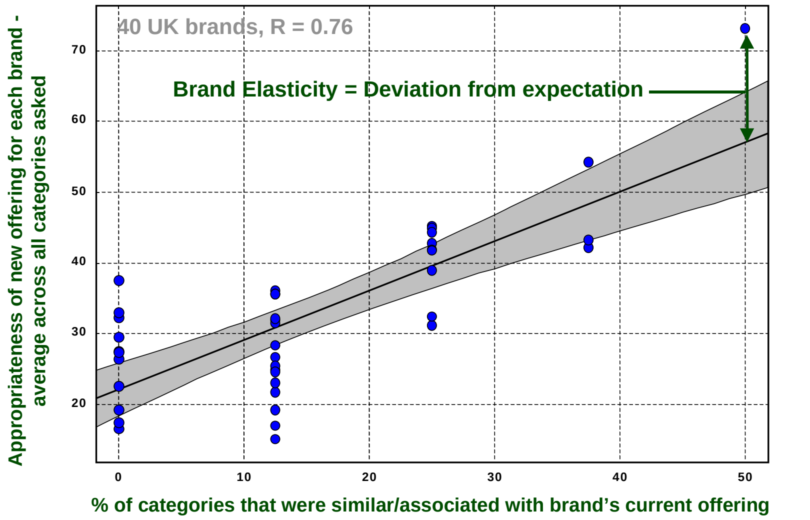
This, however, is hardly news. Marketers instinctively look towards more similar categories as candidates for brand diversification. However, further analysis revealed that there is much more to gaining consumer permission to stretch the brand than simply finding a functionally similar category.

3.2. Some brands <u>are</u> more 'elastic' than others

While figure 3 above makes it clear that functional credentials are a key influence, consumers clearly give some brands more permission to stretch than others. Simply by observation we can see that some brands tended to receive higher or lower average appropriateness ratings than we would expect, based upon the number of similar or dissimilar categories we asked them to stretch into. It was also clear that some brand/category combinations were appealing despite the brand having no existing functional credentials in that area (e.g. over half our sample of US car buyers said they would consider a Sony automobile, and over 2/3 of our sample of UK PC buyers said they would consider a Virgin PC).

To investigate this further, we created a measure of 'Brand Elasticity' which was independent of the functional similarity between the brands and the categories. We did this by calculating the deviation of each brand's average appropriateness score from expectations based on the number of similar categories it was asked to stretch into. This is illustrated in Figure 4.

Figure 4. Some brands are more ‘elastic’ than their similarity with the categories studied suggests



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On this basis, the most elastic brands that we studied in both the US and the UK are shown in figure 5:

Figure 5. The most ‘Elastic’ brands studied

US top 10	UK top 10
Sony	Virgin
Ford	Ford
Microsoft	The Body Shop
Motorola	United Airlines
The Body Shop	Volkswagen
Volkswagen	Budweiser
IBM	Sony
Magnavox	Philips
Virgin	Nike
Budweiser	Visa

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Clearly then, consumers do allow some brands greater permission to diversify than others. What contributes to this?

3.3. Brand Elasticity is linked to brand personality, broader brand values, and diversity

Examination of the brands which tended to be more or less elastic, and the brand/category combinations which consumers rated as appropriate, even when the brand had no functional credentials, led us to three conclusions:

- Brand personality plays a key role
- Brands which are founded on broader values than competence in their existing category tend to be more elastic, as these values are more transferable
- A diverse offering makes further diversification more appropriate

The influence of Brand personality

There were several cases where the fit between the brand's personality and the category seemed to be contributing to the perceived appropriateness of the brand making an offering in that category. For instance, in the US, 62% felt that it would be appropriate for Gap to offer a skincare range – whereas only 28% felt that it was appropriate for Levi's to offer a skincare range. This difference, despite both brands having a similar lack of functional credentials in the skincare category, can be traced in part to the different personalities of the two brands. Data from the brand personality questions on the Brandz study revealed that Gap's personality is seen as twice as 'sensitive' as Levi's – and sensitivity is a key attribute of skincare brands. (We also replicated this finding in the UK).

We were also able to demonstrate a systematic relationship between the *attractiveness* of a brand's personality and it's elasticity.

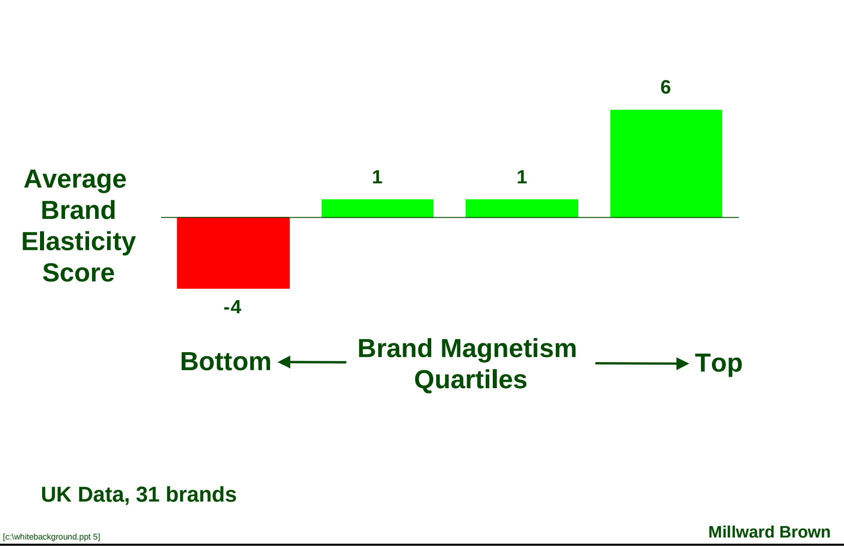
The brand personality question used in the Brandz study assesses all the brands in a consistent manner. Brand personality is evaluated along 6 dimensions (derived from work on human personality):

- Extroversion
- Sensitivity
- Playfulness
- Stability
- Conscientiousness
- Intellectualism

The way the question is asked allows us to both accurately measure the personality characteristics that each brand possesses, but also whether these traits are expressed in a positive or negative manner. By looking at the balance of positive and negative expressions of the personality traits endorsed by the respondent, we can arrive at an overall measure of the 'attractiveness' of the brand's personality, which we term Brand Magnetism.

Crucially, we found a mild but statistically significant correlation between the Brand Magnetism score and a brand's Elasticity. This relationship is shown clearly if we split the distribution of Magnetism scores into quartiles, and calculate the average Brand Elasticity score for the brands in each quartile. These results are shown in Figure 6 – it is clear that the least attractive brands tend to be less elastic, and the most attractive brands tend to be more elastic.

Figure 6. The attractiveness of the brand's personality (Magnetism) is linked to Brand Elasticity



Therefore it seems that not only does the fit between a brand's personality and the emotional needs of the new category contribute to the appropriateness of the brand entering that category, but the attractiveness of that personality also influences the overall elasticity of the brand. An attractive personality weights the dice in favour of the new brand.

The influence of transferable brand values

Examination of the elasticity of different brands also made it clear that if a brand stands for more than simply delivery of a strong product in its core category, then it may be allowed to stretch into different areas more readily – at least where the broader values it stands for have relevance.

Sony, Virgin and The Body Shop are excellent examples. Sony was shown to have strong associations with broad values such as Quality and Innovation. These are highly attractive attributes which can apply to a variety of categories, and this seems likely to be contributing to its consistently high appropriateness ratings, even in categories where it has few existing functional credentials.

Similarly, Virgin was the standout brand in the UK dataset. It achieved by far the highest brand elasticity score, and while it is an extremely diverse brand in the UK (see below), its unifying attribute is providing value and service – being the consumer's champion. This ideal is easily transferable, especially to categories which are perceived to be expensive (this may in part account why 75% of UK fuel buyers said it was appropriate for Virgin to offer motor fuel. Motor fuel is expensive in the UK, mainly due to taxation, and there was extensive public debate about the cost of motor fuel during 2000 – it seems a prime category for Virgin's more-for-your money positioning).

Broad brand values also seem to account for the strong elasticity of The Body Shop. It has explicit values of environmental friendliness and respect for oneself and other cultures, and it appeared in the top 5 most elastic brands studied in both the US and the UK. While the brand has a clearly defined functional credentials, its values seem to lead consumers to positive expectations about he way the brand would do business, and types of products it would sell, if it did enter new territory.

Interestingly, we also found a systematic relationship between Brand Elasticity and perceived difference of offering vs. competition within the current category for the brand (the correlation was mild, but significant, $r = 0.41$). If we accept that a brand proposition based on broader values is likely to produce perceptions that the brand is different to others in its home category, then this is further evidence that broader values are likely to make brands more elastic.

Brand elasticity is helped by a history of diversity

The extreme elasticity of the Virgin brand in the UK also highlighted a further influence – if a brand has already successfully stretched to many different categories, then it may be less surprising to consumers for it to go elsewhere. As discussed previously, the brand's values seem to be highly transferable, but the diversity of the brand in the UK also seems likely to play a factor (current offerings from Virgin include an airline, trains, travel agency/holidays, mobile phone service provision, music retail, financial services, soft drinks, and online car purchasing).

To some extent a diverse offering may allow brands to demonstrate broader characteristics, and so may help establish transferable values. However it also seems highly likely that if the brand has already diversified, it simply seems more appropriate for it to go into further areas.

It therefore seems that a brand's ability to diversify is linked not only to its functional abilities, but to a set of broader attributes as well. The brand's personality, and the attractiveness of that personality; the extent to which it possesses broader, transferable brand values; and the diversity of its current offering will all influence the brand's elasticity. We see this as further evidence of the importance of what is broadly termed 'brand-building' rather than simply using marketing communications tactically to drive volume in the short term.

3.4. *Brand strength in the existing realm of expertise does NOT drive brand elasticity.*

One attribute that did not show a relationship with brand elasticity was the strength of the brand in its existing territory. This was unexpected – we had anticipated that the stronger a brand is in it's existing category, the more faith consumers would have in its ability to make other offerings. However, the evidence was clear – there was no relationship between elasticity and brand strength.

The Brandz study gave us measures of brand equity in the US and the UK for 32 of the 40 brands included in our measurements of brand elasticity. Briefly, the key brand equity metrics we used were:

% of consumers 'Bonded' to the brand

This is one of the main measures of a brand's current equity within the Brandz study, and represents the % of category buyers who reach the pinnacle of the attitudinal relationship illustrated in Figure 7.

Figure 7. Bonding is the pinnacle of the Brand Pyramid

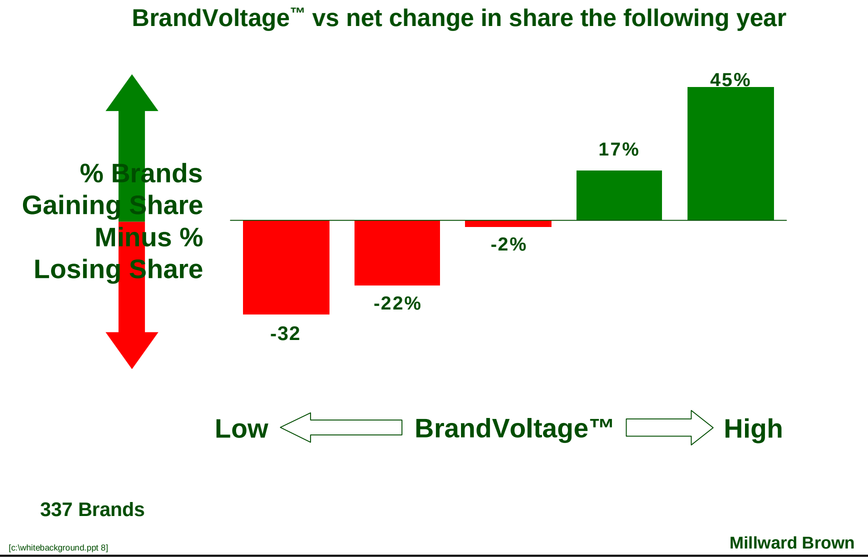
Bonded consumers usually drive the bulk of a brand's volume, and therefore this is a key indicator of Brand Equity. We found no correlation between the percentage of consumers who bond with a brand in its existing category and that brand's Elasticity score ($r = 0.14$ in the UK, $r = 0.09$ in the US).

BrandVoltage™

A further key equity metric is the BrandVoltage™ score. This is a one number summary of the extent to which a brand converts consumers up the levels of the pyramid shown in Figure 7, relative to expectations based on the whole category. Essentially it rewards brands which convert more than their fair share of brands up to the higher levels of the pyramid – so brands which start from a low base of presence can achieve a high voltage score if they convert a lot of their base to the higher levels, and brands which start from a high base of presence may still achieve a low voltage score if they fail to hang on to these consumers at the higher levels.

This measure is useful in that it provides a measure of brand momentum. This is illustrated by Figure 8, which is an analysis of the market share of 337 brands and shows a clear relationship between the BrandVoltage™ score and the likelihood of the brand to grow or decline in the following year.

Figure 8. BrandVoltage™ relates to growth or decline in market share



When we correlated BrandVoltage™ with brand elasticity, we found that this showed no relationship either (r = -0.06 in the UK, r = 0 in the US). Neither this or the lack of relationship with bonding can be attributed to limited variation in the measures of equity – both Bonding and BrandVoltage™ ranged from the very high to the very low.

It therefore seems that a brand's strength within its current category means little to its potential elasticity. One caveat must be added to that though – all the brands we studied here are large, well established brands – there were no new or poorly known brands in the analysis. It seems likely that brands must attain a broad level of awareness and understanding of their proposition for them to be strongly elastic (indeed as we saw in the previous section, having a broad proposition seems crucial). However, once this threshold has been passed, consumers' regard for the brand in its curerent category seems to have minimal bearing on how far they will permit it go.

In fact strength within one category may to some extent tie you to that category. Coca-Cola and McDonald's are both excellent examples of this. Both dominate their respective categories in the US and UK but are two of the most inelastic brands we studied. Just as having a diverse offering may make new offerings from that brand more appealing (e.g. Virgin in the UK), so new offerings from brands which are associated very strongly with one category may seem psychologically dissonant. Often this will not be an issue as pursuing volume in existing categories may be the best way of generating revenue. However, for brands in declining categories, who may be looking to diversify, the hurdle is higher if they are strongly associated with one area.

So overall, a key issue for marketers when considering brand diversification is not necessarily ‘is my brand strong enough to diversify?’ – instead it may be more useful to consider ‘Does my brand *mean* enough to diversify?’

3.5. Brand strength is an insulator

So if a brand’s strength in its existing category does not relate to its elasticity, does brand strength play a role in the diversification process at all? We found good evidence that it acts as an insulator, making it harder for other brands to diversify into your category. This makes intuitive sense – we know that strong consumer equity insulates a brand’s revenue stream from the actions of competitors within the category – it is natural that this effect should extend to threats from outside the category.

The Coca-Cola and McDonald’s examples cited above illustrate this effect nicely. The average elasticity scores for other brands stretching into the soft drinks and fast food categories were among the lowest of the 16 categories covered in this study – and these categories are dominated by two of the strongest brands in Coca-Cola and McDonald’s.

We can also illustrate this more systematically. To do this we created a measure of ‘category vulnerability’, by taking the average consumer ‘appropriateness’ rating across all the brands we asked to stretch into a given category. As with the brand level average appropriateness rating, this is influenced by the functional similarity between the category and the brands we asked to stretch into it, so we removed this effect in the same way. We correlated the % of brands which were functionally similar or associated to the category with the category average appropriateness score – and then took as our measure of category vulnerability the deviation for each category away from expectations based on that relationship.

We then looked at the relationship between this measure of category vulnerability with a measure of overall brand loyalty to the existing brands within that category. This latter measure is the % of category buyers who claimed to be loyal to a brand within the category – i.e. that there is ‘only one brand they would ever consider’.

This analysis revealed a strong, negative relationship – the more loyal category buyers were to an existing brand within the category, the less vulnerable the category was to other brands moving into it. In the US the correlation was –0.72, and in the UK, the correlation was –0.67. Figure 8 shows the relationship in the US.

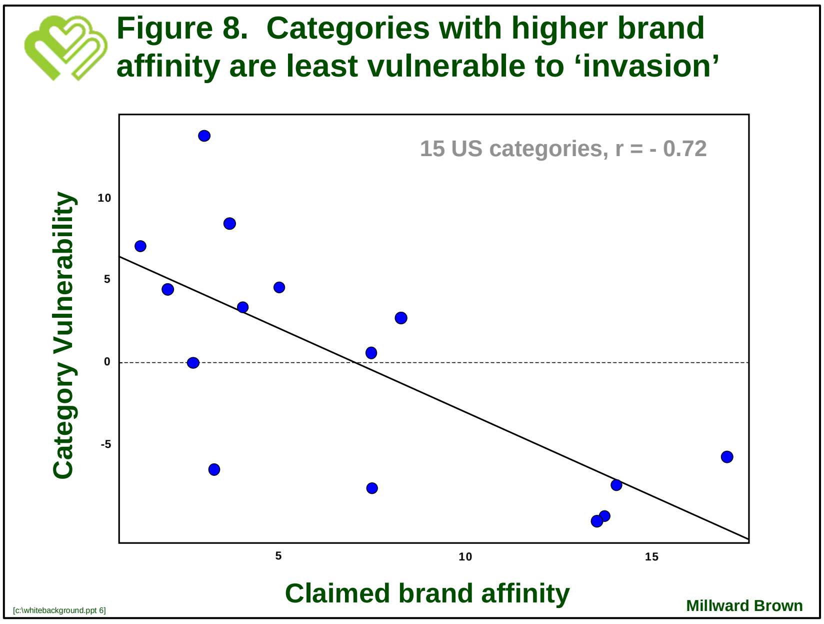


Figure 8. Categories with higher brand affinity are least vulnerable to 'invasion'

So while a brand which is strong in its 'home' category may not be elastic, this strength will insulate that brand to some extent from the effects of new brands entering the category.

4. Summary & Conclusions

The results discussed in section 3.1 above strongly confirm the intuitive model of brand diversification – that consumers find brand diversification much more appealing if the brand has some functional credentials in the new area. However, the results discussed in section 3.2 & 3.3 above also make it clear that there is much more to it than simply finding a similar category into which to move. Consumer permission also depends on the brand’s broader attributes – its personality traits and their attractiveness, and the extent to which the brand’s core values are transferable, and not just tied to functional competence in its home category. As discussed in sections 3.4 & 3.5, these attributes seem much more influential than the brand’s strength or equity in its home category, once a threshold of awareness of the brand’s promise has been passed.

Therefore, to maximise the chances of successful brand diversification, it is necessary to fully explore the fit between the brand’s credentials and the requirements of the potential new category, not just in terms of functional dimensions but also in terms of broader attributes. Understanding the ‘fit’ of the brand in these broader terms will also identify the best values and tonality for marketing support of the new offering to focus upon. Finally it is clear that a brand’s broader values and personality may allow it to diversify into unexpected areas – and therefore understanding these attributes may open up more potential revenue channels for the brand than consideration of functional credentials alone.

Brand diversification will not be a priority for all brands – focusing on success in one category has been the cornerstone of success for many businesses. However, building a brand based on broad attributes seems to be a key to turning it into a more flexible asset – and in the long term, as different categories grow and decline, this may be a key to business success for many brands. For brands in declining categories in particular, the issue may not be ‘is my brand strong enough to survive?’ – but ‘does it *mean* enough?’