

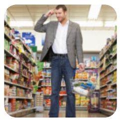

It Is Not a Choice: Brands Should Seek Differentiation and Distinctiveness

The book *How Brands Grow* by Professor Byron Sharp and the researchers of the Ehrenberg-Bass Institute makes an important contribution to the science and practice of marketing. We find ourselves in agreement with the authors on many of their key points.

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It is certainly true that most established categories are in a dynamic state of equilibrium most of the time. Innovation is risky. Salience, distinctiveness, and distribution are all important factors in a brand's growth.

However, the conclusions we would draw from these observations are different from those of Sharp and his colleagues. They downplay the role of innovation in the growth of brands, saying its advantages "seldom last long." We disagree. Based on 35 years of Millward Brown research, we would say that meaningful differentiation is a critical driver of brand success, first because it provides brands with the means of upsetting the status quo, and second because it can allow a brand to command a premium price. We see tremendous opportunities for brands that can, through innovation in a variety of forms, establish meaningful differentiation.

First, a Distinction

In Chapter 8 of *How Brands Grow,* Sharp and Jenni Romanuik suggest that "distinctiveness" is more important for a brand than "differentiation." They say: "Rather than striving for meaningful, perceived differentiation, marketers should seek meaningless distinctiveness. Branding lasts, differentiation doesn't."

Before I set out my case, I first want to clarify our understanding of the terms "distinctiveness" and "differentiation." A brand achieves "distinctiveness" when it has a unique and unmistakable identity, which could be based on a number of things: brand name, logo, packaging, colors, advertising style, etc. I presume that Sharp calls distinctiveness "meaningless" because whether a font is large or small, red or blue, has nothing to do with the actual product. It is all about identity.

Differentiation, on the other hand, is grounded in how a brand is experienced. "Experience" includes both tangible and intangible brand assets as well as the context in which a brand is encountered. In reality, meaningful differentiation is related to distinctiveness. They are not exclusive. They might better be thought of as a continuum.

Arguments—and Brands—Can Be Well-Differentiated *and* Distinctive

At the beginning of Chapter 8, Sharp and Romanuik seek to differentiate their point of view from that of other well-known academics like Levitt, Kotler, and Aaker. Presumably they do so because they believe that in order to upset the status quo, they need to challenge readers' preconceptions. By highlighting the contrast, they hope to get people to stop, think, and reconsider their established beliefs. Does the contrast with established thinking make their argument distinctive? Yes it does, but only because the argument starts out by being well-differentiated.

Returning to the realm of goods and services, we would say that differentiation is most potent when it is intrinsic; that is, based on a relevant and tangible asset that can be experienced through the senses. Intrinsic differentiation can come through in the look, feel, sound, smell, or taste of a product.

However, differentiation can also be extrinsic; that is, not based on physical attributes and ingredients. Provenance, a track record of innovation, or, increasingly, social and environmental responsibility can all form the basis of perceived differentiation. But perhaps the most common form of extrinsic differentiation is the creation of original and distinctive communication assets. Examples abound across categories: an iconic mascot like Tony the Tiger, the fun and playful packaging of Innocent Smoothies, or a memorable slogan like "You're in good hands with Allstate."

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The type and degree of differentiation that can be achieved vary by product category and by brand. It is far easier to create differentiation when the product is tangible and consumer interest is high; e.g., in fields such as technology, automotive, or personal care. In categories where the offerings are intangible or genuinely indistinguishable, marketers are more reliant on extrinsic differentiation. In some of these cases, the resulting campaigns would definitely meet Sharp's definition of "meaningless distinctiveness."

So meaningful differentiation is not an alternative to distinctiveness. Both are important. Red Bull is both different from other energy drinks and distinctive in its design and marketing. A BlackBerry is both different from other communication gadgets (in that its primary purpose is to send and receive e-mail) and physically distinctive. Distinctiveness helps a brand be recognized; then brand recognition can trigger motivating habits, feelings, and beliefs. But distinctiveness on its own is not enough to upset the status quo. Taking a differentiating feature, whether it is intrinsic or extrinsic, and making it into a positive and sustainable advantage is a core means by which marketing grows brand value.

Brands Are Perceived as Different

Sharp et al. would have us believe that few brands are truly differentiated and that those which are tend to be smaller premium brands. We differ on that point based on the evidence we find in the BrandZ database, which contains information on over 6,000 brands collected over 10 years from category buyers around the world. On average, the proportion of people willing to endorse any brand as "different from other brands of (*a specific category*)" is low. But perceived differentiation is only important once buyers believe that a brand is acceptable — that is, that it meets their basic needs and is an acceptable choice. Among those that consider a brand acceptable, an average of 18 percent agreed that it was different from others, with a range of endorsement from 0 to 86 percent. (Note: At this level, "different from others" is one of the most discriminating attributes within our data set.)

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Among the most well-differentiated brands, we find some that are relatively new, such as the iPhone, BlackBerry, and Whole Foods organic supermarkets. But many long-established and ubiquitous brands are also considered different. These include Pampers and Huggies diapers in the United States, Colgate toothpaste in India, and Omo detergent in Brazil. Outside of packaged goods, examples include the Nintendo Wii, FedEx delivery service, Amazon.com, and Walmart superstores. Size does not preclude a brand being regarded as different; in fact, many of the largest and most valuable brands in the world are perceived to be different from other brands in their categories.

Meaningful Innovation as a Catalyst for Change

Many marketers strive to make their brands different, and as we have seen, some actually succeed. But what about the brands that don't see their shares increase as a result of innovation? Is all that effort wasted? No. In most categories, innovation is necessary just to continue running in place. This is because most mature product categories reach a point of dynamic equilibrium.

Over long periods of time, the competitive actions of various brands cancel each other out. Brands engage in advertising and marketing activities but typically neither gain nor lose ground. Innovations are rapidly matched because marketers recognize the considerable downside of not keeping up with the competition. Blockbuster, the category leader in video rental, didn't react when Netflix introduced its service of delivering movies through the mail. That left Blockbuster flat-footed and unable to counter effectively when Netflix added online streaming. For Blockbuster, failure to match a competitor's innovation resulted in bankruptcy.

Sharp says that innovation is "very risky." This is true. Innovation, as it is currently practiced, *is* very risky. That is because most innovation is trivial. Most innovation lacks purpose, is irrelevant, or "me-too." And therefore, most new product innovations and line extensions fail. The status quo is maintained.

Innovation that is truly meaningful can provide an important catalyst for change. Meaningful innovation of either product or strategy disrupts the status quo and allows the innovating brand to attract a disproportionate number of buyers in a relatively short period of time while still commanding a price premium. Many brands owe their current success to meaningful innovation. Dyson vacuum cleaners are the product of years of experimentation to improve on existing industry standards. The Apple iPad set a new standard for tablet computers — just as the iPod had previously done for portable music players. In the United States, the low-cost business model of Southwest Airlines allowed that company to offer lower, more flexible fares than other carriers. Are there now competitive products that match these brands' capabilities? It seems likely that, for the foreseeable future, Apple's iPad will remain the gold standard for tablets, in spite of the plethora of competitive products flooding the market. But JetBlue and Virgin America could displace Southwest as the low-cost airline of choice if they manage to differentiate their offer. Otherwise they are doomed to smaller market shares that reflect their order of market entry.

It is the marketer's job to capitalize on successful innovation. Even if the real advantage exists for only a few months (until other brands match the innovation), effective marketing can enable perceptions of positive differentiation to last for decades. The Toyota Prius, the Nintendo Wii, and Red Bull all created new categories by going beyond the established norms of an existing category. The first-mover advantage may not last, but competitors like the Nissan Leaf, Microsoft Kinect, and Hansen's Monster Energy face the challenge of not only delivering a compelling product experience but also overcoming mental barriers to competition.

Justifying a Price Premium

According to *Empirical Generalizations about Marketing Impact*, published by the Marketing Science Institute, "Long-term sales growth for a brand is derived mainly from category growth." Such growth is hard to come by in many mature categories. But the value of a brand isn't determined simply by sales; it is also determined by profitability.

If you can command a premium price, you can increase the value of your brand without significant volume growth. This

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is a considerable advantage. McKinsey finds that, if volume remains stable, a 1 percent increase in average price improves operating profits by 8 percent. That is three times the increase generated by a 1 percent increase in volume.

Unfortunately, a 1 percent decrease in price has the opposite effect. McKinsey concludes that a strategy that cuts prices to drive volume is "generally doomed to failure in almost every market and industry."[1]

So what can justify a price premium? Perceived differentiation. A brand can thrive at a higher price point when it is seen as a well-differentiated, desirable choice — that is, when it has a meaningful, relevant, and valuable point of difference. Figure 1 shows the results of a Millward Brown analysis of brand equity metrics against IRI volume share and price data. Better-differentiated brands — that is, those that do better at converting people from perceiving not just familiarity but positive differentiation — are able to support the same volume at higher prices.

FIGURE 1: THE RELATIONSHIP BETWEEN VOLUME SHARE AND PRICE

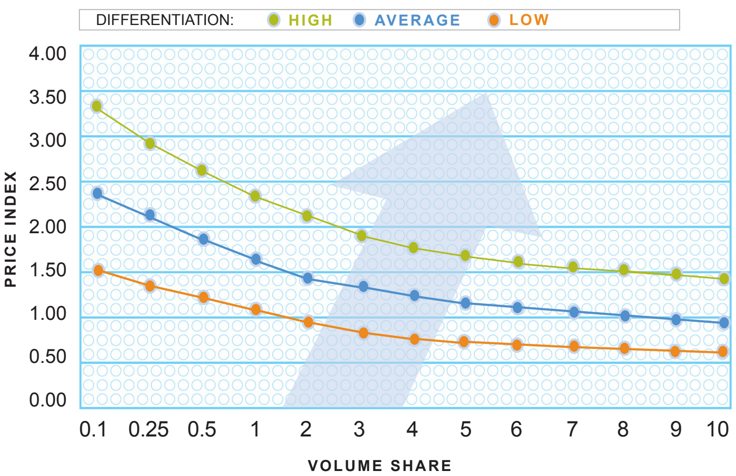

Figure 1 also illustrates the trade-off between volume share and premium prices. The choice of whether to seek growth or command a price premium depends on the brand's financial model and how easily it can extend its appeal to a mass market.

[1] The Power of Pricing by Michael Marn, Eric Roegner and Craig Zawada, The McKinsey Quarterly, 2003 Number 1

Some exceptional brands can actually manage to do both. Starbucks, Tide, and Pampers have all managed to grow share while simultaneously maintaining perceptions that they are different and commanding a price well above the category average.

Brands Must Seek to Be Different and Distinctive

How Brands Grow contains a number of valid recommendations for growing brand volume. Distinctiveness is important for all the reasons outlined in the book. Distinctiveness ensures recognition and helps to trigger brand associations. But we would say that distinctiveness is a complement to differentiation, not a replacement for it. If a brand wants to sustain a price premium and grow, it needs to be different enough to justify purchase on the few occasions when buyers are open to purchasing a different brand, whether that's because they're in the mood to try something new or because they find that their first-choice brand is unavailable.

True meaningful innovation does not occur very often. It is not easy to improve on existing industry standards and competitive practices. In many cases the power of meaningful differentiation only comes to the fore when there is a recognized need for change, when the brand is considered at risk. And innovation itself is risky. To be successful, an innovation must not only be implemented effectively but must also be communicated appropriately.

Meaningful innovation may be rare and risky, but that does not mean it should be avoided. True innovation is the ultimate high-octane fuel for brand growth; when realized, it presents significant opportunity to differentiate the brand, grow market share, and improve margins.

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