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Brand Relationship Management – A New Approach for the Third Millennium

Brand Relationship Management is not simply a single idea or process. Rather, it is a completely new approach to brand management that extends traditional revenue management into the realm of customer-centric revenue management, and then across both product and customer lifecycles. As the world quickly moves toward a more sophisticated approach to CRM, brand management must also change. The successful brands of the Third Millennium must rethink their strategies and processes and ultimately enhance the value of their relationships with customers. They must become the customer's brand of preference – or risk dying a slow and painful death.

In a fiercely competitive and dynamic global marketplace, brands more than ever are facing new challenges and threats to their expansion and even survival.

As markets become more and more commoditized, brand managers struggle to create differentiated value for consumers and ultimately for shareholders. The penalty for failing to create this differentiated value has been both harsh and immediate. In some markets, generic or distributor house brands have captured an 80 percent share of sales volumes.

The World Is Changing, But Brand Management Is Not

Rising Customer Expectations

Customer expectations have risen steadily over the last three decades. Customers continue to become more sophisticated and more interested in innovative products and customized services. At the same time, they are becoming more unpredictable in their tastes and needs.

Customers continue to expect and demand more "value" from brands. Without this perceived value, they are unwilling to pay a premium price. Customers who receive exceptional service from one supplier (regardless of industry) will tend to be dissatisfied with lower levels of service from other suppliers. Examples of brands that successfully deliver extra value and service include:

- Dell, with individually specified computers delivered to customers in 2 days.
- Toyota, with individually specified cars delivered to customers in 10 days.
- Standard Life Bank, which guarantees mortgage acceptance within 9 minutes.

Heightened competition has given customers tremendous freedom of choice – a freedom they have been increasingly willing to exercise.

Media Fragmentation

Reaching target audiences is becoming increasingly difficult and expensive due to media fragmentation and proliferation. Twenty years ago, 80 percent of a target audience in many countries could be reached with one 30-second, off-peak television spot. Reaching the same audience today often requires between 200 and 300 prime-time TV spots.

Lack of Customer Focus

Brand management and brand marketing are ultimate-

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ly all about the customer. Yet brand management has failed to recognize the differentiated value perceived by the customer. Instead, the focus has been upon ensuring asset utilization while sustaining and enhancing the customer value proposition.

Brands have traditionally relied on mass communication, promotions, loyalty programs and intermediary distribution channels to drive volume and revenue. But brand management has yet to demonstrate a consistent and meaningful focus on the ultimate customer value proposition.

Increasing Power of Intermediaries

Retailers are increasing their power worldwide through mergers, global expansion, and a focus on customer loyalty. Target, a subsidiary of Dayton Hudson in the United States, has developed a credit card that automatically donates 1 percent of a customer's purchases to a school designated by the cardholder. Tesco and Sainsbury have been leading users of loyalty cards over the past five years.

New intermediaries are also emerging as multichannel loyalty schemes are being developed (e.g., AirMiles or Shell SMART card in England). Such programs tend to foster loyalty towards the "intermediary brand," rather than the affiliated companies.

Changing Intermediaries

The largest single change is occurring today as e-tailing develops. While its importance is potentially overstated, e-tailing is becoming a major force in many businesses. In some segments, e-tailers are growing at such phenomenal rates that they may well become the primary retailing vehicle for the consumer (e.g., books). This power shift offers tremendous opportunities for manufacturers to develop relationships with their customers. But will e-tailers allow manufacturers to develop that relationship? If brick and mortar retailers are any example, the answer will be "no."

What will be the difference? Compared to traditional retailers, both catalog retailers and e-tailers have much better data about their customers. In addition to tracking all purchases, e-tailers can now capture click streams, observing product interest and not just purchases. This allows the e-tailer to develop a more powerful relationship with the customer. The implication for manufacturers is a continuing loss of control of the customer if they don't change their brand marketing strategies.

Customer Ownership Is Changing

A major change facing brand companies is the fact that the end consumer is now "owned" by the intermediary. Which is a more powerful brand as perceived by the consumer? Amazon.com, the e-tailer, or Little Brown, the publisher? Customer ownership and brand loyalty are being eroded because brand manufacturers are no longer in direct contact with the end consumer. Instead, retailers who have developed frequent shopper cards are in direct and constant contact with these customers. As intermediaries become increasingly focused upon – and successful at – building their brands (e.g., Walmart, Carrefour), customer loyalty will continue to shift to the intermediary from the manufacturer.

Who owns the relationship with the consumer? With whom would the customer prefer to do business? Is it the retailer or the brand manufacturer? The weaker the relationship with the brand, the easier it is for the retailer to temporarily or definitively remove a manufacturer's brand out of its assortment and offer a substitute without losing the customer. As an example, consider Dollar General, Family Dollar, and Dollar Tree, three low-end retailers that are enjoying a rapid growth rate fueled by a rotation of low-priced branded products. This again demonstrates that the consumer is becoming more loyal to the retailer's brand than to the manufacturer's brand.

Brands Are Struggling To Create Value

For the Customer...

In his 1991 breakthrough book on brand equity, Aaker reported on surveys that raised alarm amongst brand managers. These surveys included a worldwide study by BBDO on brand parity across 13 product categories. The results found that between 52 percent and 76 percent of consumers surveyed felt that the selection of brands from which to choose were more or less the same.

The situation has not changed much since then. For instance, a survey conducted in 1998 on the French dairy market showed that about two-thirds of consumers don't see any difference between the brands available on the market. Even more surprising, more than 50 percent of consumers would rather choose a private label than a brand if the two were comparably priced.

Innovation has been limited – minor packaging and product improvements have resulted in minimal brand differentiation and higher price sensitivity. The market has become very price-driven, a situation that has enabled private labels and low-price products to reach an average 70 percent market share in some European markets.

This is not a standalone situation. At the 1999 ECR conference, a recent survey on "Efficient Product Introductions" in the FMCG industry showed that only about 2.2 percent of the 24,543 new EAN codes studied represented truly new products.

... And for the Shareholders

The inability of brands to create value for the consumer has made it difficult to sustain premium prices and has caused aggressive promotional battles. On April 2, 1993, Philip Morris caused "Marlboro Friday" on the New York Stock Exchange when they announced a 20 percent price cut on one of the world's premier brands. This move resulted in a multi-billion dollar decline in stock market value for most branded consumer products companies.

Brands have an asset value to their owners as part of that company's stock of goodwill (Davies, 1992).

The Solution: Brand Relationship Management

We will extend the definitions of relationship marketing by Groönroos (1990) and Shani and Chalasani (1992) to define Brand Relationship Management (BRM) as follows:

An integrated effort to establish, maintain, and enhance relationships between a brand

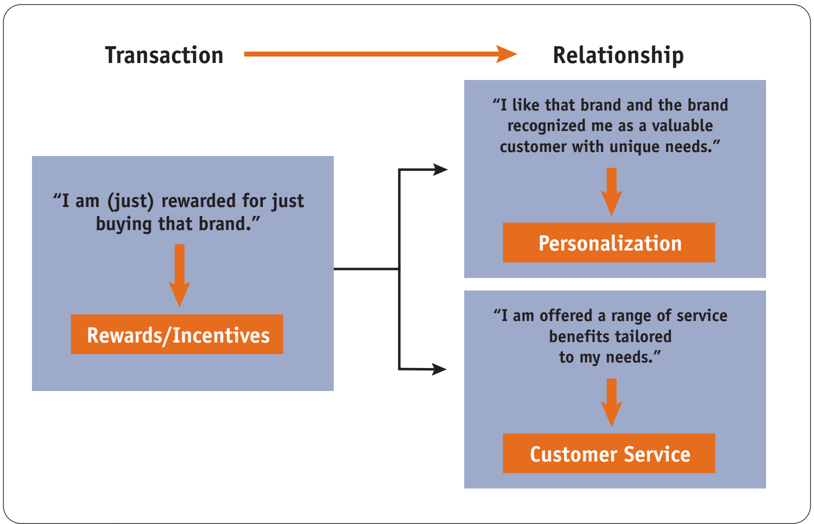

FIGURE 1.0 Turning the old transaction paradigm into a relationship paradigm

and its consumers, and to continuously strengthen these relationships through interactive, individualized and value-added contacts, and a mutual exchange and fulfillment of promises over a long period of time.

This definition implies that BRM refers to all activities associated with both "relational exchanges," and "transactional exchanges". The effectiveness of Brand Relationship Management is consequently dependent upon customer data and the way in which it is gathered, managed and turned into actionable information.

BRM changes the Brand Management practice by turning the old transaction paradigm into a relational paradigm (see Figure 1.0). The execution of refined Brand Relationship Management requires:

- A deep understanding of customer expectations, attitude and behavior through a well organized and managed customer database.
- Innovative customer strategies, which are based on the results of thorough customer analysis and, which consequently, address the major issues pointed out by the analysis.

Learning Relationships

To strengthen their brands, marketers have no other choice but to continuously improve their value propositions. The brands that are first to move into Relationship Management will be furthest along in their "learning relationships" with these best customers, and thus be in the best position to take and keep the best customers.

Not only will these brands enjoy the "halo effect" benefit of always being considered to have pioneered this level of service, they will also always have a longer learning relationship with their customers than their competitors. "First mover" advantages are the benefits that can accrue to a company for being the first to make a competitive move.

The success of Brand Relationship Management is closely related to the integration of a comprehensive Customer Relationship Strategy, and the effective collection and utilization of customer information to derive an understanding of customer needs and expectations. In other words, it is critical to:

- Unlock the marketing potential of the customer data.
- Turn this data into actionable information.
- Encapsulate this information to support strategic marketing decisions.
- Turn the gained knowledge into a competitive advantage.

Customer Insight-Driven Relationship

Customer Insight-driven relationships help strengthen brands to anticipate and deliver against customer needs and expectations. Consider the extremely high interest generated by a pilot brand relationship program implemented across six different dairy brands in France. Of the 4,000 consumers selected for the pilot program:

- 65 percent declared the brand relationship program to be a tangible benefit because it showed the brand's willingness to provide recognition for them as highly valued customers.
- 78 percent looked at the brand relationship program as a proof that the brand wanted to better meet their needs.

Technology now allows both the collection and processing of data on individual customers in many industries as well as the detailed evaluation of supply performance. Leading brands use "customer friendly" technology to become easier to do business with and to achieve closer and more interactive communications with customers. These brands also use technology to improve the efficiency and effectiveness of marketing processes that add the most value for the customer.

New technologies like the Internet have opened a whole new way to reach customers, and the growth in the use of these channels over the past 18 months has been truly explosive.

The idea of relationship marketing has been around for some time, but a new area of Marketing Automation Systems (MAS) is emerging which has the potential to radically change the brand marketing processes and advance the concept of one-to-one marketing from theory to reality. These new MAS are designed to automate the marketing function, enhance its efficiency, and tie together many of the promising, but often limited, technology solutions that have been emerging in marketing over the last several years.

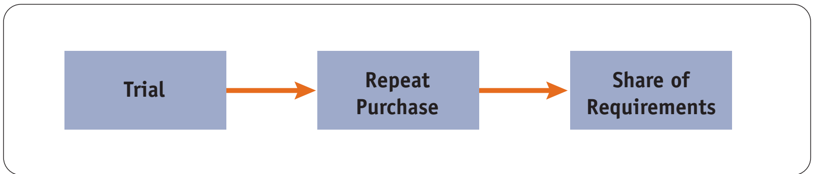

FIGURE 2.0 **Typical brand equity**

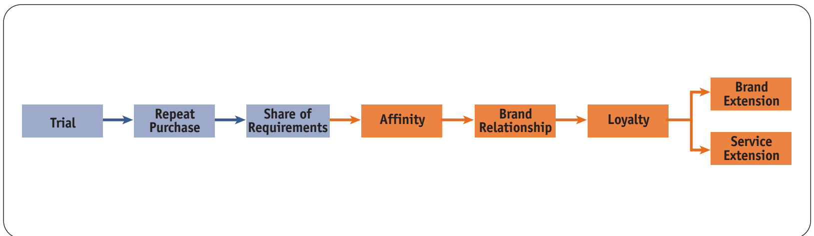

FIGURE 3.0 **This picture illustrates how the relationship with the customer will determine the ability to extend the brand and ultimately generate a higher level of brand equity**

Impact of a Brand Relationship Program on the Brand's Perception

It improved my perception of the brand.	65%
It gave me the opportunity to better know the brand.	66%
It gave me the opportunity to learn new things about the product category.	73%
It helped me to choose among brands in that category.	35%
It changed my purchase attitude toward the category.	19%
It gave me the opportunity to discover new ways of consuming the product category.	47%

FIGURE 4.0 **Impact of a brand relationship on the brand's perception**

Brand Management and the Relationship Equation

The ability of the brand to generate incremental and sustainable value is related to its ability to:

- Differentiate by providing the basis for non-price competition (Davies 1992), thus commanding a premium price.
- Secure a customer franchise by establishing a strong preference for its relative added value, thus maintaining and growing its average share of customer.
- Expand relationships with its customers by developing an affinity with them in order to sell other product/services (i.e., cross-selling, add-on selling).

Extending the case of umbrella branding (Tauber,1988), the actual relationship between a brand and a customer can be considered to be an "umbrella" relationship. This relationship makes it possible for the brand to develop new relationships by "monitizing the equity" of this existing umbrella relationship.

Brand Relationship Management Is The Next Evolution of Brand Management

Earlier decades of brand management focused on generating trial and high share of requirements (i.e., the product's market share for a specific consumer). This concept was known as brand loyalty. If a brand had a high share of requirements, then its brand equity was high. The typical brand equity picture is shown in Figure 2.0.

It is important to recognize that high share of requirements (often mistaken for loyalty) is transient. If the sole focus of a brand is on high share of requirements, the brand is highly vulnerable. Consider the new paradigm shown in Figure 3.0.

The relationship a brand develops with its customers clearly represents great value. Figure 4.0 illustrates the impact of the Brand Relationship Program on the perception, attitude and declared behavior of 4,000 consumers towards their regular dairy brands. The survey has revealed that even consumers showing a high share of requirements could enhance their already very positive perception of that brand through an effective brand relationship program. Consider that 74 percent of consumers felt such a program represented a good means of gathering objective and reliable information about the brand.

It is important to recognize that "real" loyalty is a more complex concept than share of requirements. Both preference and attitudes must be factored in.

Not all customers of a brand are likely to develop a relationship with that brand. Research conducted by Accenture across different product categories has shown that a certain level of affinity with a brand is required before a customer may be willing to enter an intimate relationship with that specific brand. And the level of affinity a consumer is likely to develop is highly correlated to category involvement and brand sensitivity.

Amazon.com is an example of a company that has increased its affinity with each customer by providing greater,

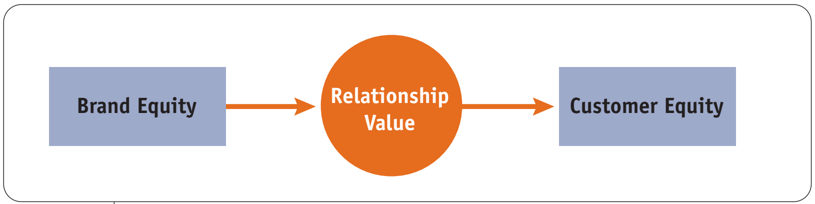

FIGURE 5.0 **The more extensive, comprehensive and intensive the preference is, the higher the customer and target customer base-wide average utility will be. This also results in a higher average LTV.**

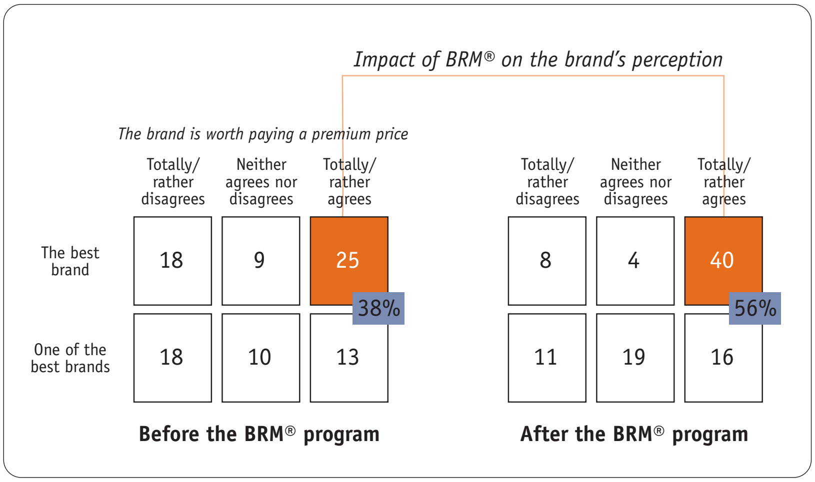

FIGURE 6.0 **Impact of BRM on the brand's perception**

value-added services. Amazon introduced sophisticated information technology (i.e., collaborative filtering) to expand its service offerings to include CDs, DVDs and other lower ticket consumer durables. The company is now adding auction services and broadening its scope. Amazon understands that its relationship to the customer is critical in developing its brand.

Brand Relationship Management: Linking the Brand and the Customer Together

The relationship between a customer and a brand is an exchange relationship. Consumers enter into a relationship on the basis of expected equity and the desire to increase the predictability of exchange outcomes (Peterson, 1995).

The length and strength of the customer relationship is a result of the relative value the customer perceives of the brand; in other words, the implied utility associated with the product features, the tangible value of these features, and the intangible value the consumer assigns to the brand name. The utility is a function of the capacity of the brand to consistently deliver an experience in alignment with the customer's expected equity. Consequently, it reflects the convergences of the customer's perceptions and expectations.

Following the conceptual model of consumer choice developed by Tybout and Hauser (1981), the customer's preference for a brand is based upon how valuable its utility is perceived to be. The customer's brand value perceptions and his motivations are translated into preferences (Kamakura and Russell, 1993). The relative level of preference for a brand thus affects his brand choice and his repeat purchases (share of customer).

In summary, the stronger the individual relative utility, the stronger the preference, the higher the share of customer, the longer the lifetime and the greater the lifetime value (LTV).

Customer Equity Is Driven by Brand Equity

The more extensive, comprehensive, and intensive the preference is, the higher the customer and target customer base-wide average utility will be. This also results in a higher average LTV.

The present and future revenues or profitability derived from a customer by a brand also reflect his willingness to pay a premium in terms of price and/or time. The stronger the relative utility of a brand, the stronger the consumer's willingness to pay a premium. Figure 6.0 stresses the intriguing result of a three-month Brand Relationship Program on consumers' perception of a food brand. Not only did more consumers acknowledge the brand as the best brand, but they also agree that it is worth paying a premium price for.

The LTV of a customer reflects the influences of the customer's preferences and their situational constraints (e.g., promotion, availability, location). The stronger the brand equity, the higher the LTV. For instance, as a consequence of the increased perceived value, the consumers selected for the Brand Relationship Program increased their average spending for their regular brand by 29 percent over a three-month period of time, some of them showing a 77 percent increase.

Customer-Centric Revenue Management: Customer Equity Reinforces Brand Equity

The heart of Brand Relationship Management is customer-centric revenue management, which optimizes profits for each customer relationship based on the price a customer is willing to pay for his or her perceived value.

This is an important concept for brands that are too focused on Product Revenue Management instead of Customer-Centric Revenue Management. In transactional relationships with tens of millions of consumers, analysis often reveals that just a small percentage of the customer base is truly profitable. By refocusing some of its marketing expenditures on that part of its customer base, a brand may significantly increase both its revenues and turnover.

The following example is a good illustration of this paradigm (see Figure 8.0).

The average consumer spends an approximately $104 per year on Brand X. In turn, the brand spends approximately $5 per consumer per year. However, consider that:

- Half of the consumers are light users, generating an average turnover of $21/year for an average marketing investment of $5/year. Given the low margin (20 percent) in this market, these consumers are definitely not profitable.
- Whereas 20 percent of the heavy consumers generate more than 60 percent of the brand's revenues. Each consumer spends an average of $294/year (14 times more than the light users) for the same average marketing investment of $5/year.

Though the brand is a mass-market brand, the customer base structure revealed the unexplored potential of Customer-Centric Revenue Management. The challenge for this brand is to identify its profitable consumers and to develop a direct relationship with them to increase both their share of requirements and their loyalty.

Individual revenue management decisions must consider the value of the individual customer to the brand in terms of future revenue potential and cost to serve. This new customer-centric revenue management philosophy has a profound effect on all aspects of traditional Brand Management, including product offering, pricing, market communications, and so on.

Thus the focus shifts from the product or service to the relationship developed with the customer.

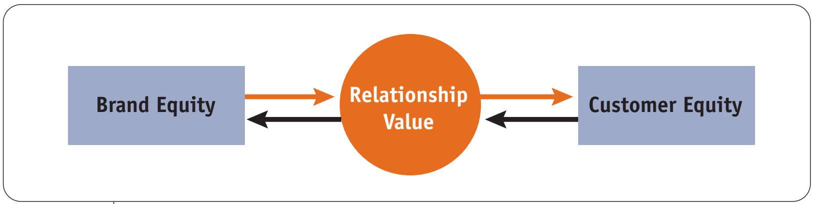

FIGURE 7.0 Customer equity reinforces brand equity

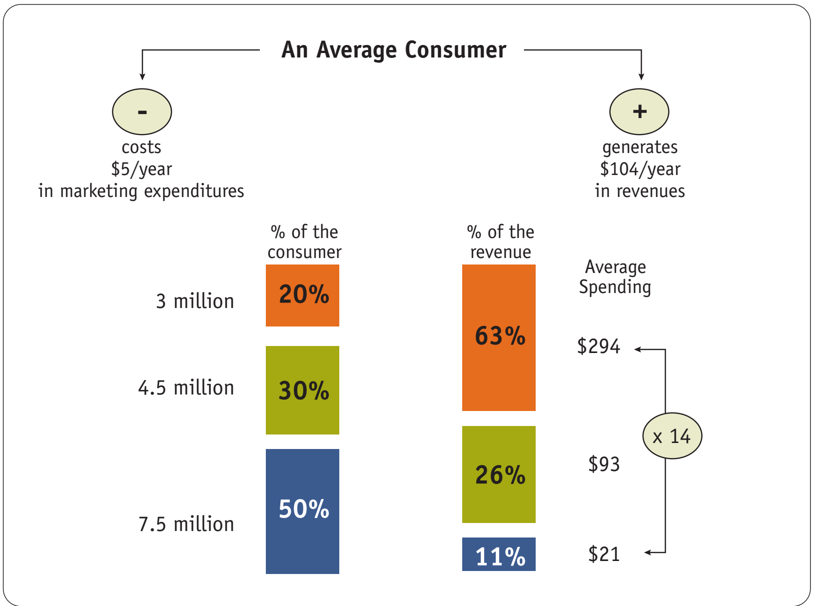

FIGURE 8.0 The value of the individual customer to the brand in terms of future revenue potential and cost to serve

Brand Relationship Management's Journey

BRM, is a journey, not a destination. It requires a long-term focus to create and manage a relationship with the customer in which the joint exchange is profitable to both the customer and the firm. The steps to manage this journey are outlined below:

Step 1: Actionable Insight

Provide in-depth actionable insight of customer preferences, behaviors and value drivers, and continuously capture, maintain, and apply this insight across the entire customer relationship cycle.

- Identify the key value drivers that contribute to brand preference.
- Measure the utility that consumers attach to the brand.

Analyze the customer's buying patterns and identify the factors that influence brand switching

- Analyze the way actual choices reflect consumer preferences and situational constraints.
- Develop predictive scoring engines.
- Develop for each customer a market response profile, measuring his propensity to respond to various marketing stimuli (e.g., TV, direct mail).

Step 2: Actionable Segments

Group target customers into actionable segments based on profitability, usage characteristics, and/or common needs.

Step 3: Value Propositions

Define offers and corresponding value propositions that meet the identified needs. Reconcile the value of the customer to the value of the brand, and understand tradeoffs in revenue management versus customer relationship management.

Step 4: Develop a Relationship

Develop a relationship with the customer.

Create mechanisms that can generate positive interactions between the customer and the firm. These mechanisms should strive for customer satisfaction, loyalty growth, consumer demand increase and lifetime customer ownership.

Step 5: Measure the ROI

Measure the ROI of the implementation of a BRM strategy:

- Define the economic framework.
- Develop a spending allocation model based upon the Life Time Value of a customer.
- Elaborate upon different investment scenarios (based on internal and external resources).

Conclusions

Brand Relationship Management (BRM,) is not just a single idea or process. Rather, it is a completely new approach to brand management that extends the idea of revenue management into the realm of customer centric revenue management and across both product and customer lifecycles. The world is moving rapidly towards a more sophisticated approach to customer relationship management, which must ultimately change brand management.

The successful brands of the Third Millennium are working hard to rethink their strategies and processes to enhance the value of their relationships with their customers and therefore become the brand of preference. These brands are striving to develop brand loyalty by targeting customers who:

- Perceive the differentiating and discriminating added values of the brand.
- Make their choices by preference.
- Are ready to reward the brand for providing unique value to them by paying a premium and/or by investing time in the relationship.

Some industries display incredible ingenuity to give their brands the definitive ownership of the relationship with their customers. Consider domestic appliance brands which are developing on-line-controlled appliances – a washing machine's wash cycles can now be downloaded from the Internet and a digital cooker can receive instructions by mobile phone.

What does it mean for a food brand when the freezer has online links with supermarkets and automatically places orders when food supplies run out?

In the next few years, BRM will become a discipline driving fundamental change at leading organizations. Developing a long-term relationship with customers is not only a question of marketing, but it is also a question of vision, strategy, major process change and technology. It is a question of business transformation that will be the key to stability in an increasingly dynamic market.

Relationship brands are working hard to understand smaller and smaller groups of customers in greater detail and, with the help of technology, will soon make the "market of one" concept a reality.

In the Third Millennium brands have no choice: they are or will become rapidly Relationship Brands or they will die a slow and painful death.

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