Brand consolidation makes a lot of economic sense

But only one in five attempts succeeds

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Of the many challenges thrown up in the wake of mergers and acquisitions, one in particular is likely to result in disappointment: the task of brand consolidation. Most brand consolidation efforts fail – and fail expensively. To beat the odds, early research suggests, it is crucial to choose the right branding endgame and to manage three key transition steps.

Forces at work

Two features of the business landscape make brand consolidation an unavoidable strategic challenge. The first is the explosion in M&A activity over the past decade, notably in the consumer goods and financial industries. In the former, mergers and acquisitions soared from 1,700 in 1985 to 12,000 in 1996. In the latter, the figure rose from 270 to almost 2,000 over the same period. The result has been ballooning brand portfolios, often entirely lacking in strategic rationale.

The second feature is the fact that intangible assets make up most of the value of M&A deals (70 percent in the United Kingdom in the early 1990s, up from 18 percent in 1980), and in most cases, brands account for a considerable portion of these assets.

At least two powerful forces appear to be at work. The first, which drives brand consolidation *among* markets, is globalization, or the convergence of lifestyles and tastes between populations in different countries, the worldwide reach of the media, and international economies of scale. The second, which drives brand consolidation *within* markets, is the momentum acquired by dominant brands, whereby the leading brand in any local market tends to have a return on sales so much better than that of competitors that it seems as if the very fact of dominance sets in motion the logic of increasing returns. Put simply, in many but not all product categories, the leading brand sells more because it sells more.

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The benefits

Brand consolidation does not necessarily follow from a merger or acquisition, but when it does, it can be a powerful lever. Successful consolidation might, to take an example, take two brands each possessing a 15 percent market share and turn them into a single brand with a 32 percent share

Exhibit 1

Realizing value through consolidation

Percent	Initial P&L		Post-consolidation P&L
	Brand 1	Brand 2	New brand
Market share	15	15	32
Cost of goods sold	50	52	45
Gross margin	50	48	55
Advertising and promotion	25	25	18
Operating margin	7	5	16

(Exhibit 1). The reduction in the cost of goods sold (because the product range has been streamlined and advertising and promotion are more focused) could bring the operating margin up from between 5 and 7 percent to 16 percent – approaching a tripling effect on the bottom line.

Colgate-Palmolive demonstrated what can be achieved when, in the early 1990s, it consolidated its global brand portfolio, cutting the types and sizes of its toothpastes, detergents, and other items by a quarter. The company saved almost $20 million a year, while strengthening its market positions.

Similarly, Procter & Gamble eliminated almost a quarter of the varieties of its brands between 1991 and 1994. The current chairman, John E. Pepper, is continuing this strategy, not only to reduce complexity for the benefit of retailers and the company itself, but also to make it absolutely clear what the best choices are for the customer. In the United States, P&G's product roster is about a third shorter than it was at the beginning of the decade. In hair care alone, the number of items has been almost halved, while share has grown by five points to 36.5 percent over the past five years.

Other kinds of benefit may also accrue. When Philips joined forces in 1989 with Whirlpool, the marriage had a remarkable effect. Philips shed its slightly stale image and Whirlpool overcame its lack of a reliable history in Europe to create a dynamic brand with a rich heritage, in which solidity was combined with vigor and innovation with reliability to project a stylish new image under the Philips Whirlpool co-brand. It was the sort of synergy of which medieval alchemists dreamed. Less fancifully, market share increased by 10 percent from 11.5 to 13 percent in five years, leaving Whirlpool ready to stand on its own in Europe without the support of the Philips brand. The brand consolidation was complete.

Not so fast…

If brand consolidation can yield substantial value, and if failing to consolidate risks leaving a recently merged company with a proliferation of brands and suboptimal performance, why not consolidate? The stumbling block is the failure rate. Of 23 cases we studied, from complex mergers of several brands operating in the same market to seemingly straightforward changeovers from a local

to a regional or global brand, we found that market share was maintained in less than half. For pure brand mergers where two or more brands in a market are combined into one, the success rate fell to 13 percent.

Examples are plentiful. For every Philips there is a Whiskas. In the late 1980s, three brands dominated the US cat food market: Kal Kan, Crave, and Sheba. Kal Kan and Crave were at the "plain" end of the market; Sheba was at the "gourmet" end. The first two merged, despite their different positionings, to create Whiskas. Five years later, when Whiskas had failed to achieve the combined market share of Kal Kan and Crave, the Kal Kan name was reintroduced on Whiskas packaging – but to only limited effect.

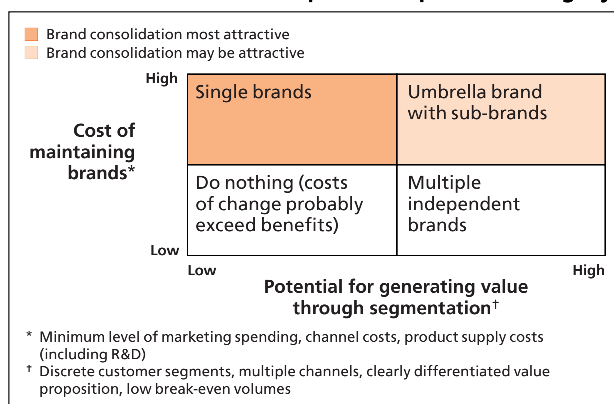
A similar outcome befell *GT* and *Kvällsposten,* two Swedish newspapers with strong local profiles that merged in a bid for national stature in 1989. The result, *iDag,* struggled through six years of unresolved personality conflicts, but never achieved more than a regional identity. In 1995, *GT-iDag* and *Kvällsposten-iDag* were reintroduced in a dual-branding solution. The merger was subsequently described as one of the century's biggest newspaper failures. Top managers too often underestimate the value of acquired brands.

Getting it right

The main reason for failure seems to be that the complexity of the task paralyzes managements, leading them into one of two fatal mistakes. Either they refuse to do anything because of the complexity and risks involved, or they jump unprepared into an ill-conceived consolidation, leaving customers puzzled and business associates confused.

Exhibit 2

Whether to consolidate depends on product category



* Minimum level of marketing spending, channel costs, product supply costs (including R&D)

† Discrete customer segments, multiple channels, clearly differentiated value proposition, low break-even volumes

While more research is needed before we can say definitively how each detail should be handled, we have identified three steps to take a company from decision day to rollout. The first step is to undertake a fact-based analysis of both the product category concerned and the positioning of the brands. Exhibit 2 provides a framework to help in setting direction at the

Exhibit 3

Determining the feasibility of brand consolidation

Analyses required	Less complex	More complex
Segments served	Similar	Distinctly different
Brand attributes	Close; few gaps	Distant; many gaps
Brand equity	One strong	Both strong
Perceived positioning	Similar	Substantially different
Brand cultural heritage	Low for one	High for both
Consumer loyalty	Low for one	High for both
Distribution channels	Similar	Different
Relative market share	One brand has much higher share	Both brands have roughly equal market share

product category level. If this analysis suggests that brand consolidation *can* add value, the next task is to ascertain the complexity and risks involved, given the starting points of the brands (Exhibit 3).

The second step is to decide the desired branding endgame. The Philips Whirlpool merger was one of a series of brand consolidations prompted by Whirlpool's vision of a strong global brand in white goods. But if segmentation yields more than it costs, then moving to a single brand is not the answer. So some companies choose to consolidate to fewer, more distinct brands. Others establish an umbrella brand that supports sub-brands targeted at specific market segments, thus lowering the cost of brand maintenance.

If you decide to proceed with brand consolidation in some form, your third step is to decide how to achieve the endgame. There are essentially three routes:

- Phase out a brand
- Quickly change to one brand name
- Combine brands via co-branding or under one umbrella brand.

Phasing out a brand tends to work well when the company's alternative brand has a large group of loyal consumers. The Norwegian company SCA Mölnlycke, for example, now focuses all new product development and advertising in the feminine sanitary protection market on its strong regional Libresse brand. At the same time, it retains its older Saba brand, which carries less innovative products but still possesses a significant market share. All in all, the company maintains a dominant position in Norway.

Quickly changing to one brand name is a more demanding strategy, and one that few companies execute successfully. It is appropriate when companies need to move urgently because competitors are rapidly building global power or intensifying their advertising and promotion

spending, thereby raising the cost of maintaining brands. But it should be considered only when a degree of control can be maintained over consumers or trade during the changeover – either through existing distribution rights and channels, or through extensive public relations, advertising, and promotion. Procter & Gamble pulled off this feat in the United States in 1993, when it shifted overnight from selling two brands of toilet paper, White Cloud and Charmin, to selling the full product line under the Charmin brand alone. The strategy worked because Procter & Gamble combined control over distribution with heavy additional spending on advertising and promotion during the transition.

Co-branding or umbrella branding is the commonest transition strategy, building as it does on the inherent brand equity of all the brands. Both brand names are kept for a while, giving consumers and trade time to adjust. Philips Whirlpool provides a good example of such a strategy.

Managing the transition

A vision of the endgame and how to reach it is not enough on its own to guarantee a satisfactory result. Planning the transition is just as important; sound design and execution here can make the difference between success and failure. Although our research in this area is preliminary, there appear to be three key steps. Depending on the magnitude and urgency of the task, they can be implemented one by one or in parallel.

First, streamline ranges and harmonize products. These two moves are closely linked and must be balanced. Moving too fast to a streamlined product portfolio without consolidating brand names can make the value proposition less distinctive. One large European maker of consumer durables maintained a large number of brands, but sharply streamlined the ranges. In the end, there was no longer any real distinction between the brands' product offerings, and retailers declined to stock the full line.

Second, harmonize pack design and logotypes. In this way, consumers loyal to brands that are to be discontinued gradually learn to appreciate the visual language of the brand that is staying.

Finally, merge the brands' positioning. A joint strategic brand position should be developed and advertising copy harmonized so as to achieve a (usually gradual) transition of the brand proposition in consumers' minds.