Construction of international brand portfolios: impact on local brands
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Abstract
Purpose – In the literature, the question of how the strategies of brand portfolios affect performance remains open and subject to contradictory developments. This paper aims to highlight the various steps involved in the analysis of international brand portfolios as well as issues specific to each of these phases.

Design/methodology/approach – This article relies on the results of a longitudinal case study conducted in collaboration with the marketing direction of Procter & Gamble’s European Business Unit “Laundry and Fabric Care” from 2004 to 2009.

Findings – The authors present the strategic and operational movements that led to the reduction of the P&G brand portfolio in the laundry category. The authors then compare them with the current results of the company in this market to assess the performance of this strategy of rationalization.

Originality/value – While the best way forward to construct international brand portfolios has not yet been specifically defined and many questions remain, this article provides an illustration of a methodology tested by an international company.

Keywords Brand portfolios, Brand management, International, Reduction, Global, Local, P&G, International business

Paper type Case study

Introduction
Marketers have traditionally focused on managing their brands individually. Most recently however the emphasis has shifted and with a tendency for companies to consider these issues in the context of more generalised brand portfolio management.

After several decades of exponential growth of their international brands portfolios, many multinationals firms today are leaning more towards rationalization and reduction. They usually choose a “top-down”, approach consisting of taking decisions at the level of the international portfolio that impact on the local portfolios.

Thus, since the early 2000s, Unilever has embarked on the disposal of 1,200 brands from its original international portfolio of 1,600, L’Oreal has built its success on only 17 international brands and Procter & Gamble has reduced its portfolio to 300 brands of which 17 earn $1 billion or more.

Whilst this practice of rationalization seems to be justified by the profound changes taking place in the economic environment, it must be conducted with care to avoid risks.

In the literature, the question of how the strategies of brand portfolios affect performance remains open and subject to contradictory developments (Bordley, 2003; Kumar, 2003).

This article highlights the various steps involved in the process (identification, classification, implementation and assessment) as well as issues specific to each of these phases. It relies in particular on the results of a longitudinal case study conducted in collaboration with the marketing direction of the Procter & Gamble’s European Business Unit “Laundry and Fabric Care” from 2004 to 2009.

1. The evolution of international brand portfolios
The brand portfolio of a company consists of all brand names of products or services that this company offers worldwide. The concept of the international brand portfolio is therefore positioned at the intersection of, on the one hand, markets where the company operates, and on the other hand products/brands offered by it together with the countries in which the brands are present. Reflections on international brand portfolios are therefore based on both the analysis of strategic business units within the company, the markets/brand dimension and the international deployment thereof.

A historical analysis of international brand portfolios of large multinational organisations, based on the work of Kapferer (2004), leads to the conclusion that two major periods followed one another: their growth and their reduction.

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1.1 The growth of international brands portfolios
Three main reasons explain the extreme growth of international brands portfolios of multinationals, particularly European ones, up to the 1990s.

Firstly, the fact that these companies were often fairly decentralized organization and a multidomestic marketing approach. Furthermore, legal aspects also explain the inflation of brand names. Many brands have in fact been initiated locally without checking the availability of their name abroad and therefore without filing and protection of the name outside the country or pioneer area. Finally, major groups have been aggressive external growth since the 1980s. The numerous mergers and acquisitions have also led to the exponential development of portfolios.

1.2 The reduction of international brands portfolios
In the late 1990s, because of profound changes in the economic environment, companies had to focus on profitability, to move towards a more holistic approach in their marketing and reduce their international brand portfolios.

Initially companies noticed different changes in the economic environment (strong increase in advertising costs and R&D, increasing competition, strengthening of retailer power, consumer trends).

Faced with these difficult conditions and the inability to effectively support all the brands in this new context, companies have been forced to question their business model to maintain profitability, to give more importance to financial indicators and measures of return on investment and reduce their international brands portfolios, focusing on a few mega-brands.

As a result, companies have decided to reduce brand portfolios at two levels, strategic level (redefinition of SBU priority) and operational level (restructuring of brand portfolios by market).

If the reduction of international brands portfolios seems necessary, it raises questions and debates about its impact on the overall performance of the company (Morgan and Rego, 2009). Indeed, cultural differences that had previously led to local adaptations of brand names, their positioning and their marketing mix, have often been ignored. The reduction has also taken less account of differences in local competitive structure and the need for specifically tailored responses. As Schilling and Kapferer (2004) have shown, it often leads to the elimination of local brands in favour of global brands, which is not always justified and appropriate. It also creates a requirement to maximise the highest priority global brands in the portfolios at the risk of losing these brands’ souls and make them confusing to consumers.

To explain how we arrived at these potentially harmful consequences, we present the different steps followed in the reduction of international brand portfolios.

2. The analysis of international brand portfolios
Based on recently completed projects in large multinational and research studies that have been conducted (Kumar, 2003; Aaker, 2004), analysis of international brand portfolios can be presented as an iterative process which is accomplished in several steps: identification, classification, implementation and assessment.

We will present in this part the strategic and operational movements that led to the reduction of the P&G European brand portfolio in the laundry category. We will then compare them with the current results of the company in this market.

At the initial stage of thinking about its brand portfolio in the laundry detergent category, Procter & Gamble had seven brands in France. Starting from a base of four brands (Ariel, Dash 2en1, Vizir and Bonux) the group purchased two additional brands from Colgate-Palmolive in late 2003 (Axion and Gama) and then, in late 2004, added one further brand (Mr. Propre) which had been extended into the detergent category (Figure 1).

2.1 Identification
The first step is to identify the international brand portfolio within the global strategy of the company and in particular the high priority strategic business units.

This involves, first listing, and counting, all the brands belonging to the group or company. This action is a prerequisite before undertaking any analysis. It is usually based on official documents including price listings used in different countries. Secondly, each brand portfolio must be evaluated according to specific relevant criteria. Based on the practices of multinational companies and academic researchers (Aaker, 2004; Kapferer, 2004; Keller, 1993, 2004), we can identify two major dimensions of criteria to consider: the performance of the brand and its strategic role.

2.1.1 Brand performance
The performance of a brand can be understood from both its brand equity (customer-based brand equity or customer equity) and strength (competitive advantage of the brand in its markets). Brand equity is assessed primarily in companies based on awareness and image, which are considered as antecedents of preference, loyalty and, in some cases, the price premium paid for the brand. The strength of the brand is mainly estimated by turnover, ranking in the market, market share and profit. In particular, the ability of brands to fund a sufficient level of communication support is examined, taking into account the minimum levels of media investment that may be determined by country.

2.1.2 The strategic role of the brand
The strategic role of the brand is assessed firstly in terms of its fit within the strategic business units defined as priorities by the company. It also takes into account the potential for the brand to be extended into other categories or geographical areas. Finally, it takes into account the extent to which the brand may legitimately claim to have a unique positioning, relative to other brands within the international portfolio.

Whilst it appears to be necessary to first evaluate brands in order to compare them, this initial phase already reveals some organizational and measurement difficulties.

2.1.3 Organizational problems
Companies continue to reflect on the best type of organization to implement: should there be an international project team charged with carrying out a “top down” approach, conducting a comprehensive global analysis, taking decisions at the international portfolio level and enforcing these decisions locally, with the risk that these may not be supported at country level during the implementation? Or is it better to invite local project teams to create “bottom up” analysis based on country data and consolidate these at the global level, with the risk of obtaining inconsistent local decisions?
Multinationals may also face problems in the collection of the information necessary for analysis. They often seek to standardize the process by conducting studies on the same brands at the same time.

2.1.4 Measurement problems
The measurement of customer-based brand equity and brand strength remains the subject of much discussion and questioning. On the one hand, there are many consultants offering measurement models for overall brand evaluation. On the other hand, many brand equity evaluation models have also been developed in the academic literature. They are based on different approaches: perceptual approaches (Krishnan, 1996; Keller, 2004), approaches based on the preference and choice of branded product (Kamakura and Russel, 1993; Swait et al., 1993; Park and Srinivasan, 1994; Jourdan, 2001) or on the price premium or turnover (Ailawadi et al., 2003) of a branded product. These models are heterogeneous, sometimes complex and are mostly all subject to criticism (Swait et al., 1993; Jourdan, 2001; Czellar and Denis, 2002; Ailawadi et al., 2003). As a result, in the absence of a universally accepted model or measurement system, each company resorts to developing its own tools and inevitably encounters difficulties in the process.

Indeed, the selection of indicators to be adopted is the primary concern and leads to trade-offs within companies that can distort the debate, with a tendency towards excessive emphasis on global brands at the expense of local brands.

Furthermore, certain measurements are not easy to implement: how best to assess the future ability of a brand to generate profit within its own market and elsewhere (brand extensions and geographical extensions)? In addition, the measurements are not independent of each other. It is therefore necessary to have synthetic measures in order to take decisions on trade-offs. This, in turn, leads to issues of criteria weighting and subjectivity. The objective must be to avoid penalizing local brands that may have strong customer-based equity and positioning uniqueness (Schuiling and Kapferer, 2004), but remain weak in terms of brand strength, especially total turnover and profit.

Finally, the performance of brands and their strategic role are often apprehended by rational measures. However, human aspects are also very important in addressing the problem of international brands portfolios (Laforêt and Saunders, 1994). How should non-rational aspects (corporate history, structure, philosophy) be integrated into the analysis, in order to prevent resistance from local marketing teams and sales forces?

Regarding the case of Procter & Gamble and its portfolio of laundry brands, the restructuring decision was taken in 2004-2005 on the basis of four initial observations. The French detergent market was large, but had been in the maturity phase since the early 2000s. It was crowded and complex with, on average twice as many product references as in other European countries. It had become even more competitive.
with the strong growth of private brands and hard discounters that were developing fast due to the fundamental changes in consumption patterns. Finally, Procter & Gamble's "traditional" competitors had smaller portfolios with four brands for Henkel and three for Unilever.

2.2 Classification
The second step is to determine, firstly, the number of brands to keep and, secondly, to classify brands in different categories.

To set the target size of the overall brand portfolio, a dual approach is often used: a portfolio approach and a segmentation approach. The portfolio approach is to keep only those brands that meet certain criteria. The complementary segmentation approach makes it possible, once relevant segmentation criteria have been identified (quality, type of use, benefit offered to consumers, type of distribution channel...), to determine the number of brands required to cover the various segments in the different markets.

At the international level and before its merger with Gillette in 2005, Procter & Gamble had set itself the target of reducing its portfolio to 300 brands and concentrated its efforts on 16 "dollar billionaire brands". This objective was established from both a portfolio analysis and a revision of the segmentation approach, market by market. Thus, a segmentation by price tier and a behavioural segmentation were conducted in the detergent market. In a context of increasing price sensitivity and demand for entry-level and private label products, a segmentation based on prices seemed relevant in order to determine the number of brands to be retained in the portfolio. Behavioural segmentation had also been conducted in Europe (the UK, France, The Netherlands, Italy, Spain) in 2004 by TNS Infratest Marketingforschung to measure the mechanisms, both implicit and explicit, that condition women's behaviour regarding detergents (expectations, attitudes, background, motivation and "reward"). Each detergent brand was then placed by the consumer on a matrix, according to attributes (performance, brand, price and use).

Once the size of the overall portfolio has been determined, the strategic brands to be retained are organized into categories. The designations differ between companies but generally, we find the following groups.

2.2.1 Global brands
These are the priority brands which seek international presence and are to be managed in the most standardized way possible (unique name, unique positioning, marketing mix as global as possible). They benefit from the innovations and are the main vehicle for business growth.

Procter & Gamble had identified 16 strategic billionaire brands (Pampers, Charmin, Bounty, Always, Tide, Ariel, Downy, Pantene, Wella, Head & Shoulders, Crest, Olay, Pringles, Folgers, Iams, Actonel), which were already generating nearly 60 per cent of its global sales at the beginning of the process of restructuring. This group includes Ariel, that is sold everywhere in Europe but also in Brazil, India, Japan, Mexico, Panama, Pakistan, Peru, Philippines, Turkey and Venezuela.

2.2.2 Glocal brands
These are local brands based on a global positioning. These are also priority brands, which, for historical reasons, have different names but identical positioning and a global marketing-mix, and are designed to be managed as globally as possible. Some local or regional brands that originally had a similar positioning, but have been developed to have a unique positioning, are also included in this category.

An example of this situation can be found within Procter & Gamble with the brand named Dash 2en1, sold mainly in France, Germany, Austria, Holland and Switzerland, and as Bold 2in1 in Great Britain, Spain and Bolt 2in1 in Italy.

2.2.3 Local or regional brands
They have a very strong position and are considered real jewels, even if they are not intended to or able to become global brands. They play the important tactical roles of "flanker brands", "fighter brands" and "prestige brands" in the portfolio of a country or zone alongside global or glocal brands that are most often "bastion brands". They respond better to local needs than any regional or global brand in the portfolio (Schuiling and Kapferer, 2004). They increase the barriers to entry for competitors and generate profit and growth in the countries concerned.

In France, during the process of restructuring the Procter & Gamble brand portfolio, the brand Bonux was identified as part of these "jewels". It is not, in fact, intended to be developed internationally, even if it also exists in some Eastern European countries.

2.2.4 Non-strategic brands
By difference, other brands are considered non-strategic. There are mainly:

- brands inconsistent with the general strategy of the company and its priority strategic business units;
- brands, often local, with low performance (including profit) and/or a limited strategic role (positioning redundant, low ability to brand or geographical extension);
- in some companies, brands whose sole weakness is being local.

For Procter & Gamble, three of the seven brands in the initial portfolio have been considered as non-strategic, albeit for different reasons. These are Mr. Propre, Vizir and Axion. The Mr. Propre brand had been extended to the category of detergents in France in November 2004 following the behavioural segmentation study. It was intended to meet the expectations of consumers not covered by the other Procter & Gamble brands. However, the results have never attained the desired objectives.

The same segmentation study revealed that the Axion brand, which was bought in 2003, duplicated Dash 2en1 in terms of consumer expectations.

Finally, Vizir was also one of the non-strategic brands. This brand is known in France almost exclusively for its product references in liquid detergents, which limits its potential for overall performance.

At this crucial stage of classification, many new questions arise concerning the size of the brand portfolio and the potential trade-offs.

2.2.5 Size of brands portfolio
To our knowledge there has been no reflection on this area. Should it be compared to competitors? Should it be based on the total turnover of the company? How best to take into account the non-rational factors such as history, company
structure and philosophy that influence the choice of firms (Laforet and Saunders, 1994)?

2.2.6 Trade-offs
On the one hand, how to arbitrate between the choice of a single global brand and the management of local brands with different names and identical positioning?

On the other hand, how to ensure that the choice of managing brands on a local level (different names, unique positioning) will be more efficient than the previous model (different names, different positioning)?

How to arbitrate between global brands and local brands with close positioning?

Finally, how to find the right balance in the portfolio between global and local brands? How to avoid sacrificing local well performing brands?

Firms are still searching for methods and analysis based on previous case studies to help make these trade-offs appropriately.

2.3 Implementation
The third step is to make strategic decisions at the global level and then implement those decisions at the local level.

The extension may be geographic and consist of introducing the brand in new countries. It may also consist of a brand extension in terms of range or new product categories.

2.3.1 Decisions on non-strategic brands
The non-strategic brands are affected by two major decisions: “brand disposal” and “brand retirement”.

2.3.1.1 Brand disposal. The objective is to find a buyer in the market for those brands not selected as priorities but with a marketable value. Buyers may be international groups interested in enhancing their brand portfolios within a strategic business unit or SMEs interested in strong local brands.

It is important to distinguish between cases where brands are sold together with their products and where only the brands are sold. The brands are usually sold together with their products when they are not the primary strategic business defined by the firms. Brands can be sold without their products (or just a portion of their products) when companies feel they are too weak in terms of performance or simply too local and that another brand within the portfolio has a higher priority. In this case, the products are retained and are subject to brand name changes.

2.3.1.2 Brand retirement. Brands, with such poor performance and/or low strategic importance that they have no market value, are abandoned.

Again, these brands may be discontinued at the same time as their products or independently. The company may abandon the brands and their products either immediately or gradually, giving them minimal support, the objective being the maximization of the margin and profit. The company may abandon the brands but keep their products. These are then also subject to a brand name change. In this case, the brand is often abandoned after several steps. The brand begins by a change of status, becoming endorsed by a more strategic brand. Then it is finally abandoned.

Procter & Gamble abandoned the Mr. Proper detergent brand overnight in France, and it now exists only in Germany and Switzerland. The group abandoned the brand Vizir gradually, considering it as a “cash cow” at the end of its life cycle, and therefore stopping all investment in marketing and advertising. Finally, with Axion, because of the proximity of its positioning with that of Dash 2en1, it was decided to carry out a conversion plan to bring consumers from Axion to Dash.

2.3.2 Strategic brand decisions
The main objective for strategic brands is to develop. If the status quo solution is the minimum option, the more ambitious solution of brand extension is often preferred.

The extension may be geographic, launching the brand in new countries. It can also be a brand extension in terms of new range or product categories.

The extension of global brands in terms of countries, or range, or product categories can be direct. It may also be more indirect, through substitution of brands that have been abandoned or sold or through the endorsement of brands at a lower level (global or local).

In terms of implementation, the brand Bonux can be classified as status quo, insofar as it has only been relaunched operationally, with a reworking of the product mix through the logo, the packaging and a gift partnership with Universal Music.

For the other three brands (Ariel, Dash 2en1 and Gama) changes were much more strategic. The Ariel range has been gradually extended over time, via a continuous series of innovations. It is also the case for Dash 2en1 which, in addition to the merger with Axion, has undergone a series of launches to repositioning the brand upwards. Finally, Gama has been repositioned in the “entry level” tier with a new economic model based on “everyday low price”. This repositioning was important insofar as Procter & Gamble had no brand in this tier which is the only one of the detergents market to grow steadily. This new model has led to an exclusive focus on the price (lower price and trade marketing operations) and the abandonment of support media.

2.4 Assessment
Having reviewed the various phases of the process and implemented the decisions, the companies engage in an assessment process of their new brand portfolio.

They can decide, if necessary, to complete it. Having redefined their strategy, prioritised the different strategic business units together with analysis and classification of the brands in their portfolio, they may indeed seek to expand it to strengthen their global position in their priority markets.

Finally, the analysis of international brands portfolio is an ongoing process. Indeed, the development of international markets, changes in competition, and the opportunities for acquisition of brands require companies to continually develop and evaluate their international brand portfolios. Regular analysis is therefore recommended (Douglas et al., 2001). The periodic audit provides the opportunity to take stock of the situation following the decisions taken, and to take new decisions that reflect the changing environment.

The long-term results of this restructuring are difficult to assess, all things being equal, since the detergents market has changed considerably over this period. After experiencing a quasi-mechanical loss in its global market share, related to the abandonment of three brands, Procter & Gamble was able to regain market share growth with its remaining four strategic
brands. The portfolio is also more responsive to recent changes in the category since the development of the “entry level” tier has continued to increase in recent years. Thus, over the period 2004-2009, the private label brands rose by nearly 10 market share points in value at the expense of national brands. Through this process of rationalization of its portfolio, Procter & Gamble still accounts for one-third of the total detergent market by value.

Conclusion

The article highlighted the fact that following a period of relatively uncontrolled development of their international brands portfolios, companies then decided to take a much more rigorous approach to this highly strategic area of management. They initially focussed heavily on reducing their international brand portfolios, because of the opportunities in terms of economies of scale, profitability and value creation. However, they found that this practice was not without risks, the main threats are the sometimes unnecessary elimination of local brands, the implementation of potentially dangerous changes in brand names and the over extension of global brands.

We believe that companies should make improvements in the management of their international brand portfolios and that this requires the establishment of a good balance between development and reduction in brand numbers, good coordination between the purely “top-down” or “bottom-up” practices and a good balance between strong local brands and global brands.

As we have mentioned, the best way forward has not yet been specifically defined and many questions remain. These questions are definitely worth pursuing in the context of very promising research on brand portfolios.

References


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