

# Driving Brand Management through Effective Brand Equity Measurement

By Stefan Binner and Werner Hoffmann-Wiebe

## **Abstract**

*This paper describes different aspects of successful brand management supported through Marketing Research.*

*The authors discuss various branding issues from the global strategic perspective of a leading manufacturer of adhesive products for the professional market.*

*Case studies are used to demonstrate the threats and challenges to brands in mature adhesive markets and how state-of-the-art-marketing research can successfully support strategic brand steering in a highly competitive environment.*

## **Bonds the impossible!**

‘Nobody wants to be lonely...’ (Estefan, G. / Iglesias, E.)

Adhesives go unnoticed by the general public for the most part, simply because they perform most of their work unseen. Nevertheless, their world is fascinating and often full of surprises. (Guido De Keersmaecker, Executive Vice President, Henkel)

Adhesives are designed to join two parts and without them our world would literally fall apart. Without adhesives you could not use your mobile phone or your lab-top. The chair you now sit on could not carry you and the floor in this room would not be fixed. Even the transfer to this conference would be different because without adhesives no aircraft would fly and no car would move.

Using the wrong glue result in a disaster as the ancient myth of Daedalus and Ikarus informs us. If only Ikarus had not come so close to the sun! After all, wax melts when exposed to heat. At normal temperatures, it is a solid. Just like today's hot melt adhesives that you might have used for creating Christmas decoration last year.

The history of adhesives is as old as humanity itself. In the Stone Age, tools and weapons were fashioned with the help of tree resin and pitch. Some 6,000 years ago, the Sumerians glued gold to wood. The Romans introduced the best known adhesives of the ancient world - casein, hide and fish glue - to Central Europe. These adhesives sufficed for centuries, bonding materials, such as paper, cardboard, leather and wood. Adhesives were at first only a means to an end. Their significance grew only after the invention of letterpress printing, when larger editions of books began to be published. Paste and glue were used more widely after 1800, when wallpaper and fine furniture became common in the parlours of the bourgeoisie. Industrial manufacturing of mass-produced articles at the end of the 19<sup>th</sup> century ushered in a new era for adhesives. The packaging needs for these mass-produced products and the large-scale production of appropriate packaging materials required strong faster-acting adhesives. Chemists, physicists, and application engineers had to solve the problem. This marked the dawn of the adhesives industry. Even today, packaging adhesives constitute a significant product group at Henkel. After all, consumer and utility goods for everyday life are packaged. And almost every package is glued. Adhesives are rarely noticed, yet they are always there. They transfer simple packaging materials into functional packaging, which, with printing or labels, communicates the quality of the merchandise it contains to the consumer - an essential characteristic of every branded product.

The Henkel adhesives story mirrors the breakneck development of macromolecular chemistry during the last century. The company has exploited the rise of synthetic polymer chemistry to produce fundamentally new adhesives, in parallel to the processing of natural raw materials. Henkel has ensured itself considerable growth potential for the future, by achieving technological pre-eminence in the world adhesives.

Since the company was founded in 1876 packaging has played an important role at Henkel. The company's very first product, Henkel's Bleaching Soda, was packaged in sturdy paper bags. In 1907, Henkel's Persil, the world's first self-acting detergent, came onto the market in little packets. At that time the packets were sealed with glues that came from specialized suppliers. However, at the beginning of the 1920s, when a shortage of

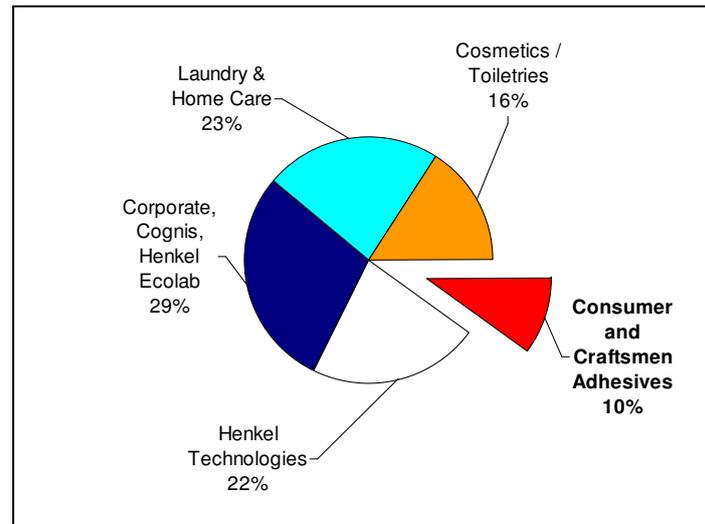
supplies seemed imminent, Henkel decided to produce glues itself. Although the initial idea was just to meet the company's needs, neighbouring firms soon began to express interest as well. On June 22, 1923, Henkel glue was supplied to outside customers for the first time, and the Henkel Adhesives Business, now number one in its field globally, was born.

Henkel Adhesives has a developmental history stretching over 75 years, and a vast pool of experience, which is consistently applied to the ongoing development of the international adhesives business.

The following chronology illustrates some highlights of the development of Henkel's adhesive business:

- 1928 Henkel begins to export adhesives
- 1929 Henkel starts export to Australia and South America
- 1933 Henkel starts of own production in Britain
- 1936 Introduction of Henkel-Zellkleister (foundation of leadership in painting and decorating trade)
- 1946 The first Thomsit flooring adhesive is launched
- 1953 Introduction of Metylan wallpaper paste (based on methyl cellulose)
- 1956 Launch of Pattex contact adhesive
- 1959 Launch of Ponal - a new type of cold setting wood glue
- 1964 Tangit, an adhesive for PVC pressure pipes is launched
- 1969 First glue stick in the world - Pritt - is launched
- 1975 Launch of first solvent-free PU-adhesives for food packaging (Liofol)
- 1986 Henkel acquires Rubson in France
- 1992 Henkel acquires Nitromors in the UK
- 1993 Joint-venture company Henkel-Teroson Adhesive established in Shanghai
- 1995 Acquisition of the brand Tenaz in Brazil
- 1997 Acquisition of Loctite
- 1998 Acquisition of Manco in the US

2001 was the year of strategic realignment. The business was structured into four business sectors. One of these sectors is Consumer and Craftsmen Adhesives with total sales of 1,275 million Euro, which is now a third brand business for Henkel alongside

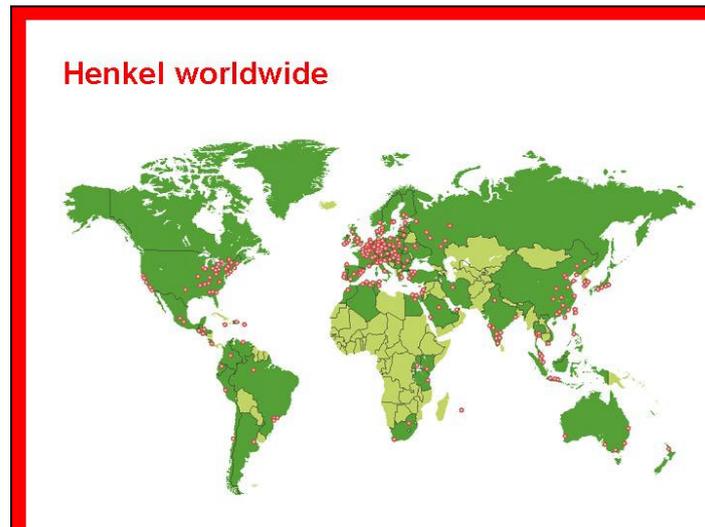


Graphic 01: The Adhesives Business Unit within Henkel - 2001

Cosmetics/Toiletries and Laundry & Home Care. This new structure shows the clear commitment to branded consumer goods as expressed by the company's new claim: "Henkel - A brand like a friend". To put it with the words of Henkel's CEO Ulrich Lehner: "It is a promise made to our customers: with our strong brands and advanced technologies, Henkel makes people's life easier, better and more beautiful" (Lehner in: Annual Report 2001)

Today the consumer adhesives business sector is selling 20.000 SKU (Stock Keeping Units) worldwide. Most production is in Western and Eastern Europe and North America. Henkel also has its own production in Asia/Pacific, Central and South America and Africa. This global structure presents significant challenges in terms of steering and logistic processes.

The branded adhesives are directly distributed by Henkel in more than 60 countries. Henkel has taken the decision to reduce the brand portfolio in order to concentrate on a few, internationally strong lines. Brands with no more than local importance will be integrated to international brands or, where appropriate, sold. This illustrates clearly Henkel's focus is on major brands which will be further consolidated and expanded. The ultimate goal of this international brand strategy is not merely to leverage a global brand. "Whether a global brand is appropriate in any given case is a secondary issue. The primary goal is to drive a new product or marketing concept around the world as fast as possible." (Hamel/Prahalad, 1994)



Graphic 02: The Worldwide Henkel Organisation

## The permanent challenge - Competition in a global context

Globalisation has become a buzzword today. In recent years a great deal has been said and written about globalisation and its consequences for the development of our world and the future of our lives.

Henkel developed a global perspective very early in its history. It was Helmut Sihler, the former, visionary CEO of Henkel who stated "... The next century, the century of our sons and daughters, will be the critical century. At the latest then mankind must find a new balance between itself and nature. Mankind must learn to manage the biosphere; which means: it must learn to manage itself." (Helmut Sihler, Reden und Aufsätze, 1988). For the company it means to "taking the long-term view: we must constantly revise our product-portfolio through research and marketing to develop ecologically better products. We must constantly improve our factories in terms of emissions and effluents; we must be willing to change our mental attitudes through reflection, information, and discussion." (Helmut Sihler, 1988)

We no longer act in local, national markets anymore. Our marketplace is the world. That means two things: the number of competitors has increased and competition is increasing. Only through excellence in all respects can a company expect to remain successful. As a market leader, it is, by no means enough, to produce commodities and expect success. Commodities are by definition cheap and readily available to a vast population. Some commodities are even sold in large quantities on spot markets. In order for suppliers of branded products to maintain a leading position it is mandatory to develop and to offer products that show a Unique Selling Proposition that cannot be counterfeited or imitated easily. However, an excellent product alone will not succeed without the right brand management. "Those companies that have built banner brands that predispose customers to try their new products, that have secured access to critical channels around the globe, and have developed an internal capacity to quickly propagate new product innovation will, other things being equal, capture the competitive high ground." (Hamel/Prahalad, 1994)

## Definition of new roles

Within recent years DIY-trade channels (consumer hardware stores) have undergone a major concentration process. At the same time, the market growth in Western Europe has generally been slowing. In Europe, growth rates for the DIY business vary between 0.5 per cent (Germany) and 6.3 per cent (Britain).

Today Castorama/B&Q is the biggest DIY-retailer in Europe with more than five hundred outlets, followed closely by OBI, a German DIY retailer with approximately four hundred and fifty outlets.

In the professional sector one can observe a similar development. A select set of trade companies have consolidated their position on the market. This is attributed to superior distribution strategy learned: "Global distribution reach will be necessary to capture the rewards of leadership and fully amortize associated investments". (Hamel/Prahalad, 1994)

Given the consolidation of the retail trade both in the consumer and professional sectors, good relationship between the manufacturer and retail trade has become of paramount importance.

Henkel supports development of retail relationships with a sophisticated Category Management tool called Cat\*Master. Within the framework of Category Management and an improved retail relationship, a manufacturer is better positioned to influence relevant factors at the POS (Point of Sale). Sometimes category management is limited to shelf optimisation, which is insufficient. Of course, shelf optimisation is an important component of category management, but there is much more. Category Management is a process that establishes close cooperation between retail trader and manufacturer. At Henkel and elsewhere it has been proven to increase business results through customer satisfaction.

The standard Category Management approach used at Henkel is a seven step process (see Ebbers, 1997):

1. Category Definition
2. Category Roles
3. Deviation Analysis
4. Category Strategies
5. Category Tactics
6. Development/Implementation Measures
7. Measurement of Success

If the Category Management process works well one can achieve a 'triple win' situation, for trade, manufacturer and customer. Although Category Management is a recent tool, it has already been demonstrated that it can bring about an evolutionary development changes in manufacturer retailer relationships, moving this towards partnership status. (See Hahne, 1998)

## Private labels

‘One of the most visible retailing phenomena during the last decade is the spread of private labels or retailer branding.’ (Kotabe/Helsen, 2000). The retailer or store brands were born in the nineteen thirties. (See Oehme, 2001). The main reason for the development of private labels or retailer brands was the objective of generating greater customer loyalty and enhancement of identity for retail chains.

In the beginning retailer branded products were typically associated with inferior product quality and poor packaging design. For a long time, many marketers at the branded product companies considered that private label was not a significant threat to their traditional brands because private label products would only appeal to a price sensitive minority segment of consumers. This early reality has subsequently changed dramatically, with considerable upgrading of product and packaging quality in the private label business. Penetration by own label has increased and many manufacturers have now awoken from their complacency with a painful experience.

Today, there are a plethora of different private labels strategies for the market. They come as store brands, store sub-brands, umbrella brands, individual brands or exclusive brands. What they all have in common is that a label is unique to a specific retailer or retailer group.



Graphic 03: Branded Product vs. No Name Products

The phenomenon of private label has occurred mainly in the mature markets of Western Europe and North America. In Japan and most other Asian countries, on the other hand, store brands still have marginal significance. Consumers in this region of the world tend to exhibit high brand loyalty.’ (Kotabe/Helsen, 2000)

In Europe with respect to adhesives and sealants, private label penetration has been strongest in the UK. Sealant private labels now have a market share of around 30%. Even in Germany, private label sealants have achieved a market share of 28%. Based on the experience in other product sectors, notably some FMCG (fast moving consumer goods) - categories, the penetration of private labels may even reach a market share in excess of 50%!

There are several reasons why private labels has been able to develop so successfully. The most important is probably that the quality gap between private labels and branded products has been significantly eroded. Some food retailers, for example, have already developed private labels with a premium positioning. Additional explanations include the shift in the balance of power between trade and manufacturers and the internationalisation of the large retail chains. Furthermore the weak economic situation in Western Europe has supported the development of store brands.

Short-term brand strategies and an inflation of new brand launches of me-too products, without a real USP are a further reason for advance of private labels (Meffert/Burmann).

Private labels represent a real challenge to all established branded products. If manufacturers do not react they will lower market share, turnover, profit margin and finally the very substance of the company.

## Role of market research

It was Fritz Machlup who first tried to estimate the contribution of knowledge work to the economy. Later Peter Drucker used the term 'knowledge society' in order to describe contemporary societal change. Within Daniel Bells concept of the post-industrial society theoretical knowledge becomes the 'axial principle' of society.

Obviously knowledge is a key production factor (Stehr, 2001) and it's quality and allocation is a critical factor for success. As the interface between customers and our organizational system and its subsystems, market research plays an important role in generating the knowledge that is needed. The instantaneous availability of ever increasing resources of information and information about information has vastly increased the need to evaluate the value and relevance of the information (Earl). Therefore, capability of converting data into knowledge is considered crucial for success at Henkel.

Basically, at Henkel market research is divided into strategic and tactical marketing research. To put it simply, strategic marketing research studies tell us where to go and tactical marketing research studies how to get there.

examples of strategic research:

Market positioning analysis  
Brand image studies  
Consumer insight

...

<<<<----- >>>>

Concept Testing

examples of tactical research:

Packaging testing  
Communication efficiency  
Pricing

...

Today, market research is an essential element in the process of decision making within Henkel Adhesives. The role that the market researcher takes in the organization is that of a consultant to both global and local business units, and acts as a form of knowledge broker. Research takes place in a clearly defined process that normally starts with a more or less specific question coming from marketing, category or key account management. In the ad-hoc research sector Henkel cooperates with full-service agencies that conduct projects based on a precise briefing coming from Henkel management.

## Case Study 1: Regular Brand Positioning Maintenance

Henkel Adhesives serves both consumer and craftsman markets. Craftsman markets significantly different to classic FMCG market places in many ways. For this reason conducting marketing research in this sector requires agencies that are familiar with such b-2-b (business to business) markets.

The end-markets are defined by applications (which adhesive solution?), end-user types (who is using the adhesive?), distribution (through which channels are the adhesives sold), regions or countries.

Henkel brands and products are characterised by a strong image and a high reputation, based on superior product quality and efficient marketing communication and sales. However, market competitors are permanently challenging throughout the lifecycle of an adhesive product.

Over time, the market situation can change and certain USP (unique selling propositions), which were believed to be the fundament for the product's success may be eliminated. Periodical measurement and analysis of the market positioning is therefore mandatory. Such 'Regular Brand Positioning Maintenance' allows the responsible product management to apply the necessary adaptations in marketing mix and brand architecture.

Although adhesives markets are not as fast moving as classical FMCG markets it is, nevertheless, necessary to measure changes and to predict developments in order to always be up to date and in a position to defend a brand's position.

The use of marketing research to support strategic brand steering is illustrated hereafter with some examples of case studies based on research conducted by **bms** for Henkel Adhesives Brand Management.

### The Case

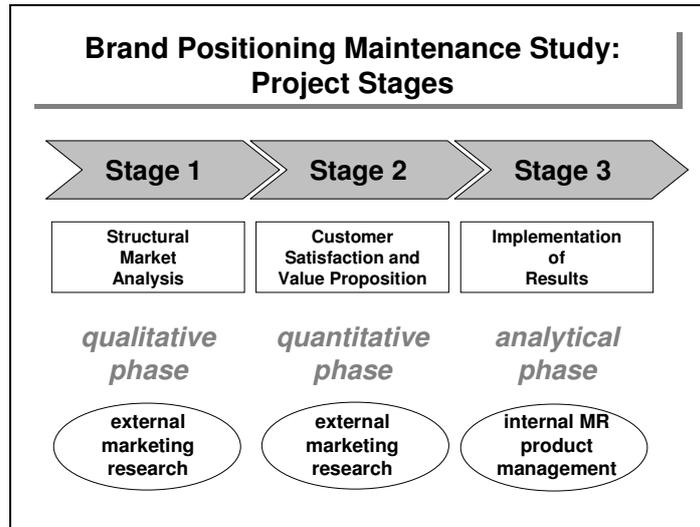
The subject of this first case study is a well known Henkel brand. It concerns a product range of adhesives and sealants targeted to the (professional) craftsmen in the construction and renovation business. The product was seen to be the market leader in Germany due to it's quality and Henkel's superior service.

As a means of periodical verification of the market positioning and the expected leadership, a systematic market research study has been initiated by Henkel. In close co-operation with the internal market research department, **bms** developed a positioning study to measure both customer satisfaction and the value proposition of the Henkel brand.

The objective of the research is to answer four research questions regarding the current situation:

- Is the Henkel brand image still perceived as superior?
- Has the customer's perception regarding product quality changed?
- Are the customers aware of the total product performance of this Henkel brand?
- Does the brand still own a USP?

The study was divided into three stages:



Graphic 04: Project Stages of Brand Positioning Maintenance Study

**Project Stage 1: Structural Market Analysis**

In some companies positioning studies often rely too much on the direct input from sales and marketing management, which, while providing valuable experience and knowledge may also bring inherent risk of bias and pre-judgement to the process.

The Structural Market Analysis (stage 1 of Brand Positioning Maintenance Study) avoids this risk by combining a variety of methods and sources, especially focused on the end user, in order to provide a solid basis for the second project stage.

The combination of different methods and target groups optimises the efficiency and the reliability of the results. The techniques used to achieve this are illustrated in the following table.

<b>Methods</b> ==>	<b>Internal Audits</b>	<b>Desk Research</b>	<b>Explorative Interviews</b>	<b>Expert Interviews</b>
<b>Target Groups</b> ==>	<i>Sales and marketing mgt.</i>	<i>Secondary sources</i>	<i>End users of the product</i>	<i>Market experts</i>
<b>Objectives:</b>				
Identification of total market opportunity	○●●●	●●●●	○○○●	○○○●
Identification of competitors (offer, ownership, strategy etc)	○○●●	○●●●	○○●●	○○○●
Identification of the end user (profession, organisation etc)	○○○●	○○○●	●●●●	○●●●
Identification of distribution channels (push, pull)	○●●●	○○○●	○○●●	○●●●
Definition of market segments reached by Henkel	○●●●	○○●●	○○●●	●●●●
Analysis of product specification process	○○○●	○○○●	●●●●	○○●●
Analysis of discriminating product features	○○●●	○○○●	●●●●	○●●●

Table 1: Method Mix in Phase 1

## Project Stage 2: Customer Satisfaction and Value Proposition Study

Based on the results of the Structural Market Analysis, the research team was able to design a customer survey which respected the reality and structure of the market place. For example, the market was found to be more segmented that had originally been envisaged.

400 telephone interviews with two different target groups were conducted. The topics covered included:

- ⇒ Activities of companies interviewed
- ⇒ Awareness of suppliers
- ⇒ Product requirements
- ⇒ Test of new service concepts
- ⇒ Importance of criteria
- ⇒ Evaluation of the Henkel brand and competitors
- ⇒ Loyalty measurements

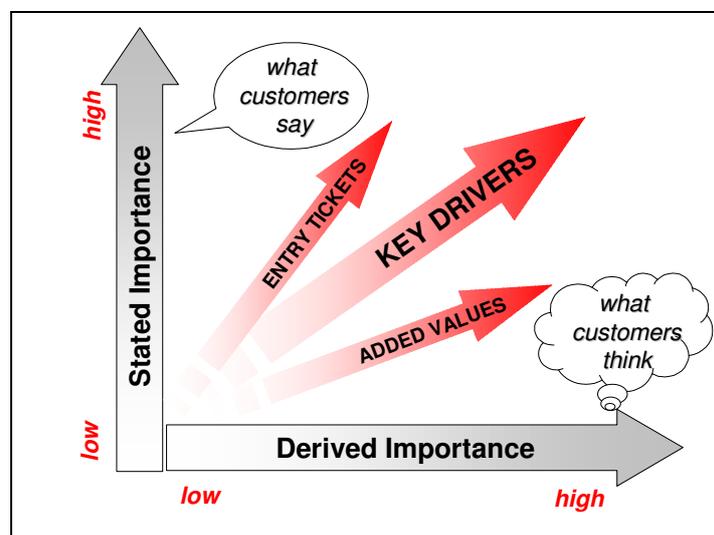
### Outcome of the study

The most important results and findings were found in following areas:

1. *Analysis of Criteria importance*
2. *Customer Dissatisfaction Index C.D.I. ©*
3. *Perceived Brand Performance*

### Analysis of criteria importance:

Through measuring both the stated and the derived importance of criteria (usage of trade-off questions and influence on loyalty) one is able for identify on the one hand “what respondents said” and on the other “what respondent meant”. Combining this information one can identify the hot spots in the customers importance hierarchy.



Graphic 05: Analysis of Criteria Importance

## Customer Dissatisfaction Index C.D.I. ©

The C.D.I. © (Customer Dissatisfaction Index) was introduced by *bms* in 1993 in response to an inherent failing of traditional 'Gap Analysis' techniques. These commonly fail to actually identify case specific 'gaps' between the customer's expectations and the perceived performance of a supplier or brand. Traditional 'gap analysis' compares aggregated ratings with importance results. But this aggregation can actually obscure exactly those 'gaps' one wants to identify, as following example shows:

<b>Overlooking the 'Gap'?</b>				
<b>The difference between traditional Gap Analysis and the C.D.I. ©</b>				
<b>Scale 1-5, 1 = low/poor &amp; 5 = high/excellent</b>				
<b>Situation 1: Two quite satisfied customers</b>				
	<b>Importance of Criteria</b>	<b>Performance Rating of Supplier</b>	<b>Result with conventional Gap Analysis</b>	<b>Result with C.D.I. ©</b>
Customer 1	4 (high)	4 (high)	n.a.	18.75
Customer 2	2 (low)	2 (low)	n.a.	18.75
Mean Score	3.0	3.0	<b>0.0 no Gap</b>	<b>18.75 low C.D.I.</b>
<b>Situation 2: Two different customers</b>				
	<b>Importance of Criteria</b>	<b>Performance Rating of Supplier</b>	<b>Result with conventional Gap Analysis</b>	<b>Result with C.D.I. ©</b>
Customer 1	2 (low)	4 (high)	n.a.	56.25
Customer 2	4 (high)	2 (low)	n.a.	6.25
Mean Score	3.0	3.0	<b>0.0 no Gap</b>	<b>31.25 high C.D.I. !!</b>

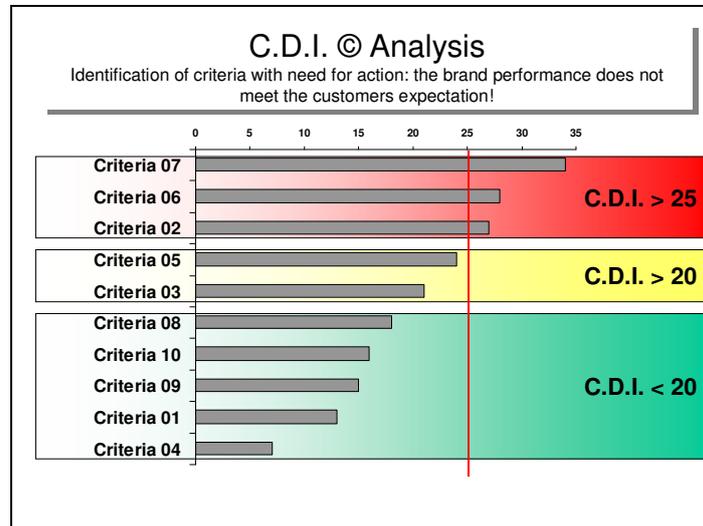
The above table takes two hypothetical markets where  $n=2$ . It compares to situations using conventional gap analysis and the *bms* C.D.I approach. The two situations presented differ in terms of the coherence between importance and performance scores.

Just comparing the mean score results with traditional gap analysis will not identify the situation. The C.D.I. © is able to identify these gaps. The "need for action" can be clearly derived using the C.D.I in a way that would not be possible using traditional gap analysis.

For each respondent individual C.D.I. © values are calculated in the data analysis. The C.D.I. © values range between 0 (best rating or lowest importance) and 100 (lowest rating and highest importance). By empirical experience, a threshold value for the C.D.I. © of around 25 has been retained as the appropriate cut off point for identifying critical improvement areas or "need for action". Higher C.D.I. © values indicate high dissatisfaction.

C.D.I. © results can be used for both identification of dissatisfaction (need for immediate improvement) and market segmentation.

In the case study described here several criteria were identified for which both the Henkel's brand and it's competitor's brands showed high C.D.I. © values. There were also criteria for which specific brands had their individual 'problems'. These were not always those which were expected at the outset of the research.



Graphic 06: the C.D.I. © Analysis

### Using the Perceived Performance to position the brands

R&D and other technical functions often find it difficult to reconcile inadequate performance ratings for 'their' product relative to their own 'scientific' evaluation.

"Perception is reality" is the typical answer of the 'marketer'. In other words, that the position of a brand or product is defined by the PERCEIVED product performance and the PERCEIVED price performance. As a result of market communication, advertising and brand image management, this perception can indeed be different from the physical reality and can be influenced.

To measure the perceived positioning one compares the quality and performance ratings of one brand with all the other brands weighted by the derived importance of the rating criteria and then repeats this process with all price related attributes.

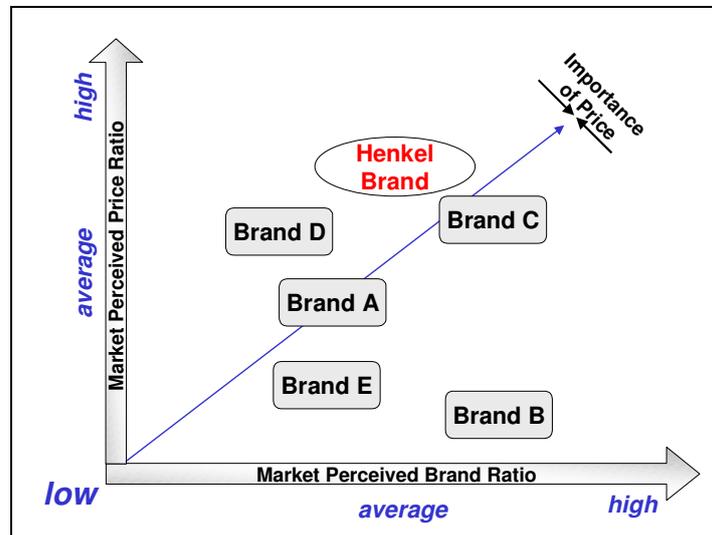
The outcome is two ratios for each brand

1. The perceived performance ratio
2. The perceived price ratio

These dimensions are used to illustrate the current brand positioning from the customers' point of view. Information about price sensitivity can be used to include a 'fair value line' which divides the space into an acceptable and unacceptable area. The slope of the 'fair value line' expresses the importance of price. (See also Bradley T. Gale "Managing the Customer Value")

## Output of Regular Brand Positioning Maintenance

In this example, the perceived market performance of the Henkel brand compared to the competitive set showed an surprising picture:



Graphic 07: The perceived position of the brands

The Henkel product was perceived as being positioned in an average performance location relative to competitive brands. The analysis showed clearly that the determining attributes defining performance had changed. Furthermore the end users were not aware of Henkel's overall performance. Moreover, the Henkel product was perceived as being the most expensive on the market and the importance of price was found to be higher than in earlier market analyses.

## Benefit for the Henkel product management

This study provided both, strategic and tactical results and findings: Strategic results such as the current position of the Henkel product in the market and the finding that the market perception has changed. Tactical results included identification of ways to eliminate the deviation from the planned position. Specific areas were communication (identification of areas with high need of communication improvements), "fire fighting" (need for immediate reaction on own dissatisfaction areas) and competitive information (approaching the market place with improved knowledge of the specific weaknesses of competitive products)

The study enabled the product management to adjust their market understanding and consequently to better target their communication, long term product design as well as their marketing mix strategy.

As a result of the study, the product management strengthened the positioning of the brand and through marketing communication improved the image of ecological leadership, which had been identified as being the strongest market differentiator available. The new positioning is now ecological leadership, which leads to a premium brand and quality position.

## Case study 2: Market modelling and simulation for strategic branding decisions

As already indicated, it is not only in FMCG markets that private labels has become increasingly important. Private labels also gained significant shares in professional building products and DIY markets.

Private labels can also co-exist alongside branded products. The viability of this co-habitation depends to a significant degree upon the depth of relationship that can be established between retail and manufacturer and their respective policies with regard to private labels. There are basically two different models for co-existence: “Complementary Co-existence” and “Aggressive Competition”. The characteristics of these two models are illustrated in the following figure.

<b>Possible Co-Existence of Branded Products and Private Labels</b>		
	<i>Complementary Co-Existence</i>	<i>Aggressive Competition</i>
<b>Brand Manufacturer</b>	<i>Stable or increased production</i>	<i>Direct competition with private label</i>
<b>Retailer</b>	<i>Product range extention</i>	<i>Substitution of branded product</i>
<b>Customer / Consumer</b>	<i>Both end user types</i>	<i>Only cost sensitive end users</i>

Graphic 08: Co-Existence of Branded Products and Private Labels

The most common model is “Aggressive Competition” where the retailer introduces the private label in order to compete with brands in his product range. The raw material or product is often sourced from small specialized, but unknown producers. The private label substitutes the branded product on the shelves. Customers who want the branded product will migrate to another purchase source.

In the second model, “Complimentary Co-existence”, the retailer establishes a private label in order to extend his product range with complementary products. This means that he keeps both, the premium brands for the brand sensitive customers and private labels for price sensitive customers.

In the case of “Complimentary Co-existence”, it is possible that the manufacturer of the branded product will also supply the raw material for the private label (with different specifications from his own branded product) to the retailer. A mutually beneficial situation can be achieved if the total revenues and profits are larger than those obtained by the two parties from the branded product alone. The customer also benefits through a wider choice of products.

## The case

A large retail group in a South European market contacted Henkel with the idea of introducing a private label parallel to the Henkel brand. In this particular market segment the Henkel product has a very high brand reputation, highest awareness and several decades of market presence.

The customer offered to procure the raw material (with modified specifications) for the private label from Henkel and to keep the Henkel brand product in the shelves. It was also stated that the retailer would look for another supplier if Henkel did not agree to this plan.

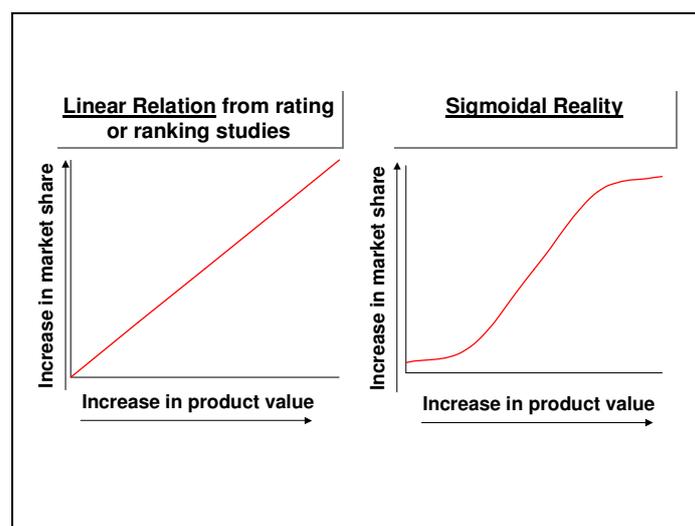
The responsible product management at Henkel was faced with a difficult decision: Would this be a win/win situation? Would the private label cannibalise the brand product? On the other hand, would the private label be successful enough to justify the investment in dedicated production?

Henkel decided to build a market simulation model which could be used to evaluate this opportunity. In order to offer good partnership from the beginning of the project, the retail partner was invited to participate in the set-up and the results of this research.

## The methodology

The marketing research solution to solve this decision problem was a conjoint analysis, which was designed and conducted by *bms*.

Conjoint analysis reflects reality much better than other, linear models. Trade off questions where respondents select products in a hypothetical purchase situation are more realistic than rating or ranking questions. (Choice instead of Rating and Ranking!) Dynamic market simulations using conjoint techniques provide a valid predictor of the 'sigmoidal reality'.



Graphic 09: Linear Relation vs. Sigmoidal Reality

Conjoint analysis can reveal subconscious perceptions and expectations, which are exactly what one has to evaluate when dealing with brand equity measurement. Furthermore (depending on the conjoint methodology) conjoint models can take into considerations interactions between attributes. For example: a specific price could be perceived as low for a premium brand while it is perceived high for an unknown brand.

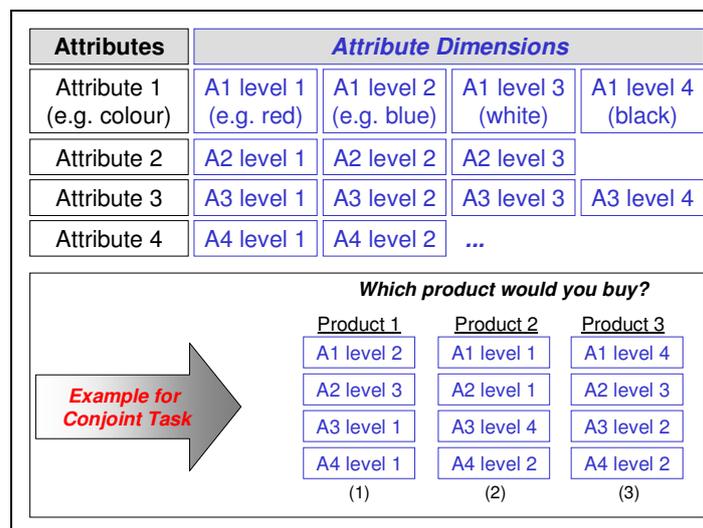
Conjoint analysis provides a basis for building market models. These can provide a tool for simulation of market actions.

### The conjoint model

CBC (Choice Based Conjoint by Sawtooth Software ©) was selected as most suitable conjoint method for this project. Unlike ACA (Adaptive Conjoint Analysis by Sawtooth Software ©) CBC is able to measure cross elasticities between attribute levels. The objective was to measure price effects and cross elasticities of price with other attributes, especially brand. Furthermore, the full profile conjoint design of CBC (the CBC interview shows several product profiles at a time). The respondent has to select one. This model was evaluated as more effective and realistic among the professional target group.

Although CBC can handle up to 10 attributes, researchers generally try to restrict the choice tasks to six. Larger numbers of attributes would be too complex to present in a single profile. It would be necessary to work with partial profiles which then require larger sample sizes.

After establishment of the attributes with different dimensions, the conjoint model develops a research design and trade-off tasks.



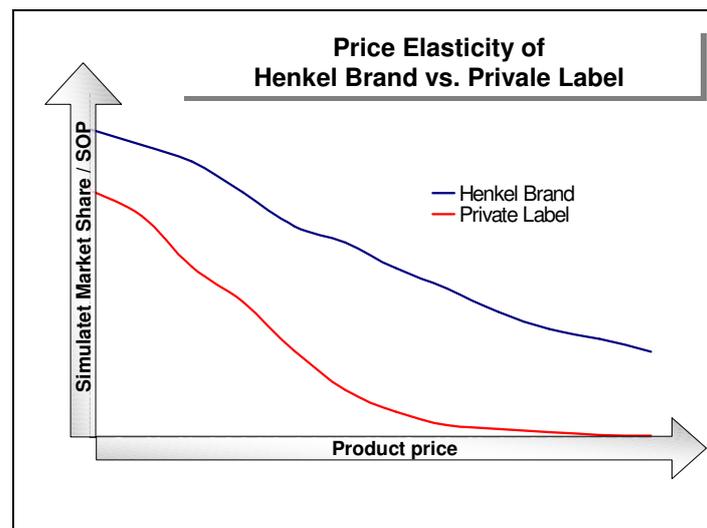
Graphic 10: Transformation of attribute grid into conjoint tasks

CBC interviews are computerised and can be delivered either through the Web or in a face-to-face interview (CAPI). In the study described above 300 face-to-face interviews with professional end users were conducted.

The analysis was done with Logit and Hierarchical Bayes Choice Estimation (CBC/HB) by Sawtooth Software ©. Simulations were mainly conducted using 'randomised first choice' models.

## The results

Analysis of the results allowed modelling of price elasticities for the different brands. One of the main points of interest was to understand the elasticity of the Henkel brand and the elasticity of the planned private label product.

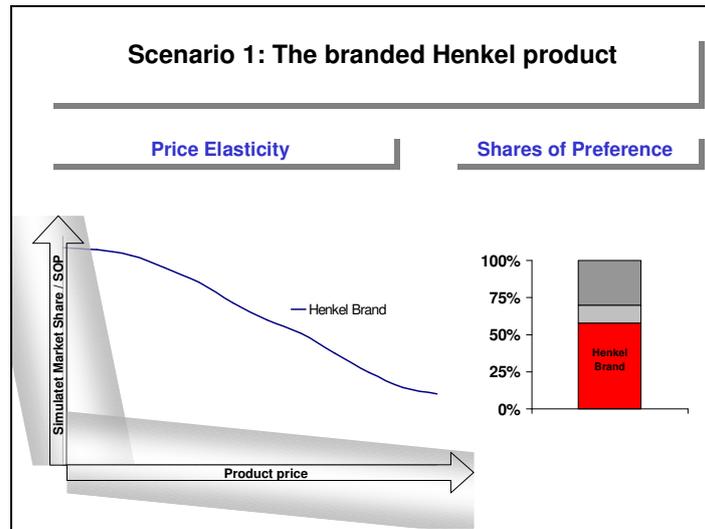


Graphic 11: Comparison of price elasticities

The result showed that the private label was not accepted at the medium and premium price range and was very sensitive to any price shifts. The branded product, however showed a stable price elasticity, the profit function of this elasticity peaks in the premium price range.

In the search for the optimisation of the total model profit, three different situations were simulated. In each scenario the simulated market share (shares of preference) was analysed.

Scenario 1: The branded Henkel product

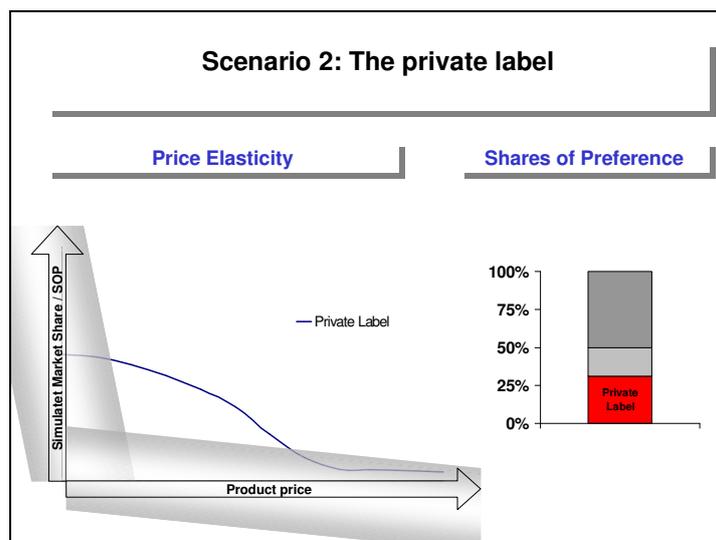


Graphic 12: Conjoint Scenario 1

Scenario 1 was the simulation of the actual market situation with the conjoint model. Although each model is just an imperfect mirror of the market as to its clinical assumptions (e.g. everybody knows all products, all products are available everywhere etc.) and to the limited number of product attributes, the model was able to 'predict' the current market situation.

Scenario 2: The private label

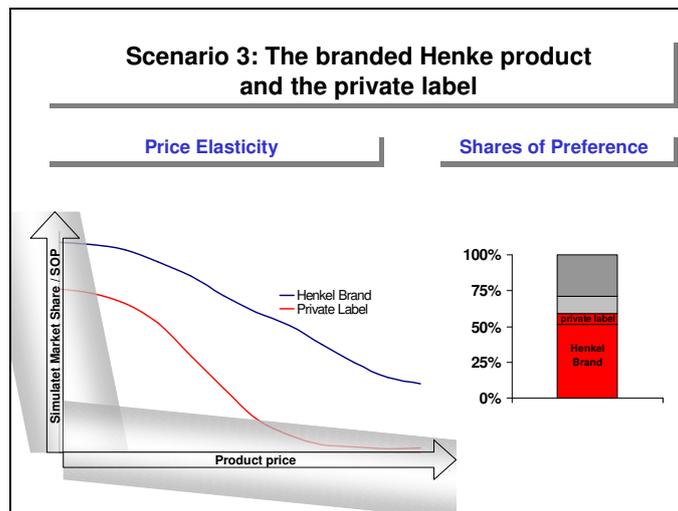
The second scenario assumed a substitution of the Henkel product with the private label. It was found that there was a high level of brand loyalty and many customers would change their purchase source rather than buy the private labelled product. Only at extremely low sales prices could the private label be sold in larger quantities.



Graphic 13: Conjoint Scenario 2

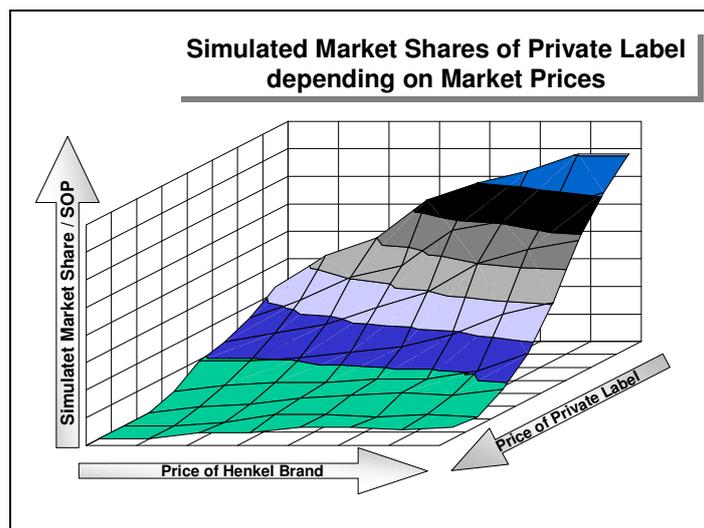
Scenario 3: The branded Henkel product and the private label

The third series of market models included the private label in a hypothetical ‘complementary co-existence’ with the branded product. The results indicated that the private label product would only achieve significant shares of preference with a very low price position. However, in this scenario, the total model profit was significantly lower than the model which included the branded product only.



Graphic 14: Conjoint Scenario 3

When analysing the interaction of both price elasticities, it emerged that the model was dominated by the branded product. The private label was only contributing share of preference at lowest prices. However, in this case, it would not be possible to reach sufficient margins to justify the required investments and efforts.



Graphic 15: Simulated Market Share of Private Label

The model indicated that, under the line, the current situation (Henkel product only) worked best for both parties. Even the threat of a competing private label without the branded product did not show satisfactory share and profit results in order to justify such a step.

## **Benefit for Henkel and the retail customer**

The study confirmed the high utility of the brand name and was able to calculate the customer loyalty in the market models. This knowledge provided an informed basis for rejecting a decision, which initially looked attractive but which, in reality, would have proven to be an economic error for both parties: manufacturer and retailer.

The private label project was rejected. The retail partner continued to successfully market the branded product through their channel.

The knowledge gained about market reactions and utility values of certain attribute dimensions provided a sound basis for building future brand strategies as well as for product planning and development.

## **Future outlook**

The market research undertaken provided a clear demonstration of brand strength and customer loyalty. According to Marconi one can say that those things never just happen. 'Brand managers have to make it happen. ... Certainly price and quality are factors, but in most cases the overriding reason is the brand of choice and its image is one the customer has come to identify with'. (Marconi, 2000) 'The brand of choice is a decision usually based on the brand's image and value. The decision to remain loyal to the brand over time is based on considerations value (price and quality), image, convenience and availability, satisfaction, service and guarantee or warranty (Marconi, 2000).

Since the establishment of Henkel more than 125 years ago the company has been committed to innovative high-quality products that fit to the needs of our consumers and customers.

One major role of Market Research is to guarantee that the company gets sufficient customer and consumer insight.

Effective brand equity measurement is mandatory for companies targeting market leadership and those already there. The two case studies demonstrated how this can work successfully. Of course, the improvement of current tools is a permanent challenge of the research community, especially in view to increased global competition and increasing market complexity.

This, in combination with efficient advertising will keep Henkel at the top for the next 125 years.

## References

- Aaker, David A.: Managing Brand Equity, 1991
- Bell, Daniel: The coming of the Post-industrial-Society, New York, 1973
- Bell, Daniel: The cultural contradictions of capitalism, New York, 1976
- Brian Orme, Sawtooth Software
- Bruhn, Manfred: Handelsmarken, Stuttgart, 1997
- Drucker, Peter: The age of discontinuity, New York, 1969
- Earl Michael J.: Information management, Oxford, 1996
- Ebbers, Dieter: Category Management: Den 'ganzen Verbraucher' im Visier, in: Scanline, Oktober 1997
- Gale, Bradley T. , Managing Customer Value: Creating Quality and Service That Customers Can See, The Free Press, 1994
- Hahne, Henric: Category Management aus Herstellersicht, Lohmar - Köln, 1998
- Hamel, Gary / Prahalad C.K.: Competing for the future, Boston 1994
- Henkel, Annual Report, 2001
- Joachimsthaler, Erich: Marketing Metamorphosis: From Products to Brand to Consumers', Barcelona, 1994
- Kotabe, Masaaki / Helsen Kristiaan: New York, 2000
- Machlup, Fritz: The production and distribution of knowledge, Princeton, 1962
- Marconi, Joe: The brand marketing book, Chicago, 2000
- Meffert, Heribert / Burmann, Christoph: Identitätsorientierte Markenführung – Konsequenzen für die Handelsmarke; in: Bruhn, Manfred: Handelsmarken, Stuttgart, 1997
- Oehme, Wolfgang: Handelsmarketing, München, 2001
- Stehr, Nico: Wissen und Wirtschaften, Frankfurt, 2001

## The authors

**Stefan Binner**, Managing Director of **bms** GmbH in Germany has been involved in international industrial marketing research since 1990. He is a member of ESOMAR and AMA.

**Werner Hoffmann-Wiebe**, is Head of International Market Research, Henkel Adhesives. He has been in marketing research since 1989 in various positions at Infratest Burke, Deutsche Lufthansa, RSG and Henkel. He is a member of ESOMAR.