Kill a Brand,

by Nirmalya Kumar

MARK FREDRICKSON

Smart companies regularly rationalize brand portfolios to maximize profits. If you do the job well, you can serve customers better at the same time.

IN THE 1930S, Neil McElroy was a rookie manager who supervised the advertising for Camay soap at Procter & Gamble. The consumer products giant ignored Camay but lavished money and attention on its flagship product, Ivory. Naturally, Ivory stayed the leader while Camay struggled for survival. Dismayed, McElroy drafted a three-page internal memo in May 1931. He argued that P&G should switch to a brand-based management system. Only then would each of its brands have a dedicated budget and managerial team and a fair shot at success in the marketplace.

McElroy rose to head P&G in 1948, and his memo became the basis on which most corporations, including P&G, have managed brands ever since. In it, McElroy posited that the company's brands would fight with each other for both resources and market share. Each "brand man's" objective would be to ensure that his brand became a winner even if that happened at the expense of the business's other brands. However, McElroy did not carry the argument to its logical end. The memo stopped short of articulating what companies should do with losing brands.

Seven-plus decades have gone by since McElroy wrote his famous memo, but brand killing has remained an unwritten chapter in the marketer's handbook and an underused tool in the marketer's arsenal. Companies spend vast sums of money and time launching new brands, leveraging existing ones, and acquiring rivals. They create line extensions and brand extensions, not to mention channel extensions and subbrands, to cater to the growing number of niche segments in every market, and they fashion complex multibrand strategies to attract customers. Surprisingly, most businesses do not examine their brand portfolios from time to time to check if they might be selling too many brands, identify weak ones, and kill unprofitable ones. They tend to ignore loss-making brands rather than merge them with healthy brands, sell them off, or drop them. Consequently, most portfolios have become chockablock with loss-making and marginally profitable brands.

Moreover, the surprising truth is that most brands don't make money for companies. My research shows that, year

Keep a Customer

after year, businesses earn almost all their profits from a small number of brands – smaller than even the 80/20 rule of thumb suggests. In reality, many corporations generate 80% to 90% of their profits from fewer than 20% of the brands they sell, while they lose money or barely break even on many of the other brands in their portfolios. Take the cases of four transnational corporations whose brand portfolios I analyzed:

Diageo, the world's largest spirits company, sold 35 brands of liquor in some 170 countries in 1999. Just eight of those brands – Baileys liqueur, Captain Morgan rum, Cuervo tequila, Smirnoff vodka, Tanqueray gin, Guinness stout, and J&B and Johnnie Walker whiskeys – provided the company with more than 50% of its sales and 70% of its profits.

Nestlé marketed more than 8,000 brands in 190 countries in 1996. Around 55 of them were global brands, 140-odd were regional brands, and the remaining 7,800 or so were local brands. The bulk of the company's profits came from around 200 brands, or 2.5% of the portfolio.

Procter & Gamble had a portfolio of over 250 brands that it sold in more than 160 countries. Yet the company's ten biggest brands – which include Pampers diapers, Tide detergent, and Bounty paper products – accounted for 50% of the company's sales, more than 50% of its profits, and 66% of its sales growth between 1992 and 2002.

Unilever had 1,600 brands in its portfolio in 1999, when it did business in some 150 countries. More than 90% of its profits came from 400 brands. Most of the other 1,200 brands made losses or, at best, marginal profits.

The implications are inescapable. Companies can boost profits by deleting loss-making brands. What's more, even though revenues may fall in the process, brand deletion will provide a shot in the arm for an additional reason. Many corporations don't realize that when they slot several brands into the same category, they incur hidden costs because multibrand strategies suffer from diseconomies of scale. Naturally, those hidden costs decline when companies reduce the number of brands they sell. In fact, some businesses have improved performance by deleting not just loss-making brands but also declining, weak, and marginally profitable brands. They've used the resources they've freed to make their remaining brands better and more attractive to customers. Thus, killing brands may sometimes be the best way for companies to serve both customers and shareholders.

Why haven't most companies put systematic brand-deletion processes in place? Mainly because executives believe it is easy to erase brands; they have only to stop investing in a brand, they assume, and it will die a natural death. They're wrong. When companies drop brands clumsily, they antagonize customers, particularly loyal ones. In fact, most attempts at brand deletion fail; several studies show that after companies clubbed together several brands or switched from selling local brands to global or regional brands, they were able to maintain market share less than 50% of the time. Similarly, when firms merged two brands, the market share of the new brand stayed below the combined market share of the deleted brands in seven out of eight cases.

If a quick back-of-the-envelope calculation suggests that you may have too many loss-making or marginally profitable brands, you will have to prune your portfolio (see the sidebar "Quick Test: Do You Have Too Many Brands?"). Your first priority will be to get managers at all levels of the organization to back you because brand deletion is a traumatic process. Brand and country managers, whose careers are wrapped up in their brands, never take easily to the idea. Customers and channel partners defend even inconsequential and loss-making brands. There will always be pressure from senior executives to retain brands for sentimental or historical reasons. Indeed, brand rationalization programs have often become so bogged down by politics and turf battles that many companies are paralyzed by the mere prospect.

It doesn't have to be that way. Over the last ten years, I have studied the brand rationalization programs at more than a dozen companies in the United States and Europe, including Akzo Nobel, Electrolux, Sara Lee, Unilever, and Vodafone. The best companies use a simple four-step process to optimize their brand portfolios, which I will describe in the following pages. I will also show how companies like Unilever and Electrolux were able to increase both profits and sales by methodically killing brands.

The surprising truth is that most brands don't make money.

Making the Case

Smart CEOs begin the rationalization process by orchestrating groups of senior executives in joint audits of the brand portfolio. Such audits are useful because most executives do not know which brands make money or how many brands are unprofitable. To calculate the profitability of each brand, firms must allocate fixed and shared costs to them. That is often a complicated task

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resulting in long and bitter debates between managers, and few companies bother to do it right. Executives view each brand from their own particular perspectives and put forward arguments about the problems they will face if it is dropped. That collectively results in a justification for almost every brand in the portfolio. However, when executives look at the big picture together, they uncover the problems. They reluctantly extend a degree of support to the program despite their job- and turf-related concerns.

Senior executives from marketing headquarters, heads of region and product groups, and global brand managers usually meet to conduct the first brand audit. Here's how it works: Each executive has a work sheet that lists all the brands in the company's portfolio, their global market shares, annual sales, and other such data in tabular form. (See the exhibit "The Brand Audit Sheet.") The columns on the sheet indicate among other things the geographic regions where each brand sells. For each brand in each region, executives discuss and enter two pieces of data. First, they characterize the brand's market position as "dominant," "strong," "weak," or "not present." Typically, if the brand is a market leader, it is dominant; if it is number two or number three in the category, it is strong; otherwise, it is weak. Second, executives use one word–such as "value," "upscale," or "fun"–to capture the brand's value proposition. Finally, the group debates each brand's profitability and indicates whether it is a "cash generator," it is "cash neutral," or it is a "cash user." I usually advise managers to fill in their best guesses if the data on brand-level profitability are not available at this stage and then generate them as a follow-up to the audit.

The Brand Audit Sheet

Line up all the brands in your company's portfolio on a single sheet of paper, listing their global market shares, annual sales and profits, and market positioning in tabular form, and you can see just how many brands overlap and how few brands account for the bulk of corporate profits.

Brand	Global Market Share	Regional Presence					Percentage of Sales	Percentage of Profits	Cash Status
		North America	Latin America	Asia Pacific	Western Europe	Eastern Europe			
A	*15%*	*strong* *fun*					*17%*	*20%*	*cash generator*
B	*7%*	*weak* *value*					*8%*	*10%*	*cash user*
C	*3%*								
D	*1%*								
E	*>1%*								
F	*>1%*								

Market position:
Dominant (#1 in the region)
Strong (#2 or #3 in the region)
Weak (#4 or lower in the region)
NP = Not present in the region

Brand Positioning:
Quality, value, upscale, fun, adventurous, premium, safe, reliable, trustworthy, aggressive, cheap, etc.

Cash Status:
Cash generator
Cash neutral
Cash user

Quick Test

Do You Have Too Many Brands?

These ten questions will help you determine if your company has too many brands and you need to embark on a brand rationalization program.

Yes/No	
	Are more than 50% of our brands laggards or losers in their categories?
	Are we unable to match our rivals in marketing and advertising for many of our brands?
	Are we losing money on our small brands?
	Do we have different brands in different countries for essentially the same product?
	Do the target segments, product lines, price bands, or distribution channels overlap to a great degree for any brands in our portfolio?
	Do our customers think our brands compete with each other?
	Are retailers stocking only a subset of our brand portfolio?
	Does an increase in advertising expenditure for one of our brands decrease the sales of any of our other brands?
	Do we spend an inordinate amount of time discussing resource allocation decisions across brands?
	Do our brand managers see one another as their biggest rivals?
	Total

If you answered "yes" to:

0–2 questions:
Minimal brand rationalization opportunity

3–6 questions:
Considerable brand rationalization opportunity

7–10 questions:
Brand rationalization should be a priority

The results always come as a revelation to participants. Executives usually find that only a fistful of brands in the company's portfolio have clearly differentiated positions or have global market shares greater than 1%. Confronted by such data, they slowly shift from justifying the performance of pet brands to worrying about why so many brands have captured so small a share of their markets, suffer from poor profitability, and consume, rather than contribute to, cash flows. Later, the company's product divisions and country operations conduct similar audits to involve the next tier of executives in the rationalization drive. These audits make the need to prune brands apparent throughout the organization and serve as a springboard to the next step.

Pruning the Portfolio

In the next stage, companies decide how many brands they want to retain. They deploy two distinct but complementary models to do so: a portfolio approach and a segment approach. When companies use the portfolio approach, they choose to keep only those brands that conform to certain broad parameters. The application of such a top-down approach often results in a sweeping reduction in the number of brands they sell. Alternately, in the segment approach, companies identify the brands they need in order to cater to all the consumer segments in each market. By identifying distinct consumer segments and assuming only one brand will be sold in each segment, executives infer the right size of the portfolio for a particular category. Some companies use both approaches. For instance, they may start by rationalizing brand portfolios category by category and, when they still find themselves with too many brands, apply the portfolio approach to complete the task. And the process can easily be reversed.

The Portfolio Approach. Companies that effectively manage multibrand portfolios in scores of markets in several industries and countries decide how many brands they should retain by first laying down stiff selection criteria. The CEO often appoints a committee of senior executives and company directors to draw up these parameters. That's a good way to push ahead with the rationalization program in a large organization, since the appointment of the committee signals top management's commitment to the task. Such a high-level committee is also necessary because the process inevitably becomes an opportunity to check if the company should exit some markets or countries where all its brands perform poorly. Indeed, using the portfolio approach allows companies to reevaluate their strategy quickly.

Some companies use very general parameters. For instance, they may decide, in the General Electric tradition, to retain only those brands that are number one or number two in their segments, as measured by market share, profits, or both. Other firms tailor the parameters according to the specific nature of their industries. For example, companies in fast growth industries often choose to keep brands that display the potential to grow rapidly. Similarly, manufacturers that depend on retailers for sales prefer to focus on brands that draw shoppers into stores. Individual parameters are not either-or criteria, of course, and companies often combine them to arrive at their filters.

Let me illustrate the use of the portfolio approach with the case of Unilever, which began a brand rationalization program in 1999. Around that time, the company decided to acquire Bestfoods, which added several big brands like Hellmann's mayonnaise, Skippy peanut butter, and Knorr soups to its arsenal. In fact, the number of brands in Unilever's portfolio swelled to over 1,600 after the acquisition. The top management team decided that the company didn't need all those brands and would probably make higher profits if it dropped many of them. Unilever decided to retain only those that met all three of the following criteria:

Brand Power. The brand had to have the potential to become number one or number two in its market. It also had to be a brand that retailers carried to drive traffic into stores. Dove soap and Lipton tea, for example, met both these requirements.

Brand Growth Potential. The brand had to display the potential for growth based on either its appeal to current customers or its ability to meet consumer needs in the future. Bertolli olive oil, for instance, was in touch with the healthier lifestyle and eating habits that consumers were seeking, and the company could reposition it as part of a larger line of Mediterranean-inspired offerings marketed under the same brand.

Brand Scale. The brand had to be big and profitable enough to justify the investments that the company would make in marketing communications and in marketing and technological innovation, even if it was not a global brand. For instance, PG Tips tea and Marmite were not global brands like Dove and Lipton, but they still had scale because of their strength in Britain and other regions.

After laying down these parameters, Unilever's corporate headquarters in London asked the product and regional teams throughout the company to apply them to all their brands and suggest which ones the company ought to retain. Several rounds of intense and messy negotiations ensued between the teams and marketing headquarters to identify the core brands. Eventually, Unilever decided to retain 400 brands, which through this process it had discovered accounted for 92% of its profits. The other 1,200 brands in the portfolio were marked for deletion. By adopting the portfolio approach, Unilever was able to sift through 1,600 brands in 150 countries in little more than a year.

The Segment Approach. Companies decide which brands to keep in each market in a number of ways. Some businesses apply general parameters akin to those they applied to the entire portfolio, such as market share or growth potential, to select the brands to focus on in each market. Others have found it more useful to resegment the market and identify the brands that are needed to cater to the new segments. For instance, some firms segment markets based on consumer needs rather than by price or product features. That allows them to both prune portfolios and take on rivals more effectively.

Take, for example, the manner in which Electrolux rationalized its portfolio of brands in the professional foodservice equipment market in Western Europe. In the late 1990s, the consumer durables manufacturer offered a range of equipment that included ovens, chillers, freezers, refrigerators, and stoves for professional kitchens in hospitals, airports, cafeterias, hotels, and restaurants. At one point, the company had 15 to 25 rivals in every country, and it bought several of them over the years. By 1996, the company had 15 brands in the professional food service equipment market, and only one, Zanussi, was sold in more than one country on the Continent. Electrolux ran the SKr 4.2 billion (about $630 million) operation in a decentralized manner, but the division still lost money.

Before it attempted a turnaround, Electrolux conducted market research in 1996 and found that many customers were willing to pay premiums for leading brands. At almost the same time, CEO Michael Treschow announced a rationalization of the company's portfolio of 70-plus brands. That's when Electrolux executives realized that if they replaced the 15 small brands in the professional market with a few big brands, they might just be able to make money. That still begged the question: How many brands did Electrolux need to cater to customers in this market?

The company decided to conduct a cross-national segmentation study to help find the answer. Like its rivals, Electrolux had always segmented the market by price and product specifications. That created a high, a medium, and a low segment, and the company sold equipment that was correspondingly sophisticated and priced. However,

Unilever and Electrolux were able to increase both profits and sales by methodically killing brands.

The Perils of Proliferation

Before launching a brand, companies usually compare the additional revenues they expect to generate with the costs of marketing the brand. The costs are often greater than executives can imagine because a multibrand strategy has one serious limitation: It suffers from diseconomies of scale. When a firm introduces several brands into a market, it incurs hidden costs and, after a point, bumps into constraints. It is not easy to tell, but the business has usually reached that point when its brands no longer cater to distinct customer segments. Although the hidden costs accumulate slowly, they can exceed the benefits if the company slots too many brands in the category. Let us look at four forms these costs can take:

Differentiation. Costs mount when companies are unable to position each of their brands in a unique way. Often, although executives do not realize it, the features, attributes, or prices will overlap. The brands compete with one another as much as they do with rival brands and often end up cannibalizing each other. As a result, the firm's costs rise faster than its revenues. A classic example is General Motors, which has struggled to create distinctive product lines and brand images for its U.S. brands: Chevrolet, Saturn, Pontiac, Buick, GMC, Cadillac, Hummer, Saab, and Opel. (Sure, GM decided to delete the Oldsmobile brand in 2003 but only after it had racked up losses for ten straight years.) Last year, all those brands combined for only 28% of the U.S. automobile market. But Toyota captured 10% of the market with only two brands, Toyota and Lexus.

Inefficiency. Many companies have used their brands to carve out several ostensibly lucrative, but small niches. The lack of volume has not worried their marketers, who try to maximize the sales of the entire portfolio rather than the sales of each brand. But such firms have belatedly realized that maintaining a large stable of brands, each operating on a relatively small scale, is correspondingly more expensive than selling a small number of big brands. For one thing, manufacturing a great variety of products requires large setup costs and longer machine downtime in factories, which results in higher production costs. More important, such businesses are unable to develop new products as often as they need to. Not only does it take them longer to recoup investments from niche brands, but they also have to spend similar sums on all their brands. Many firms have compromised by launching new products for each brand less frequently or by allowing brands to share innovations. Consequently, the brands have lost their freshness or uniqueness. Similarly, some companies do not spend as much as they need to on advertising because the returns do not justify the expenditure, so the small brands never gain visibility. Thus, the costs of this multibrand strategy are high because much of the money is spent suboptimally.

Retailer Margins. When companies field many brands, it becomes prohibitively expensive for them to get retail shelf space for all of them. Big retail chains like Wal-Mart in the United States and Carrefour in Europe prefer to carry only the top two or three brands in each category. Retailers use the leading brands to lure people into stores but then push store brands at shoppers. In fact, store brands accounted for 40% of retail sales in Europe and 20% in the States last year. Manufacturers have not been able to fight back because they depend on the large chains for most of their sales. A decade ago, the top ten retailers in the United States accounted for only about 30% of the average manufacturer's sales; today, they account for 80%. To get the retailers to grudgingly carry all their brands, especially weak and marginal brands, companies have to pay special slotting allowances and higher margins – a high and, increasingly, not-so-hidden cost of a multibrand strategy.

Complexity. Multibrand strategies require coordination – everything from product innovations and packaging changes to distributor relationships and retailer promotions. A large brand portfolio also requires frequent price changes and inventory adjustments, which consume costly managerial resources. Moreover, companies bear the biggest cost of brand proliferation not in the present but in the future. In companies with large portfolios in many markets, managers incessantly worry about interbrand budget allocation issues rather than the company's future or their rivals. I have attended the annual marketing strategy meetings of several multinational corporations and can vouch for that from personal experience. Such conflicts have often preoccupied organizations, rendering them vulnerable to competition from more focused rivals.

the study found several flaws with that approach and identified four distinct consumer need-based segments that cut across Europe. Those segments were a basic solution segment (consisting of pubs and convenience stores); a performance specialization segment (airlines, hotels, and hospitals); a gastronomy partnership segment (staff canteens and family restaurants); and a prestige gourmet segment (gourmet restaurants).

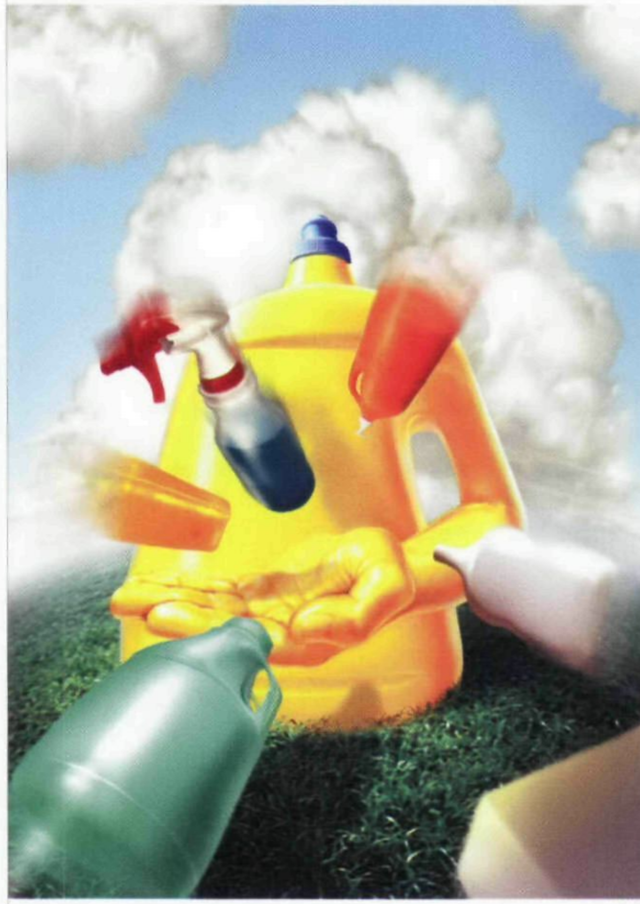
Electrolux decided to target the last three segments with one brand in each. It chose the Electrolux, Zanussi, and Molteni brands, respectively, to do so because of their scale and proximity to the desired positioning in each segment. Later, the company launched a new brand, Dito, to cater to the basic solution segment. Electrolux dropped ten of the other brands and converted two, Juno and Therma, into subbrands of Electrolux for a while in anticipation of deleting them, too.

Having four pan-European brands, instead of 15 local brands, allowed Electrolux to manage the brand portfolio more effectively. The company developed international marketing and communication tools, such as new advertising and showroom concepts, Web sites, newsletters, road shows, and exhibitions, to ensure that customers perceived each brand as the best in its segment. Electrolux was also able to design more appropriate products for the brands because it better understood the needs of its customers. The resulting economies of scale and scope helped turn around the fortunes of the business. Although Electrolux deleted 12 brands, the division's sales never fell, and it reported a profit of SKr 390 million (or about $37 million) in 2001, up from an operating loss of around SKr 55 million ($8 million) in 1996.

Liquidating Brands

After companies have identified all the brands they plan to delete, executives need to reevaluate each of them before placing it on one of four internal lists: merge, sell, milk, or kill (in order from the most complex to the simplest to execute). In most transnational corporations, task forces of executives from the product or brand management team and the country management teams draw up these lists. The corporate marketing headquarters consolidates the lists and distributes them throughout the business to prevent confusion about the future of any brand. That serves as the cue for the business to plan each brand's demise and, at the same time, prepare for the organizational consequences of doing so.

Merging Brands. Companies often prefer to merge brands rather than drop them, especially when the brands targeted for elimination have more than a few customers or occupy niches that might grow in the future. Executives transfer product features, attributes, the value proposition, or the image of the marked brand to the one they plan to retain. They do that around the same time they drop the brand, not before or after. By advertising the change and using promotions to induce consumers to try the replacement brand, marketers get people to migrate from one to the other. In 1999, for example, Unilever sold both Surf, which boasted a 6% share of the laundry detergent market in Britain, and Radion, which had but 2%. Market research indicated that consumers liked Radion's strong sun fresh scent and that Surf might benefit from the attribute. That prompted Unilever to delete Radion and, simultaneously, to shift Radion's perfume to Surf, launching "SunFresh" Surf. In six months' time, the



new Surf had a market share of 8% – the combined market share of the old Surf and Radion. However, merging brands is tricky because, as Unilever cochairman Antony Burgmans warned his marketers, "You are not migrating brands but migrating consumers." In addition, migration is expensive, and smart companies deploy it sparingly.

Companies formed from the merger of two firms that use their corporate names as brands can find they have no choice but to migrate to a single corporate brand. The speed at which they need to integrate the brands often depends on the circumstances. After a hostile merger or a controversial acquisition, most companies prefer a quick changeover and, often, an entirely new brand name. By adopting a completely new identity, these companies can signal to customers that they have acquired fresh capabilities because of their merger. For example, Sandoz and Ciba-Geigy emerged as Novartis in 1996. Companies can also drop one of the two brands, as the two Swiss banks UBS and SBS did by combining as UBS in 1998. That is appropriate when the merged business can shift customers from one brand to the other and does not have time to build a new brand. It has the added benefit of extending the equity of the stronger brand to the weaker one.

When two brands are equally strong, however, smart companies adopt more gradual migration strategies. They use both brands, either as a dual brand or by making one a subbrand of the other for a while before dropping the weaker of the two. For instance, in 2000, the British mobile telecom service provider Vodafone wanted its joint ventures in 16 countries to switch to the eponymous brand to generate marketing synergies and encourage customers to use the ventures' cellular services when they were on the road. The partner companies did so in two stages over two years. At first, all the country brands converted to dual brands such as D2 Vodafone in Germany, Vodafone Omnitel in Italy, Europolitan Vodafone in Sweden, Click Vodafone in Egypt, and so on. That allowed the joint ventures to take advantage of the strength of their brands to increase recognition of the mother brand. Vodafone tracked the brands to determine when recognition of the Vodafone brand was high enough that its partners could drop the double names. Over the two years, all 16 companies became Vodafone, the largest global brand in the mobile telecom service business.

Selling Brands. Despite the instinctive organizational resistance, wise companies sell brands that are profitable when they don't fit in with corporate strategy. For instance, in 2001, P&G sold the Spic and Span and the Cinch cleaner brands, as well as the Biz bleach and Clearasil skincare brands, and recently put the Punica and Sunny Delight juice brands on the block. They were all profitable but were in categories that the giant did not want to focus on. In such cases, the brand's market value is often greater than the value the company places on it, making it a good candidate to put up for sale. A word of warning: Smart companies create legal safeguards to ensure that the brands they sell do not return as rivals.

Milking Brands. Some of the brands that companies want to delete may still be popular with consumers. If selling them is not possible because of either strategic or sentimental reasons, companies can milk the brands by sacrificing sales growth for profits. They stop all marketing and advertising support for such brands, apart from a bare minimum to keep products moving off the shelves. They also try to save on distribution costs and reduce retailer margins by selling only on the Net. Finally, the organization moves most managers off the teams that handle these brands. As sales slowly wind down, companies maximize profits from these brands until they are ready to be dropped entirely.

Eliminating Brands. Companies can drop most brands right away without fearing retailer or consumer backlash. These are the brands for which they have had trouble getting shelf space and buyers in the first place. To retain what customers they do have, companies offer samples of their other brands, discount coupons or rebates on the replacement brands, and trade-ins. But it's crucial that companies retain the legal rights to the deleted brand names for a while. Otherwise, dead brands can return to haunt them. For example, in 1993, Procter & Gamble shifted from selling two brands of toilet paper, White Cloud and Charmin, to offering a full line of products under only the Charmin brand. The company did not notice when its claim to the White Cloud trademark lapsed. A smart entrepreneur snapped up the brand in 1999 and sold it to Wal-Mart. The retailer has used White Cloud to battle Charmin ever since. White Cloud is an "undead" brand, as one observer said recently in *Fortune*, rising from the grave to haunt P&G.

Growing the Core Brands

The fourth and final step in the brand portfolio rationalization process is not destructive, but creative. At the same time that corporations delete brands, they need to invest in the growth of the remaining brands. Many CEOs hesitate to do so because profits soar as they drop brands. They forget that the business is also shrinking in terms of sales and people, which can cause as much trouble as the proliferation of brands did. Stagnation sets in, and demoralized managers leave the organization. Sensing that the firm has lost its appetite for innovation and risk, rivals move in aggressively. Companies can reap the benefits of brand deletion only if they reinvest the funds and management time they have freed either into the surviving brands or into discerningly launching new ones and taking over other brands.

Deletion programs release resources in several ways. Focusing on fewer and bigger brands enables companies to generate greater economies of scale in their supply chains, in marketing, and in sales. Costs fall because of streamlined product lines and the greater optimization of inventory. By merging brand teams and sales forces, companies slash sales and administration expenses, and

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focused marketing and advertising generate greater bang for the buck.

At the same time, the rationalization process creates several opportunities for growth. Companies can enhance core brands by drawing on the unique attributes or products of deleted brands to fill gaps in the company's overall product line or make strong brands even stronger. Similarly, deleting local or country-specific brands affords executives the chance to expand the geographical footprints of core brands.

Undoubtedly, growth is the raison d'être of smart brand rationalization programs. That's why Unilever calls its rationalization program Path to Growth. Unilever's goal is to increase annual sales growth to the 5%-to-6% range and operating margins growth to 16% by the end of 2004, when the brand deletion program is slated to end. The idea is to invest heavily in advertising and promotion, innovation, marketing competence, and management time for its remaining 400 core brands.

For each one, executives searched for growth opportunities by first reviewing the brand's positioning, gathering competitive intelligence, and seeking insights from consumers. Then they asked themselves how each brand could reach new customers, launch new products and services, develop new delivery systems, penetrate new geographic markets, and generate new industry concepts.

The resources needed to grow these brands came from two sources. First, Unilever reallocated the budgets from the 1,200 noncore brands to the 400 core brands. The company saved €500 million a year by stopping advertising and promotions for all the brands it planned to delete. Second, the brand rationalization program became the basis for a restructuring. Unilever decided to close 130 factories, of which 113 had been shut down by January 2003. The company also consolidated purchasing, developed shared services, and restructured supply chains for the 400 core brands. In addition, it plans to reduce the 330,000-strong workforce by 10%. When all this is completed, Unilever expects to save approximately €3 billion a year.

Unilever has used part of the money to bolster the bottom line every year. However, the company has also increased marketing and promotion expenses from 13% to 15% of sales, which means an additional €1 billion a year of marketing support. Along with the €500 million advertising saving from the noncore brands, the company has spent another €1.5 billion a year on its core brands. Three years into the five-year program, Path to Growth has already produced results. By 2002, the company's portfolio had shrunk to 750 brands. The top 400 brands, which brought in 75% of the firm's sales in 1999, accounted for 90% in 2002. While Unilever's revenues increased by only 4.2% last year, the core 400 brands grew by 5.4%–smack in the middle of the 5%-to-6% target. The company hit the operating margin target of 16%, suggesting that the brand rationalization program had put Unilever on the path to profits, if not growth, by 2002.

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Establishing a brand portfolio rationalization program shouldn't be a priority solely for marketers. It has to be a top management mandate, especially since companies contract when they delete brands. While the profit payoffs come early in the program, it takes firms anywhere from three to five years to recoup revenues, depending on the number of brands they delete. So, clearly, the top management team needs to agree to the financial objectives as well as to the timetable for their achievement. The team also has to buy time from shareholders, who usually prefer measures that deliver earnings per share increases in the next quarter. Done right, however, a brand portfolio rationalization project will result in a company with profitable brands that is poised for growth.

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"We can't find a small enough company where you'd be a big fish."

ROY DELGADO