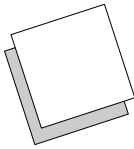


An executive summary for managers and executive readers can be found at the end of this article



Extending your brand by optimizing your customer relationship

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Keywords Brands, Relationship marketing, Customer care

Abstract Notes that the role of brand as more than just a marketing communications icon is increasingly obvious to leading businesses. Brand drives nearly two-thirds of customer purchases and impacts nearly every function area of the business. It stands to reason, then, that extending the equity of the brand will fuel growth while allowing the business to outpace competitors. This article examines the positioning considerations that will enhance the effectiveness of brand extensions. What is crucial as part of the underlying strategy is consideration of the organization's brand customer relationship and how extensions serve to broaden it. It requires combining a strategic view of the entire organization's business drivers with principles and models from traditional and retail marketing to define new tools that will make more of its total customer base.

The Martha Stewart brand, synonymous with the notion of raising the quality of living in and around the home, drives diverse and complementary publishing, television, branded merchandise and retail businesses.

The largest selection of Martha Stewart branded merchandise – over 3,000 products – can be found exclusively at Kmart in the USA and Zellers in Canada. Far fewer products, 1,200, are featured in the company's retail businesses: its catalog, *Martha by Mail*, and the Internet site, marthastewart.com. The largest segment of its business, representing over 60 percent of the revenue base, is publishing: magazines, books, the syndicated askMartha newspaper columns appearing in 225 US and Canadian publications weekly, and the radio show, broadcast on 285 stations in the USA, covering 93 percent of the total US market.

These businesses are diverse, but the Martha Stewart brand is the key asset optimizing the value of the franchise.

Martha Stewart Omnicom (MSO) is one in an emerging category of companies characterized by multiple customer contact points, complex product, service and content offerings, and multi-layered advertising and margin-based revenue structures. These companies require new practices in how they develop and manage their most strategic assets – their brand and their customer base.

Martha Stewart's success has largely been due to the understanding that growing the value the brand represents involves more than extending the

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Emerging category of companies



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Optimizing customer relationships

brand through the addition of products and services or through maximizing the multitude of delivery channels through which a brand can be built.

It understands that, implicit in successfully extending the brand, are the underlying associations it creates, maintains or grows, all of which imply a promise to customers from the organization as a whole.

But could Martha Stewart be doing more to extend its brand by better optimizing its customer relationships across these distinct delivery channels – and other customer touch points – through a more holistic approach? It quite possibly could, by adding another tool to its arsenal, which we at Prophet call customer relationship optimization (CRO).

Why extend your brand?

First, however, consider a brief overview of the entire proposition of brand extensions.

The best companies managing brands today recognize that brand, and what it represents, drives almost two-thirds of most customer purchases, impacting nearly every functional area within the organization.

Brand-customer relationship

This translates into what Prophet calls the brand-customer relationship. Building and preserving this relationship is a crucial strategic motivator among those leading corporations that understand brand; this is, in fact, a true asset of the total business and not merely a marketing communications icon. And stewardship of the brand is the underlying rationale behind their decision-making processes – including the analysis that should go into brand extensions.

Brand extensions – or extending the equity of your brand – are crucial to both fuel growth and outpace competitors. The brand has been accepted and proven in the marketplace through existing products and services. New offerings are stamped with instant credibility and a built-in endorsement from the underlying brand.

However, David Aaker, author of 11 books on brand and considered by many as the modern-day “father” of brand, cautions in his book *Brand Leadership* (Free Press):

When a product is tied closely to a product class, its potential to extend is limited . . . Brands that have credibility in intangible associations – such as weight control (Weight Watchers), healthy eating (Healthy Choice) . . . – are more able to extend to new categories because those intangibles work in a wide variety of contexts.

Positioning components

Extensions should support brand positioning

Extensions are even more powerful when linked back to the customer relationship and how it has been used as a basis for your brand positioning. This means ensuring that the extension builds off one or more of the following positioning components:

- It extends your target market. Gillette’s Sensor for Women leveraged the definition of the business Gillette is in and its brand benefit of the “clean shave,” effectively extending its target market from only men to all adults who shave.
- It extends your business definition. In launching IBM Consulting, IBM changed the definition of the business it was in from “technology-based” to “technology-based solutions.”

- It extends your point of difference. By introducing the benefit of “guaranteed videos in stock,” Blockbuster has grown its points of differentiation. So has Federal Express by establishing a new drop-off time for packages of midnight in some locations.
- It extends the entire positioning. This usually occurs when a business is trying to enter a new market for the first time with a brand whose strengths are recognized beyond its current target market and current definition of the positioning. The introduction of Caterpillar Footwear extended Caterpillar’s reputation and brand strength from the heavy equipment market. This can be risky, but done right, it allows a company to diversify its range of branded products and take a true portfolio approach to managing its brand.

Extending a brand

Deepening – and optimizing – the customer relationship

Clearly, the proposition of extending a brand and its equity is closely tied with the customer relationship now and as, ideally, you would like it to develop. Defining and acting on that relationship is more problematic today than ever before. Evolving business models involve multiple customer touch points, an increasingly complex range of products, services and content, and multi-layered advertising, commission and margin-based revenue structures. These demand new practices not merely in managing, but in optimizing the customer relationship.

The CRO perspective requires a more holistic and enterprise-level understanding of the brand as the amalgamation of all customer experiences, and a strategy for managing multi-faceted relationships. Further, it requires a clear understanding of the value the customer wants to derive from the enterprise – and the value the enterprise derives from the customer.

Apply this perspective to MSO. Each business segment and delivery channel has a distinct and separate revenue structure and customer base. Licensing fees drive branded merchandise. The retail business is a gross margin-based business. The largest business, media, is an advertising model.

Contact and content strategy

Assume that there are a finite number of targeted outbound contacts/marketing impressions to which the consumer could cost-effectively be pushed. Does MSO “spend” those contacts with a primary “call to action” to visit the Martha Stewart collection at Kmart, to “touch and feel” its branded merchandise? Does it spend them to drive consumers to its Web site? Or with a primary call to action to subscribe to Martha Stewart Living? Or to watch the television show, to maximize viewership and thereby advertising revenue?

Most likely the targeted contact and content strategy involves a combination of these approaches. But how are these decisions made?

Tools pushing the strategy

Traditional direct marketing tools rely on the customer database populated with purchase and non-purchase interactions, and appended data, anchored in a comprehensive, consolidated customer record. In this situation, it is not enough to use key variables such as recency, frequency, monetary (RFM) value used in segmentation driven by transaction behavior.

Applying CRO principles would combine a strategic view of the entire organization’s business drivers with principles and models from traditional and retail marketing, defining new tools to make more of its total customer base – and effectively help extend the brand.

Hard revenue

Thus, these are the questions MSO's strategists could be asking:

- What is the value to the enterprise of each customer interaction (touch point)? What is the hard revenue MSO realizes when a consumer purchases a branded product at Kmart? Based on analysis/research, when a customer has a Kmart transaction history, how does it compare to those who do not? An innovative technique might need to be deployed to directly capture the Kmart transaction in the MSO customer database. One might also look at the revenue potential of a customer who has purchased through Martha Stewart by mail, and has subscribed to Martha Stewart Living. How does this customer's revenue potential compare with that of one who has both of these transactions, but also has a purchase from Bluelight.com?
- What customer actions best drive value in the enterprise? Traditional direct marketing maximizes transactional value (response rate and average order) for each promotion/offer. A holistic view serves better here. If a subscriber to Martha Stewart Living delivered more value over time to the franchise, would not one want to aggressively market subscriptions to Martha Stewart Living, even if the "transaction" has a lower immediate value than a \$100 purchase online?
- What customer action would best strengthen the brand-customer relationship? Martha Stewart would analyze its data to understand key trigger activities after which a deeper relationship with the customer is realized. For example, a customer need should be recognized when an address change is registered with Martha Stewart Living. Given the organization's range of offerings, now would be the time to draw on the content and merchandise most relevant to the consumer at this life event – moving – to cement a long-lasting customer relationship.

Key trigger activities

- What company action is most likely to lead to the desired customer action? Response testing is the tool to deploy. Given the customer's trigger activities, and the desired activities that add value to the enterprise, contact, content, offer and vehicle are tested to learn what drives the optimal business result. Using the earlier example, if a Martha Stewart Living subscriber drives the most value in the enterprise, and the trigger event is his or her registering on the Web site, should an outbound call be made? A subscription offer be mailed? An e-mail be sent? Or a copy of the catalog with a subscription blow-in card be mailed? Does a promotion need to be offered to increase conversion rate? Does the increase in conversion rate pay for the cost of promotion? These are the questions that would be answered during response testing.

Customer model

MSO would now know its customer model, the desired customer actions to deliver value to the franchise, the actions that best strengthen the relationship with the brand, and have tested contact, content, offer and vehicle activities. The organization could now put in place strategies that optimize and leverage the customer base – and extend the brand – across the entire franchise, not solely divisions within it.

Conclusion

The evolution of new and increasingly complex business models has increased the challenge to organizations to consider the brand-customer relationship in a new light. In order to better leverage and extend the value of the brand, this means a careful examination of what it represents and how it is represented throughout the organization as a whole – and using strategies and tools that go beyond yesterday's approaches.



This summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article in toto to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present

Executive summary and implications for managers and executives

Building customer relationships into the brand

Davis and Halligan in presenting Prophet's customer relationship optimization (CRO) model identify a series of issues for marketers that deserve more attention and certainly need greater understanding.

The central issues arising are:

- *When and how to extend or expand the brand*
 - *widening the target market;*
 - *shifting the business definition;*
 - *reinforcing differentiation;*
 - *changing the brand positioning.*
- *Recognising that brand equity derives from the customer*
 - *customer relationships are central to successful brand marketing;*
 - *customers reach us through multiple channels;*
 - *aiming at an optimal customer relationship.*
- *Moving from transactional to lifetime marketing*
 - *RFM (or RFV) models are inadequate tools for relationship management;*
 - *total value of a customer is the significant measure;*
 - *non-purchase responses can strengthen the brand bringing longer-term returns;*
 - *marketing action should focus on achieving the best response from individual relationships over time.*
- *How do we model the way in which customers respond to our branded messages?*
 - *database modelling needs to move on from traditional tools;*
 - *strategies must reflect relationships rather than transactions;*
 - *generic brand offers are stronger and more flexible than “mono-product” brands;*
 - *brand management is a corporate responsibility not just a sub-set of sales and marketing.*

(A précis of the article “Extending your brand by optimizing your customer relationship”. Supplied by Marketing Consultants for Emerald.)