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Incumbents as attackers: Brand-driven innovation

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Big companies are finding growth in new markets by harnessing an underused asset—their brands.

At a time of stagnating markets, technological disruption, and rapid changes in consumer behavior, where can big brands find growth? One popular path is through brand extension: stretching a brand into an adjacent market where its value proposition is still relevant to consumers. Classic cases include Colgate's sideways move from toothpaste to toothbrushes, Nivea's from body care to hair care, and Gillette's from razor blades to shaving foam.

However, some incumbents are taking this approach a step further by using their brand as a springboard to drive innovation in an entirely new market. Take the Weather Company, which owns the Weather Channel, as an example. It has used its deep weather-data assets to move beyond the TV business, extending successfully into new markets by supplying data and forecast models that help companies make better decisions. Analyzing its data, for example, the Weather Company has learned that insect repellent sells well in the spring in Dallas when there is a below-average dew point, but spring bug-spray sales in Boston do well when the dew point is above average.[1]

Apple's introduction of the iPhone is, of course, a well-known example of how it became an attacker by carving out new business spaces that capitalize on the unique link its brands have forged with consumers. What is less well known, however, is that innovations not only achieve impressive results in their own right, but they often also create a halo effect by attaching new cachet to the original brand. In the year the iPhone was launched, for instance, sales of Apple Mac computers rose by 16 percent—almost eight times the growth rate for personal computers overall.[2]

This kind of brand-driven innovation has come of age in the past few years for a number of reasons. If you are an incumbent with a dominant position in a saturated market, your chances of gaining much more share may be slim. Entering a new category could be your only realistic option to achieve internal and external growth targets. In addition, brands are increasingly defined not by what they communicate or the campaigns they run but by the kind of customer experiences they provide. What's more, brand-driven innovation can be a tool to strengthen or sharpen a brand's positioning: consider how Apple's brand strength seems to grow with each new category it enters.

[1] Katherine Rosman, "Weather Channel now also forecasts what you'll buy," *Wall Street Journal*, August 14, 2013, wsj.com.

[2] Ed Sutherland, "Apple's iPhone 'halo effect' boosts Mac sales 16.4 percent," *Cult of Mac*, December 1, 2009, cultofmac.com.

Finally, the advent of 3-D printing and rapid-prototyping techniques, coupled with a "trial and error" mind-set and A/B testing capabilities, has made it easier for corporate innovation teams to pitch, trial, and continuously improve their brand ideas.

All of which is to say: innovation isn't just for start-ups. With the right brand equity, incumbents can do it too.

The new attackers

Some powerful brands have highly distinctive characteristics or associations in consumers' minds. When they capitalize on them to enter new territories—rather than simply colonizing a neighboring category—they bring innovation to their new domain. Here are three examples.

Disney's venture into the $4 billion children's English-language teaching business in China capitalizes on its brand essence of representing the American way of life, entertaining children, and offering a great customer experience.[3] Disney English opened its first school in Shanghai in 2008, just as the Shanghai Disneyland Park went into development, and has since expanded to 33 language centers in nine cities. The centers offer English-language courses that seek to make learning fun for 2- to 12-year-olds: children "interact" with Disney characters and stories via huge video monitors, and they are taught in small classes by native English speakers supported by bilingual Chinese assistants. In a country where Disney's films and merchandising have yet to establish a broad market presence, using language learning to attract small children and their families looks like a great entry point to the world's biggest market and a sound investment in nurturing a future consumer base for Disney products.

Another company harnessing its brand to drive innovation is of course **Virgin**, which recently used its "maverick outsider" image to power its challenger business in UK retail banking. Launched as Virgin Direct in 1995 with a limited product range, it bought Northern Rock in 2012, rebranded branches as Virgin Money, and introduced a full suite of banking and insurance products. Seeking to set itself apart from the distrust surrounding established banks in the wake of the global financial crisis, Virgin positioned itself as the customer's champion with its "quest to make banking better," opening inviting customer lounges as an alternative to the stuffy formality of established banks and branches. The strategy paid off: by 2013, new deposit as well as mortgage accounts were significantly outpacing the market average. A year later, Virgin Money launched a successful initial public offering.

BMW, for its part, joined the attacker ranks with its entry into the car-sharing business in 2011. DriveNow, a joint venture with rental company Sixt, provides urbanites with access to cars. In return for a registration fee and time-based charges, customers can choose from a fleet of Minis and BMWs. Via an app, drivers find the nearest available car, use a card to unlock it, and later

[3] "Middle Kingdom meets Magic Kingdom," *Economist*, August 26, 2010, economist.com.

leave it in any parking space in the city when their journey is complete. BMW described the venture as a “strategic response to the growth in urban living and shared ownership.”[4] Starting in Germany, DriveNow has subsequently rolled out to London, San Francisco, and Vienna, so far.

What differentiates BMW’s offering from competing initiatives is the appeal of driving stylish BMWs (including the i3 in some locations) and Minis, thereby—on the back of its brand strength—positioning itself as the car-sharing service for premium cars. Importantly, with the initiative seen as a way to explore new forms of mobility, it has strengthened BMW’s reputation as an innovator.[5] After early successes, DriveNow plans to expand to 15 more cities in Europe.[6]

These examples suggest that being good at line extensions gives incumbents a better chance of succeeding with brand extensions. Consider how Disney has gone from movies to theaters to amusement parks to merchandising, or how Amazon seems to do a line extension every few months.

What it takes

Incumbents have a number of assets and advantages that they can exploit to act as attackers in new markets. We believe there are three fundamental success factors:

- *Distinctive brand equity and trust.* Virgin’s entry into High Street banking at a time when trust in the sector was at an all-time low enabled it to take advantage of its status as a brand known for giving customers a better deal. An established brand name can also act as a powerful form of endorsement in new markets: National Geographic Society’s shift from magazines to television channels, expeditions, and more recently, retail stores—that sell books, clothes, and travel gear—is just one example.

- *Strong relationships with customers.* BMW used its understanding of customers’ mobility needs as well as its existing perception of being a premium brand to enter a new category with a service that enables it to tap into a different need state. It also further strengthens its relationship with consumers who could, in the future, move out of town and buy its products. Similarly, the German baby-food manufacturer HiPP entered the baby-care market by appealing to customers’ desire for organic, natural, and caring products for their new babies. The brand is now the main challenger in the German baby- and child-care category, with a market share of 4.5 percent, trailing only the top three international incumbents.

- *Access to data, capabilities, and other institutional assets.* Disney’s expertise in delivering distinctive customer experiences enabled it to rethink language learning in the Chinese market and create and execute a value proposition that no other provider could match. In Europe, Inditex, owner of the Zara fashion chain, combined its intimate knowledge of customer preferences with its extensive supply and distribution networks and operational expertise to launch its interiors chain Zara Home in 2003. The Zara brand proposition of making runway

[4] Sarah Spary, “BMW taps into sharing economy with launch of DriveNow across London,” *Marketing Magazine*, December 5 2014, marketingmagazine.co.uk.

[5] Joan Voight, “BMW moves into Zipcar’s territory,” *Adweek*, May 16, 2014, adweek.com.

[6] Andy Sharman, “BMW to launch pay-as-you-go car club in London,” *Financial Times*, November 30, 2014, ft.com.

fashion accessible to all has made a successful transition to the home-furnishing sector, with ten new markets entered in 2013 alone and almost 400 stores in 45 countries. Other types of assets can range from the technical—such as know-how, which drove Honda Motor Company's extension from cars to lawn mowers—to emotional, as seen in the "companionship" offered by Sony Corporation's MP3 players and TVs.

Successful brand extensions are likely to make use of all three of these advantages, rather than one in isolation. For instance, Disney's venture into English-language teaching is built on its established brand equity in entertainment, its deep understanding of how to engage customers, and its operational capabilities and expertise in multiple countries and cultures.

How to begin

Not every established brand can succeed at entering new markets. To find out if yours can, start by asking, *Does it have brand extension "angles," or emotional benefits that could travel to other categories?* If so, what might those categories be? And how can you use your benefits to create something new and different?

Next, *Where do you want to play?* Define your brand's aspirations to ensure you focus your innovation efforts appropriately. Then identify trends and discontinuities in tangential markets, analyze the competitive landscape, and evaluate any customer relationships your brand may already have. Also important: successful attackers are careful to deconstruct their assets and understand which ones can drive value in new markets.

Having selected your target markets, define your brand's value proposition in them—a process that calls for a good dose of creativity, deep immersion in customer needs, and sharp insight into decision journeys. Many extensions have failed through lack of brand relevance. So ask, *What is our brand's value proposition? Does our brand fit this new angle? Does it serve an unmet need?*

As an incumbent, you need to assess a new market as thoroughly as a start-up would. The best performers invest in detailed analysis to estimate the scale of an opportunity. *Is the growth potential worth the effort?* What do the competitive dynamics look like? Such an analysis should uncover unmet needs that can highlight how much scope there is to introduce disruptive products or services.

To understand customer needs and customer decision journeys, leading companies go beyond the basics of existing data sets, focus groups, and surveys by adopting advanced qualitative research techniques. They use ethnographic studies, home interviews, in-store observations, mobile-photo journals, "netnography" (customer-sentiment mining), "shop alongs," and a range of other innovative methods to check the fit between their proposed brand extension and their target consumers.[7]

[7] For more on new market-research techniques, see Leah Boucher and John Forsyth, "Winning the research revolution—Take two," *McKinsey on Marketing and Sales*, December 2014, mckinseyonmarketingandsales.com.

Once you've identified the right angle for your brand extension, *embark on a rapid prototyping phase*. Accept that some innovations—like Virgin Cola—won't succeed, and adopt a test-and-learn, "fail fast" mentality. That way, an operation that flops can be quickly closed down before it does any real damage to your brand. We find that some pilots can be launched in as little as 12 weeks. Don't allow a failure to drag on; it will weigh down your brand and taint it with mediocrity. Use conjoint analysis on any feedback you get to assess product trade-offs and define the value attached to various features.

Finally, *make sure your organization is fully prepared and ready to go.* By definition, a brand-driven innovation will take you outside your core expertise. Make sure you have enough knowledge about the new business to judge the right moment to enter. Develop a rigorous "reverse profit and loss" that helps clarify the objectives and assumptions underlying your business model. Think about how competitors might react and what your response should be. Check out any regulatory aspects governing the new market and identify the variables that could affect cost projections and supply.

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Although it's too early to judge how successful the new wave of incumbent attackers will be, it provides food for thought for established businesses seeking untapped pockets of growth outside their core markets. Caution is needed; not every big brand has what it takes. But some brands, it seems, are so important to us that their entry into new markets can have dramatic effects—not only carrying consumers with them but also kick-starting new growth and giving a boost to core products too.

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