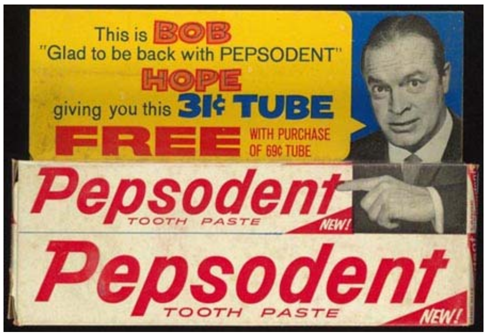
<u>How do Companies Buy or Inherit Tired Consumer Brands and Revitalize them?</u>

These are the ultimate believers in brand asset value – they put their money on the line. Should brands ever die? We hear about managing a brand effectively and maintaining its strength even if the product is changed and improved many times. It seems more attractive to maintain a strong brand than to launch one. Yet most brands seem to eventually decline and die. Even the strongest



companies allow this to happen. It is very tempting to buy an old brand which used to be strong and rebuild it. After all, it probably still has tremendous residual awareness so it should be cheap and easy. Sometimes, however, it is the very strength of awareness which becomes that which prevents it being revitalized. It may be so strongly associated with something that it is virtually impossible to reposition it in a modern, up-to-date way. Furthermore, frequently, after the brand has been purchased, there is not enough money left over to do what has to be done, even if it is a lot less than launching a brand from scratch. So most brands quietly disappear into the night, even if they remain fondly remembered for many years. Yet, there are many brands which have been successfully revitalized. Which are these brands and who or what does the revitalization? Is there a secret to the process? Do some companies or people have it?

Actually there are some companies which have simply revitalized their own brands, such as Heath or Arm & Hammer, though this is hard to do. It may be easier to simply buy tired brands and revitalize them with no barriers of received wisdom to hinder the process. So, other companies or organizations have been formed to buy tired brands and revitalize them. However, is there any reason beyond wishful thinking to believe that it is cost-effective, and is there any body of knowledge that gives us confidence that we can do this? If there is not, then the concept is flawed, and if they are successful in revitalizing the brands it is because they are lucky, and it is not predictable. However, on the

other hand, if there is a body of knowledge, then why do more entities not do this. More significantly, why is it that many of the best marketers in the world sell off their tired brands instead of revitalizing each one themselves? So it is important to understand whether the concept is simply hubris or quiet self-confidence.

The legal form of the organization which buys the brand is irrelevant. So whether it is a corporation, a PE Fund or an individual person may impact the tax treatment and the financial returns, but not the operational steps needed to be successful.

An initial look at the very many examples of brands which have been purchased to be revitalized suggests that the successes are outnumbered by the failures.

One of the more interesting and disciplined of the companies which acquires brands is the UK-based Lornamead. Operating in global markets with brands such as Yardley, Finesse, Lypsyl, and many others, it seems to have grown steadily over the past 30 years through thoughtful acquisition and conservative marketing. The company has not over-reached itself at any stage, but has kept risk modest. Its focus on HBA has allowed it to build a cohesive and cost-effective portfolio without over-paying. The long time period of its operation, its genuinely global strategy, and non-flashy approach distinguish it from most other companies which buy tired brands.

US-based Phoenix Brands has taken a similar approach to household cleaning products with brands such as Ajax, Sunlight dish-washing products, and Final Touch. Both of these companies, with offices in CT, are joined by Sun Products, newly moved to CT, with brands such as All, Snuggle, Wisk, and Sunlight laundry detergent. Pinnacle Foods Group has acquired such food brands as Log Cabin,

Mrs. Pauls, Vlasic, Lenders, Van de Kamp, Duncan Hines, Armour, Aunt Jemima, Swanson, Hungry-Man and others.

TSG Partners, which started funding consumer products start-ups such as Vitamin Water, has moved into buying established, but tired brands such as

Mauna Loa and Famous Amos – but all now in the food business. Central Garden and Pet has acquired brands in two categories to grow or re-grow them.

Like TSG, River West Brands has a more heterogeneous portfolio. From Salon Selectives hair care to Coleco toys; Bonwit Teller to Metrecal, Silkience to Brim coffee, it is difficult to find a market theme. This approach and TDG's is based on being smarter than the previous owners, as scale economics or know-how will be difficult to achieve. However, Spectrum Brands acquired an extremely heterogeneous portfolio that included brands such as Rayovac, Remington, Cutter, to Tetra. The company entered Chapter 11, but has just exited. Prestige Brands has also bought tactically rather than strategically.

The Himmel Group has covered a wide range, from Gold Bond to Doan's pills, Ovaltine to Porcelana, Topol to Ayds, but a common theme has been health and appearance. The mantra of the company is fourfold:

1. Listen to the consumer
2. Create compelling creative messages
3. Differentiate your product from the competition
4. Advertise, advertise, advertise.

Hilco is one of the few to successfully focus on fashion driven brands such as Sharper Image, Bombay, Polaroid, Ellen Tracy and Tommy Armour, but the field is far wider than Consumer Packaged Goods alone.

Actually, many companies buy tired brands. Prestige Brands, Jarden, Focus Products Group, World Kitchen – many with household appliance brands. The list goes on. The prevalence of these companies is increasing, but while most perform adequately, a few do really well, and a few fail.

Examination of the causes of failure suggests that the five biggest reasons for it are:

1. Inadequate funding. Most organizations which buy and try to revitalize a brand try to do it "on the cheap." Often driven by a short-term financial perspective, they end up being penny-wise and pound foolish. So eager not to overspend what they need to by even 1%, they end up losing all of their investment. Trying to rebuild a dying CPG brand via trade promotions is just not realistic.
2. Going against the heritage positioning. Even if a brand is moribund, it is likely to have a well-established position in the consumer or customer's

mind. Suddenly changing that will create a dissonance in the mind. New products or usages may be the key to shifting effectively.

3. Contempt for the past. In many of the most serious failures, all the people and documentation which had information of the past were cast aside.
4. No economies of scale. These can be applied to technology, logistics, manufacturing, distribution channel management, and promotion of any kind.\
5. Being too short-term. Even if the acquiring company does intend to "flip" the business, it will do better if it plans over the long-haul, even if it executes for the short.

Overall, the evidence suggests that more companies got the strategy right than got the implementation right. Success in this business does require effective strategy, but operational expertise, spending levels, and economies of scale may, in the long run be more important. It is more difficult to succeed at this than in a major corporation with brands in the prime of their lives. This is not subject to financial engineering, but is business as engineering – really practical, down-to-earth expertise in running a business. It requires management, while being data driven, can make decisions fast. In this situation, it most can benefit from faster, but well-planned, execution that they get.

It would be incomplete to address the issue of who buys and how they revitalize brands, without considering who sells them. In some cases they are companies in trouble, or companies which change strategy and divest a division. However, many of these brands have been sold by marketing powerhouses such as Procter & Gamble or Unilever. This may either be a mark of superior understanding of a brand, or it may be due to inattention for many years to a brand which still has potential. Some companies do not sell brands. Is this ego, or can they really maintain or turnaround all their declining brands? There is no doubt that it takes humility to sell an old brand, just as it takes immense self-confidence to buy one.

There is no doubt that many tired brands could benefit from the focused concentration they can get within a smaller company, or one which exists solely to re-invigorate such businesses. However, the rescue of such brands is not quite as easy as it seems, and at the mercy of many operational, logistic and executional details. Therefore, such a business needs expertise in a wide range of business skills, not just Marketing. A genuine challenge for any acquirer is how to overcome the roots of its own management. So a group of Marketers alone is as risky as a group of Manufacturing people alone, or Bankers alone. Functional expertise and perspective is valuable, though the team as a whole needs to take a balanced approach which is adequately funded.