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**Article**

## Premiumization as a Profit Growth Strategy - A Framework of Strategic Options

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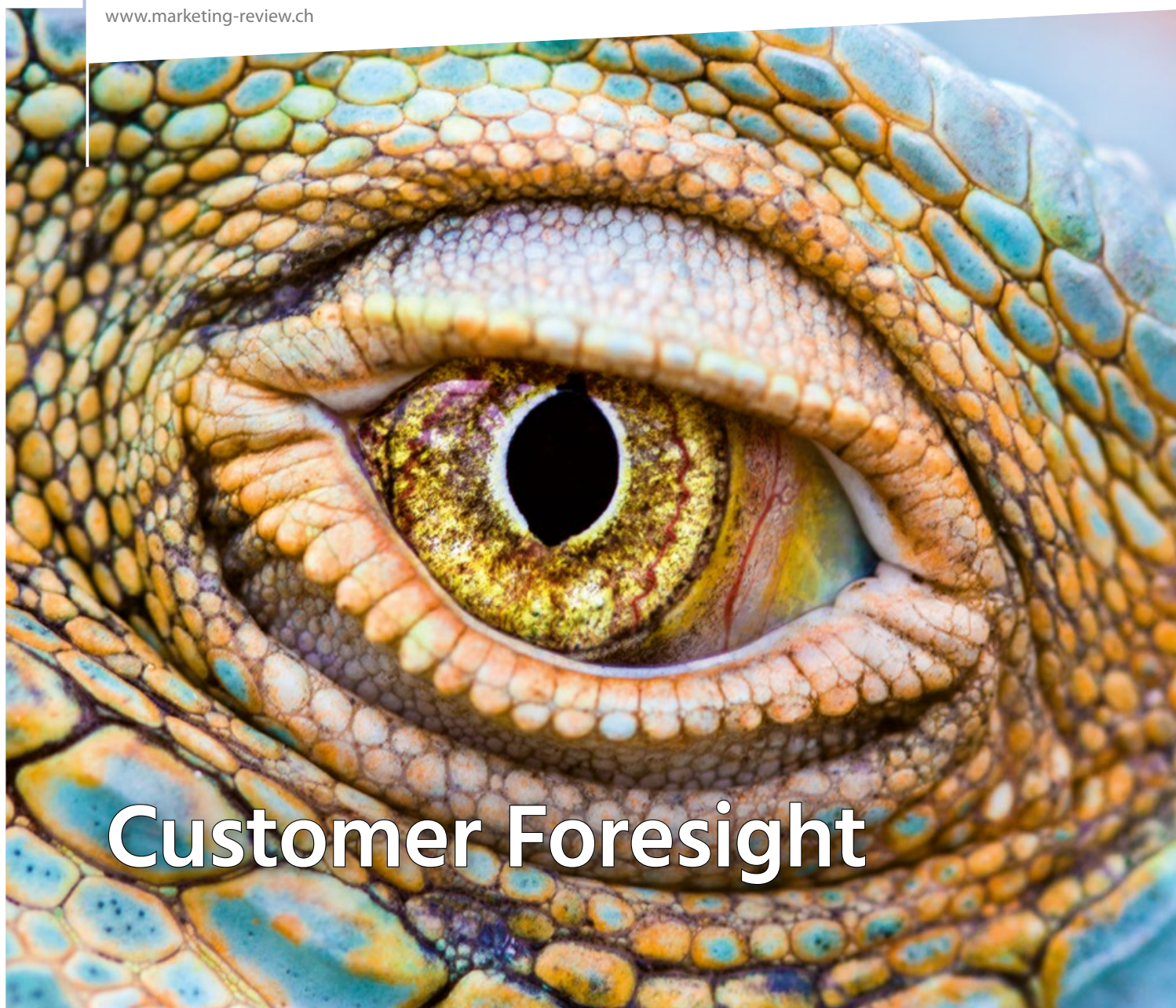
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## Customer Foresight

# Premiumization as a Profit Growth Strategy

## A Framework of Strategic Options

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Premiumization is an attractive growth strategy in competitive markets as it allows firms to achieve higher price levels by adding value to a brand or a brand portfolio. This article provides a conceptual framework of strategic options for premiumization and derives managerial guidelines on how to choose and successfully implement the right option.

**Anna-Karina Schmitz, Prof. Dr. Martin Fassnacht**

**D**ue to technological progress, an increased availability of information, the reduction of commercial obstacles, and the continuous development of emerging markets, brands in today's markets are facing high competitive pressure. Simultaneously, urbanization and the growth of the middle class lead to rising consumer prosperity and increasingly heterogeneous consumer needs. Consumers adjust their purchasing habits accordingly: while trading up to higher-priced product alternatives in specific categories, they are deliberately paying less and trading down in others (Silverstein & Fiske, 2008).

Because it is difficult for brands to react to resulting demand shifts and to remain relevant and profitable, many firms have reduced the number of brands substantially to focus on the core brands in their portfolio (Bauer, Exler, & Schwerdtle, 2007). In the last ten years, *Nestlé*, for instance, has decreased the number of brands from 8,000 to 2,000 (Joseph, 2013), just as *Henkel* thinned out its brand portfolio from 1,000 to 300 brands (Bielefeld, 2019). In 2014, *Procter & Gamble (P&G)* announced to focus on just 70 to 80 core brands in future because these brands are responsible for 90% of sales and 95% of profits (Saal, 2015). Consequently, even large and well-known brands like *Duracell*, *Braun*, and *Wella* were sold (Saal, 2015).

The focus on a considerably lower number of core brands implies that firms have to compensate for lost sales due to eliminated brands and realize growth by alternative means. As today's markets are rather saturated, most categories do no longer grow with regard to sales volume (Kapferer, 2012). Therefore, instead of trying to increase sales volumes with low prices, firms have to focus on value. Adding value to a brand by means of *premiumization* can help firms to realize higher prices, attract new consumers with a higher willingness to pay, and to escape downward price spirals. In this way, firms cannot just increase profits but also enhance brand image and realize persistent growth. There are two major options for firms to engage in *premiumization*: (1) Firms can either try to sell higher-priced products under their remaining brands or (2) add new brands positioned at a higher price/value level than the existing brands in their portfolio.

However, irrespective of the chosen option, *premiumization* is a difficult process that requires a strategic and systematic approach. Its potential benefits have to be balanced against high costs and risks. In general, targeting a higher price/value level involves a realignment of many functions (e.g., R&D, quality, design, and sales) and of the corporate culture. This is very time-consuming as corresponding competencies have to be established or acquired. Furthermore, the risk of eliciting potentially negative feedback effects on

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existing brands and the whole brand portfolio has to be managed continuously throughout the process.

In view of these challenges and the importance of premiumization, it is surprising that scant research has addressed questions of premiumization. In particular, a comprehensive framework and a comparison of different premiumization strategies are missing. Consequently, there is little guidance for practitioners on how to successfully apply different premiumization strategies.

Therefore, this article aims to provide a conceptual framework of strategic options for premiumization. Insights on price positioning and consumer value are combined to characterize and evaluate the options using various practical examples. Finally, managers are provided with guidelines for basic premiumization decisions.

### **Conceptual Foundations of Premiumization**

#### **Premiumization as a (Re)Positioning Strategy**

Since premiumization is about adding value to a brand or a brand portfolio along with achieving a higher price level, price/value (re)positioning is at the heart of any premiumization strategy. Price/value (re)positioning of a brand can be defined as the (re)arrangement of current value and price elements in such a way that the brand achieves a desired new or changed perception in the mind of consumers (Simon & Fassnacht, 2019). Thus, the (re)positioning of a brand (portfolio) should never be based solely on price but should rather reflect the underlying value as perceived by the consumer (Simon & Fassnacht, 2019).

Perceived value can be derived from different components that are capable of fulfilling consumer needs: functional value relates to the basic performance of a product, emotional value stimulates emotions such as pleasure or excitement, symbolic value fulfills the need for social recognition, and ethical value fosters the positive feeling that one has done something altruistic (Simon & Fassnacht, 2019). Each of these components is able to add value to a brand and differentiate it from competing brands. In the end, consumers will usually buy a product only if the perceived value derived from all components corresponds to, or exceeds, the price.

When perceived value and price are in balance with each other, several typical price positions will arise, with the luxury price position at the upper end of the price/value scale followed by the premium, medium, and low price position down to the ultra-low price position at the lower end (Simon & Fassnacht, 2019). These price positions differ in terms of the composition of perceived value. The relative contribution of functional value decreases with higher price/value levels while the relative contribution of emotional, symbolic, and ethical value increases (Wiegner, 2010).

For premiumization, the current price/value position serves as a starting point for an upward repositioning to a higher price/value level. The higher the targeted price/value level, the more important emotional, symbolic, and ethical value components will become.

### Scope and Focus of Premiumization

#### Strategic Options for Premiumization Differ in Terms of Their Scope and Focus

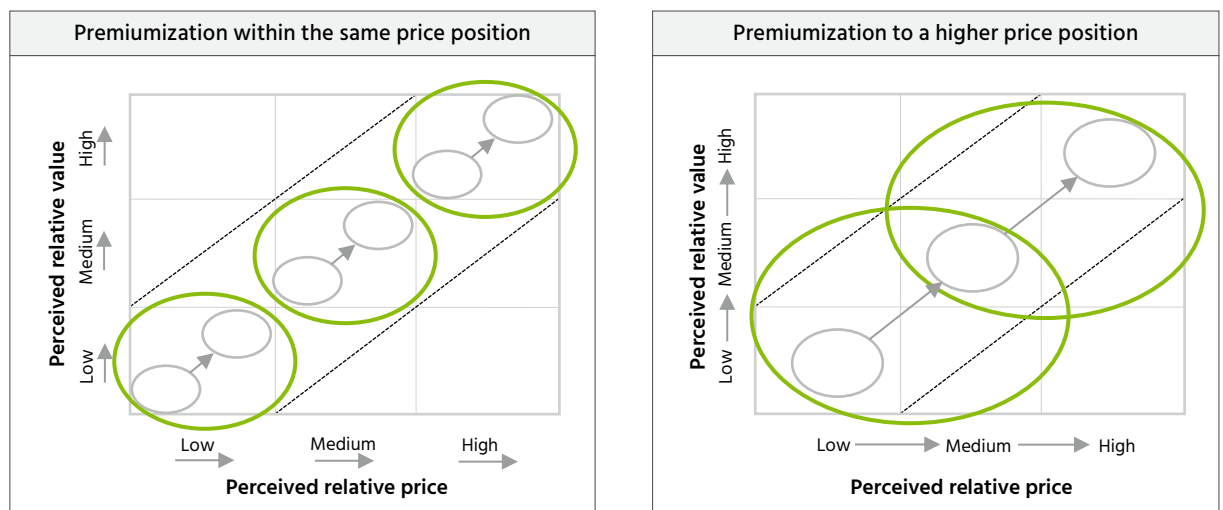
Figure 1 shows different **scopes** of premiumization. Firms can choose to move up within their current price position (e.g., from the lower to the higher end of the medium price position) or try to move to a higher price position (e.g., from the medium to the premium price position). This means that premiumization is not restricted to specific price positions; it can be used in the low price position just as well as in the medium or premium price position. The upward steps can differ in size (i.e., they can be smaller or larger).

Firms can also choose to raise price and value in small steps over time. Premiumization within a price position may then be considered as a first step towards a higher price position.

According to the objectives pursued, the **focus** of premiumization strategies varies. Firms can either premiumize a single brand (by trading up an existing brand to a higher price/value level) or raise the average price/value level of their entire brand portfolio (by introducing a new brand above the current price/value level of the brand portfolio).

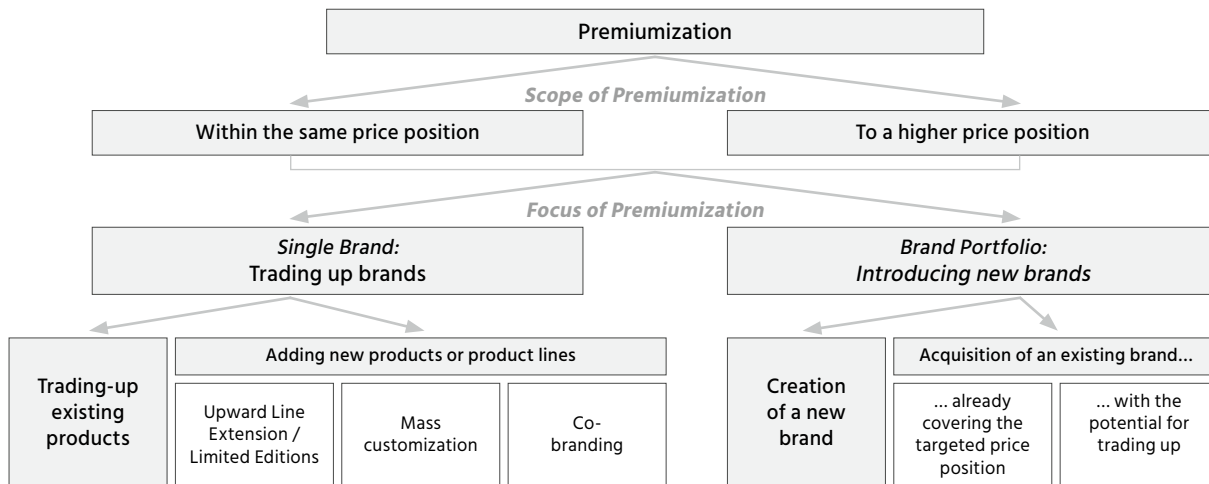
Figure 2 classifies the different strategic options according to their scope and focus. All options will be discussed and evaluated below.

**Fig. 1: Different Scopes of Premiumization**



Source: Own illustration.

**Fig. 2: Strategic Options of Premiumization**



Source: Own illustration.

**Trading up Brands**

There are two alternatives for trading up a brand to a higher price level: trading up existing products of a brand or adding new products or product lines to a brand.

**Trading Up Existing Products**

Trading up existing products is a rather fast way to premiumize a brand, because it typically involves only small changes in product design and/or packaging. Labels, add-on features, smaller-sized packaging, and shape changes are frequently used to upgrade a product in the mind of consumers and to justify a price increase. Because other marketing mix instruments are often neglected, the value added is restricted and premiumization is only feasible within the same price position.

*Evian's* premiumization strategy for bottled water shows that the value added has to be clear to the consumer to avoid negative reactions. The design of the bottle was changed to a cleaner look and reduced in size. The water itself remained unchanged but prices were increased by about 50 percent. Upon request from consumer protection groups, *Evian* justified the price increase with higher costs due to efforts to protect the environment (FAZ, 2017). This, however, had not been proactively communicated to the consumers. The intended premiumization scope was too high and *Evian* missed the opportunity to create positive feedback by enhancing the ethical value component.

Changes in price and product or packaging may be sufficient if the value added is clear to the consumer. Because of the small premiumization scope, complexity and costs are manageable and there is a low risk of losing existing consumers. However, chances of winning new consumers are also low. If the value added is not self-explanatory, intensive communication is necessary.

**Adding New Products or Product Lines**

In order to trade up a brand, firms can also add new products or product lines by means of upward line extension, limited editions, co-branding, or mass customization.

**Upward line extension** involves introducing a new product (line) under an existing brand in the same product category, but at a higher price point (Kim, Lavack, & Smith, 2001). Upward extensions can signal parent brand expertise and prestige and thereby shift the whole brand to a higher price/value level (Kirmani, Sood, & Bridges, 1999). There is a risk, however, of losing existing consumers and damaging the brand if consumers feel the brand stretches beyond its competence (Aaker, 1997). Therefore, firms have to carefully design and implement upward extensions and make sure the entire marketing mix is consistently focused on delivering added value to consumers.

*Ritter Sport* did that successfully with its subline *Nut Selection*. All nut chocolates were updated with a recipe containing more nuts and a new packaging design. The introduction of the new line was accompanied by a special shelf layout and

promotions at the POS. A comprehensive communication campaign focused solely on *Nut Selection*. The transparent communication of changes and added benefits enabled *Ritter Sport* to realize a markup of about 30 percent. After the successful launch of the *Nut Selection* line, the subline *Cacao Selection* followed with a similar concept. With this strategy, *Ritter Sport* manages to slowly shift the brand from the lower to the upper end of the medium price position.

**Limited editions** – like *Ritter Sport's Unicorn* chocolate – are similar to upward extensions except that they are limited in quantity (Balachander & Stock, 2009). They have a positive effect on a brand's profits because consumers typically show an increased willingness to pay for limited editions (Balachander & Stock, 2009). Again, consistent changes in all marketing mix elements are critical to success. In case of the *Unicorn* chocolate, the product combined different flavors in a special packaging. Communication was based on social media and word-of-mouth. That enabled *Ritter Sport* to charge a price premium of about 80 percent.

Limited editions alone may not be sufficient for successfully premiumizing a brand because of their short-term character. However, they are well suited for supporting premiumization strategies because they allow brands to leverage current trends, generate attention, and deliver emotional and symbolic value to consumers. Furthermore, limited editions build on providing a feeling of scarcity to the consumer that leads to a higher perceived exclusivity (Brown, 2001).

**Co-branding** can be used to premiumize a brand by leveraging the higher price/value level of a collaborating brand. In signaling its higher price/value level, the collaborating

brand may enhance value components a brand currently does not (or not adequately) cover (Himme & Zuhorn, 2012). *Edeka*, for example, enhances the ethical value of its brand by collaborating with *WWF* in its private label products.

It may, however, be difficult to find a brand with a higher price/value level that is willing to cooperate. That is why such co-branding activities are often implemented as short-term projects, like the co-branding partnership between *ALDI* and *Jette Joop* in a joint fashion collection. This collaboration was part of *ALDI's* long-term trading-up strategy with the aim of attracting new consumers by adding emotional and symbolic value to the brand. Because of its success the concept has since been copied quite often.

For long-term partnerships, the fit between the two brands and the right scope of premiumization are even more important. Coming from a medium price position, *Schwarzkopf*, for example, collaborated with *Claudia Schiffer* in the hair care line *Ultimate Essence* in an effort to enter the lower premium price position. However, the product line suffered significant price erosions because the German consumers may not have seen the long-term fit and value added by *Claudia Schiffer*. Against this background, the envisaged move to a higher price position seems to have been too ambitious. Additionally, co-branding always involves the risk of damaging the brand due to negative things happening to the cooperating brand (Koschate-Fischer, Hoyer, & Wolframm, 2019).

**Mass customization** can be used to trade up a brand by enhancing its emotional and symbolic value because customizing a product is fun and original and allows consumers to show off that they are creative and individual. Consumers are willing

## Management Summary

1. Because premiumization allows firms to achieve higher price levels by adding value to a brand or a brand portfolio it is considered an attractive growth strategy in competitive markets.
2. This article provides a conceptual framework of strategic options for premiumization. Insights on price positioning and consumer value are combined to characterize and evaluate the options using various practical examples.
3. Managers are provided with basic guidelines on how to choose and successfully implement the right strategic option of premiumization.

## Main Propositions

1. There are different strategic options of premiumization. Firms can either focus on a single brand by trading up existing products or adding new products to the product line or they can focus on the whole brand portfolio by creating or acquiring new brands.
2. Firms can choose to move up within their current price position (e.g., from the lower to the higher end) or try to move to a higher price position (e.g., from the medium to the premium position).
3. While different strategic options of premiumization entail specific opportunities and challenges, a consistent price-value relationship is a prerequisite of every premiumization strategy.

to pay considerable markups for customized products. *Nike*, for example, realizes a price premium of about 20 percent on its *NikeiD* customized shoes. That helps *Nike* to constantly increase its price/value level within the upper premium price position.

However, successful mass customization requires extensive adaptations of the entire value chain and advanced information and manufacturing technologies (Fogliatto, da Silveira, & Borenstein, 2012). Therefore, technological advancements like 3D-printers will make mass customization an even more attractive premiumization option in future.

### Introducing New Brands

Adding a brand that is priced above the average price level of the portfolio can be used to premiumize a brand portfolio (i.e., increase the average price/value level of the portfolio). There are two options for adding a new brand to a portfolio: creation of a new brand or acquisition of an existing brand.

#### Creation of a New Brand

Brand creation involves the introduction of a brand that is new to the firm and the market. It is a costly and time-consuming activity as a unique brand image has to be created from scratch (Aaker, 2004), and can substantially increase the complexity of an organization (Damoiseau, Black, & Raggio, 2011). However, with a new brand the firm is not confined to the initial image, target group, and price/value position of its existing brands but free to create value components in a way that best fit the targeted price position (Damoiseau et al., 2011).

*Dr. Wolff*, for example, could extend its brand portfolio within the premium price position by creating the new anti-hair-loss hair care brand *Plantur*. With its original brand *Alpecin*, *Dr. Wolff* was restricted to men. The new brand gave *Dr. Wolff* the freedom to create value by focusing on women as a new target group and extract that value with a high markup. The example of *Activ Dr. Hoting* by *Schwarzkopf* in the same category shows, however, that new brands may fail if consumers do not perceive a consistent price–value relationship. Compared to *Plantur*, consumers felt that *Activ Dr. Hoting* was too expensive and did not deliver sufficient value.

#### Acquisition of an Existing Brand

Instead of creating a new brand, firms can also acquire existing brands to premiumize their brand portfolio. Acquiring an existing brand that already covers a targeted higher price position is less complex and expensive than creating a new brand (Himme & Zuhorn, 2012). Additionally, the other brands in the port-

folio might benefit from synergies such as reduced costs and increased competences (Capron & Hülland, 1999). *Unilever*, for example, expanded its presence in the premium segment of the ice cream market with the acquisition of *Ben & Jerry's*. Starting from a medium price position, *Campari*, *Beiersdorf*, and *P&G* entered the premium or even luxury price categories with their acquisitions of *Wild Turkey*, *La Prairie*, and *Aussie*, respectively. To be successful, the value provided by the acquired brand has to be preserved in the integration process.

Firms can also choose to acquire brands with a potential for trading up. After the acquisition of *Johnnie Walker*, *Diageo* managed to revitalize and continuously trade up the brand within the premium price position. *MINI* is another example for premiumization by revitalizing an acquired old brand. Originally created as a car for people with lower incomes, *BMW* traded *MINI* up to the premium price position after its acquisition.

Table 1 summarizes and evaluates all strategic options of premiumization discussed above.

### Managerial Guidelines

Depending on their objectives and their specific situation (e.g., existing brand portfolio, competitive situation, consumer needs), firms have to decide on the scope and focus of their premiumization plans to choose the best strategic option. Figure 3 provides basic guidelines for premiumization decisions.

First of all, managers have to figure out whether they have the need and resources to engage in premiumization. Subsequently, they have to determine the scope of premiumization. In general, moving to a higher price position is associated with considerably higher efforts, costs, and risks than moving up within a current price position. To be successful, a realignment of many functions (R&D, quality, design, sales) to a higher level is necessary. This is very time-consuming as corresponding competencies have to be established or acquired. However, a higher price position comes with advantages that might outweigh these costs and risks. In general, in the higher price positions price elasticities are comparatively low, which allows higher markups. Because of the growing importance of emotional, symbolic, and ethical value components, more opportunities for differentiation arise. Additionally, the frequency and the risks of price wars are lower in higher price positions than in lower ones (Simon & Fassnacht, 2019).

Therefore, the scope of premiumization depends on the long-term strategic objectives of a firm. When consumers associate a brand/firm with a specific price position and it is successful in this position, constant premiumization within this price position can be used to enhance profitability and preserve the current price/value level in the long run. If a firm,



however, wants to profit from the advantages of a higher price position and change its positioning strategically, moving to a higher price position is without alternative. Furthermore, changes in the competitive situation, in consumer needs, and in technologies may impair the competitive situation and profitability and make it necessary to update the current positioning (Keller, 2013) and tap into a higher price position.

To figure out which strategic option of premiumization best fits the specific context and objectives of a firm, managers have to decide whether to focus their premiumization efforts on a

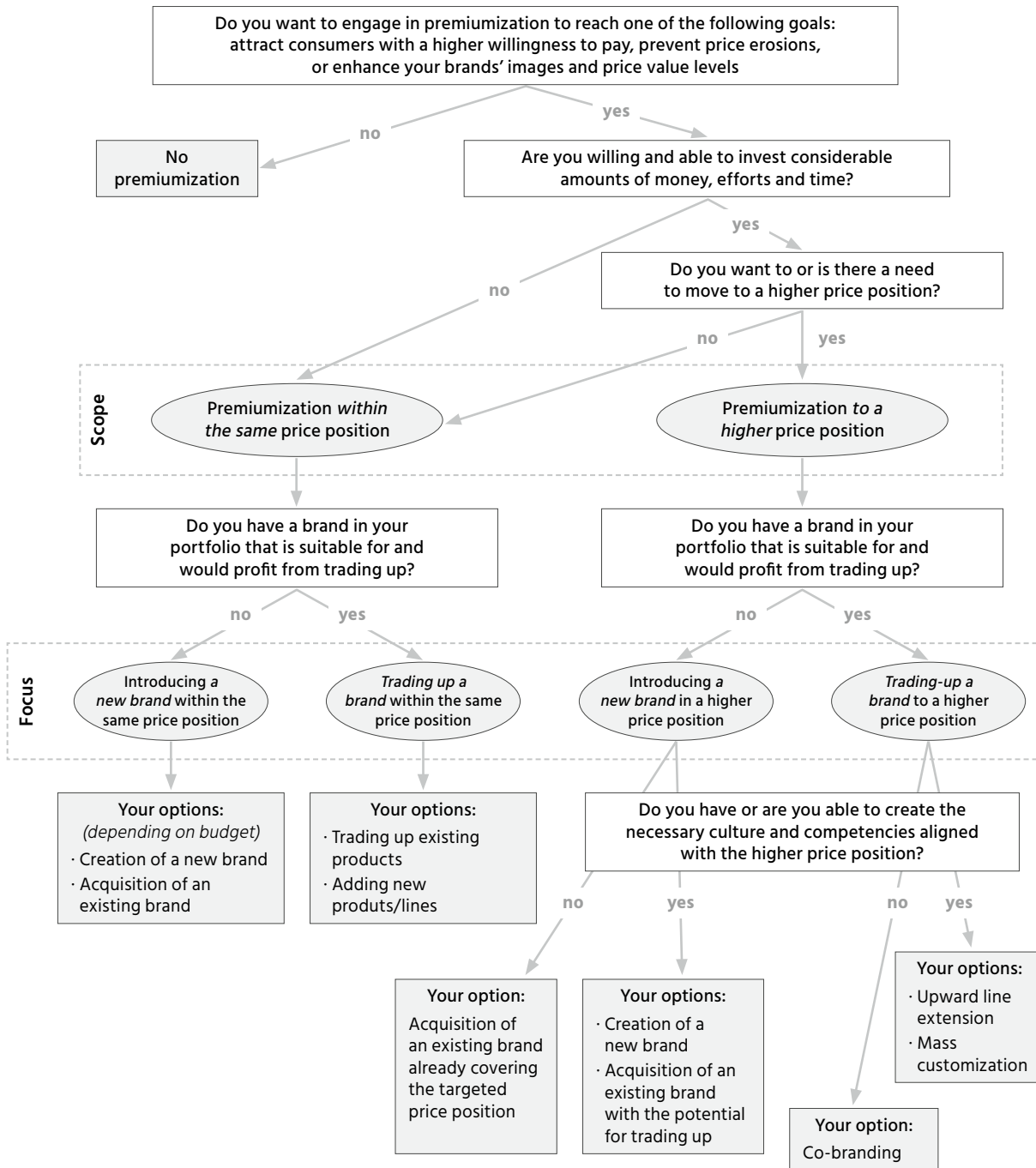
single brand or on the entire brand portfolio. When firms strive for a higher price/value level and an enhancement of the image of one of their brands (e.g., to increase its profitability and prevent price erosions), premiumization of that brand should be considered. As a positive side effect, premiumization of a single brand will also affect the average position of the entire brand portfolio. However, premiumization of a single brand comes with high risks. Existing consumers may be confused, because premiumization strategies may be perceived as inconsistent with the brand (Milberg, Park, & McCarthy, 1997).

**Table 1: Evaluation of the Strategic Options of Premiumization**

		Trading up Brands			Introducing New Brands	
		Upward Line Extension	Co-Branding	Mass Customization	Creation of a New Brand	Acquisition of an Existing Brand
Time Span	Medium- to long-term activity.	Short- to medium-term activity.  Often for a limited period of time.	Medium- to long-term activity.	Long-term activity as visibility has to be built from scratch.	Short-term activity if the brand already has the targeted price/value position.  Otherwise, medium- to long-term activity.	
Intensity of Marketing Activities	Marketing mix has to be adapted to enhance consumer perception of the extension.  More complex when trading up to a higher price position.  Innovation and communication are crucial.	A greater scope of premiumization requires more intensive adaptations of the marketing mix.  When moving to a higher price position, efforts can only partly be shared with the partner.	Entire marketing mix has to be adapted to the new concept.	Entire marketing mix has to be set up for the new brand.  Possibility of using synergies only if the new brand is within an already targeted price position.	Current activities can be continued for the time being.  (Trading up an acquired brand requires adaptations depending on the strategic option used, see columns 1–3.)	
Costs	High complexity within the brand portfolio.  Medium to high costs.	High coordination effort causes medium to high costs.	High complexity and costs as all procedures have to be adapted to customization.	Very high complexity and costs, especially when there is no prior experience in a new price position.	Apart from the costs of acquisition low complexity and costs.  (Trading up an acquired brand comes with additional costs, see columns 1–3.)	
Risks	The smaller the scope of premiumization, the lower the risk of damaging the brand and losing existing consumers.  A greater scope increases the chances of winning new consumers.	Lower flexibility and limited strategic power pose the risk that the brand image may be damaged.	High risk of failure, especially when there is no prior experience, because the entire organization is affected.  Great chance of attracting new consumers.	Depending on the competences and culture for the targeted price position in the firm, medium to very high risk as consumers have to accept the new brand.	Medium risk as there are existing consumers and an established brand image.  Cultural differences in the integration process pose an additional risk.  (Trading up an acquired brand comes with specific risks, see columns 1–3.)	
Main Success Factors	Adding value to the extension.  Adapting the whole marketing mix to a higher price/value level.  Awareness of the brand's credibility and expertise (it should not be stretched too far).	Creating a story that builds on emotional and symbolic value components.  Using the entire marketing mix to support the line extension and create premiumization effects for the brand.	Adapting the whole value chain.  Building on technology.  Focusing on products that are customizable.  Creating knowledge on consumer needs (e.g., individualization).	Acquiring or building up competences in a higher price/value position.  Focusing on a consistent management of the entire marketing mix.	Finding the right balance between integration and independence of the acquired brand.  Making use of synergies.  Managing the change process and cultural adaptations.	

Source: Own illustration.

**Fig. 3: Managerial Guidelines for Premiumization Strategies**



Source: Own illustration.

## Lessons Learned

1. Managers have to figure out whether they have the need and resources to engage in premiumization and then decide on the scope and focus of their premiumization plans to choose the best strategic option.
2. Moving to a higher price position is generally associated with considerably higher efforts, costs, and risks than moving up within a current price position.
3. To figure out which strategic option of premiumization best fits the specific context and objectives of a firm, managers have to decide whether to focus their premiumization efforts on a single brand or on the entire brand portfolio.
4. Premiumization is hard to achieve because high costs and risks need to be balanced. The additional revenues realized through premiumization need to be higher than the costs.

If firms want to benefit from premiumization without jeopardizing their existing brands, they should focus on brand portfolio premiumization with the help of a new brand. This is also appropriate when there is no brand in the portfolio that is suitable for premiumization.

## Conclusion

Premiumization can be a powerful strategy for realizing growth in competitive and saturated markets. It can enhance long-term profitability by achieving higher price levels, attracting consumers with a higher willingness to pay, and increasing brand attractiveness. It is hard to achieve, however, and high costs and risks need to be balanced. While the different strategic options of premiumization entail specific opportunities and challenges, a consistent price–value relationship is a prerequisite of every premiumization strategy. Higher prices need to be justified by an increase in perceived value. Simultaneously, firms have to consider potential feedback effects on their brands. Finally, the additional revenues realized through premiumization need to be higher than the costs.



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