

VIEWPOINT

Ingredient branding case study: Intel

Introduction



1. Introduction to ingredient branding
 2. The need for an ingredient brand
 3. Developing the ingredient brand strategy
 4. Intel co-operative marketing strategy
 5. Creating a quality standard
 6. Intel campaign investment
 7. Ingredient branding results
 8. Ingredient branding success factors
1. Introduction to ingredient branding

Every month more than 4 million billion (4×10^{15}) transistors are produced; more than half a million for every human on the planet. Most computer chips each comprise more than 7 million transistors.

Twelve years ago computer chips, in the eyes of consumers, were a generally unknown component of PCs - a commodity product. From a competitive standpoint, a computer chip is a typical commodity. Take one out, put another in, no performance difference. Chips are something most customers don't see, many don't understand, and large numbers don't care about.

But Intel has built a brand around a commodity. The company was founded in 1968 and went public in 1971. By 1997, it controlled 90% of the world's market for personal PC microprocessors. Although the market is more competitive today, Intel is still the largest chip manufacturer in the world.

2. The need for an ingredient brand

Intel developed the chips which set the standard for personal computing during the 1980s, beginning with the 8086 chip and then developing a series of product improvements. Competitors rapidly adopted the same naming convention, and Intel's product names - the 286, 386 and 486 could not be protected. Intel had to find a way to become distinctive in what seemed to consumers to be a confusing, commodity marketplace.

When Intel lost its battle for the "386" trade mark, they began the transition from a microprocessor producer to a branded products company. In 1991, the "Intel Inside" brand ingredient programme was launched with almost 200 OEM (Other Equipment Manufacturers) partners with the objective of creating a consumer brand to make sense of the rapidly changing product cycles.

Intel already had an established reputation as a quality producer of microprocessors amongst the OEMs. However, Intel needed to differentiate itself from its competitors and build a consumer brand. Intel believed it could position its chips as a premium product, which it could in turn sell at a premium price to computer manufacturers. To give computer manufacturers and their retail customers more reason to identify Intel in their marketing, Intel chose to market its product as a branded component.



VIEWPOINT

Ingredient branding case study: Intel

Intel convinced manufacturers that their computers would have higher perceived value if they featured Intel in their own marketing. That meant creating brand awareness for Intel chips in PCs amongst the manufacturers' direct customer (the dealer) and the end-user (consumers and business purchasers). The first step was to commit Intel to a fully integrated brand strategy. They chose to invest in "ingredient" branding - the creation of equity as an input brand.

The most visible example of such branding at the time was NutraSweet, Monsanto's brand, an artificial sweetener used in 3,000 food and beverage brands. After only six years after its introduction consumer preference for NutraSweet had produced annual revenues of nearly US\$ million and net income of over US\$ million.

3. Developing the "Intel Inside" ingredient branding strategy

In 1991, Intel launched the successful co-op program in which they convinced manufacturers to place the "Intel inside" logo unit in their advertising and other marketing material.

The name "Intel Inside" became the first trademark in the electrical component industry. This campaign focused the entire organization around the brand and created a highly effective advertising campaign. The Intel Inside campaign aimed to "educate both the retail sales associates and the consumers about the value of Intel microprocessors, and to explain to them the differences between the microprocessors" - without the technical jargon.

Many consumers were uncertain about the quality and reliability of microprocessors, and Intel found a way of taking away the mystery of the product, gaining the confidence of the end consumer that "Intel Inside" represented quality and reliability. At first this met with skepticism, outside the company and within it. But that didn't deter Intel. As well as advertising for itself, it had the bright idea of contributing directly to PC makers' campaigns-as long as they promoted Intel at the same time.

The advertising results were stunning. For example, late in 1991, Intel research indicated that only 24 percent of European PC buyers were familiar with the Intel Inside® logos. One year later that figure had grown to nearly 80 percent, and by 1995 it had soared to 94 percent and continues at these high levels today.

Ten years into the campaign, products that don't boast the presence of Intel inside are bound to arouse suspicion among consumers. "People will wonder, "Why don't they use Intel chips? Are they using something cheaper, or not as good?"

4. Intel co-operative marketing strategy

Intel went to publishers and media organisations and negotiated volume discounts for everyone who participated in the program. Publishers were excited because the program appeared to bring them many new advertisers and helped prove the value of advertising. The computer manufacturers got better rates through the program than they would have buying rate card price. Intel also substantially reduced the total cost for its own advertising while maintaining high exposure for "Intel inside".

Computer manufacturers began co-branding their computers with Intel, the logo gained wider recognition, and consumers perceived it as a benefit in performance.

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VIEWPOINT

Ingredient branding case study: Intel

5. Creating a quality standard

With its ingredient branding program, Intel raised awareness for both processors in general and for its own processor brand. Suddenly, consumers and business decision makers alike considered what was on the inside of the computer before making a purchase and Intel provided the only relevant solution.

More importantly, they taught to consumers to "look for the Intel Inside logo" as an assurance of quality. Intel has been linked to premium brands like IBM and Compaq - they have created the lasting impression that Intel makes something worth paying more for.

6. Intel campaign investment

In 1997, Jami Dover, Intel director of co-op marketing programmes said that since 1991, Intel and PC makers together had spent US.4 billion on advertising that included the Intel Inside logo. More than US billion of that figure came directly from Intel with the remainder from their partner OEMs.

Today, the Intel Inside® Program is one of the world's largest co-operative marketing programs, supported by some 1,000 PC makers who are licensed to use the Intel Inside® logos. Since the program's inception in 1991, well over US billion has been invested by Intel and computer manufacturers in advertising that carried the Intel Inside® logo.

This leapfrog strategy of marketing to end-user has since worked so well that PC buyers now ask for Intel. Market research has indicated that end-users show a strong preference for computer systems containing Intel microprocessors. Around 70% of home PC buyers and 85% of business buyers state a preference for Intel, saying they will pay a premium for the security and peace-of-mind offered by the brand.

7. Intel Inside - key results of ingredient branding

To illustrate the value of this campaign in increasing shareholder value, look at the growth in Intel's market capitalisation. In 1991, before the start of the "Intel inside" branding program, Intel's market capitalization was about US billion. In 2003, it is about US5 billion. This growth of shareholder value indicates the value of Intel's ingredient branding strategy. Some other key statistics demonstrating its value include:

In 1992, the first year of "Intel Inside" campaign, worldwide sales rose 63%.

Awareness of the Intel logo amongst European PC purchasers grew from 24% at the start of "Intel Inside" campaign in 1991, to 94% by 1995.

In 2001, Intel was listed as the sixth most valuable brand in the world, with a published brand value estimated of US billion.

Though AMD and other manufacturers could, and did, produce comparable and even superior processor chips, that fact is lost on buyers mesmerized by Intel who controlled 90% of world's share of PC microprocessors by 1998.

8. Ingredient branding success factors

The success of the Intel Inside campaign can be attributed to a number of factors including:



VIEWPOINT

Ingredient branding case study: Intel

- an established reputation for producing leading edge technology, in particular microprocessors;
- a willingness to pro-actively collaborate with channel partners;
- the adoption of industry leading marketing strategies, such as the use of plain English packaging and component instructions; and
- an aggressive marketing budget, which maintained substantial campaign spend even during the US economic recession in 1991. As of 1999, Intel's was investing around US0 million a year in the Intel Inside campaign, representing 8% of total sales.

What the analysis shows, and what is instructive to any supplier in an industrial or commercial market, is that ingredient branding can work well. For example, Intel's strategic alliance with IBM continues to be a strong one which is mutually beneficial. Neither partner is heavily dependent on the other, and yet each benefits greatly from the relationship. No brand dilution has occurred on either side. In fact the opposite has happened, each party has benefited dramatically from the partnership.

This case study demonstrates how a successful, ingredient brand campaign can transform a commodity product into a valuable consumer brand with a brand value quantified at US billion.

