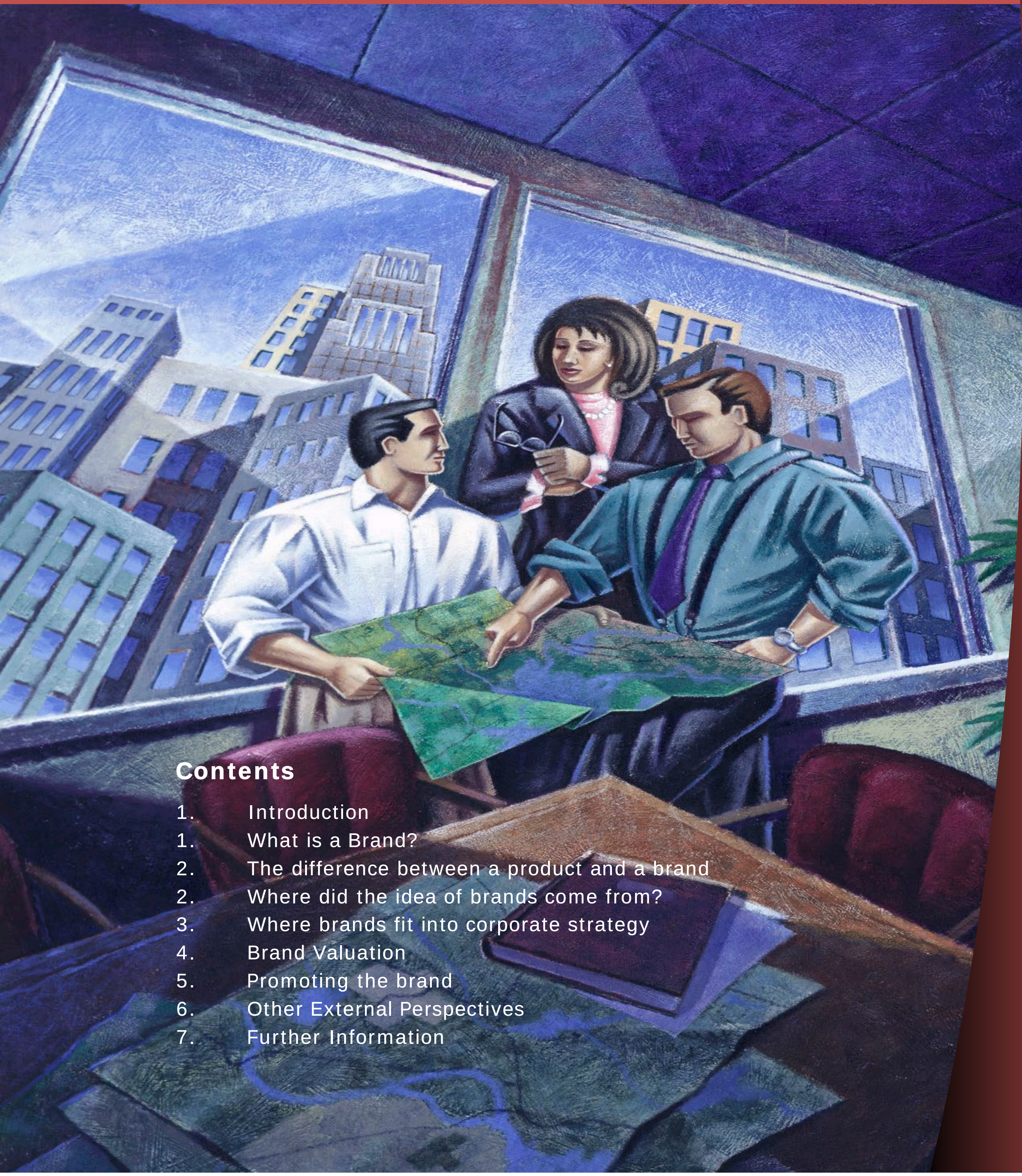
Brands -

an insight into what “brands" really are

Expert knowledge means success



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Introduction

The Brand for some reason still seems to remain in many companies one of the most misunderstood mysteries of corporate life. As consumers, we all have an innate understanding of product brands and will discuss passionately the various merits of our preferred brand of beer, clothes or motor vehicle. When it comes to trade or service brands the distinctions and emotional ties are often less clear[1].

The banking industry is a fine case in point. If consumers are asked what bank brands they know, they're unlikely to be able to give a particularly cogent reply. They know the names of banks but not bank brands. This is significant, as for customers these names are not brands, identifying a particular set of products or service style but merely corporate names linked only to various emotionally anonymous institutions.

Beyond habit and the inconvenience of rearranging one's personal finances, there are few emotional or rational barriers to eroding loyalty as some providers are beginning to find out to their detriment. One only has to witness the inroads that strong brands like *Virgin* are making into the "bankassurers" desired growth areas to see the value of branding.

When one sees increasingly promiscuous customers in such a personally important market sector as Finance, it may make us wonder, when looking at our own businesses, just how robust our own brand often actually is and how well it may stand up to concerted attack from a switched-on competitor.

A strong corporate brand, properly managed is a tremendous asset, providing real competitive advantage, attracting high quality customers and employees and justifying price premiums. Woe betide the CEO who doesn't place such issues high on the agenda.

Brand management however, other than for the instinctively fortunate few, is not the easiest road to follow. Distilling a value set, evolving and managing a corporate proposition and personality and carving out and defending a differentiated market territory is not an exercise to be undertaken lightly. It is however a vital facet of corporate life.

At the heart of this discipline is the concept of identity. One needs to look no further than Hutchinson Telecom's Orange corporate brand identity to clearly see the process in practice. As a late entrant in a rapidly evolving market, you only need to look at their performance and share to answer the question posed by this article.

Why be a Brand? Because in today's world you simply can't afford not to be.

What is a Brand?

At the risk of stating the obvious, it may be helpful to set out what we mean by “brand”. Here, in this publication, “brand” is intended to mean some or all of the following:

- A product or a corporate name,
- A symbol (logo),
- The company it relates to,
- A set of attributes and associations, expectations and perceptions (image),
- A statement about the customer who uses it,
- The actual product or service,
- A promise, or commitment of some benefit, that flows from using the product or service.

Branding is the process of creating and managing brands. It can include creating a brand, strengthening a brand, repositioning, re-staging/rejuvenating, expanding or extending a brand. Branding is the act of creating specific impressions that contribute to an overall image or attitude about a brand among a target group of customers.

“A brand is the intangible sum of a product’s attributes; its name, packaging and price, its history, reputation and the way it’s advertised. A brand is also defined by consumers’ impressions of the people who use it, as well as their own experience.”

David Ogilvy

The difference between a product and a brand

Ogilvy & Mather differentiate between a product and a brand:

- A product is tangible - you can touch it, see it. It has physical attributes; different models, features, price.
- A brand is more. A brand is how the consumers feel about a product; the affection they feel for it, the personality they ascribe to it, the trust and loyalty they give it. Above all - the shared experience they have with it. This is obvious in products like American Express and Jaguar - these products enjoy strong brand relationships with their users. But it's also the case with everyday products. Dove beauty bar soap has grown into a worldwide brand on the strength of its relationship with women users. So have Huggies, Hershey's Kisses, Guinness Stout and Pepsi. They all mean much more to their users than chocolate, soda, and beer.

Research suggests that brand equity drives a company's stock price as much as return on investment does - according to The Brand Consultancy (3850 Holcomb Bridge Road, Suite 260, Norcross, Georgia 30092, USA):

"Many CEOs and senior marketing executives continue to devote all of their attention to sales or financial measures."

Where did the idea of brands come from?

Branding appears to have become a "hot" topic recently although the concept of branding has always been prominent in marketing circles. It's attracted much broader management attention for a number of good reasons. For many industries, branding offers the best opportunity for creating growth. This is especially important as companies emerge from a decade of cost cutting and shift emphasis to growth in terms of revenue, market share, and profits.

Markets are becoming more complex and more competitive at an exponential rate. Advances in manufacturing, distribution, and communications have created a dazzling array of product and service choices. Many of these choices are largely undifferentiated, creating confusion over the tangible differences. As a result, retailers and customers require a shorthand language to rapidly wade through a myriad of goods and services: branding is that language.

By successfully branding its products or services, a company makes its offerings stand apart from the competition in ways that matter to buyers. Once in place, branding is much harder for competitors to assail than product features and pricing. Recent research confirms that customers buy brands.

Corporate brands often serve as an "umbrella" that transfers brand equity to a range of sub-brands. These sub-brands both benefit from the corporate brand and lend support to it. In practice, product and corporate brands are often used in combination as a means of transferring the associations of the corporate brand to the product: the Ford Taurus and Hewlett Packard DeskJet are examples.

A US Institute (The Institute for Brand Leadership) is dedicated to the independent study of brands and the factors that contribute to their success. Its work is concerned with historical examples of brand excellence to isolate and qualify brand success factors and identify modern benchmarks that can be followed to achieve success in today's dynamic business environment.

Consumers use brands to signify status, attitudes, background and state of mind to our fellow human beings. InterBrand, a leading UK brand consultancy, say that:

- Branding is the attachment of meanings and feelings to inanimate objects and random collections of symbols.
- Branding builds sustainable, differential advantage.
- Functional brand values are consumers' beliefs about the performance of the product itself.
- Non-functional brand values signify how people feel using the brand and what signals they believe they are sending to others.

"Strong brands require the shared understanding and support of an entire organisation, and only the senior executives of a firm have the power and objectivity to make this happen. Middle managers just don't have enough pull or knowledge to bring all of the organisation's pieces together in support of a brand. Likewise, advertising agencies usually lack an integrated marketing bias and have their own vested interests to protect".

The Brand Consultancy

Modern brand management has remained virtually unchanged since it emerged in the late 1940s. Brand management appears to have been created to eliminate the especially myopic sales activities and the constant pressure to discount prices, to move product, and increase volume. Brand management is evolving; early recognition of the movement and a consideration of the new brand management role will best serve organisations and individuals alike. In the automobile industry, for example, a brand management structure now gives a brand manager more control over the development, design, positioning, and marketing of an individual model brand: which moves more concentrated power into the hands of a brand manager than ever before.

The shift of brand management from short-term marketing activities to a broader, more central, and long-term role has huge implications for many.

Examples of brand longevity are fairly common: the Lowenbrau brand was introduced in 1383. It has outlasted the plague, wars, the fall of feudalism, the discovery of America, and the rise and fall of nations. Thomas J. Lipton began marketing branded tea in 1889 and popularised the category in Great Britain during Queen Victoria's reign. Lipton brand tea is still popular today and, in fact, has outlasted the British Empire.

Other long-lived brands include Bass Ale (1777), Baker's Chocolate (1789), Ivory Soap (1881), and Coca-Cola (1886). More recently, the IBM brand has (perhaps only just) enabled the “Big Blue” to survive all sorts of disasters in their dynamic market, which may not have been possible, had the brand value not been as strong.

Specific branded products may "die" from obsolescence or changing consumer tastes, but brands can be rejuvenated with new products and services. With well-conceived strategies, a brand can be kept relevant to consumers and last almost indefinitely. RCA, for example, began its life as the Radio Corporation of America. By transforming itself as new technologies replaced radio, the brand has maintained a leadership position. Today, the Kodak brand is being transferred to electronic imaging systems as chemical-based photography nears the end of its life cycle.

There is an important difference between a product and a corporate brand - a product doesn't rely on its association with an organisation to derive its meaning with consumers, but a corporate brand does. Examples of product brands are Pampers, Comet, Mountain Dew, and Crest. Examples of corporate brands are Nike, Hewlett Packard, IBM, and Ford.

There are unique benefits to both types of brands. A corporate brand has the advantage of drawing from a wider organisational context and richer history to create positive imagery. For example, Hewlett Packard products benefit from being associated with a company known for precision and scientific leadership. Conversely, a product brand often prospers because of its clear association with a product category and its detachment from the organisation that owns or manages it. Crest and Tide are recognised leaders in their respective categories and were not harmed a few years ago when "witchcraft" and "devil worship" rumours circulated about Procter & Gamble, their parent organisation.

Some audiences relate to companies primarily at the corporate level. Examples include stockholders, bondholders, investment brokers and analysts, employees and prospective employees, suppliers, and government agencies. Corporate brands assist companies in relating to these audiences.

Where brands fit into corporate strategy

When setting out their corporate strategy, any company would be well advised to give thought to their strategic intent relative to their brands and their associated values by:

- Articulating the actions it will take and the policies it will develop to reinforce their brand's position, its brand attributes and its brand identity.
- Creating associations, whether of a functional, emotional or technological nature, that are assigned to it by their customers and prospective customers.
- Creating brand awareness through any joint ventures and alliances or associations they hold.

Whilst the intent to create value of the brand, the largest difficulty (after successfully pursuing its strategic intent as set out above) will be in gaining universal agreement as to the brand value for balance sheet purposes. Brand value has become something of a cliché in marketing circles[2] - but there's as much difficulty in valuing a brand today as existed years ago. Professor Shaw suggests that it might be better leaving it to experts in the City and focus management attention on measuring brand health and strength rather than on its balance sheet valuation.

Although there may be difficulty in arriving at a value, a value certainly exists – it's generally accepted that brands do have an intrinsic value albeit as intangible assets - and there are plenty of brand consultancies around ready to accept large fees for this valuation work.

Brand Valuation

Brand valuation is the sum of today's value of future profits that flow from the brand – a simple enough measure on the one hand but the concept is still an approximation of the answer to an important question – if the brand is not treated as an asset in the accounts, smart product buyers will feel stupid if they select an ABC product instead of "product X".

Popular brand value measures include:

- "output" measures – such as brand awareness, penetration, loyalty and retention, market share and leadership,
- "input" measures – such as budget support, share of voice, number of product lines and geographic distribution.

It matters not what value is placed on brands in the balance sheet – at least from one perspective. One investment banker is supposed to have said: *"You can make up any values you like and put them in the balance sheet, but no-one in the City is going to take the resulting balance sheet seriously. We will simply deduct the management's own figure and draw our own conclusions as to what a brand is worth"*[3]. The City wants a more comprehensive disclosure of raw marketing data to help make investment decisions – (based on a survey by IPA[4]):

- 85% want information on market share,
- 83% want market volume and value estimates,
- 74% want positioning data,
- 60% want demographic profiling data.

Interestingly, more than half (53%) said that a company's own estimate of brand value might be a useful start for reviewing corporate performance.

Martin Sorrel, when as CEO of WPP, created much controversy and heated debate by insisting that media companies acquired by his group (with well-known names) were themselves "brands". It was acknowledged that if these brands had to be valued, a different system to that for consumer goods was required[5].

It is interesting to repeat the footnote to the 1988 accounts to explain a valuation of corporate brand names:

> *"Corporate brand names represent the directors' valuation of the brand names of J Walter Thompson and Hill and Knowlton which were acquired in 1987 as part of JWT Group, Inc. These assets have been valued under the Alternative Accounting Rules of the Companies Act 1985 in accordance with the Group's accounting policy for intangible fixed assets. The directors in the course of their valuation have consulted their advisors Samuel Montagu & Co. Limited."*

Usually brand development expenditure takes place via above-the-line marketing spend. But there are other methods that might be used - for example[6], consider that:

- Grand Met opened posh ice-cream parlours (Häagen-Daas) and skipped advertising.
- Hugo Boss built its brand identity with carefully chosen sponsorship.
- Swatch events created the kind of visibility that supports the brand.
- Buitoni became the cook's Italian-food consultant to strengthen its brand awareness.

According to InterBrand Group plc, a brand's value is taken to be the product of two quantities:

1. Its annual net-after-tax profits (adjusted to exclude the earnings expected for an equivalent unbranded product, and averaged over time; and
2. A "multiple" (or discount rate) reflecting the brand's strength.

InterBrand says[7] that seven factors should be taken into account:

1. Leadership – ability to influence the market.
2. Stability – ability to maintain a consumer franchise.
3. Market – vulnerability of market demand to changes in tastes or technology.
4. International scope – cross national/cultural potential.
5. Trend – long-term appeal to consumers.
6. Support – strength of communications.
7. Protection – security of the brand owner's legal or property rights.

According to Price Waterhouse, two valuation methods that may have relevance in brand valuation exercises are:

- Discounted cash flow - Under this method, the cash flows of the business are projected and then discounted by using an appropriate discount factor to their net present value. This method is used with increasing frequency in business. It is appropriate for acquisitions, leveraged buyouts, start ups and for valuing specific intangible assets such as brand names or publishing rights. It is useful where historic profitability does not adequately reflect the potential value of the business. Use of computerised models for this method is common.
- Discounted earnings value - The distributable earnings of a business are projected forward and, then for valuation purposes, by using an appropriate discount factor, discounted back to their net present value. The calculation is usually based upon earnings after interest but before corporation tax due to allow for shareholders' differing personal rates.

Although it appears to be a difficult task, it is nevertheless possible to arrive at a rough estimate of the value of a brand. Although the concept of brand valuation is still in its infancy, many alternative methods to arrive at a figure exist.

Subject to a number of conditions, accounting rules in the UK allow companies to list the estimated asset value of brands on their balance sheets.

However, there is no commonly accepted approach to calculating brand value. One of the most common techniques is to subtract a firm's asset value from its market valuation. This yields a remaining premium that reflects the value of a firm's brands. Another common valuation method is to compare the price paid for a brand versus the average category price. The unit price premium paid multiplied by the brand's volume reflects the value of the brand.

All of the brand valuation methods available today have weaknesses. However, brand valuation is a growing speciality, and increasingly accurate techniques and standards can be expected in the near future. There is no doubt that brands represent significant value, albeit, intangible. For example, Philip Morris acquired the Kraft Food brands for $13 billion; 600% more than its book value. Grand Metropolitan acquired the Pillsbury brands for $5.5 billion; 50% over market capitalisation. KKR acquired the RJR/Nabisco brands for $26 billion; when balance sheet equity was $5.8 billion. The most dynamic brand names - Microsoft, Nike, Coca-Cola, McDonald's - evoke an image that goes far beyond the products the company makes. According to Financial World magazine, Coca-Cola's brand was worth an estimated $39 billion in 1995. The value of the Marlboro name was set at $38.7 billion, Microsoft was worth $11.7 billion and IBM and Intel logged on at $7.1 billion and $9.7 billion, respectively.

Promoting the brand

Brand advertising should reflect two broad themes, according to a two-stage model developed by Larry Percy of Lintas (USA) and John R. Rossiter of the Australian Graduate School of Management:

- The first theme is the reasons people buy (brand awareness), which in this model can be positive or negative.
- The second is the customer's level of involvement in the purchase decision (brand attitude), which can be high or low. Purchasing aspirin is a low-involvement decision, for example. Buying a house is a high-involvement decision.

Brand Measurement Factors

The number of measurement factors can range from four factors (favoured by Young & Rubicam), to five factors (in most cases), to "about a dozen" factors according to Tim Abler the former CEO of International Distillers, and to as many as forty factors as favoured by US brands guru David Aaker.

Kuczmarski & Associates, an Illinois-based consultancy, claim to offer an innovative approach to managing brands that is based on asset management principles. Brand Asset Management helps companies better protect and build brand asset value, providing improved near-term profitability while maximising long-term sustainability and growth. Specifically, Brand Asset Management approaches a company's brand as one of its most valuable assets based on expected future earnings yield, and one that should, despite its intangibility, be measured and managed for wealth creation. Importantly, Brand Asset Management demands a functional understanding and ongoing measurement of the value of a company's brand asset from two perspectives:

1. Financial, based on expected future earnings derived from the brand,
2. Market-based, based on the brand's ability to drive customer purchase behaviour, and thus, brand value.

Understanding the market-driven brand value drivers (i.e. those criteria that truly drive purchase by either promoting loyalty, increasing inclination to buy, building value-perception or maximising exposure) allows management to identify high-potential (e.g. unmet needs, competitive weaknesses or brand growth opportunities) thus focusing marketing £s and tactics more effectively against these brand-building platforms.

Other External Perspectives

The external investor has two main weapons in his arsenal - the information available to him and his experience.

According to InterBrand (see article on Brand Valuation, edited by John Murphy, Chairman, InterBrand Group), most companies that exploit brands have been around for a long time and, particularly in the United States and the United Kingdom, have sought external capital via the Stock Exchange many years ago. So, external investors have had a long time to get used to their characteristics, and have quite a wide range of tools with which to assess how much variability is introduced by different management styles, etc.

The phrase – “These are GDP growth plus a bit stocks” (a quotation from a senior international fund manager) - is a good summation of this collective experience. Investors know that companies with brands are good, sensible investments, but also know that their capacity to surprise in the short-term is limited.

Consequently, the external investor tends to value these businesses by reference to the prevailing interest rate on money, plus or minus a bit according to his perception of economic and financial trends and the qualities of the individual company. Typically, a portfolio of equity investments will include some brand-driven stocks but it is unusual to find investors who deviate significantly from market average weightings when deciding what proportion of their money to allocate to this area. This approach is not wrong and there is plenty of powerful statistical analysis to demonstrate this fact.

According to InterBrand (see - an article by Michael Birkin, Source: Brand Valuation, edited by John Murphy, chairman, InterBrand Group), it is important for any company to have sound communications with its shareholders and with the investment community. Although specialist analysts normally have a very full understanding of businesses in this sector, an understanding of the quality of a company's brands and an appreciation of the cash flows resulting from strong brands is frequently lacking. Clearly, those companies with strong brands would do well to demonstrate this fact to investors and emphasise the improved quality of earnings that result.

Thus, a presentation of the strength of a company's brands should become a feature of all communication strategies, though the way the information is presented can be almost as important as the information itself. For example, merely saying to analysts that one's brand portfolio is worth, say £100m, is meaningless in itself - not only would there be doubt as to how the valuation was conducted but the analyst would not be in a position to make meaningful comparisons.

A more useful strategy may be to use the analysis to draw attention to the particular strengths and features of the brands as, arguably, the raw values themselves may be of less importance than the qualitative views of an experienced third party.

Balance sheets increasingly confirm that brands are a corporation's most valuable asset. This explains the value and importance placed on brand creation and management as well as the vast sums paid for brand-rich companies.

InterBrand say that brand valuation is a unique tool that quantifies the economic value of a brand. It is critical to marketing investments and allows management to plan and assess the impact of their strategies.

Further Information

This guide is for general interest - it is always essential to take advice on specific issues. We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

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References:

[1] This publication was inspired by David Gray, a director with The Creative Leap Limited, the London-based Brand Development and Communication Organisation - co-ordinates are (UK) (0) 171 287 5433. David kindly provided the text to the introductory section - *"Why Be A Brand?"*
[2] See: "Appreciating Assets", by Professor Robert Shaw, in Marketing Business, December 1997/January 1998, p16.
[3] Ibid, p18.
[4] Ibid, p18.
[5] See: "WPP and Its Acquisitions", a Harvard Business School paper, revised 28 October 1996.
[6] See: "Building Brands without mass media", a Harvard Business Review paper, January/February 1997.
[7] See: "Brand Valuation Methodology: a simple example", Harvard Business School paper, 26 January 1996.